Northern Gas Networks Limited
Regulatory Accounts 2011/2012

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 2011, to which this financial information partly relates, have been delivered to the Registrar of Companies. The auditors have made a report under Chapter 3 of Part 16 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 auditor's 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 Chapter 3 of Part 16 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 2012, 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 De Minimis 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

Strategy
NGN is committed to providing safe and reliable operations and 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 the sharing of these efficiencies with customers through the regulatory price controls, whilst maintaining acceptable financial returns to the shareholders.

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. Each of these areas as set out below show year on year improvement. The measures are calculated at 31 March but are only formally calculated and reported as at 31 December in line with NGN's statutory year end.

	31 March 2012	31 March 2011
Financial performance		
EBITDA*	£136.1m	£133.8m
Dividends paid	£72.0m	£65.0m
Post maintenance interest coverage ratio	1.7	2.1
Post maintenance interest cover ratio excluding exceptional costs	1.9	2.1
EBITDA* interest coverage ratio	2.2	2.3
Senior net debt/regulatory asset value	66.5%	66.7%

* Profit before interest, tax, depreciation and amortisation

Customer services		
Quarterly customer satisfaction survey for repair, replacement and connections	8.1 out of 10	7.9 out of 10
Safety		
Number of lost time injuries to employees and contractors	3	4
Reported injuries to members of the general public	1	1

Social and Community Issues

NGN is a socially responsible corporate citizen in the region covered by the network.

The Company is working to help combat fuel poverty in the region by working with CES, a community interest company, to invest in network extensions with in-house projects by social landlords and local authorities to further improve energy efficiency and sustainability.

In addition, as explained in the Directors' report, the Company invests annually in Northern Green Networks to support local community environmental schemes.

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 ISO 14001. This helps the Directors deal proactively with future environmental issues and legislation and assist in the development of environmentally beneficial projects. In addition, the Company is the only gas distribution network to be accredited under both ISO 14001 and OHSAS 18001, in relation to health and safety management systems.

Future outlook
The Directors expect the general level of activity to remain stable given the certainty provided by the price control outcome which runs to 31 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 which could potentially affect the Company’s future development, performance and position as identified by NGN are set out below:

<u>Regulatory environment, revenue and costs</u>
The gas industry is subject to extensive legal and regulatory obligations and controls which NGN must comply with. The application and possible changes of these laws, regulations and regulatory standards could have an adverse affect on the operations and financial position of NGN or in the case of financial misreporting, a potential fine.

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

<u>Price control</u>
The current price control runs to 31 March 2013 and the process to determine the next price control is progressing with NGN's submission of an initial eight year business plan to Ofgem in November 2011 and a revised submission in April 2012. The Company could be unsuccessful in negotiating an acceptable outcome resulting in lower than expected regulated revenue.

<u>Network performance</u>
If the network assets were to fail it could result in a loss in supply of gas to customers and associated adverse publicity and an unexpected increase in costs.

<u>Employees</u>
The success of NGN depends to a significant extent on the contribution of its employees and the employees of operational contractors. 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 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 regularly on a wide range of matters affecting their current and future interests. Employees are eligible to receive an annual bonus related to the overall financial and operational performance of the Company.

Financial review

Basis of accounting
The Regulatory Accounts present the financial results for the years ended 31 March 2012 and 31 March 2011. 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.

Operating profit
Operating profit for the year excluding the exceptional restructuring cost is £87.0m which is marginally better than the prior year of £86.7m as a result of an increase in revenue from £341.4m in the prior year to £352.5m in the current year, whilst managing costs despite significant cost pressures. The exceptional restructuring cost of £11.9m (post tax impact of £8.9m) is in relation to an organisational restructure, following the acquisition of Northern Gas Networks Operations Limited (“NGNOL”) in 2010, to realign core activities and remove duplication of effort with the aim of improving the efficiency and effectiveness of the Company. This will be achieved through a voluntary severance programme with payments expected to be incurred during 2012.

Finance charges
The net finance charge for NGN for the year ended 31 March 2012 was £61.7m (2011 - £59.4m) which principally represents interest payments for ongoing investment programmes and working capital funding requirements (see ‘Capital structure’ below).

Taxation
The tax charge for the year was £0.6m (2011 - £5.1m) which represents an effective tax charge of 4.7% (2011 – 17.5%). The tax charge and effective tax rate are lower than expected due to a £8.7m (2011 - £8.5m) deferred tax credit as a result of the adjustment of the opening deferred tax liability to reflect the change in UK corporation

tax rate from 26% to 24% (2011 - 28% to 26%). Excluding the one off benefit, the effective tax rate would have been 70.4% (2011 - 46.7%).

Dividends and dividend policy
Dividends of £72.8m (2011 - £68.8m) were declared during the year, of which £54.0m (2011 - £50.8m) has been paid as at 31 March.

Capital expenditure ("Capex")
Capex for the year was £42.4m (2011 - £39.8m) which mainly represents investment in network assets of £24.4m (2011 - £28.3m) and the development of new IT systems of £17.7m (2011 - £9.5m) used to support many of NGN's operational business activities.

Capital structure
NGN has debt before financing costs of £1,140.5m (2011 - £1,101.5m) comprising:

- Bank loans of £66.0m (2011 - £27.0m) which carry interest at LIBOR plus a margin of 0.71% (2011 - 2.01%);
- European Investment Bank ("EIB") loans of £150.0m (2011 - £150.0m) which carry interest at 3 month LIBOR plus a margin which varies by facility as set out in note 14; and
- Intercompany loans of £924.5m (2011 - £924.5m).

The intercompany loans comprise an interest free loan of £24.3m and interest bearing loans of £900.2m 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 £197.0m 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
NGN continues to maintain its strong investment grade credit rating with a Moody's Investor Services rating of Baa1 re-affirmed in July 2011 and a Standard & Poor's rating of BBB+ re-affirmed in February 2012.

Cash flow
Net cash inflow from operating activities for the year ended 31 March 2012 was £140.4m (2011 - £124.7m).

Liquidity and investments
At 31 March 2012 NGN had £269.0m (2011 - £173.0m) of undrawn committed borrowing facilities available for use and £1.2m (2011 - £3.3m) of cash balances.

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.

The Directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the facilities available, 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 2012 are shown in note 15 to the Regulatory Accounts.

Interest rate risk
The long term approach adopted in minimising 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 aiming 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); and
- To maintain a debt portfolio consistent with those of comparable utility companies.

We also aim to synchronise the maturities of fixed rate interest hedges on floating rate debt with the timing of the Regulator's price control reviews. This will be reviewed following the finalisation of the new price control from 1 April 2013.

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.

Facilities are staggered to mature to avoid excessive concentrations in any twelve month period as well as removing refinancing risk if such timeframes coincide with a regulatory reset date. Non-facility debt maturities are also staggered where practicable.

Directors' report

Principal activity
The principal activity of the Company throughout the year was the distribution of gas through 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 excluding exceptional items was £21.6m (2011 - £24.0m).

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

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

W Shurniak	(Chairman – resigned 28 June 2011)
M J Horsley	(Chief Executive Officer)
A Hunter	(Chairman from 28 June 2011)
F R Frame	(resigned 21 November 2011)
H L Kam	
K S Tso	
N McGee	
M Robinson	
D Macrae	(appointed 21 June 2011)

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 2012 were equivalent to 10 (2011 - 21) 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 £52,000 (2010 - £67,000), principally to local charities serving the communities in which the Company operates. Charitable donations included the Northern Green Networks project which provided £50,000 (2011 - £60,000) to local community groups within the network region to support environmental schemes.

No political donations were made (2011 - £nil).

Auditor
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 auditor is 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 auditor is 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 auditor for the ensuing year.

By order of the Board

M J Horsley
Director

30 July 2012

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 UK Corporate Governance Code 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 a shareholder Board appointed by the shareholders such that they are independent of the day to day management of the Company. The Board ensures that the Company has robust corporate governance arrangements and has full access to both the internal and external auditors and to management. The Directors have no financial interest in the Company other than by way of any emoluments received. Evaluation of the performance of the Board is conducted by virtue of their appointments being made and monitored by the investing shareholders, accordingly there is no standing nominations committee.

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 2012 the Board comprises seven Directors.

The position of the Chairman of the Board was held by W Shurniak until 28 June 2011 when he resigned and A Hunter was appointed. Mr Hunter is also an Executive Director of the ultimate controllers as set out in note 24 along with certain other directorships as set out in those companies annual reports. The position of Chief Executive Officer ("CEO") is held by M J Horsley. 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:

2011/12		2010/11	
Date	**Attendees**	**Date**	**Attendees**
12 May 2011	8 out of 8	17 May 2010	8 out of 8
27 June 2011	9 out of 9	28 June 2010	8 out of 8
5 September 2011	8 out of 8	17 September 2010	6 out of 8
21 November 2011	8 out of 8	22 November 2010	8 out of 8
17 January 2012	7 out of 8	10 January 2011	8 out of 8
13 March 2012	6 out of 7	14 March 2011	7 out of 8

Committees
The Board has established five committees to assist in the execution of its duties and to allow a detailed consideration of complex issues. Various members of the Board sit on the committees which 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. The Committees support the CEO with advice on matters of governance and adequacy of controls in terms of operational and risk management.

<u>Audit Committee</u>
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. The activities of the Committee are reported to and considered by the Board. The Committee also reviews auditor independence where non-audit services are provided and the auditors confirm their independence as part of their reporting to the Audit Committee.

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

<u>Risk Management Committee</u>
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 determines the salary and bonus entitlement for the executive director, the senior management team and all other employees. The activities of the Remuneration Committee are reported to the Board at least annually.

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 controls are continually reviewed as processes change and are verified by way of a rolling internal audit work programme.

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, the De Minimis business and Other activities.

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, are consistently prepared, comply with applicable licence conditions, 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 or Other activities

The Directors, having prepared the Regulatory Accounts, have requested the auditor 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 Auditor's 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 2012 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. The financial reporting framework that has been applied in their preparation is Standard Special Condition A30 of the Gas Distribution Licence (the "Regulatory Licence") and the accounting policies set out in the Statement of Accounting Policies.

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 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 an independent auditor's 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.

Respective responsibilities of the Regulator, the Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for preparing the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies as set out in the notes to the Regulatory Accounts. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts', below and having regard to the guidance contained in Audit 05/03 *'Reporting to Regulators of Regulated Entities'*. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information, being the Operating and financial review, the Directors' report, the Corporate governance statement and the Directors' responsibilities statement, in the annual report to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Standard Special Condition A30 of the Regulatory Licence. Where Standard Special Condition A30 of the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory accounts of Northern Gas Networks Limited. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts

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 to 14, the financial position of the Company as at 31 March 2012 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 of the Regulatory Licence and the Company's accounting policies.

Other matters

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.

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.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory Accounts of the Company on which we reported on 22 March 2012, which are prepared for a different purpose. Our audit 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.

Deloitte LLP
Registered Auditor
Leeds

30 July 2012

Statement of accounting policies

Basis of accounting

The Regulatory Accounts for the year ended 31 March 2012 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.

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.

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 30 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

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.

Replacement expenditure

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.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the UK 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 years 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.

Taxation (continued)

Deferred tax is measured at the average UK tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on UK 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.

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.

Turnover

Turnover represents income receivable for the distribution of gas and provision of other services in the normal course of business, net of Value Added Tax. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end.

Pension costs

The Company has obligations for a defined benefit scheme. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments which are included within operating costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is 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 sheet.

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

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 economic 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 economic 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.

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. Capitalisation commences 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 and ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

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 year and reduced by payments made in the year.

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 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities (i) 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities (i) 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Turnover	1	**350,619**	**1,195**	**299**	**428**	**-**	**352,541**	**339,104**	**1,133**	**186**	**1,009**	**-**	**341,432**
Cost of sales		(9,702)	(431)	(158)	(428)	-	(10,719)	(8,000)	(462)	(8)	(1,009)	-	(9,479)
Gross profit		**340,917**	**764**	**141**	**-**	**-**	**341,822**	**331,104**	**671**	**178**	**-**	**-**	**331,953**
Other operating expenses	2	(265,963)	(809)	-	(7)	-	(266,779)	(244,517)	(694)	-	(6)	-	(245,217)
Operating profit (loss)		**74,954**	**(45)**	**141**	**(7)**	**-**	**75,043**	**86,587**	**(23)**	**178**	**(6)**	**-**	**86,736**
Other income		-	-	-	-	-	-	-	-	-	-	1,818	1,818
Net finance charges	3	(61,729)	-	-	-	-	(61,729)	(59,398)	-	-	-	-	(59,398)
Profit (loss) on ordinary activities before taxation	4	**13,225**	**(45)**	**141**	**(7)**	**-**	**13,314**	**27,189**	**(23)**	**178**	**(6)**	**1,818**	**29,156**
Tax on profit (loss) on ordinary activities	7	(604)	12	(37)	2	-	(627)	(4,559)	6	(50)	2	(509)	(5,110)
Profit (loss) for the financial year	18	**12,621**	**(33)**	**104**	**(5)**	**-**	**12,687**	**22,630**	**(17)**	**128**	**(4)**	**1,309**	**24,046**

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 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities (i) 2012 £'000	Corporate (ii) 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities (i) 2011 £'000	Corporate (ii) 2011 £'000	Total 2011 £'000
Fixed assets													
Intangible assets - goodwill	9	136,363	-	-	-	-	136,363	140,474	-	-	-	-	140,474
Tangible assets	10	1,387,173	5,728	-	-	-	1,392,901	1,390,282	5,930	-	-	-	1,396,212
Investments	11	104	-	-	-	2,105	2,209	104	-	-	-	2,099	2,203
		1,523,640	**5,728**	**-**	**-**	**2,105**	**1,531,473**	**1,530,860**	**5,930**	**-**	**-**	**2,099**	**1,538,889**
Current assets													
Debtors – due within one year	12	32,931	-	-	-	-	32,931	33,540	-	-	-	-	33,540
Cash at bank and in hand		-	-	-	-	1,227	1,227	-	-	-	-	3,264	3,264
		32,931	**-**	**-**	**-**	**1,227**	**34,158**	**33,540**	**-**	**-**	**-**	**3,264**	**36,804**
Creditors: Amounts falling due within one year	13	(114,535)	-	-	-	(65,438)	(179,973)	(74,307)	-	-	-	(58,124)	(132,431)
Net current liabilities		**(81,604)**	**-**	**-**	**-**	**(64,211)**	**(145,815)**	**(40,767)**	**-**	**-**	**-**	**(54,860)**	**(95,627)**
Total assets less current liabilities		**1,442,036**	**5,728**	**-**	**-**	**(62,106)**	**1,385,658**	**1,490,093**	**5,930**	**-**	**-**	**(52,761)**	**1,443,262**
Creditors: Amounts falling due after more than one year	14	(1,120,901)	-	-	-	-	(1,120,901)	(1,117,696)	-	-	-	-	(1,117,696)
Provisions for liabilities excluding pension liability	16	(129,214)	-	-	-	-	(129,214)	(124,205)	-	-	-	-	(124,205)
Net assets (liabilities) excluding pension liability		**191,921**	**5,728**	**-**	**-**	**(62,106)**	**135,543**	**248,192**	**5,930**	**-**	**-**	**(52,761)**	**201,361**
Pension liability	23	(18,799)	-	-	-	-	(18,799)	(11,570)	-	-	-	-	(11,570)
Net assets (liabilities) including pension liability		**173,122**	**5,728**	**-**	**-**	**(62,106)**	**116,744**	**236,622**	**5,930**	**-**	**-**	**(52,761)**	**189,791**
Capital and reserves													
Called-up share capital	17	-	-	-	-	-	-	-	-	-	-	-	-
Profit and loss accounts	18	-	-	-	-	116,744	116,744	-	-	-	-	189,791	189,791
Shareholders' funds	19	**-**	**-**	**-**	**-**	**116,744**	**116,744**	**-**	**-**	**-**	**-**	189,791	189,791

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 and authorised for issue on 24 July 2012 and signed on its behalf on 30 July 2012 by:

M J Horsley - Director

Statements of total recognised gains and losses

For the years ended 31 March

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Profit (loss) for the financial year	12,621	(33)	104	(5)	-	12,687	22,630	(17)	128	(4)	1,309	24,046
Actuarial (loss) gain relating to the pension scheme	(16,364)	-	-	-	-	(16,364)	6,305	-	-	-	-	6,305
Deferred tax attributable to actuarial (loss) gain	3,380	-	-	-	-	3,380	(2,312)	-	-	-	-	(2,312)
Total recognised gains and losses relating to the year	**(363)**	**(33)**	**104**	**(5)**	**-**	**(297)**	**26,623**	**(17)**	**128**	**(4)**	**1,309**	**28,039**

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 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Net cash inflow (outflow) from operating activities	20(a)	**132,963**	**752**	**141**	**(7)**	**6,564**	**140,413**	**101,206**	**669**	**178**	**324**	**22,342**	**124,719**
Returns on investments and servicing of finance													
Interest received		329	-	-	-	-	329	361	-	-	-	-	361
Interest paid		(60,185)	-	-	-	-	(60,185)	(59,863)	-	-	-	-	(59,863)
Net cash outflow for returns on investments and servicing of finance		**(59,856)**	**-**	**-**	**-**	**-**	**(59,856)**	**(59,502)**	**-**	**-**	**-**	**-**	**(59,502)**
Taxation													
Corporation tax paid		**(6,278)**	**-**	**-**	**-**	**-**	**(6,278)**	**(3,306)**	**-**	**-**	**-**	**-**	**(3,306)**
Capital expenditure													
Purchase of tangible fixed assets		(41,277)	(676)	-	-	-	(41,953)	(36,410)	(1,600)	-	-	-	(38,010)
Net receipts from disposal of tangible fixed assets		167	-	-	-	-	167	48	-	-	-	-	48
Net cash outflow for capital expenditure		**(41,110)**	**(676)**	**-**	**-**	**-**	**(41,786)**	**(36,362)**	**(1,600)**	**-**	**-**	**-**	**(37,962)**
Equity dividends paid		**-**	**-**	**-**	**-**	**(72,000)**	**(72,000)**	**-**	**-**	**-**	**-**	**(65,000)**	**(65,000)**
Acquisitions and disposals		**-**	**-**	**-**	**-**	**(5)**	**(5)**	**-**	**-**	**-**	**-**	**(222)**	**(222)**
Net cash inflow (outflow) before financing		**25,719**	**76**	**141**	**(7)**	**(65,441)**	**(39,512)**	**2,036**	**(931)**	**178**	**324**	**(42,880)**	**(41,273)**
Financing													
New unsecured loans	20(b)(c)	37,475	-	-	-	-	37,475	34,000	-	-	-	-	34,000
Net cash inflow from financing		**37,475**	**-**	**-**	**-**	**-**	**37,475**	**34,000**	**-**	**-**	**-**	**-**	**34,000**
Increase (decrease) in cash in the year	20(b)(c)	**63,194**	**76**	**141**	**(7)**	**(65,441)**	**(2,037)**	**36,036**	**(931)**	**178**	**324**	**(42,880)**	**(7,273)**

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 2011 of Northern Gas Networks Limited (Statutory Accounts) and these Regulatory Accounts for the year ended 31 March 2012.

Profit and loss account

	Statutory Accounts to December **2011** **£'000**	Exclude 1 January – 31 March **2011** **£'000**	1 January – 31 March **2012** **£'000**	Regulatory Accounts for **2011/2012** **£'000**
Turnover	346,860	(81,245)	86,926	352,541
Operating profit	73,677	(19,818)	21,184	75,043
Net finance charges	(61,782)	17,432	(17,379)	(61,729)
Tax on profit on ordinary activities	(488)	(2,267)	2,128	(627)
Profit for the financial year	**11,407**	**(4,653)**	**5,933**	**12,687**

Balance sheet

	Statutory Accounts as at December **2011** **£'000**	1 January – 31 March **2012** **£'000**	Regulatory Accounts for **2011/2012** **£'000**
Fixed assets	1,538,063	(6,590)	1,531,473
Current assets	43,448	(9,290)	34,158
Total assets	1,581,511	(15,880)	1,565,631
Creditors: Amounts falling due within one year	(181,771)	1,798	(179,973)
Creditors: Amounts falling due after one year, provisions and pension liability	(1,276,411)	7,497	(1,268,914)
Total liabilities	(1,458,182)	9,295	(1,448,887)
Net assets	**123,329**	**(6,585)**	**116,744**
Profit and loss account	123,329	(6,585)	116,744
Shareholders' funds	**123,329**	**(6,585)**	**116,744**

Notes to the Regulatory Accounts

1. Turnover

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Transportation and Metering	350,619	1,195	-	-	-	351,814	339,104	1,133	-	-	-	340,237
Other income	-	-	299	428	-	727	-	-	186	1,009	-	1,195
	350,619	**1,195**	**299**	**428**	**-**	**352,541**	**339,104**	**1,133**	**186**	**1,009**	**-**	**341,432**

All turnover arises in the UK.

2. Other operating expenses

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Distribution costs	232,906	797	-	-	-	233,703	225,000	682	-	-	-	225,682
Administrative expenses	21,133	12	-	7	-	21,152	19,517	12	-	6	-	19,535
	254,039	809	-	7	-	254,855	244,517	694	-	6	-	245,217
Exceptional item – restructuring costs	11,924	-	-	-	-	11,924	-	-	-	-	-	-
	265,963	**809**	**-**	**7**	**-**	**266,779**	**244,517**	**694**	**-**	**6**	**-**	**245,217**

The exceptional item relates to the cost of undertaking a voluntary severance programme. The profit after tax impact of this was £8.9m. The costs would be classed as administrative expenses.

3. Net finance charges

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Interest payable and similar charges	60,626	-	-	-	-	60,626	59,142	-	-	-	-	59,142
Investment income	(330)	-	-	-	-	(330)	(364)	-	-	-	-	(364)
Other finance charges	1,433	-	-	-	-	1,433	620	-	-	-	-	620
	61,729	**-**	**-**	**-**	**-**	**61,729**	**59,398**	**-**	**-**	**-**	**-**	**59,398**

Interest payable and similar charges

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Bank loans and overdrafts	12,937	-	-	-	-	12,937	12,151	-	-	-	-	12,151
Intercompany interest payable	48,670	-	-	-	-	48,670	48,575	-	-	-	-	48,575
	61,607	**-**	**-**	**-**	**-**	**61,607**	**60,726**	**-**	**-**	**-**	**-**	**60,726**
Finance costs capitalised	(981)	-	-	-	-	(981)	(1,584)	-	-	-	-	(1,584)
	60,626	**-**	**-**	**-**	**-**	**60,626**	**59,142**	**-**	**-**	**-**	**-**	**59,142**

Finance costs have been capitalised based on a capitalisation rate of 5.99% (2011 – 5.99%).

Investment income

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Income from fixed asset investments	(286)	-	-	-	-	(286)	(270)	-	-	-	-	(270)
Interest receivable and similar income	(44)	-	-	-	-	(44)	(94)	-	-	-	-	(94)
	(330)	**-**	**-**	**-**	**-**	**(330)**	**(364)**	**-**	**-**	**-**	**-**	**(364)**

Other finance charges

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Unwinding of discount on provisions	2,310	-	-	-	-	2,310	661	-	-	-	-	661
Net return on pension scheme (see note 23)	(877)	-	-	-	-	(877)	(41)	-	-	-	-	(41)
	1,433	**-**	**-**	**-**	**-**	**1,433**	**620**	**-**	**-**	**-**	**-**	**620**

4. Profit (loss) on ordinary activities before taxation

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

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Depreciation and amounts written off tangible fixed assets												
- owned	44,226	797	-	-	-	45,023	40,456	682	-	-	-	41,138
- held under finance leases and hire purchase contracts	46	-	-	-	-	46	45	-	-	-	-	45
Amortisation of goodwill	4,111	-	-	-	-	4,111	4,111	-	-	-	-	4,111
Loss (profit) on disposal of tangible fixed assets	473	-	-	-	-	473	(2)	-	-	-	-	(2)
Operating lease rentals – other	228	-	-	-	-	228	228	-	-	-	-	228

The analysis of auditor's remuneration is as follows:

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	63	-	-	-	-	63	62	-	-	-	-	62
Fees payable to the Company's auditor and its associates for other services to the Company												
- The audit of the Company's subsidiaries pursuant to legislation	30	-	-	-	-	30	41	-	-	-	-	41
Total audit fees	**93**	**-**	**-**	**-**	**-**	**93**	**103**	**-**	**-**	**-**	**-**	**103**
Fees payable to the Company's auditor and its associates for other services to the Company												
- Other services pursuant to legislation	59	-	-	-	-	59	66	-	-	-	-	66
- Tax services	38	-	-	-	-	38	44	-	-	-	-	44
- Other services	6	-	-	-	-	6	-	-	-	-	-	-
Total non-audit fees	**103**	**-**	**-**	**-**	**-**	**103**	**110**	**-**	**-**	**-**	**-**	**110**

5. Payroll costs and employees

a) Payroll costs

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Wages and salaries	4,533	-	-	-	-	4,533	4,276	-	-	-	-	4,276
Social security costs	535	-	-	-	-	535	570	-	-	-	-	570
Pension costs	484	-	-	-	-	484	509	-	-	-	-	509
	5,552	**-**	**-**	**-**	**-**	**5,552**	**5,355**	**-**	**-**	**-**	**-**	**5,355**

5. Payroll costs and employees - continued

b) Average number of employees

	Transportation 2012 Number	Metering 2012 Number	De Minimis 2012 Number	Other activities 2012 Number	Corporate 2012 Number	Total 2012 Number	Transportation 2011 Number	Metering 2011 Number	De Minimis 2011 Number	Other activities 2011 Number	Corporate 2011 Number	Total 2011 Number
Administration	79	-	-	-	-	79	74	-	-	-	-	74
	79	**-**	**-**	**-**	**-**	**79**	**74**	**-**	**-**	**-**	**-**	**74**

6. Directors' remuneration

Remuneration

The remuneration of the Directors was as follows:

	2012 £'000	2011 £'000
Emoluments	418	631
Amounts receivable (other than shares) under long term incentive schemes	62	127
Company contributions to money purchase pension schemes	-	38
	480	**796**

Pensions

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

	2012 Number	2011 Number
Money purchase schemes	-	1
	-	**1**

Highest paid Director

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

	2012 £'000	2011 £'000
Emoluments	480	691
Company contributions to money purchase pension schemes	-	38
	480	**729**

Transactions

There have been no transactions with Directors in the year (2011 - £nil) other than as set out above in respect of remuneration.

7. Tax on profit (loss) on ordinary activities

	Total 2012 £'000	Total 2011 £'000
Current tax		
UK corporation tax	8,173	10,354
Adjustments in respect of prior years	(179)	(895)
Total current tax	**7,994**	**9,459**
Deferred tax		
Current year - origination and reversal of timing differences	1,034	3,541
Effect of decrease in tax rate on opening liability	(8,740)	(8,495)
Adjustments in respect of prior years	339	605
Total deferred tax	**(7,367)**	**(4,349)**
Total tax on profit (loss) on ordinary activities	**627**	**5,110**

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 2012 £'000	Total 2011 £'000
Profit on ordinary activities before tax	13,314	29,156
Tax on profit on ordinary activities at standard UK corporation tax rate of 26% (2011 - 28%)	3,462	8,164
Effects of:		
Expenses not deductible for tax purposes	5,648	5,921
Capital allowances in excess of depreciation	(1,383)	(2,482)
Other timing differences	509	(1,167)
Adjustments in respect of prior years	(179)	(895)
Effect of decrease in tax rate	(63)	(82)
Current tax charge for the year	**7,994**	**9,459**

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 26% (2011 - 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.

The Finance Act 2012, which was substantively enacted in March 2012, included provisions to reduce the rate of corporation tax to 24% with effect from 1 April 2011. Accordingly, deferred tax balances have been revalued to the lower rate of 24% in these Regulatory Accounts.

In March 2012, the government announced that it intends to further reduce the rate of corporation tax to 23% with effect from 1 April 2013 and to 22% with effect from 1 April 2014. As this legislation was not substantively enacted by 31 March 2012, the impact of the anticipated rate change is not reflected in the tax provisions reported in these Regulatory Accounts.

8. Dividends paid and declared on equity shares

	Total 2012 £'000	Total 2011 £'000
Equity shares:		
- interim dividend paid of £540,000 (2011 - £507,500) per ordinary share	54,000	50,750
- interim dividend declared of £187,500 (2011 - £180,000) per ordinary share	18,750	18,000
	72,750	**68,750**

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 2011 and 31 March 2012	164,457
Amortisation at 1 April 2011	23,983
Charge for the year	4,111
Amortisation at 31 March 2012	28,094
Net book value at 31 March 2012	**136,363**
Net book value at 31 March 2011	**140,474**

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 2011	2,979	1,515,634	12,660	45,335	29,891	1,606,499
Additions	217	24,426	38	974	16,148	41,803
Disposals	-	(405)	(757)	(74)	-	(1,236)
Transfers	-	3,341	-	40,619	(43,960)	-
Cost at 31 March 2012	3,196	1,542,996	11,941	86,854	2,079	1,647,066
Depreciation at 1 April 2011	1,428	187,431	6,486	20,872	-	216,217
Charge for the year	97	34,105	1,881	8,189	-	44,272
Disposals	-	(67)	(511)	(18)	-	(596)
Depreciation at 31 March 2012	1,525	221,469	7,856	29,043	-	259,893
Net book value at 31 March 2012	**1,671**	**1,321,527**	**4,085**	**57,811**	**2,079**	**1,387,173**
Net book value at 31 March 2011	**1,551**	**1,328,203**	**6,174**	**24,463**	**29,891**	**1,390,282**

Metering

	Other equipment £'000	Total £'000
Cost at 1 April 2011	7,889	7,889
Additions	595	595
Cost at 31 March 2012	8,484	8,484
Depreciation at 1 April 2011	1,959	1,959
Charge for the year	797	797
Depreciation at 31 March 2012	2,756	2,756
Net book value at 31 March 2012	**5,728**	**5,728**
Net book value at 31 March 2011	**5,930**	**5,930**

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 2011	2,979	1,515,634	12,660	53,224	29,891	1,614,388
Additions	217	24,426	38	1,569	16,148	42,398
Disposals	-	(405)	(757)	(74)	-	(1,236)
Transfers	-	3,341	-	40,619	(43,960)	-
Cost at 31 March 2012	3,196	1,542,996	11,941	95,338	2,079	1,655,550
Depreciation at 1 April 2011	1,428	187,431	6,486	22,831	-	218,176
Charge for the year	97	34,105	1,881	8,986	-	45,069
Disposals	-	(67)	(511)	(18)	-	(596)
Depreciation at 31 March 2012	1,525	221,469	7,856	31,799	-	262,649
Net book value at 31 March 2012	**1,671**	**1,321,527**	**4,085**	**63,539**	**2,079**	**1,392,901**
Net book value at 31 March 2011	**1,551**	**1,328,203**	**6,174**	**30,393**	**29,891**	**1,396,212**
Leased assets included above:						
Net book value at 31 March 2012	**388**	**-**	**-**	**-**	**-**	**388**
Net book value at 31 March 2011	**232**	**-**	**-**	**-**	**-**	**232**

Short leasehold included within land and buildings above has a cost of £643,000 (2011 - £441,000), a depreciation charge in the year of £46,000 (2011 - £41,000), accumulated depreciation of £255,000 (2011 - £209,000) and a net book value of £388,000 (2011 - £232,000).

Leased assets included within motor vehicles above have a cost of £160,000 (2011 - £160,000), depreciation charge in the year of £nil (2011 - £4,000), accumulated depreciation of £160,000 (2011 - £160,000) and a net book value of £nil (2011 - £nil).

Cumulative finance costs capitalised included in the cost of Tangible fixed assets amount to £6,364,000 (2011 - £5,383,000).

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 £1,251,000 (2011 - £1,138,000) and £46,492,000 (2011 - £43,259,000) respectively.

11. Fixed asset investments

	Total 2012 £'000	Total 2011 £'000
Subsidiary undertakings	2,105	2,099
Other investment	104	104
	2,209	**2,203**

The Company has an investment in the following subsidiary undertakings:

Subsidiary undertaking	**Country of incorporation**	**Principal activity**	**Holding**	**%**
Northern Gas Networks Finance Plc	England & Wales	Financing	49,999 ordinary shares of £1	100
Northern Gas Networks Operations Limited	England & Wales	Gas Network Operations	2 ordinary shares of £1	100
Northern Gas Networks Pensions Trustee Limited	England & Wales	Pension Scheme Trustee	1 ordinary share of £1	100

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

Subsidiary undertakings

	Corporate and Total £'000
Cost and net book value	
At 1 April 2011	2,099
Fees on prior year acquisition	6
At 31 March 2012	**2,105**

Other investment

	Transportation and Total £'000
Cost and net book value	
At 1 April 2011 and 31 March 2012	**104**

12. Debtors – due within one year

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Trade debtors	807	-	-	-	-	807	1,858	-	-	-	-	1,858
Prepayments and accrued income	30,799	-	-	-	-	30,799	29,864	-	-	-	-	29,864
Other debtors	1,325	-	-	-	-	1,325	1,818	-	-	-	-	1,818
	32,931	**-**	**-**	**-**	**-**	**32,931**	**33,540**	**-**	**-**	**-**	**-**	**33,540**

13. Creditors: Amounts falling due within one year

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Bank loans	64,700	-	-	-	-	64,700	26,022	-	-	-	-	26,022
Payments received on account	19,707	-	-	-	-	19,707	19,963	-	-	-	-	19,963
Trade creditors	2,104	-	-	-	-	2,104	1,338	-	-	-	-	1,338
Amounts owed to group undertakings	-	-	-	-	46,688	46,688	-	-	-	-	40,124	40,124
UK corporation tax	12,988	-	-	-	-	12,988	11,271	-	-	-	-	11,271
Declared dividends – equity shareholder	-	-	-	-	18,750	18,750	-	-	-	-	18,000	18,000
Other taxation and social security	5,385	-	-	-	-	5,385	5,150	-	-	-	-	5,150
Accruals and deferred income	9,618	-	-	-	-	9,618	10,529	-	-	-	-	10,529
Defined contribution pension scheme accrual	33	-	-	-	-	33	34	-	-	-	-	34
	114,535	**-**	**-**	**-**	**65,438**	**179,973**	**74,307**	**-**	**-**	**-**	**58,124**	**132,431**

The bank loans comprise a revolving capital facility of £50.0m repayable on 30 April 2012 and a revolving credit facility of £16.0m repayable on 16 April 2012 both with an interest rate at LIBOR plus a margin of 0.71%. These facilities are available to be redrawn until 29 July 2016.

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

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Bank loans	149,951	-	-	-	-	149,951	149,979	-	-	-	-	149,979
Amounts owed to group undertakings	924,458	-	-	-	-	924,458	924,458	-	-	-	-	924,458
Deferred income	46,492	-	-	-	-	46,492	43,259	-	-	-	-	43,259
	1,120,901	**-**	**-**	**-**	**-**	**1,120,901**	**1,117,696**	**-**	**-**	**-**	**-**	**1,117,696**

The bank loans comprise £25.0m which carries interest at 3 month LIBOR plus a margin of 0.36% repayable on 23 January 2023, £25.0m which carries interest at 3 month LIBOR plus a margin of 0.55% repayable on 24 June 2024 and £100.0m which carries interest at 3 month LIBOR plus a margin of 0.62% repayable on 30 March 2024.

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 £197.0m 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 undertakings 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 for the current and prior years.

Interest rate profile

The Company has no financial assets other than sterling cash deposits of £1,227,000 (2011 - £3,264,000) 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 2012 was as follows:

	Floating rate 2012 £'000	Fixed rate 2012 £'000	Interest free 2012 £'000	Total 2012 £'000
Borrowings – Bank loans	149,951	64,700	-	214,651
Borrowings – Intercompany loans	-	900,130	24,328	924,458
	149,951	**964,830**	**24,328**	**1,139,109**

The profile at 31 March 2011 for comparison purposes was as follows:

	Floating rate 2011 £'000	Fixed rate 2011 £'000	Interest free 2011 £'000	Total 2011 £'000
Borrowings – Bank loans	149,979	26,022	-	176,001
Borrowings – Intercompany loans	-	900,130	24,328	924,458
	149,979	**926,152**	**24,328**	**1,100,459**

15. Derivatives and other financial instruments - continued

Further analysis of the interest rate profile at 31 March 2012 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	1.6	1.7	0.1	-
Borrowings – Intercompany loans	-	5.3	18.6	-

The profile at 31 March 2011 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	1.4	2.6	0.1	-
Borrowings – Intercompany loans	-	5.3	19.6	-

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:

	2012	**2011**
	£'000	**£'000**
In one year or less	64,700	26,022
More than five years	1,074,409	1,074,437
	1,139,109	**1,100,459**

Borrowing facilities

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

	2012	**2011**
	£'000	**£'000**
Expiring in more than one year but not more than two years	-	173,000
Expiring in more than two years	269,000	-
	269,000	**173,000**

15. Derivatives and other financial instruments - continued

Fair values

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

	Book value 2012 £'000	Fair value 2012 £'000	Book value 2011 £'000	Fair value 2011 £'000
Primary financial instruments held or issued to finance the Company's operations				
Short term borrowings	64,700	66,000	26,022	27,000
Long term borrowings	149,951	150,293	149,979	150,106
Intercompany loans	924,458	977,313	924,458	897,476
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	(41,741)	-	49,494

The fair value of the intercompany loans 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 2012 £'000	Losses 2012 £'000	Net 2012 £'000	Gains 2011 £'000	Losses 2011 £'000	Net 2011 £'000
Unrecognised gains and losses on hedges at 1 April	58,962	(108,456)	(49,494)	62,107	(124,813)	(62,706)
Gains and losses arising in previous years that were recognised in the year	-	-	-	-	-	-
Gains and losses arising before 1 April that were not recognised in the year	58,692	(108,456)	(49,494)	62,107	(124,813)	(62,706)
Gains and losses arising in the year that were not recognised in the year	138,267	(47,032)	91,235	(3,145)	16,357	13,212
Unrecognised gains and losses on hedges at 31 March	**197,229**	**(155,488)**	**41,741**	**58,962**	**(108,456)**	**(49,494)**
Of which:						
Gains and losses expected to be recognised within one year	-	-	-	-	-	-
Gains and losses expected to be recognised after one year	197,229	(155,488)	41,741	58,962	(108,456)	(49,494)

16. Provisions for liabilities excluding pension liability

	Transportation and Total				
	Restructuring	Environmental restoration	Deferred tax	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2011	-	6,475	109,206	8,524	124,205
Charged (credited) to profit and loss account	11,924	-	(488)	660	12,096
Utilised in the year	(362)	-	-	(658)	(1,020)
Unwinding of discount	-	1,765	-	545	2,310
Adjustment arising from the decrease in tax rate	-	-	(8,377)	-	(8,377)
At 31 March 2012	**11,562**	**8,240**	**100,341**	**9,071**	**129,214**

Restructuring costs resulting from the voluntary severance programme announced in the year as disclosed in note 2. It is expected that this provision will be utilised within one year of the balance sheet date.

Estimated environmental restoration costs are provided where the Company has a legal obligation to re-store 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

	2012 £'000	2011 £'000
Accelerated capital allowances	100,526	107,430
Other timing differences	(185)	1,776
	100,341	**109,206**

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

17. Called-up share capital

	2012 Number	2012 £	2011 Number	2011 £
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 2011	189,791
Profit for the financial year	12,687
Actuarial loss relating to the pension scheme (note 23)	(16,363)
UK deferred tax attributable to the actuarial loss	3,379
Dividends paid and declared on equity shares	(72,750)
At 31 March 2012	**116,744**

19. Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit for the financial year	12,687	24,046
Other recognised gains and losses relating to the year (net)	(12,984)	3,993
Dividends paid and declared on equity shares	(72,750)	(68,750)
Net reduction in shareholders' funds	**(73,047)**	**(40,711)**
Opening shareholders' funds	189,791	230,502
Closing shareholders' funds	**116,744**	**189,791**

20. Cash flow statements

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

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Operating profit (loss)	74,954	(45)	141	(7)	-	75,043	86,587	(23)	178	(6)	-	86,736
Depreciation and amortisation	48,383	797	-	-	-	49,180	44,612	682	-	-	-	45,294
Loss (profit) on sale of tangible fixed assets	473	-	-	-	-	473	(2)	-	-	-	-	(2)
Decrease (increase) in debtors	609	-	-	-	-	609	(5,930)	10	-	330	-	(5,590)
Increase (decrease) in creditors	3,354	-	-	-	6,564	9,918	(18,539)	-	-	-	22,342	3,803
Increase (decrease) in provisions	11,565	-	-	-	-	11,565	(404)	-	-	-	-	(404)
Adjustment for pension funding	(6,375)	-	-	-	-	(6,375)	(5,118)	-	-	-	-	(5,118)
Net cash inflow (outflow) from operating activities	**132,963**	**752**	**141**	**(7)**	**6,564**	**140,413**	**101,206**	**669**	**178**	**324**	**22,342**	**124,719**

20. Cash flow statements - continued

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

	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000	Transportation 2011 £'000	Metering 2011 £'000	De Minimis 2011 £'000	Other activities 2011 £'000	Corporate 2011 £'000	Total 2011 £'000
Increase (decrease) in cash in the year	63,194	76	141	(7)	(65,441)	(2,037)	36,036	(931)	178	324	(42,880)	(7,273)
Cash inflow from increase in debt	(37,475)	-	-	-	-	(37,475)	(34,000)	-	-	-	-	(34,000)
Change in net debt resulting from cash flows	25,719	76	141	(7)	(65,441)	(39,512)	2,036	(931)	178	324	(42,880)	(41,273)
Other non-cash movements	(1,175)	-	-	-	-	(1,175)	1,194	-	-	-	-	1,194
Movement in net debt in the year	24,544	76	141	(7)	(65,441)	(40,687)	3,230	(931)	178	324	(42,880)	(40,079)
Net debt at 1 April	(810,087)	(6,018)	1,198	310	(282,598)	(1,097,195)	(813,317)	(5,087)	1,020	(14)	(239,718)	(1,057,116)
Net debt at 31 March	**(785,543)**	**(5,942)**	**1,339**	**303**	**(348,039)**	**(1,137,882)**	**(810,087)**	**(6,018)**	**1,198**	**310**	**(282,598)**	**(1,097,195)**

c) Analysis of changes in net debt

	At 1 April 2011 £'000	Cash flow £'000	Non cash movements £'000	At 31 March 2012 £'000
Cash at bank	3,264	(2,037)	-	1,227
Debt due after one year	(1,074,437)	25	3	(1,074,409)
Debt due within one year	(26,022)	(37,500)	(1,178)	(64,700)
	(1,100,459)	(37,475)	(1,175)	(1,139,109)
Net debt	**(1,097,195)**	**(39,512)**	**(1,175)**	**(1,137,882)**

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 2012 the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £1,374,000 (2011 - £4,063,000).

b) Lease commitments

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

	Land and buildings 2012 £'000	Land and buildings 2011 £'000
Expiry date:		
- within one year	40	-
- between two and five years	386	53
- after five years	-	386
	426	**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.

23. Pension arrangements

The Company has obligations for a defined benefit pension scheme.

The amounts recognised in the balance sheets are as follows:

	2012 £'000	2011 £'000
Present value of funded obligations	310,619	271,260
Fair value of plan assets	(285,884)	(255,625)
Deficit	24,735	15,635
Related deferred tax asset	(5,936)	(4,065)
Net liability	18,799	11,570
Amounts in the balance sheets		
- Liabilities	18,799	11,570

23. Pension arrangements - continued

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

	2012 £'000	2011 £'000
Amount charged to operating profit		
Current service costs	6,567	6,362
Amount credited to net finance charges		
Interest costs	14,982	14,563
Expected return on plan assets	(15,859)	(14,604)
Net return on pension scheme	(877)	(41)
Total	5,690	6,321

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

	2012 £'000	2011 £'000
Actuarial (losses) gains	(16,364)	6,305

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

	2012 £'000	2011 £'000
Actuarial losses	(27,001)	(10,637)

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

	2012 £'000	2011 £'000
Opening defined benefit obligation	271,260	258,497
Service cost	6,567	6,362
Interest cost	14,982	14,563
Member contributions	861	745
Actuarial losses (gains)	22,054	(4,969)
Benefits paid	(5,105)	(3,938)
Closing defined benefit obligation	310,619	271,260

23. Pension arrangements - continued

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

	2012 £'000	2011 £'000
Opening fair value of plan assets	255,625	231,409
Expected return	15,859	14,604
Actuarial gains	5,690	1,336
Employer contributions	12,954	11,469
Member contributions	861	745
Benefits paid	(5,105)	(3,938)
	285,884	255,625

The Company expects to contribute £12.4m to its defined benefit pension plan in 2012/2013.

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:

	2012		2011	
	Percentage of plan assets %	Expected return on plan assets %	Percentage of plan assets %	Expected return on plan assets %
Equity securities	35.30	6.80	40.00	7.50
Debt securities	49.80	3.90	46.30	4.50
Property	13.00	6.80	13.20	7.50
Other	1.90	0.30	0.50	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:

	2012 £'000	2011 £'000
Actual return on plan assets	21,549	15,940

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

	2012	2011
Discount rate	5.1%	5.5%
Expected return on plan assets	6.1%	6.2%
Future salary increases	3.8%	3.9%
Future pension increases	3.3%	3.4%
Inflation	3.3%	3.4%
Life expectancy - member age 65	21.9 years	21.7 years
- member age 45	23.8 years	23.7 years

23. Pension arrangements - continued

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

	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000	31 March 2008 £'000
Defined benefit obligation	(310,619)	(271,260)	(258,497)	(205,359)	(223,423)
Plan assets	285,884	255,625	231,409	169,888	193,689
Deficit	(24,735)	(15,635)	(27,088)	(35,471)	(29,734)

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

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Plan assets:					
Amount (£'000)	5,690	1,336	41,961	(48,929)	(17,913)
Percentage of plan assets	2%	1%	18%	(29%)	(9%)
Plan liabilities:					
Amount (£'000)	-	230	2,865	-	(802)
Percentage of the present value of plan liabilities	-	0%	1%	-	-

The Company also operates defined contribution schemes for which the pension charge for the year amounted to £484,000 (2011 - £509,000).

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 Standard Condition 1, Cheung Kong Infrastructure Holdings Limited and Power Assets 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%).

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.