

**Northern Gas Networks Limited  
Regulatory Accounts 2012/2013**

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## 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 2012, 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 2013, 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 except for a Safety KPI which is one higher than the prior year but has still been maintained at a very low level. 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 2013	31 March 2012
<b>Financial performance</b>		
EBITDA*	£151.8m	£136.1m
Dividends paid	£82.0m	£72.0m
Post maintenance interest coverage ratio	2.0	1.7
EBITDA* interest coverage ratio	2.4	2.2
Senior net debt/regulatory asset value	66.7%	66.5%
* Operating profit before interest, tax, depreciation and amortisation		
<b>Customer services</b>		
Quarterly customer satisfaction survey for repair, replacement and connections	8.2 out of 10	8.1 out of 10
<b>Safety</b>		
Number of lost time injuries to employees and contractors	3	3
Reported injuries to members of the general public	2	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.

#### 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 and OHSAS 18001. This helps the Directors deal proactively with future environmental issues and legislation and assist in the development of environmentally beneficial projects.

Operating and financial review continued

#### *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 2021.

#### **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 7 and 8.

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:

#### Regulatory environment, revenue and costs

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

#### Health and safety

There is a risk that an incident within the network leads to injury to an employee, contractor or 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.

#### Network performance

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.

#### Employees

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 2013 and 31 March 2012. They have been prepared using the accounting policies set out on pages 12 to 13. 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 is £100.9m which is better than the prior year of £87.0m (excluding the 2012 exceptional restructuring cost) as a result of an increase in revenue from £352.5m in the prior year to £385.1m in the current year, offset by operating cost increases of £12.3m, some of which is reflected in the increased revenue.

##### *Finance charges*

The net finance charge for NGN for the year ended 31 March 2013 was £62.8m (2012 - £61.7m) 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 £9.9m (2012 - £0.6m) which represents an effective tax charge of 25.9% (2012 - 4.7%). The tax charge and effective tax rate are lower than expected in 2013 due to a £4.4m 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 24% to 23%. Excluding the one off benefit, the effective tax rate would have been 37.4% (2012 - 70.4%).

##### *Dividends and dividend policy*

Dividends of £81.0m (2012 - £72.8m) were declared during the year, of which £63.3m (2012 - £54.0m) has been paid as at 31 March.

##### *Capital expenditure ("Capex")*

Capex for the year was £35.8m (2012 - £42.4m) which mainly represents investment in network assets and the development of new IT systems used to support many of NGN's operational business activities.

Operating and financial review continued

#### *Capital structure*

NGN has debt before financing costs of £1,209.5m (2012 - £1,140.5m) comprising:

- Bank loans of £nil (2012 - £66.0m) which carry interest at LIBOR plus a margin of 0.71%;
- European Investment Bank ("EIB") loans of £285.0m (2012 - £150.0m) which have interest terms which vary by facility as set out in note 14; and
- Intercompany loans of £924.5m (2012 - £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 group 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 March 2013 and a Standard & Poor's rating of BBB+ re-affirmed in March 2013.

#### *Cash flow*

Net cash inflow from operating activities for the year ended 31 March 2013 was £132.8m (2012 - £140.4m).

#### *Liquidity and investments*

At 31 March 2013 NGN had £200.0m (2012 - £269.0m) of undrawn committed borrowing facilities available for use and £14.3m (2012 - £1.2m) 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 5. 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 2013 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 nominal and index-linked debt aiming to achieve a degree of symmetry with the Regulator's broad approach to setting cost of debt allowances and so as to maintain a debt portfolio consistent with those of comparable utility companies; and
- To structure debt maturities and interest rate hedges in such a way as to provide protection against adverse movements in the indexed regulatory cost of debt allowance.

#### *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 5.

### Results and dividends

The profit for the year after taxation was £28.2m (2012 - £12.7m).

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 5.

### Directors

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

A Hunter	(Chairman)
M J Horsley	(Chief Executive Officer)
H L Kam	
K S Tso	(resigned 8 February 2013)
C T Wan	(appointed 8 February 2013)
N McGee	
M Robinson	(resigned 4 March 2013)
S Leong	(appointed 4 March 2013)
D Macrae	
L S Chan	(appointed 13 August 2012)
S S Yuen	(appointed 28 August 2012)

### 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 2013 were equivalent to 16 (2012 - 10) days' purchases, based on the average daily amount invoiced by suppliers during the year.

### Contractual relationships

The Company has contractual relationships with many parties including directors, employees, suppliers and banking groups. However, none are considered essential in terms of their effect on the business of the Company except the relationship with xoserve Limited, the company which provides information, data processing, invoicing and other supply point administration services to the Company which is used by the Company in setting its regulated gas distribution charges to gas transporters.

### Charitable and political contributions

During the year the Company made charitable donations of £7,000 (2012 - £52,000), principally to local charities serving the communities in which the Company operates.

No political donations were made (2012 - £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 have put in place appropriate arrangements for Deloitte LLP to be reappointed as auditor for the ensuing year in the absence of a resolution at an annual general meeting.

By order of the Board

M J Horsley  
Director

29 July 2013



## 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 2013 the Board comprises nine Directors.

The position of the Chairman of the Board is held by A Hunter who 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 including Committee meetings is detailed below:

2012/13		2011/12	
		Date	Attendees
8 May 2012	6 out of 7	12 May 2011	8 out of 8
24 July 2012	4 out of 7	27 June 2011	9 out of 9
11 September 2012	8 out of 9	5 September 2011	8 out of 8
19 November 2012	8 out of 9	21 November 2011	8 out of 8
22 January 2013	9 out of 9	17 January 2012	7 out of 8
12 March 2013	9 out of 9	13 March 2012	6 out of 7

#### *Committees*

The Board has established five committees to assist in the execution of its duties and to allow a detailed consideration of complex issues. The Committees are chaired by N McGee with the exception of the Remuneration Committee which is chaired by A Hunter. Various members of the Board attend the Committees which require a quorum comprising a director from at least two Shareholders. Other directors attend in addition to this. The Committees are the Audit Committee, Compliance Committee, Risk Management Committee, Treasury Committee and Remuneration Committee. The Committee structures and charters are reviewed on an annual basis. The Committees support the CEO with advice on matters of governance and adequacy of controls in terms of operational and risk management.

#### Audit Committee

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

#### Compliance Committee

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

## **Corporate governance statement continued**

### Risk Management Committee

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

### Treasury Committee

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

### Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on overall Remuneration Policy of the Company and 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 2013 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, except as noted below, 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 12 to 13, the financial position of the Company as at 31 March 2013 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 26 March 2013, 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

29 July 2013

## Statement of accounting policies

### Basis of accounting

The Regulatory Accounts for the year ended 31 March 2013 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and Standard Special Condition A30 of the Licence.

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:

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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

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### 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 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities (i) 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities (i) 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
<b>Turnover</b>	1	<b>383,395</b>	<b>1,226</b>	<b>225</b>	<b>277</b>	<b>-</b>	<b>385,123</b>	<b>350,619</b>	<b>1,195</b>	<b>299</b>	<b>428</b>	<b>-</b>	<b>352,541</b>
Cost of sales		(16,275)	(405)	(89)	(277)	-	(17,046)	(9,702)	(431)	(158)	(428)	-	(10,719)
<b>Gross profit</b>		<b>367,120</b>	<b>821</b>	<b>136</b>	<b>-</b>	<b>-</b>	<b>368,077</b>	<b>340,917</b>	<b>764</b>	<b>141</b>	<b>-</b>	<b>-</b>	<b>341,822</b>
Other operating expenses	2	(266,317)	(866)	-	(7)	-	(267,190)	(265,963)	(809)	-	(7)	-	(266,779)
<b>Operating profit (loss)</b>		<b>100,803</b>	<b>(45)</b>	<b>136</b>	<b>(7)</b>	<b>-</b>	<b>100,887</b>	<b>74,954</b>	<b>(45)</b>	<b>141</b>	<b>(7)</b>	<b>-</b>	<b>75,043</b>
Net finance charges	3	(62,772)	-	-	-	-	(62,772)	(61,729)	-	-	-	-	(61,729)
<b>Profit (loss) on ordinary activities before taxation</b>	4	<b>38,031</b>	<b>(45)</b>	<b>136</b>	<b>(7)</b>	<b>-</b>	<b>38,115</b>	<b>13,225</b>	<b>(45)</b>	<b>141</b>	<b>(7)</b>	<b>-</b>	<b>13,314</b>
Tax on profit (loss) on ordinary activities	7	(9,862)	11	(33)	2	-	(9,882)	(604)	12	(37)	2	-	(627)
<b>Profit (loss) for the financial year</b>	18	<b>28,169</b>	<b>(34)</b>	<b>103</b>	<b>(5)</b>	<b>-</b>	<b>28,233</b>	<b>12,621</b>	<b>(33)</b>	<b>104</b>	<b>(5)</b>	<b>-</b>	<b>12,687</b>

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 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities (i) 2013 £'000	Corporate (ii) 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities (i) 2012 £'000	Corporate (ii) 2012 £'000	Total 2012 £'000
<b>Fixed assets</b>													
Intangible assets - goodwill	9	132,251	-	-	-	-	132,251	136,363	-	-	-	-	136,363
Tangible assets	10	1,376,256	5,571	-	-	-	1,381,827	1,387,173	5,728	-	-	-	1,392,901
Investments	11	104	-	-	-	2,105	2,209	104	-	-	-	2,105	2,209
		<b>1,508,611</b>	<b>5,571</b>	-	-	<b>2,105</b>	<b>1,516,287</b>	<b>1,523,640</b>	<b>5,728</b>	-	-	<b>2,105</b>	<b>1,531,473</b>
<b>Current assets</b>													
Debtors – due within one year	12	36,980	-	-	-	-	36,980	32,931	-	-	-	-	32,931
Cash at bank and in hand		-	-	-	-	14,349	14,349	-	-	-	-	1,227	1,227
		<b>36,980</b>	-	-	-	<b>14,349</b>	<b>51,329</b>	<b>32,931</b>	-	-	-	<b>1,227</b>	<b>34,158</b>
<b>Creditors: Amounts falling due within one year</b>	13	(37,462)	-	-	-	(68,408)	(105,870)	(114,535)	-	-	-	(65,438)	(179,973)
<b>Net current liabilities</b>		<b>(482)</b>	-	-	-	<b>(54,059)</b>	<b>(54,541)</b>	<b>(81,604)</b>	-	-	-	<b>(64,211)</b>	<b>(145,815)</b>
<b>Total assets less current liabilities</b>		<b>1,508,129</b>	<b>5,571</b>	-	-	<b>(51,954)</b>	<b>1,461,746</b>	<b>1,442,036</b>	<b>5,728</b>	-	-	<b>(62,106)</b>	<b>1,385,658</b>
Creditors: Amounts falling due after more than one year	14	(1,259,463)	-	-	-	-	(1,259,463)	(1,120,901)	-	-	-	-	(1,120,901)
Provisions for liabilities excluding pension liability	16	(126,119)	-	-	-	-	(126,119)	(129,214)	-	-	-	-	(129,214)
<b>Net assets (liabilities) excluding pension liability</b>		<b>122,547</b>	<b>5,571</b>	-	-	<b>(51,954)</b>	<b>76,164</b>	<b>191,921</b>	<b>5,728</b>	-	-	<b>(62,106)</b>	<b>135,543</b>
Pension liability	23	(30,999)	-	-	-	-	(30,999)	(18,799)	-	-	-	-	(18,799)
<b>Net assets (liabilities) including pension liability</b>		<b>91,548</b>	<b>5,571</b>	-	-	<b>(51,954)</b>	<b>45,165</b>	<b>173,122</b>	<b>5,728</b>	-	-	<b>(62,106)</b>	<b>116,744</b>
<b>Capital and reserves</b>													
Called-up share capital	17	-	-	-	-	-	-	-	-	-	-	-	-
Profit and loss accounts	18	-	-	-	-	45,165	45,165	-	-	-	-	116,744	116,744
<b>Shareholders' funds</b>	19	-	-	-	-	<b>45,165</b>	<b>45,165</b>	-	-	-	-	<b>116,744</b>	<b>116,744</b>

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 40 inclusive were approved by the Board of Directors and authorised for issue on 16 July 2013 and signed on its behalf on 29 July 2013 by:

M J Horsley - Director

## Statements of total recognised gains and losses

For the years ended 31 March

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Profit (loss) for the financial year	28,169	(34)	103	(5)	-	28,233	12,621	(33)	104	(5)	-	12,687
Actuarial loss relating to the pension scheme	(23,857)	-	-	-	-	(23,857)	(16,364)	-	-	-	-	(16,364)
Deferred tax attributable to actuarial loss	5,045	-	-	-	-	5,045	3,380	-	-	-	-	3,380
<b>Total recognised gains and losses relating to the year</b>	<b>9,357</b>	<b>(34)</b>	<b>103</b>	<b>(5)</b>	<b>-</b>	<b>9,421</b>	<b>(363)</b>	<b>(33)</b>	<b>104</b>	<b>(5)</b>	<b>-</b>	<b>(297)</b>

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	Metering	De Minimis	Other	Corporate	Total	Transportation	Metering	De Minimis	Other	Corporate	Total
		2013	2013	2013	activities	2013	2013	2012	2012	2012	activities	2012	2012
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Net cash inflow (outflow) from operating activities</b>	20(a)	<b>128,922</b>	<b>808</b>	<b>136</b>	<b>(7)</b>	<b>2,970</b>	<b>132,829</b>	<b>132,963</b>	<b>752</b>	<b>141</b>	<b>(7)</b>	<b>6,564</b>	<b>140,413</b>
<b>Returns on investments and servicing of finance</b>													
Interest received		403	-	-	-	-	403	329	-	-	-	-	329
Interest paid		(61,351)	-	-	-	-	(61,351)	(60,185)	-	-	-	-	(60,185)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<b>(60,948)</b>	-	-	-	-	<b>(60,948)</b>	<b>(59,856)</b>	-	-	-	-	<b>(59,856)</b>
<b>Taxation</b>													
Corporation tax paid		(10,150)	-	-	-	-	(10,150)	(6,278)	-	-	-	-	(6,278)
<b>Capital expenditure</b>													
Purchase of tangible fixed assets		(34,760)	(864)	-	-	-	(35,624)	(41,277)	(676)	-	-	-	(41,953)
Net receipts from disposal of tangible fixed assets		15	-	-	-	-	15	167	-	-	-	-	167
<b>Net cash outflow for capital expenditure</b>		<b>(34,745)</b>	<b>(864)</b>	-	-	-	<b>(35,609)</b>	<b>(41,110)</b>	<b>(676)</b>	-	-	-	<b>(41,786)</b>
<b>Equity dividends paid</b>		-	-	-	-	<b>(82,000)</b>	<b>(82,000)</b>	-	-	-	-	<b>(72,000)</b>	<b>(72,000)</b>
<b>Acquisitions and disposals</b>		-	-	-	-	-	-	-	-	-	-	<b>(5)</b>	<b>(5)</b>
<b>Net cash inflow (outflow) before financing</b>		<b>23,079</b>	<b>(56)</b>	<b>136</b>	<b>(7)</b>	<b>(79,030)</b>	<b>(55,878)</b>	<b>25,719</b>	<b>76</b>	<b>141</b>	<b>(7)</b>	<b>(65,441)</b>	<b>(39,512)</b>
<b>Financing</b>													
New unsecured loans	20(b)(c)	135,000	-	-	-	-	135,000	37,475	-	-	-	-	37,475
(Decrease) increase in short term borrowings	20(b)(c)	(66,000)	-	-	-	-	(66,000)	-	-	-	-	-	-
<b>Net cash inflow from financing</b>		<b>69,000</b>	-	-	-	-	<b>69,000</b>	<b>37,475</b>	-	-	-	-	<b>37,475</b>
<b>Increase (decrease) in cash in the year</b>	20(b)(c)	<b>92,079</b>	<b>(56)</b>	<b>136</b>	<b>(7)</b>	<b>(79,030)</b>	<b>13,122</b>	<b>63,194</b>	<b>76</b>	<b>141</b>	<b>(7)</b>	<b>(65,441)</b>	<b>(2,037)</b>

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 2012 of Northern Gas Networks Limited (Statutory Accounts) and these Regulatory Accounts for the year ended 31 March 2013.

### Profit and loss account

	Statutory Accounts to December 2012 £'000	Exclude 1 January – 31 March 2012 £'000	Include 1 January – 31 March 2013 £'000	Regulatory Accounts for 2012/2013 £'000
Turnover	378,119	(86,926)	93,930	385,123
Operating profit	103,075	(21,184)	18,996	100,887
Net finance charges	(62,667)	17,379	(17,484)	(62,772)
Tax on profit on ordinary activities	(6,161)	(2,128)	(1,593)	(9,882)
<b>Profit for the financial year</b>	<b>34,247</b>	<b>(5,933)</b>	<b>(81)</b>	<b>28,233</b>

### Balance sheet

	Statutory Accounts as at December 2012 £'000	1 January – 31 March 2013 £'000	Regulatory Accounts for 2012/2013 £'000
Fixed assets	1,522,623	(6,336)	1,516,287
Current assets	45,592	5,737	51,329
Total assets	1,568,215	(599)	1,567,616
Creditors: Amounts falling due within one year	(123,997)	18,127	(105,870)
Creditors: Amounts falling due after one year, provisions and pension liability	(1,362,361)	(54,220)	(1,416,581)
Total liabilities	(1,486,358)	(36,093)	(1,522,451)
<b>Net assets</b>	<b>81,857</b>	<b>(36,692)</b>	<b>45,165</b>
Profit and loss account	81,857	(36,692)	45,165
<b>Shareholders' funds</b>	<b>81,857</b>	<b>(36,692)</b>	<b>45,165</b>

## Notes to the Regulatory Accounts

### 1. Turnover

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Transportation and Metering	383,395	1,226	-	-	-	384,621	350,619	1,195	-	-	-	351,814
Other income	-	-	225	277	-	502	-	-	299	428	-	727
	<b>383,395</b>	<b>1,226</b>	<b>225</b>	<b>277</b>	<b>-</b>	<b>385,123</b>	<b>350,619</b>	<b>1,195</b>	<b>299</b>	<b>428</b>	<b>-</b>	<b>352,541</b>

All turnover arises in the UK.

### 2. Other operating expenses

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Distribution costs	236,245	853	-	-	-	237,098	232,906	797	-	-	-	233,703
Administrative expenses	30,072	13	-	7	-	30,092	21,133	12	-	7	-	21,152
	266,317	866	-	7	-	267,190	254,039	809	-	7	-	254,855
Exceptional item – restructuring costs	-	-	-	-	-	-	11,924	-	-	-	-	11,924
	<b>266,317</b>	<b>866</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>267,190</b>	<b>265,963</b>	<b>809</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>266,779</b>

The exceptional item in 2012 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 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Interest payable and similar charges	61,960	-	-	-	-	61,960	60,626	-	-	-	-	60,626
Investment income	(405)	-	-	-	-	(405)	(330)	-	-	-	-	(330)
Other finance charges	1,217	-	-	-	-	1,217	1,433	-	-	-	-	1,433
	<b>62,772</b>	-	-	-	-	<b>62,772</b>	<b>61,729</b>	-	-	-	-	<b>61,729</b>

*Interest payable and similar charges*

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Bank loans and overdrafts	13,671	-	-	-	-	13,671	12,937	-	-	-	-	12,937
Intercompany interest payable	48,518	-	-	-	-	48,518	48,670	-	-	-	-	48,670
	<b>62,189</b>	-	-	-	-	<b>62,189</b>	<b>61,607</b>	-	-	-	-	<b>61,607</b>
Finance costs capitalised	(229)	-	-	-	-	(229)	(981)	-	-	-	-	(981)
	<b>61,960</b>	-	-	-	-	<b>61,960</b>	<b>60,626</b>	-	-	-	-	<b>60,626</b>

Finance costs have been capitalised based on a capitalisation rate of 5.99% (2012 – 5.99%).

*Investment income*

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Income from fixed asset investments	(348)	-	-	-	-	(348)	(286)	-	-	-	-	(286)
Interest receivable and similar income	(57)	-	-	-	-	(57)	(44)	-	-	-	-	(44)
	<b>(405)</b>	-	-	-	-	<b>(405)</b>	<b>(330)</b>	-	-	-	-	<b>(330)</b>

*Other finance charges*

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Unwinding of discount on provisions	352	-	-	-	-	352	2,310	-	-	-	-	2,310
Net charge (return) on pension scheme (see note 23)	865	-	-	-	-	865	(877)	-	-	-	-	(877)
	<b>1,217</b>	-	-	-	-	<b>1,217</b>	<b>1,433</b>	-	-	-	-	<b>1,433</b>

**4. Profit (loss) on ordinary activities before taxation**

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

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Depreciation and amounts written off tangible fixed assets												
- owned	45,902	853	-	-	-	46,755	44,226	797	-	-	-	45,023
- held under finance leases and hire purchase contracts	46	-	-	-	-	46	46	-	-	-	-	46
Amortisation of goodwill	4,112	-	-	-	-	4,112	4,111	-	-	-	-	4,111
Loss on disposal of tangible fixed assets	78	-	-	-	-	78	473	-	-	-	-	473
Operating lease rentals – other	322	-	-	-	-	322	228	-	-	-	-	228

*The analysis of auditor's remuneration is as follows:*

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	65	-	-	-	-	65	63	-	-	-	-	63
<i>Fees payable to the Company's auditor and its associates for other services to the Company</i>												
- The audit of the Company's subsidiaries pursuant to legislation	31	-	-	-	-	31	30	-	-	-	-	30
<b>Total audit fees</b>	<b>96</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>96</b>	<b>93</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93</b>

*Fees payable to the Company's auditor and its associates for other services to the Company*

- Other services pursuant to legislation	61	-	-	-	-	61	59	-	-	-	-	59
- Tax services	130	-	-	-	-	130	38	-	-	-	-	38
- Other services	6	-	-	-	-	6	6	-	-	-	-	6
<b>Total non-audit fees</b>	<b>197</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>197</b>	<b>103</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>103</b>

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

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Wages and salaries	4,935	-	-	-	-	4,935	4,533	-	-	-	-	4,533
Social security costs	610	-	-	-	-	610	535	-	-	-	-	535
Pension costs	509	-	-	-	-	509	484	-	-	-	-	484
	<b>6,054</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,054</b>	<b>5,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,552</b>

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

	Transportation 2013 Number	Metering 2013 Number	De Minimis 2013 Number	Other activities 2013 Number	Corporate 2013 Number	Total 2013 Number	Transportation 2012 Number	Metering 2012 Number	De Minimis 2012 Number	Other activities 2012 Number	Corporate 2012 Number	Total 2012 Number
Administration	81	-	-	-	-	81	79	-	-	-	-	79
	<b>81</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81</b>	<b>79</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79</b>

**6. Directors' remuneration***Remuneration*

The remuneration of the Directors was as follows:

	2013 £'000	2012 £'000
Emoluments	560	418
Amounts receivable (other than shares) under long term incentive schemes	235	62
Company contributions to money purchase pension schemes	-	-
	<b>795</b>	<b>480</b>

*Pensions*

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

	2013 Number	2012 Number
Money purchase schemes	-	-
	<b>-</b>	<b>-</b>

*Highest paid Director*

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

	2013 £'000	2012 £'000
Emoluments	795	480
Company contributions to money purchase pension schemes	-	-
	<b>795</b>	<b>480</b>

*Transactions*

There have been no transactions with Directors in the year (2012 - £nil) other than as set out above in respect of remuneration.



**7. Tax on profit (loss) on ordinary activities**

	Total 2013 £'000	Total 2012 £'000
<b>Current tax</b>		
UK corporation tax	11,518	8,173
Adjustments in respect of prior years	800	(179)
<b>Total current tax</b>	<b>12,318</b>	<b>7,994</b>
<b>Deferred tax</b>		
Current year - origination and reversal of timing differences	2,773	1,034
Effect of decrease in tax rate on opening liability	(4,405)	(8,740)
Adjustments in respect of prior years	(804)	339
<b>Total deferred tax</b>	<b>(2,436)</b>	<b>(7,367)</b>
<b>Total tax on profit (loss) on ordinary activities</b>	<b>9,882</b>	<b>627</b>

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 2013 £'000	Total 2012 £'000
Profit on ordinary activities before tax	38,115	13,314
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% (2012 - 26%)	9,148	3,462
Effects of:		
Expenses not deductible for tax purposes	5,113	5,648
Capital allowances in excess of depreciation	85	(1,383)
Other timing differences	(2,987)	509
Adjustments in respect of prior years	800	(179)
Effect of decrease in tax rate	159	(63)
<b>Current tax charge for the year</b>	<b>12,318</b>	<b>7,994</b>

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 24% (2012 - 26%).

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 July 2012, included provisions to reduce the rate of corporation tax to 23% with effect from 1 April 2013. Accordingly, deferred tax balances have been revalued to the lower rate of 23% in these Regulatory Accounts.

In March 2013, the government announced that it intends to further reduce the rate of corporation tax to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. 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 2013 £'000	Total 2012 £'000
Equity shares:		
- interim dividend paid of £632,500 (2012 - £540,000) per ordinary share	63,250	54,000
- interim dividend declared of £177,500 (2012 - £187,500) per ordinary share	17,750	18,750
	<b>81,000</b>	<b>72,750</b>

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 2012 and 31 March 2013	164,457
Amortisation at 1 April 2012	28,094
Charge for the year	4,112
Amortisation at 31 March 2013	32,206
<b>Net book value at 31 March 2013</b>	<b>132,251</b>
<b>Net book value at 31 March 2012</b>	<b>136,363</b>

**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 2012	3,196	1,542,996	11,941	86,854	2,079	1,647,066
Additions	-	26,245	255	1,066	7,558	35,124
Disposals	-	(94)	(76)	-	-	(170)
Transfers	-	1,568	-	5,269	(6,837)	-
Cost at 31 March 2013	3,196	1,570,715	12,120	93,189	2,800	1,682,020
Depreciation at 1 April 2012	1,525	221,469	7,856	29,043	-	259,893
Charge for the year	73	34,419	1,743	9,713	-	45,948
Disposals	-	(14)	(63)	-	-	(77)
Depreciation at 31 March 2013	1,598	255,874	9,536	38,756	-	305,764
<b>Net book value at 31 March 2013</b>	<b>1,598</b>	<b>1,314,841</b>	<b>2,584</b>	<b>54,433</b>	<b>2,800</b>	<b>1,376,256</b>
<b>Net book value at 31 March 2012</b>	<b>1,671</b>	<b>1,321,527</b>	<b>4,085</b>	<b>57,811</b>	<b>2,079</b>	<b>1,387,173</b>

**Metering**

	Other equipment £'000	Total £'000
Cost at 1 April 2012	8,484	8,484
Additions	696	696
Cost at 31 March 2013	9,180	9,180
Depreciation at 1 April 2012	2,756	2,756
Charge for the year	853	853
Depreciation at 31 March 2013	3,609	3,609
<b>Net book value at 31 March 2013</b>	<b>5,571</b>	<b>5,571</b>
<b>Net book value at 31 March 2012</b>	<b>5,728</b>	<b>5,728</b>

**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 2012	3,196	1,542,996	11,941	95,338	2,079	1,655,550
Additions	-	26,245	255	1,762	7,558	35,820
Disposals	-	(94)	(76)	-	-	(170)
Transfers	-	1,568	-	5,269	(6,837)	-
Cost at 31 March 2013	3,196	1,570,715	12,120	102,369	2,800	1,691,200
Depreciation at 1 April 2012	1,525	221,469	7,856	31,799	-	262,649
Charge for the year	73	34,419	1,743	10,566	-	46,801
Disposals	-	(14)	(63)	-	-	(77)
Depreciation at 31 March 2013	1,598	255,874	9,536	42,365	-	309,373
<b>Net book value at 31 March 2013</b>	<b>1,598</b>	<b>1,314,841</b>	<b>2,584</b>	<b>60,004</b>	<b>2,800</b>	<b>1,381,827</b>
<b>Net book value at 31 March 2012</b>	<b>1,671</b>	<b>1,321,527</b>	<b>4,085</b>	<b>63,539</b>	<b>2,079</b>	<b>1,392,901</b>

Leased assets included above:

<b>Net book value at 31 March 2013</b>	<b>342</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>342</b>
<b>Net book value at 31 March 2012</b>	<b>388</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>388</b>

Short leasehold included within land and buildings above has a cost of £643,000 (2012 - £643,000), a depreciation charge in the year of £46,000 (2012 - £46,000), accumulated depreciation of £301,000 (2012 - £255,000) and a net book value of £342,000 (2012 - £388,000).

Leased assets included within motor vehicles above have a cost of £160,000 (2012 - £160,000), depreciation charge in the year of £nil (2012 - £nil), accumulated depreciation of £160,000 (2012 - £160,000) and a net book value of £nil (2012 - £nil).

Cumulative finance costs capitalised included in the cost of Tangible fixed assets amount to £6,592,000 (2012 - £6,364,000).

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 £1,357,000 (2012 - £1,251,000) and £50,051,000 (2012 - £46,492,000) respectively.

**11. Fixed asset investments**

	Total 2013 £'000	Total 2012 £'000
Subsidiary undertakings	2,105	2,105
Other investment	104	104
	<b>2,209</b>	<b>2,209</b>

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***Cost and net book value**

At 1 April 2012 and 31 March 2013

Corporate  
and Total  
£'000**2,105***Other investment***Cost and net book value**

At 1 April 2012 and 31 March 2013

Transportation  
and Total  
£'000**104**

**12. Debtors – due within one year**

	Transportation 2013	Metering 2013	De Minimis 2013	Other activities 2013	Corporate 2013	Total 2013	Transportation 2012	Metering 2012	De Minimis 2012	Other activities 2012	Corporate 2012	Total 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade debtors	995	-	-	-	-	995	807	-	-	-	-	807
Prepayments and accrued income	35,302	-	-	-	-	35,302	30,799	-	-	-	-	30,799
Other debtors	683	-	-	-	-	683	1,325	-	-	-	-	1,325
	<b>36,980</b>	-	-	-	-	<b>36,980</b>	<b>32,931</b>	-	-	-	-	<b>32,931</b>

**13. Creditors: Amounts falling due within one year**

	Transportation 2013	Metering 2013	De Minimis 2013	Other activities 2013	Corporate 2013	Total 2013	Transportation 2012	Metering 2012	De minimis 2012	Other activities 2012	Corporate 2012	Total 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bank loans	-	-	-	-	-	-	64,700	-	-	-	-	64,700
Payments received on account	618	-	-	-	-	618	19,707	-	-	-	-	19,707
Trade creditors	3,081	-	-	-	-	3,081	2,104	-	-	-	-	2,104
Amounts owed to group undertakings	-	-	-	-	50,658	50,658	-	-	-	-	46,688	46,688
UK corporation tax	15,129	-	-	-	-	15,129	12,988	-	-	-	-	12,988
Declared dividends – equity shareholder	-	-	-	-	17,750	17,750	-	-	-	-	18,750	18,750
Other taxation and social security	5,433	-	-	-	-	5,433	5,385	-	-	-	-	5,385
Accruals and deferred income	13,157	-	-	-	-	13,157	9,618	-	-	-	-	9,618
Defined contribution pension scheme accrual	44	-	-	-	-	44	33	-	-	-	-	33
	<b>37,462</b>	-	-	-	<b>68,408</b>	<b>105,870</b>	<b>114,535</b>	-	-	-	<b>65,438</b>	<b>179,973</b>

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

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Bank loans	284,954	-	-	-	-	284,954	149,951	-	-	-	-	149,951
Amounts owed to group undertakings	924,458	-	-	-	-	924,458	924,458	-	-	-	-	924,458
Deferred income	50,051	-	-	-	-	50,051	46,492	-	-	-	-	46,492
	<b>1,259,463</b>	-	-	-	-	<b>1,259,463</b>	<b>1,120,901</b>	-	-	-	-	<b>1,120,901</b>

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, £100.0m which carries interest at 3 month LIBOR plus a margin of 0.62% repayable on 30 March 2024, £60.0m which carries interest at 3 month LIBOR plus a margin of 1.13% repayable at 30 July 2024, £40.0m which carries a fixed rate interest of 3.446% paid bi-annually on 20 June and 20 December and is repayable on 20 December 2024, and £35.0m which carries interest of 3 month LIBOR plus a margin of 0.86% repayable in instalments between 2016 and 2034.

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 4 and 5 of the Operating and financial review provides an explanation of the role that financial instruments have had during the year in creating or changing the risks the Company faces 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 £14,349,000 (2012 - £1,227,000) 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 2013 was as follows:

	Floating rate 2013 £'000	Fixed rate 2013 £'000	Interest free 2013 £'000	Total 2013 £'000
Borrowings – Bank loans	244,960	39,994	-	284,954
Borrowings – Intercompany loans	-	900,130	24,328	924,458
	<b>244,960</b>	<b>940,124</b>	<b>24,328</b>	<b>1,209,412</b>

The profile at 31 March 2012 for comparison purposes 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
	<b>149,951</b>	<b>964,830</b>	<b>24,328</b>	<b>1,139,109</b>

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

Further analysis of the interest rate profile at 31 March 2013 was as follows:

	<u>Floating Rate</u>	<u>Fixed Rate</u>		<u>Interest free</u>
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed <b>Years</b>	Weighted average period to maturity <b>Years</b>
Borrowings – Bank loans	1.3	3.4	11.7	-
Borrowings – Intercompany loans	-	5.3	17.6	-

The profile at 31 March 2012 for comparison purposes was as follows:

	<u>Floating Rate</u>	<u>Fixed Rate</u>		<u>Interest free</u>
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed <b>Years</b>	Weighted average period to maturity <b>Years</b>
Borrowings – Bank loans	1.6	1.7	0.1	-
Borrowings – Intercompany loans	-	5.3	18.6	-

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:

	2013 £'000	2012 £'000
In one year or less	-	64,700
More than five years	1,209,412	1,074,409
	<b>1,209,412</b>	<b>1,139,109</b>

**Borrowing facilities**

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

	2013 £'000	2012 £'000
Expiring in more than two years	200,000	269,000
	<b>200,000</b>	<b>269,000</b>



**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 2013 £'000	Fair value 2013 £'000	Book value 2012 £'000	Fair value 2012 £'000
<b>Primary financial instruments held or issued to finance the Company's operations</b>				
Short term borrowings	-	-	64,700	66,000
Long term borrowings	284,954	286,838	149,951	150,293
Intercompany loans	924,458	1,053,878	924,458	977,313
<b>Derivative financial instruments held to manage the interest rate and currency profile</b>				
Interest rate swaps	-	(90,026)	-	(41,741)

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 2013 £'000	Losses 2013 £'000	Net 2013 £'000	Gains 2012 £'000	Losses 2012 £'000	Net 2012 £'000
Unrecognised gains and losses on hedges at 1 April	197,229	(155,488)	41,741	58,962	(108,456)	(49,494)
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	197,229	(155,488)	41,741	58,692	(108,456)	(49,494)
Gains and losses arising in the year that were not recognised in the year	53,497	(5,212)	48,285	138,267	(47,032)	91,235
<b>Unrecognised gains and losses on hedges at 31 March</b>	<b>250,726</b>	<b>(160,700)</b>	<b>90,026</b>	<b>197,229</b>	<b>(155,488)</b>	<b>41,741</b>
Of which:						
Gains and losses expected to be recognised within one year	-	-	-	-	-	-
Gains and losses expected to be recognised after one year	250,726	(160,700)	90,026	197,229	(155,488)	41,741

**16. Provisions for liabilities excluding pension liability**

	Transportation and Total					Total £'000
	Contractor Claims £'000	Restructuring £'000	Environmental restoration £'000	Deferred tax £'000	Other £'000	
At 1 April 2012	-	11,562	8,240	100,341	9,071	129,214
Charged to profit and loss account	6,245	4,563	-	33	548	11,389
Utilised in the year	(211)	(9,812)	(10)	-	(687)	(10,720)
Unwinding of discount	-	-	317	-	35	352
Transferred from accruals	1,228	-	-	-	-	1,228
Adjustment arising from the decrease in tax rate	-	-	-	(4,187)	-	(4,187)
Released unused	-	(1,157)	-	-	-	(1,157)
<b>At 31 March 2013</b>	<b>7,262</b>	<b>5,156</b>	<b>8,547</b>	<b>96,187</b>	<b>8,967</b>	<b>126,119</b>

The provision for contractor claims relates to claims received from primary contractors in respect of work variations and final invoice valuations upon closing out contracts and represents the best estimate of the amounts required to settle these claims, which is expected mainly within one year of the balance sheet date.

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

Estimated environmental restoration costs are provided where the Company has a legal obligation to restore 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**

	2013 £'000	2012 £'000
Accelerated capital allowances	96,104	100,526
Other timing differences	83	(185)
	<b>96,187</b>	<b>100,341</b>

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

**17. Called-up share capital**

	2013 Number	2013 £	2012 Number	2012 £
Allotted, called-up and fully paid Ordinary shares of £1 each	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**18. Reserves**

	Profit and loss accounts £'000
At 1 April 2012	116,744
Profit for the financial year	28,233
Actuarial loss relating to the pension scheme (note 23)	(23,857)
UK deferred tax attributable to the actuarial loss	5,045
Dividends paid and declared on equity shares	(81,000)
<b>At 31 March 2013</b>	<b>45,165</b>

**19. Reconciliation of movements in shareholders' funds**

	2013 £'000	2012 £'000
Profit for the financial year	28,233	12,687
Other recognised gains and losses relating to the year (net)	(18,812)	(12,984)
Dividends paid and declared on equity shares	(81,000)	(72,750)
<b>Net reduction in shareholders' funds</b>	<b>(71,579)</b>	<b>(73,047)</b>
Opening shareholders' funds	116,744	189,791
<b>Closing shareholders' funds</b>	<b>45,165</b>	<b>116,744</b>

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

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Operating profit (loss)	100,803	(45)	136	(7)	-	100,887	74,954	(45)	141	(7)	-	75,043
Depreciation and amortisation	50,060	853	-	-	-	50,913	48,383	797	-	-	-	49,180
Loss on sale of tangible fixed assets	78	-	-	-	-	78	473	-	-	-	-	473
(Increase) decrease in debtors	(3,050)	-	-	-	-	(3,050)	609	-	-	-	-	609
(Decrease) increase in creditors	(10,479)	-	-	-	2,970	(7,509)	3,354	-	-	-	6,564	9,918
Increase in provisions	708	-	-	-	-	708	11,565	-	-	-	-	11,565
Adjustment for pension funding	(9,198)	-	-	-	-	(9,198)	(6,375)	-	-	-	-	(6,375)
<b>Net cash inflow (outflow) from operating activities</b>	<b>128,922</b>	<b>808</b>	<b>136</b>	<b>(7)</b>	<b>2,970</b>	<b>132,829</b>	<b>132,963</b>	<b>752</b>	<b>141</b>	<b>(7)</b>	<b>6,564</b>	<b>140,413</b>

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

	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000	Transportation 2012 £'000	Metering 2012 £'000	De Minimis 2012 £'000	Other activities 2012 £'000	Corporate 2012 £'000	Total 2012 £'000
Increase (decrease) in cash in the year	92,079	(56)	136	(7)	(79,030)	13,122	63,194	76	141	(7)	(65,441)	(2,037)
Cash inflow from increase in debt	(69,000)	-	-	-	-	(69,000)	(37,475)	-	-	-	-	(37,475)
Change in net debt resulting from cash flows	23,079	(56)	136	(7)	(79,030)	(55,878)	25,719	76	141	(7)	(65,441)	(39,512)
Other non-cash movements	(1,303)	-	-	-	-	(1,303)	(1,175)	-	-	-	-	(1,175)
Movement in net debt in the year	21,776	(56)	136	(7)	(79,030)	(57,181)	24,544	76	141	(7)	(65,441)	(40,687)
Net debt at 1 April	(785,543)	(5,942)	1,339	303	(348,039)	(1,137,882)	(810,087)	(6,018)	1,198	310	(282,598)	(1,097,195)
<b>Net debt at 31 March</b>	<b>(763,767)</b>	<b>(5,998)</b>	<b>1,475</b>	<b>296</b>	<b>(427,069)</b>	<b>(1,195,063)</b>	<b>(785,543)</b>	<b>(5,942)</b>	<b>1,339</b>	<b>303</b>	<b>(348,039)</b>	<b>(1,137,882)</b>

**c) Analysis of changes in net debt**

	At 1 April 2012 £'000	Cash flow £'000	Non cash movements £'000	At 31 March 2013 £'000
Cash at bank	1,227	13,122	-	14,349
Debt due after one year	(1,074,409)	(135,000)	(3)	(1,209,412)
Debt due within one year	(64,700)	66,000	(1,300)	-
	(1,139,109)	(69,000)	(1,303)	(1,209,412)
<b>Net debt</b>	<b>(1,137,882)</b>	<b>(55,878)</b>	<b>(1,303)</b>	<b>(1,195,063)</b>

**21. Related party transactions**

There have been no transactions with directors in the year (2012 - £nil) other than remuneration as disclosed in note 6.

During the year the Company purchased services in the ordinary course of business from related parties as follows:

	2013 £'000	2012 £'000
CHED Services Limited	104	104

CHED Services Limited is controlled within the Cheung Kong Infrastructure Holdings Limited group of companies whose ultimate parent undertaking is Hutchison Whampoa Limited. There was £104,000 within creditors (CHED Services Limited) at 31 March 2013 (2012 - £78,000).

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 2013 the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £1,971,000 (2012 - £1,374,000).

**b) Lease commitments**

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

	Land and buildings 2013 £'000	Land and buildings 2012 £'000
Expiry date:		
- within one year	-	40
- between two and five years	386	386
	<b>386</b>	<b>426</b>

**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:

	2013 £'000	2012 £'000
Present value of funded obligations	370,410	310,619
Fair value of plan assets	(330,151)	(285,884)
Deficit	40,259	24,735
Related deferred tax asset	(9,260)	(5,936)
Net liability	30,999	18,799
Amounts in the balance sheets		
- Liabilities	30,999	18,799

**23. Pension arrangements - continued**

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

	2013 £'000	2012 £'000
<i>Amount charged to operating profit</i>		
Current service costs	6,339	6,567
Past service costs	6,315	-
<b>Total</b>	<b>12,654</b>	<b>6,567</b>
<i>Amount credited to net finance charges</i>		
Interest costs	15,864	14,982
Expected return on plan assets	(14,999)	(15,859)
<b>Net cost (return) on pension scheme</b>	<b>865</b>	<b>(877)</b>
<b>Total</b>	<b>13,519</b>	<b>5,690</b>

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

	2013 £'000	2012 £'000
Actuarial losses	(23,857)	(16,364)

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

	2013 £'000	2012 £'000
Actuarial losses	(50,858)	(27,001)

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

	2013 £'000	2012 £'000
Opening defined benefit obligation	310,619	271,260
Service costs	6,339	6,567
Past service costs	6,315	-
Interest cost	15,864	14,982
Member contributions	695	861
Actuarial losses	43,017	22,054
Benefits paid	(12,439)	(5,105)
<b>Closing defined benefit obligation</b>	<b>370,410</b>	<b>310,619</b>

**23. Pension arrangements - continued**

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

	2013 £'000	2012 £'000
Opening fair value of plan assets	285,884	255,625
Expected return	14,999	15,859
Actuarial gains	19,160	5,690
Employer contributions	21,852	12,954
Member contributions	695	861
Benefits paid	(12,439)	(5,105)
	330,151	285,884

The Company expects to contribute £16.1m to its defined benefit pension plan in 2013/2014.

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:

	2013		2012	
	Percentage of plan assets %	Expected return on plan assets %	Percentage of plan assets %	Expected return on plan assets %
Equity securities	37.30	6.80	35.30	6.80
Debt securities	52.10	3.70	49.80	3.90
Property	8.40	6.80	13.00	6.80
Other	2.20	0.50	1.90	0.30

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

The actual return on plan assets is as follows:

	2013 £'000	2012 £'000
Actual return on plan assets	34,159	21,549

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

	2013	2012
Discount rate	4.4%	5.1%
Expected return on plan assets	5.2%	6.1%
Future salary increases	3.9%	3.8%
Future pension increases	3.4%	3.3%
Inflation	3.4%	3.3%
Life expectancy - member age 65	21.8 years	21.9 years
- member age 45	24.0 years	23.8 years

**23. Pension arrangements - continued**

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

	31 March 2013 £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000	31 March 2009 £'000
Defined benefit obligation	(370,410)	(310,619)	(271,260)	(258,497)	(205,359)
Plan assets	330,151	285,884	255,625	231,409	169,888
<b>Deficit</b>	<b>(40,259)</b>	<b>(24,735)</b>	<b>(15,635)</b>	<b>(27,088)</b>	<b>(35,471)</b>

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

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
<b>Plan assets:</b>					
Amount (£'000)	19,160	5,690	1,336	41,961	(48,929)
Percentage of plan assets	6%	2%	1%	18%	(29%)
<b>Plan liabilities:</b>					
Amount (£'000)	14,261	-	230	2,865	-
Percentage of the present value of plan liabilities	4%	-	0%	1%	-

The Company also operates defined contribution schemes for which the pension charge for the year amounted to £509,000 (2012 - £484,000).

**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.