

**Northern Gas Networks Limited
Regulatory Accounts 2013/2014**

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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 2013, 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, and are available on our website, www.northerngasnetworks.co.uk.

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 2014, are that for each of the NGN Total, Transportation, Metering, De Minimis and Other activities, the Regulatory Accounts must:

- separately identify and 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 most recent 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;
- be published, except for the information on charges and apportionments, which has been removed from the public document in accordance with paragraph 24 of Standard Special Condition A30; and
- include a strategic report, corporate governance statement and a Directors’ report as if the company was quoted.

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 2(e) 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. 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 licence conditions

NGN's Licence contains special licence conditions, which include requirements on NGN:

- only to carry on certain activities;
- to ensure that it has sufficient operational 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 these conditions it can be prohibited from declaring and paying a dividend.

Strategic report

The Strategic Report has been prepared to fulfil the requirements of Standard Special Condition A30 to provide information to the Regulator and should not be relied upon by any other party or for any other purpose.

The Strategic Report 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.

Business strategy

The company's business strategy is to provide, develop and maintain a safe and secure gas distribution pipeline system for the provision of gas supplies to the people and the businesses within the distribution network. The company's vision of success is to be consistently benchmarked by Ofgem and the Health and Safety Executive ("HSE") as being in the top two comparable utilities in safety management, efficiency and customer service, which in turn will generate benefit for customers, employees and the shareholders of the company.

NGN's business model used to implement this strategy includes 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. Specific performance objectives within our business model which will enable the company to achieve the business strategy 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;
- A relentless customer focus;
- Maintaining a strong investment grade credit rating; and
- Maintaining acceptable financial returns to shareholders.

Financial and operational review

Financial performance

Revenue and operating profit

Operating profit for the year is £115.7m which is better than prior year of £100.9m as a result of increased revenue from £385.1m to £400.5m in 2013/14, largely due to RPI, offset by operating cost increases of only £0.6m mainly due to repex rate reductions and tight operational cost management in 2013/14.

Finance charges

The net finance charge for NGN for the year ended 31 March 2014 was £40.8m (2013 - £62.8m) which principally represents interest payments for ongoing investment programmes and working capital funding requirements.

Taxation

The tax charge for the year was £8.4m (2013 - £9.9m) which represents an effective tax charge of 11.1% (2013 - 25.9%). The tax charge and effective tax rate are lower than expected due to deferred tax credits as a result of the adjustment of the deferred tax liability to reflect the change in UK corporation tax rate from 23% to 20%.

Cash flow

Net cash inflow from operating activities for the year ended 31 March 2014 was £147.3m (2013 - £132.8m).

Capital expenditure ("Capex")

Capex for the year was £44.5m (2013 - £35.8m) which mainly represents investment in network assets and the development of new IT systems used to support many of NGN's operational business activities.

Financial position

Balance sheet

At the 31 March 2014 the net assets of the company were £52.3m (2013 - £45.2m), the movement was driven by retained profits and actuarial gains, partly offset by dividend payments (see note 18). At the date of signing the accounts there are no post balance sheet events which impact the balance sheet position of NGN.

Capital structure

NGN has debt before financing costs of £1,232.5m (2013 - £1,209.5m) comprising:

- Bank loans of £23.0m (2013 - £nil) which carry interest at LIBOR plus a margin of 0.7%;
- European Investment Bank ("EIB") loans of £285.0m (2013 - £285.0m) which have interest terms which vary by facility as set out in note 14; and
- Intercompany loans of £924.5m (2013 - £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 interest rate hedges to manage interest rate exposures.

Liquidity and investments

At 31 March 2014 NGN had £177.0m (2013 - £200.0m) of undrawn committed borrowing facilities available for use and £7.1m (2013 - £14.3m) of cash balances.

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 2014 and a Standard & Poor's rating of BBB+ re-affirmed in March 2014.

Segmental results

The directors consider that the company has only one class of business and the Board do not use any segmental analysis of performance. The regulatory accounts are split into four business sections as detailed on page 2, however this is solely for compliance with NGN's Gas Transport Licence.

Operational performance

NGN has achieved all of its key operational Guaranteed Standards of Service and Licence Conditions for the regulatory year ended 31 March 2014, further details of which are shown in the KPI table below.

Key performance indicators

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

	31 March 2014	31 March 2013
Financial performance efficiency		
Operating profit	£115.7m	£100.9m
Dividends paid	£71.0m	£82.0m
Senior net debt/regulatory asset value	66.5%	66.7%
Operational performance - customer services		
Quarterly customer satisfaction survey for repair, replacement and connections	8.7 out of 10	8.2 out of 10
Reinstate customer premises within 5 working days	96.6%	98.8%

Operational performance - safety

Number of lost time injuries to employees and contractors	3	3
Reported injuries to members of the general public	3	2
Attend uncontrolled gas escape within 1 hour	99.9%	99.5%
Attend controlled gas escape within 2 hours	99.9%	99.8%

Dividends

The directors do not recommend payment of a final dividend. Interim dividends of £182,500 per share were paid on 20 June 2013 and of £532,500 per share were paid on 20 December 2013 making a total of £715,000 per share for the year (2013 – £810,000).

Corporate and social responsibility

Social responsibility

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 investing in network extensions with social landlords and local authorities to further improve energy efficiency and sustainability.

NGN assist the gas industry to raise the profile of carbon monoxide poisoning, with school visits, an ongoing carbon monoxide campaign, and through supporting the Dominic Rodgers Trust.

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 for invoicing its regulated gas distribution charges to gas transporters.

Procurement policy

The objectives of NGN's procurement policy are to:

- minimise the end to end supply chain costs of providing goods, works and services that satisfy NGN's requirements;
- procure goods and services competitively, and efficiently in accordance with policy;
- ensure the selection of goods, works and services minimises the whole life costs of the NGN assets and maximises energy efficiency;
- minimise societal risk by ensuring that decisions consider quality, safety and environmental credentials including use of fair trade products;

- ensure early and active two way engagement with stakeholders to ensure that the procured solution is exactly what is needed; and
- establish and maintain an efficient number of suppliers trading through the appropriate commercial and contractual terms.

Employees

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. Some employees are eligible to receive an annual bonus related to the overall financial and operational performance of the Company.

The NGN workforce at the balance sheet date is detailed below:

	Male	Female	Total
Director	1	-	1
Senior manager	7	-	7
Other employee	46	39	85
Total	54	39	93

The average number of employees across the year was 91. The above figures exclude subcontractors and employees working for subsidiary companies.

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. 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.

The company is committed to reducing its carbon footprint, one of the biggest causes being gas leaking from our network and which is being addressed primarily through its continued network replacement programme. NGN are investing in biomethane innovation, the aim being to reduce the use of fossil fuels in the future. Additional details of how the company is reducing its carbon emissions can be found within the Directors' Report.

Key developments in the year

Key developments in the regulatory year include:

Efficiency

- Development of a maintenance planning strategy with centralised support hub;
- Creation of an in-house specialist services team to reduce use of external contractors; and
- Technology refresh with utilisation of smart phones and tablets.

Customer

- NGN established a 60in60 process whereby 60% of customer complaints are resolved in 60 minutes. Having achieved this target NGN now aim to achieve 90% within 60 minutes;
- NGN have rebranded with investment in vans and clothing; and
- Established a customer contact centre with greater ownership of customer service.

Safety

- Installation of vehicle telemetry to improve driving practices within our workforce;
- Developed and delivered a 'safe dig' campaign to reduce cable strikes; and
- Established a new and improved contractual health and safety framework for contractors working for NGN.

Outlook

The Directors expect the general level of activity to remain stable given the certainty provided by the RIIO-GD1 price control outcome which runs to 31 March 2021.

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. The company's principal risks and uncertainties 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

Strategic report *continued*

adverse effect 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.

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 2014 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 alignment 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.

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 minimising refinancing risk if such timeframes coincide with a regulatory reset date. Non-facility debt maturities are also staggered where practicable.

Going concern

The company's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out above. In addition note 15 to the accounts includes further details of the company's net debt position and details of its derivatives and other financial instruments. The company is able to pay liabilities as they fall due not withstanding the net current liability position of the balance sheet at 31 March 2014.

The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the finance 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.

By order of the Board,

M J Horsley (Director)

25 July 2014

Directors' report

The Directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 March 2014. The Corporate governance statement set out on pages 9 to 10 forms part of this report. There are no significant events since the balance sheet date which impact the regulatory accounts. An indication of likely future developments in the business of the company and details of the use of financial instruments are included in the strategic report.

Dividends

Details of dividends made are included within the strategic report.

Capital structure

Details of the authorised and issued share capital, together with details of any movements in the company's issued share capital during the year, and the rights of each share class are shown in note 17.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights.

There are no employee share schemes. No person has any special rights of control over the company's share capital and all issued shares are fully paid

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act and related legislation. 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. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors is discussed in the Corporate governance statement on pages 9 and 10.

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	
C T Wan	
N McGee	
S Leong	
D Macrae	
L S Chan	
C C Tsai	(appointed 28 February 2014)
S S Yuen	(resigned 28 February 2014)

P Rogerson	(non-executive, appointed 1 April 2014)
J Burnham	(non-executive, appointed 1 April 2014)

Given the shareholders are companies each of which has Board representation, biographical details on the directors proposed for election or re-election are not provided.

Political contributions

No political donations were made in the current or prior year.

Substantial shareholdings

The company is owned by a consortium as detailed in note 24.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees.

Environment and Carbon Reporting

The company is committed to reducing its carbon emissions under Regulatory Instructions and Guidance (RIGS). The overall target is a year-on-year emissions reduction of c0.5% across RIIO-GD1.

Organisational boundary, responsibility and methodology

We have reported using an operational control approach, reporting on all material emissions which NGN are accountable for across the entire business covering all work streams and geography. Details of what has been included within each scope is listed in the table on page 8. Unreported emissions, which would form part of scope 3, are deemed insignificant compared to shrinkage. These include employee commuting, some forms of waste generated in operations, end of life treatment of solid products and some gas emissions.

The emissions reduction program is managed by the head of HS&E within the company, supported by the senior management team and Board as needed. Reported data has not been externally verified, as permitted by Ofgem, due to robust internal processes. Data has been reviewed by in-house internal audit.

Reported emissions follow 'Greenhouse Gas Emissions Reporting Guidance (June 2013)' as provided by the Department for Environment, Food and Rural Affairs (Defra). The conversion factors used for emission disclosures follow Ofgem guidance.

Directors' report *continued*

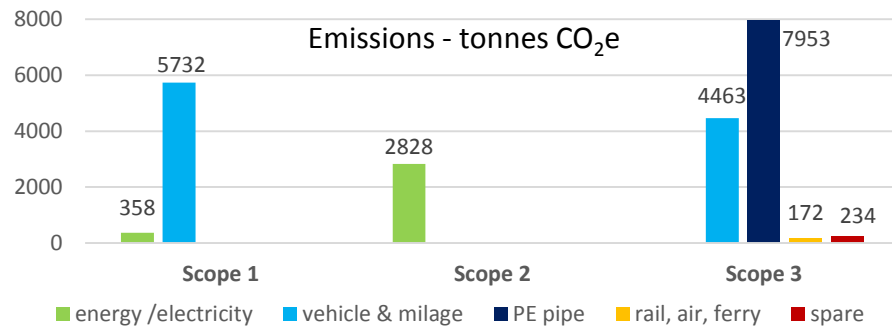
Performance and emissions reduction management

Reported figures cover the 2013/14 regulatory year. We have also shown emissions as an intensity ratio against turnover, to enable comparison over time.

Business Carbon Footprint	Performance 2013/14	
	tonnes of CO ₂ e	tonnes of CO ₂ e per £m turnover
Shrinkage	435,981	1.089
Scope 1: energy consumption (excl electricity), commercial vehicles and business miles	6,090	0.015
Scope 2: electricity consumption	2,828	0.007
Scope 3: indirect emissions – PE pipe, contractor vehicle, rail, air and ferry travel	12,821	0.032
Total	457,720	1.143

As shown in the above table shrinkage remains the key element of emissions which is being targeted through efficient gas pressure management, gas escape management and gas mains replacement. Other activity to reduce emissions include fleet upgrading, vehicle route planning, driver efficiency tracking, increased use of teleconferencing and a contractor carbon awareness program.

Further analysis of scopes 1 - 3 which in total accounts for 5% of total emissions is shown below.



'Spare' represents car hire and transmission and distribution losses, as defined by Defra.

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.

The Directors have put in place appropriate arrangements for Deloitte LLP to be reappointed as auditor for the ensuing year.

By order of the Board,

M J Horsley (Director)
25 July 2014

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. As an unlisted company 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, however best practice under Standard Special Condition A30 means that these principles are applied, or if not applied the reason for non-compliance is disclosed.

This statement has been prepared solely for the Regulator to fulfil the requirements of Standard Special Condition A30 paragraph 9(e) 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.

How the Board Operates

The Board is responsible for:

- the overall corporate governance of the Company including approving the strategic direction and values;
- monitoring financial and operational performance;
- monitoring corporate responsibility including health, safety and environmental matters;
- ensuring adequate systems for the identification and management of risk;
- approving dividend payments; 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 with the exception of the CEO who is a Board member and part of the Company management team. Due to the nature of the Shareholder Agreement in place for NGN which entitles each shareholder to a relevant number of seats on the Board, NGN's Shareholder Appointed Board Directors are representatives from each Shareholder, and so the Shareholders are already appropriately protected as they are involved in making all the key business decisions. As such some aspects of the UK Corporate Governance Code are not applicable for NGN. 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 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. 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 and senior management team as set out in the delegations of authority.

Evaluation of the Board and Senior Management Team (SMT)

Evaluation of the performance of the Board is conducted by virtue of their appointments being made and monitored by the shareholders. The nominations committee has responsibility for the appointment of Independent Directors. The performance of the CEO is assessed by the Board Directors on an annual basis under the remit of the Remuneration Committee. The performance of each SMT member is assessed annually by the CEO as part of NGN's performance management process.

Board Members

At 31 March 2014 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 and has 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. P Rogerson and J Burnham are independent non-executive members of the Board (appointed 1 April 2014). All Board members are listed within the Directors' report.

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.

Board Meetings

The Board hold at least six scheduled meetings throughout the year. Comprehensive papers are presented to the Board both for information and approval which facilitate debate on the performance and future direction of the Company. The number of Board meetings held during the year and attendees, including alternates, at the Board meetings is detailed below:

2013/14		2012/13	
		Date	Attendees
14 May 2013	8 out of 9	8 May 2012	6 out of 7
16 July 2013	8 out of 9	24 July 2012	4 out of 7
24 September 2013	7 out of 9	11 September 2012	8 out of 9
22 November 2013	9 out of 9	19 November 2012	8 out of 9
21 January 2014	6 out of 9	22 January 2013	9 out of 9
25 March 2014	9 out of 9	12 March 2013	9 out of 9

Committees

The Board has six committees, as listed below, 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 and Nominations Committee which are chaired by A Hunter.

All Board Members are entitled to attend all Committees, the minimum requirement being a quorum of at least two members from different Shareholders. Within NGN, there are no specific Directors assigned to the various Sub-Committee meetings. The Terms of Reference of the Board Sub-Committees allows any Board Director to attend Sub-Committee meetings and so generally the attendance of the Committees is also largely the same as for the Board which is reported in the Regulatory Accounts. The Sub-Committee's do however have a named Chairman. The Committee structures and charters are reviewed on a bi-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.

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.

Nominations Committee

The Nominations Committee exists to consider potential changes to Independent membership and assess the performance of these Directors. This was established in September 2013 and the first meeting was in January 2014.

Attendance including alternates of committees in the 2013/14 regulatory year is shown below:

Date of Committee	Audit Committee	Compliance Committee	Risk Management Committee	Treasury Committee	Remuneration Committee	Nominations Committee
14 May 2013	7 out of 9	7 out of 9	7 out of 9	7 out of 9	N/A	N/A
24 Sept 2013	4 out of 9	4 out of 9	4 out of 9	4 out of 9	N/A	N/A
21 January 2014	5 out of 9	5 out of 9	5 out of 9	5 out of 9	6 out of 9	4 out of 9
25 March 2014	7 out of 9	N/A	N/A	N/A	N/A	N/A

The above represents compliance with the requirement for a quorum of two members.

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 Auditors' 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 2014 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 Strategic Report, 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 and to identify any information

that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 14 to 15, the financial position of the Company as at 31 March 2014 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 24 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 25 March 2014, 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

25 July 2014

Statement of accounting policies

Basis of accounting

The Regulatory Accounts for the year ended 31 March 2014 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 licence conditions for regulatory purposes requiring NGN to meet a number of Regulatory Conditions (set out in detail on page 2) including restrictions on fund raising, business activities, dividend payments and granting of guarantees.

Intangible assets – goodwill

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

Tangible fixed assets

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

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

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

Mains and services	55 to 65 years
Storage	40 years
Plant and machinery	10 to 30 years
Freehold buildings	50 years
Leasehold land and buildings	Lesser of lease period and 50 years
Motor vehicles and office equipment	3 to 10 years

Investments

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

Replacement expenditure

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

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the UK tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the Regulatory Accounts that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the Regulatory Accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Taxation (continued)

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

Decommissioning and environmental costs

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

Turnover

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

Pension costs

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

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

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

Leased assets

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and

their useful economic lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss accounts over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful economic lives.

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

Finance costs

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

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

Debt

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

Derivative financial instruments

The Company only holds or issues derivative financial instruments to manage interest rate exposures or commodity price risks in respect of expected gas usage. The principal derivatives used are interest rate swaps. The Company does not hold or issue any derivative financial instruments for speculative purposes.

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

Profit and loss accounts

For the years ended 31 March

	Notes	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities (i) 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities (i) 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Turnover	1	398,431	1,290	509	236	-	400,466	383,395	1,226	225	277	-	385,123
Cost of sales		(16,115)	(425)	(439)	(236)	-	(17,215)	(16,275)	(405)	(89)	(277)	-	(17,046)
Gross profit		382,316	865	70	-	-	383,251	367,120	821	136	-	-	368,077
Other operating expenses	2	(266,641)	(950)	-	-	-	(267,591)	(266,317)	(866)	-	(7)	-	(267,190)
Operating profit (loss)		115,675	(85)	70	-	-	115,660	100,803	(45)	136	(7)	-	100,887
Net finance charges	3	(40,808)	-	-	-	-	(40,808)	(62,772)	-	-	-	-	(62,772)
Profit (loss) on ordinary activities before taxation	4	74,867	(85)	70	-	-	74,852	38,031	(45)	136	(7)	-	38,115
Tax on profit (loss) on ordinary activities	7	(8,367)	20	(16)	-	-	(8,363)	(9,862)	11	(33)	2	-	(9,882)
Profit (loss) for the financial year	18	66,500	(65)	54	-	-	66,489	28,169	(34)	103	(5)	-	28,233

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 2(e) 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. 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	2014					2013						
		Transportation £'000	Metering £'000	De Minimis £'000	Other activities (i) £'000	Corporate (ii) £'000	Total £'000	Transportation £'000	Metering £'000	De Minimis £'000	Other activities (i) £'000	Corporate (ii) £'000	Total £'000
Fixed assets													
Intangible assets - goodwill	9	128,140	-	-	-	128,140	132,251	-	-	-	-	132,251	
Tangible assets	10	1,370,857	5,330	-	-	1,376,187	1,376,256	5,571	-	-	-	1,381,827	
Investments	11	104	-	-	2,105	2,209	104	-	-	-	2,105	2,209	
		1,499,101	5,330	-	-	2,105	1,506,536	1,508,611	5,571	-	-	2,105	1,516,287
Current assets													
Debtors – due within one year	12	53,850	-	-	-	53,850	36,980	-	-	-	-	36,980	
Cash at bank and in hand		-	-	-	7,086	7,086	-	-	-	-	14,349	14,349	
		53,850	-	-	7,086	60,936	36,980	-	-	-	14,349	51,329	
Creditors: Amounts falling due within one year	13	(62,934)	-	-	(69,897)	(132,831)	(37,462)	-	-	-	(68,408)	(105,870)	
Net current liabilities		(9,084)	-	-	(62,811)	(71,895)	(482)	-	-	-	(54,059)	(54,541)	
Total assets less current liabilities		1,490,017	5,330	-	-	(60,706)	1,434,641	1,508,129	5,571	-	-	(51,954)	1,461,746
Creditors: Amounts falling due after more than one year	14	(1,262,845)	-	-	-	(1,262,845)	(1,259,463)	-	-	-	-	(1,259,463)	
Provisions for liabilities excluding pension liability	16	(108,783)	-	-	-	(108,783)	(126,119)	-	-	-	-	(126,119)	
Net assets (liabilities) excluding pension liability		118,389	5,330	-	-	(60,706)	63,013	122,547	5,571	-	-	(51,954)	76,164
Pension liability	23	(10,743)	-	-	-	(10,743)	(30,999)	-	-	-	-	(30,999)	
Net assets (liabilities) including pension liability		107,646	5,330	-	-	(60,706)	52,270	91,548	5,571	-	-	(51,954)	45,165
Capital and reserves													
Called-up share capital	17	-	-	-	-	-	-	-	-	-	-	-	
Profit and loss accounts	18	-	-	-	52,270	52,270	-	-	-	-	45,165	45,165	
Shareholders' funds	19	-	-	-	52,270	52,270	-	-	-	-	45,165	45,165	

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

- (i) 'Other activities' as set out in Standard Special Condition A30 paragraph 2(e) 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. These activities are specifically the service agreements entered into 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 42 inclusive were approved by the Board of Directors and authorised for issue on 25 July 2014 and signed on its behalf on 25 July 2014 by:

M J Horsley - Director

Statements of total recognised gains and losses

For the years ended 31 March

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Profit (loss) for the financial year	66,500	(65)	54	-	-	66,489	28,169	(34)	103	(5)	-	28,233
Actuarial gain (loss) relating to the pension scheme	17,702	-	-	-	-	17,702	(23,857)	-	-	-	-	(23,857)
Deferred tax attributable to actuarial gain (loss)	(5,586)	-	-	-	-	(5,586)	5,045	-	-	-	-	5,045
Total recognised gains and losses relating to the year	78,616	(65)	54	-	-	78,605	9,357	(34)	103	(5)	-	9,421

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
		2014	2014	2014	activities	2014	2014	2013	2013	2013	activities	2013	2013
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net cash inflow (outflow) from operating activities	20(a)	145,606	865	(710)	-	1,489	147,250	128,922	808	136	(7)	2,970	132,829
Returns on investments and servicing of finance													
Interest received		79	-	-	-	-	79	403	-	-	-	-	403
Interest paid		(56,752)	-	-	-	-	(56,752)	(61,351)	-	-	-	-	(61,351)
Net cash outflow for returns on investments and servicing of finance		(56,673)	-	-	-	-	(56,673)	(60,948)	-	-	-	-	(60,948)
Taxation													
Corporation tax paid		(11,069)	-	-	-	-	(11,069)	(10,150)	-	-	-	-	(10,150)
Capital expenditure													
Purchase of tangible fixed assets		(39,051)	(709)	-	-	-	(39,760)	(34,760)	(864)	-	-	-	(35,624)
Net receipts from disposal of tangible fixed assets		989	-	-	-	-	989	15	-	-	-	-	15
Net cash outflow for capital expenditure		(38,062)	(709)	-	-	-	(38,771)	(34,745)	(864)	-	-	-	(35,609)
Equity dividends paid		-	-	-	-	(71,000)	(71,000)	-	-	-	-	(82,000)	(82,000)
Net cash inflow (outflow) before financing		39,802	156	(710)	-	(69,511)	(30,263)	23,079	(56)	136	(7)	(79,030)	(55,878)
Financing													
New unsecured loans	20(b)(c)	-	-	-	-	-	-	135,000	-	-	-	-	135,000
Increase (decrease) in short term borrowings	20(b)(c)	23,000	-	-	-	-	23,000	(66,000)	-	-	-	-	(66,000)
Net cash inflow from financing		23,000	-	-	-	-	23,000	69,000	-	-	-	-	69,000
Increase (decrease) in cash in the year	20(b)(c)	62,802	156	(710)	-	(69,511)	(7,263)	92,079	(56)	136	(7)	(79,030)	13,122

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 2013 of Northern Gas Networks Limited (Statutory Accounts) and these Regulatory Accounts for the year ended 31 March 2014.

Profit and loss account

	Statutory Accounts to December 2013 £'000	Exclude 1 January – 31 March 2013 £'000	Include 1 January – 31 March 2014 £'000	Regulatory Accounts for 2013/2014 £'000
Turnover	397,328	(93,930)	97,068	400,466
Operating profit	106,779	(18,996)	27,877	115,660
Net finance charges	(44,779)	17,484	(13,513)	(40,808)
Tax on profit on ordinary activities	(5,819)	1,593	(4,137)	(8,363)
Profit for the financial year	56,181	81	10,227	66,489

Balance sheet

	Statutory Accounts as at December 2013 £'000	1 January – 31 March 2014 £'000	Regulatory Accounts for 2013/2014 £'000
Fixed assets	1,509,062	(2,529)	1,506,533
Current assets	51,501	9,438	60,939
Total assets	1,560,563	6,909	1,567,472
Creditors: Amounts falling due within one year	(123,068)	(9,763)	(132,831)
Creditors: Amounts falling due after one year, provisions and pension liability	(1,377,480)	(4,891)	(1,382,371)
Total liabilities	(1,500,548)	(14,654)	(1,515,202)
Net assets	60,015	(7,745)	52,270
Profit and loss account	60,015	(7,745)	52,270
Shareholders' funds	60,015	(7,745)	52,270

Notes to the Regulatory Accounts

1. Turnover

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Transportation and Metering	398,431	1,290	-	-	-	399,721	383,395	1,226	-	-	-	384,621
Other income	-	-	509	236	-	745	-	-	225	277	-	502
	398,431	1,290	509	236		400,466	383,395	1,226	225	277		- 385,123

All turnover arises in the UK.

2. Other operating expenses

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Distribution costs	233,027	950	-	-	-	233,977	236,245	853	-	-	-	237,098
Administrative expenses	33,614	-	-	-	-	33,614	30,072	13	-	7	-	30,092
	266,641	950	-	-	-	267,591	266,317	866	-	7	-	267,190

3. Net finance charges

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Interest payable and similar charges	43,055	-	-	-	-	43,055	61,960	-	-	-	-	61,960
Investment income	(496)	-	-	-	-	(496)	(405)	-	-	-	-	(405)
Other finance charges	(1,751)	-	-	-	-	(1,751)	1,217	-	-	-	-	1,217
	40,808	-	-	-	-	40,808	62,772	-	-	-	-	62,772

Interest payable and similar charges

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Bank loans and overdrafts	(4,651)	-	-	-	-	(4,651)	13,671	-	-	-	-	13,671
Intercompany interest payable	48,594	-	-	-	-	48,594	48,518	-	-	-	-	48,518
Finance lease and hire purchase contracts	(520)	-	-	-	-	(520)	-	-	-	-	-	-
	43,423	-	-	-	-	43,423	62,189	-	-	-	-	62,189
Finance costs capitalised	(368)	-	-	-	-	(368)	(229)	-	-	-	-	(229)
	43,055	-	-	-	-	43,055	61,960	-	-	-	-	61,960

Finance costs have been capitalised based on a capitalisation rate of 4.08% (2013 – 5.99%).

Investment income

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Income from fixed asset investments	(411)	-	-	-	-	(411)	(348)	-	-	-	-	(348)
Interest receivable and similar income	(85)	-	-	-	-	(85)	(57)	-	-	-	-	(57)
	(496)	-	-	-	-	(496)	(405)	-	-	-	-	(405)

Other finance charges

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Unwinding of discount on provisions	(853)	-	-	-	-	(853)	352	-	-	-	-	352
Net (return) charge on pension scheme (see note 23)	(898)	-	-	-	-	(898)	865	-	-	-	-	865
	(1,751)	-	-	-	-	(1,751)	1,217	-	-	-	-	1,217

4. Profit (loss) on ordinary activities before taxation

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

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Depreciation and amounts written off tangible fixed assets												
- owned	48,951	950	-	-	-	49,901	45,902	853	-	-	-	46,755
- held under finance leases and hire purchase contracts	46	-	-	-	-	46	46	-	-	-	-	46
Amortisation of goodwill	4,111	-	-	-	-	4,111	4,112	-	-	-	-	4,112
Loss (profit) on disposal of tangible fixed assets	55	-	(780)	-	-	(725)	78	-	-	-	-	78
Operating lease rentals – other	572	-	-	-	-	572	322	-	-	-	-	322

The analysis of auditor's remuneration is as follows:

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	69	-	-	-	-	69	65	-	-	-	-	65
<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	34	-	-	-	-	34	31	-	-	-	-	31
Total audit fees	103	-	-	-	-	103	96	-	-	-	-	96

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

- Other services pursuant to legislation	63	-	-	-	-	63	61	-	-	-	-	61
- Tax services	524	-	-	-	-	524	130	-	-	-	-	130
- Other services	6	-	-	-	-	6	6	-	-	-	-	6
Total non-audit fees	593	-	-	-	-	593	197	-	-	-	-	197

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

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Wages and salaries	5,070	-	-	-	-	5,070	4,935	-	-	-	-	4,935
Social security costs	613	-	-	-	-	613	610	-	-	-	-	610
Pension costs	460	-	-	-	-	460	509	-	-	-	-	509
	6,143	-	-	-	-	6,143	6,054	-	-	-	-	6,054

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

	Transportation 2014 Number	Metering 2014 Number	De Minimis 2014 Number	Other activities 2014 Number	Corporate 2014 Number	Total 2014 Number	Transportation 2013 Number	Metering 2013 Number	De Minimis 2013 Number	Other activities 2013 Number	Corporate 2013 Number	Total 2013 Number
Administration	91	-	-	-	-	91	81	-	-	-	-	81
	91	-	-	-	-	91	81	-	-	-	-	81

6. Directors' remuneration*Remuneration*

The remuneration of the Directors was as follows:

	2014 £'000	2013 £'000
Emoluments	710	560
Amounts receivable (other than shares) under long term incentive schemes	128	235
Company contributions to money purchase pension schemes	-	-
	838	795

Pensions

No Directors were members of pension schemes (2013- nil).

Highest paid Director

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

	2014 £'000	2013 £'000
Emoluments	838	795
	838	795

Transactions

There have been no transactions with Directors in the year (2013 - £nil) other than as set out above in respect of remuneration.

7. Tax on profit (loss) on ordinary activities

	Total 2014 £'000	Total 2013 £'000
Current tax		
UK corporation tax	21,349	11,518
Adjustments in respect of prior years	197	800
Total current tax	21,546	12,318
Deferred tax		
Current year - origination and reversal of timing differences	464	2,773
Effect of decrease in tax rate on opening liability	(13,418)	(4,405)
Adjustments in respect of prior years	(229)	(804)
Total deferred tax	(13,183)	(2,436)
Total tax on profit (loss) on ordinary activities	8,363	9,882

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 2014 £'000	Total 2013 £'000
Profit on ordinary activities before tax	74,852	38,115
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% (2013 - 24%)	17,216	9,148
Effects of:		
Expenses not deductible for tax purposes	4,856	5,113
Capital allowances in excess of depreciation	712	85
Other timing differences	(1,352)	(2,987)
Adjustments in respect of prior years	197	800
Effect of decrease in tax rate	(83)	159
Current tax charge for the year	21,546	12,318

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, being 23% (2013 - 24%), effective within the period.

The Finance Act 2013 which was substantively enacted in July 2013, included provisions to reduce the corporation tax rate to 21% with effect from 1 April 2014 and 20% from 1 April 2015. Accordingly, deferred tax balances have been revalued at the lower rate of 20% in these regulatory accounts which has resulted in a credit to the profit and loss account of £13.4m and a debit to reserves of £2.2m.

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

8. Dividends paid and declared on equity shares

	Total 2014 £'000	Total 2013 £'000
Equity shares:		
- interim dividend paid of £532,500 (2013 - £632,500) per ordinary share	53,250	63,250
- interim dividend declared of £182,500 (2013 - £177,500) per ordinary share	18,250	17,750
	71,500	81,000

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

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

	Total £'000
Cost at 1 April 2013 and 31 March 2014	164,457
Amortisation at 1 April 2013	32,206
Charge for the year	4,111
Amortisation at 31 March 2014	36,317
Net book value at 31 March 2014	128,140
Net book value at 31 March 2013	132,251

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 2013	3,196	1,570,715	12,120	93,189	2,800	1,682,020
Additions	-	4,297	4,016	685	34,785	43,783
Disposals	-	(147)	(1,899)	-	-	(2,046)
Transfers	-	666	-	9,710	(10,376)	-
Cost at 31 March 2014	3,196	1,575,531	14,237	103,584	27,209	1,723,757
Depreciation at 1 April 2013	1,598	255,874	9,536	38,756	-	305,764
Charge for the year	66	38,606	1,403	8,922	-	48,997
Disposals	-	(31)	(1,830)	-	-	(1,861)
Depreciation at 31 March 2014	1,664	294,449	9,109	47,678	-	352,900
Net book value at 31 March 2014	1,532	1,281,082	5,128	55,906	27,209	1,370,857
Net book value at 31 March 2013	1,598	1,314,841	2,584	54,433	2,800	1,376,256

Metering

	Other equipment £'000	Total £'000
Cost at 1 April 2013	9,180	9,180
Additions	709	709
Cost at 31 March 2014	9,889	9,889
Depreciation at 1 April 2013	3,609	3,609
Charge for the year	950	950
Depreciation at 31 March 2014	4,559	4,559
Net book value at 31 March 2014	5,330	5,330
Net book value at 31 March 2013	5,571	5,571

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 2013	3,196	1,570,715	12,120	102,369	2,800	1,691,200
Additions	-	4,297	4,016	1,394	34,785	44,492
Disposals	-	(147)	(1,899)	-	-	(2,046)
Transfers	-	666	-	9,710	(10,376)	-
Cost at 31 March 2014	3,196	1,575,531	14,237	113,473	27,209	1,733,646
Depreciation at 1 April 2013	1,598	255,874	9,536	42,365	-	309,373
Charge for the year	66	38,606	1,403	9,872	-	49,947
Disposals	-	(31)	(1,830)	-	-	(1,861)
Depreciation at 31 March 2014	1,664	294,449	9,109	52,237	-	357,459
Net book value at 31 March 2014	1,532	1,281,082	5,128	61,236	27,209	1,376,187
Net book value at 31 March 2013	1,598	1,314,841	2,584	60,004	2,800	1,381,827

Leased assets included above:

Net book value at 31 March 2014	296	-	-	-	-	296
Net book value at 31 March 2013	342	-	-	-	-	342

Short leasehold included within land and buildings above has a cost of £643,000 (2013 - £643,000), a depreciation charge in the year of £46,000 (2013 - £46,000), accumulated depreciation of £347,000 (2013 - £301,000) and a net book value of £296,000 (2013 - £342,000).

Leased assets included within motor vehicles above have a cost of £160,000 (2013 - £160,000), depreciation charge in the year of £nil (2013 - £nil), accumulated depreciation of £160,000 (2013 - £160,000) and a net book value of £nil (2013 - £nil).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £6,960,000 (2013 - £6,592,000).

11. Fixed asset investments

	Total 2014 £'000	Total 2013 £'000
Subsidiary undertakings	2,105	2,105
Other investment	104	104
	2,209	2,209

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.

The company also holds 1 ordinary share of £1 in Smart Energy Code Company Limited (registered in England and Wales) which represents a holding of 1.15%.

Subsidiary undertakings

Cost and net book value	Corporate and Total £'000
At 1 April 2013 and 31 March 2014	2,105

Other investment

Cost and net book value	Transportation and Total £'000
At 1 April 2013 and 31 March 2014	104

12. Debtors – due within one year

	Transportation 2014	Metering 2014	De Minimis 2014	Other activities 2014	Corporate 2014	Total 2014	Transportation 2013	Metering 2013	De Minimis 2013	Other activities 2013	Corporate 2013	Total 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade debtors	1,162	-	-	-	-	1,162	995	-	-	-	-	995
Prepayments and accrued income	49,576	-	-	-	-	49,576	35,302	-	-	-	-	35,302
Other debtors	3,112	-	-	-	-	3,112	683	-	-	-	-	683
	53,850	-	-	-	-	53,850	36,980	-	-	-	-	36,980

13. Creditors: Amounts falling due within one year

	Transportation 2014	Metering 2014	De Minimis 2014	Other activities 2014	Corporate 2014	Total 2014	Transportation 2013	Metering 2013	De minimis 2013	Other activities 2013	Corporate 2013	Total 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bank loans	22,300	-	-	-	-	22,300	-	-	-	-	-	-
Payments received on account	990	-	-	-	-	990	618	-	-	-	-	618
Trade creditors	1,074	-	-	-	-	1,074	3,081	-	-	-	-	3,081
Amounts owed to group undertakings	-	-	-	-	51,647	51,647	-	-	-	-	50,658	50,658
UK corporation tax	25,631	-	-	-	-	25,631	15,129	-	-	-	-	15,129
Declared dividends – equity shareholder	-	-	-	-	18,250	18,250	-	-	-	-	17,750	17,750
Other taxation and social security	5,591	-	-	-	-	5,591	5,433	-	-	-	-	5,433
Accruals and deferred income	7,348	-	-	-	-	7,348	13,157	-	-	-	-	13,157
Defined contribution pension scheme accrual	-	-	-	-	-	-	44	-	-	-	-	44
	62,934	-	-	-	69,897	132,831	37,462	-	-	-	68,408	105,870

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

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Bank loans	284,958	-	-	-	-	284,958	284,954	-	-	-	-	284,954
Amounts owed to group undertakings	924,458	-	-	-	-	924,458	924,458	-	-	-	-	924,458
Deferred income	53,429	-	-	-	-	53,429	50,051	-	-	-	-	50,051
	1,262,845	-	-	-	-	1,262,845	1,259,463	-	-	-	-	1,259,463

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

Page 6 of the Strategic Report 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 £7,086,000 (2013 - £14,349,000) 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 2014 was as follows:

	Floating rate 2014 £'000	Fixed rate 2014 £'000	Interest free 2014 £'000	Total 2014 £'000
Borrowings – Bank loans	244,963	62,295	-	307,258
Borrowings – Intercompany loans	-	900,130	24,328	924,458
	244,963	962,425	24,328	1,231,716

The profile at 31 March 2013 for comparison purposes 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
	244,960	940,124	24,328	1,209,412

15. Derivatives and other financial instruments - continued

Further analysis of the interest rate profile at 31 March 2014 was as follows:

	<u>Floating Rate</u>	<u>Fixed Rate</u>		<u>Interest free</u>
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period to maturity Years
Borrowings – Bank loans	1.3	2.9	5.4	-
Borrowings – Intercompany loans	-	5.3	16.6	-

The profile at 31 March 2013 for comparison purposes was as follows:

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

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:

	2014 £'000	2013 £'000
In one year or less	22,300	-
More than five years	1,209,416	1,209,412
	1,231,716	1,209,412

Borrowing facilities

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

	2014 £'000	2013 £'000
Expiring in more than two years	177,000	200,000
	177,000	200,000

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

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

	Book value 2014 £'000	Fair value 2014 £'000	Book value 2013 £'000	Fair value 2013 £'000
Primary financial instruments held or issued to finance the Company's operations				
Short term borrowings	22,300	23,000	-	-
Long term borrowings	284,958	285,452	284,954	286,838
Intercompany loans	924,458	1,007,657	924,458	1,053,878
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	(81,624)	-	(90,026)

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 2014 £'000	Losses 2014 £'000	Net 2014 £'000	Gains 2013 £'000	Losses 2013 £'000	Net 2013 £'000
Unrecognised gains and losses on hedges at 1 April	250,726	(160,700)	90,026	197,229	(155,488)	41,741
Gains and losses arising in previous years that were recognised in the year	(13,753)	13,753	-	-	-	-
Gains and losses arising before 1 April that were not recognised in the year	236,973	(146,947)	90,026	197,229	(155,488)	41,741
Gains and losses arising in the year that were not recognised in the year	(51,438)	43,027	(8,411)	53,497	(5,212)	48,285
Unrecognised gains and losses on hedges at 31 March	185,535	(103,920)	81,615	250,726	(160,700)	90,026
Of which:						
Gains and losses expected to be recognised within one year	-	(9)	(9)	-	-	-
Gains and losses expected to be recognised after one year	185,535	(103,911)	81,624	250,726	(160,700)	90,026

16. Provisions for liabilities excluding pension liability

	Transportation and Total					
	Contractor Claims £'000	Restructuring £'000	Environmental restoration £'000	Deferred tax £'000	Other £'000	Total £'000
At 1 April 2013	7,262	5,156	8,547	96,187	8,967	126,119
Charged (credited) to profit and loss account	601	6,531	-	(1,686)	225	5,671
Utilised in the year	(2,453)	(2,901)	(668)	-	(1,119)	(7,141)
Unwinding of discount	(2,624)	-	-	-	(256)	(2,880)
Adjustment arising from the decrease in tax rate	-	-	-	(12,488)	-	(12,488)
Released unused	-	(498)	-	-	-	(498)
At 31 March 2014	2,786	8,288	7,879	82,013	7,817	108,783

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 over 55 early retirement programme.

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

	2014 £'000	2013 £'000
Accelerated capital allowances	82,993	96,104
Other timing differences	(980)	83
	82,013	96,187

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

17. Called-up share capital

	2014 Number	2014 £	2013 Number	2013 £
Allotted, called-up and fully paid				
Ordinary shares of £1 each	100	100	100	100

18. Reserves

	Profit and loss accounts £'000
At 1 April 2013	45,165
Profit for the financial year	66,489
Actuarial gain relating to the pension scheme (note 23)	17,702
UK deferred tax attributable to the actuarial loss	(5,586)
Dividends paid and declared on equity shares	(71,500)
At 31 March 2014	52,270

19. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial year	66,489	28,233
Other recognised gains and losses relating to the year (net)	12,116	(18,812)
Dividends paid and declared on equity shares	(71,500)	(81,000)
Net reduction in shareholders' funds	7,105	(71,579)
Opening shareholders' funds	45,165	116,744
Closing shareholders' funds	52,270	45,165

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

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Operating profit (loss)	115,675	(85)	70	-	-	115,660	100,803	(45)	136	(7)	-	100,887
Depreciation and amortisation	53,108	950	-	-	-	54,058	50,060	853	-	-	-	50,913
(Profit) loss on sale of tangible fixed assets	55	-	(780)	-	-	(725)	78	-	-	-	-	78
(Increase) in debtors	(17,951)	-	-	-	-	(17,951)	(3,050)	-	-	-	-	(3,050)
Increase (decrease) in creditors	5,259	-	-	-	1,489	6,748	(10,479)	-	-	-	2,970	(7,509)
(Decrease) increase in provisions	(2,309)	-	-	-	-	(2,309)	708	-	-	-	-	708
Adjustment for pension funding	(8,231)	-	-	-	-	(8,231)	(9,198)	-	-	-	-	(9,198)
Net cash inflow (outflow) from operating activities	145,606	865	(710)	-	1,489	147,250	128,922	808	136	(7)	2,970	132,829

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

	Transportation 2014 £'000	Metering 2014 £'000	De Minimis 2014 £'000	Other activities 2014 £'000	Corporate 2014 £'000	Total 2014 £'000	Transportation 2013 £'000	Metering 2013 £'000	De Minimis 2013 £'000	Other activities 2013 £'000	Corporate 2013 £'000	Total 2013 £'000
Increase (decrease) in cash in the year	62,802	156	(710)	-	(69,511)	(7,263)	92,079	(56)	136	(7)	(79,030)	13,122
Cash inflow from increase in debt	(23,000)	-	-	-	-	(23,000)	(69,000)	-	-	-	-	(69,000)
Change in net debt resulting from cash flows	39,802	156	(710)	-	(69,511)	(30,263)	23,079	(56)	136	(7)	(79,030)	(55,878)
Other non-cash movements	696	-	-	-	-	696	(1,303)	-	-	-	-	(1,303)
Movement in net debt in the year	40,498	156	(710)	-	(69,511)	(29,567)	21,776	(56)	136	(7)	(79,030)	(57,181)
Net debt at 1 April	(763,767)	(5,998)	1,475	296	(427,069)	(1,195,063)	(785,543)	(5,942)	1,339	303	(348,039)	(1,137,882)
Net debt at 31 March	(723,269)	(5,842)	765	296	(496,580)	(1,224,630)	(763,767)	(5,998)	1,475	296	(427,069)	(1,195,063)

c) Analysis of changes in net debt

	At 1 April 2013 £'000	Cash flow £'000	Non cash movements £'000	At 31 March 2014 £'000
Cash at bank	14,349	(7,263)	-	7,086
Debt due after one year	(1,209,412)	-	(4)	(1,209,416)
Debt due within one year	-	(23,000)	700	(22,300)
	(1,209,412)	(23,000)	696	(1,231,716)
Net debt	(1,195,063)	(30,263)	696	(1,224,630)

21. Related party transactions

There have been no transactions with directors in the year (2013 - £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:

	2014 £'000	2013 £'000
CHED Services Limited	58	104
UK Power Networks (Transport) Limited	70	76
Northumbrian Water Limited	32	70

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 £69,000 within creditors (CHED Services Limited) at 31 March 2014 (2013 - £104,000).

Northern Gas Networks Limited, Northumbrian Water Limited and UK Power Networks (Transport) Limited are part of the same group. For regulatory purposes only, in accordance with Standard Condition 1, Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited are deemed to be ultimate controllers of these companies. There was £3,136,000 within creditors (UK Power Networks (Transport) Limited) at 31 March 2014 (2013 - £325,000) who not only charge the company an annual fee as detailed within the above table, but also buy and repair fleet vehicles on behalf of the company. Balances with Northumbrian Water Limited were £nil at both balance sheet dates.

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 2014 the Company had placed contracts for capital expenditure (tangible fixed assets) amounting to £nil (2013 - £1,971,000).

b) Lease commitments

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

	Land and buildings	Land and buildings
	2014	2013
	£'000	£'000
Expiry date:		
- within one year	25	-
- between one and two years	423	-
- between two and five years	-	386
- over five years	60	-
	508	386

c) Other commitments

The Company has entered into 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:

	2014	2013
	£'000	£'000
Present value of funded obligations	363,300	370,410
Fair value of plan assets	(349,871)	(330,151)
Deficit	13,429	40,259
Related deferred tax asset	(2,686)	(9,260)
Net liability	10,743	30,999
Amounts in the balance sheets		
- Liabilities	10,743	30,999

23. Pension arrangements - continued

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

	2014 £'000	2013 £'000
<i>Amount charged to operating profit</i>		
Current service costs	7,589	6,339
Past service costs	2,597	6,315
Total	10,186	12,654
<i>Amount credited to net finance charges</i>		
Interest costs	16,046	15,864
Expected return on plan assets	(16,944)	(14,999)
Net (return) cost on pension scheme	(898)	865
Total	9,288	13,519

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

	2014 £'000	2013 £'000
Actuarial gains (losses)	17,702	(23,857)

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

	2014 £'000	2013 £'000
Actuarial losses	(33,156)	(50,858)

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

	2014 £'000	2013 £'000
Opening defined benefit obligation	370,410	310,619
Service costs	7,589	6,339
Past service costs	2,597	6,315
Interest cost	16,046	15,864
Member contributions	591	695
Actuarial (gains) losses	(18,955)	43,017
Benefits paid	(14,978)	(12,439)
Closing defined benefit obligation	363,300	370,410

23. Pension arrangements - continued

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

	2014 £'000	2013 £'000
Opening fair value of plan assets	330,151	285,884
Expected return	16,944	14,999
Actuarial (losses) gains	(1,253)	19,160
Employer contributions	18,416	21,852
Member contributions	591	695
Benefits paid	(14,978)	(12,439)
	349,871	330,151

The Company expects to contribute £16.1m to its defined benefit pension plan in 2014/2015.

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:

	2014		2013	
	Percentage of plan assets %	Expected return on plan assets %	Percentage of plan assets %	Expected return on plan assets %
Equity securities	41.90	6.90	37.30	6.80
Debt securities	42.70	3.87	52.10	3.70
Property	9.30	5.90	8.40	6.80
Other	6.10	0.50	2.20	0.50

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:

	2014 £'000	2013 £'000
Actual return on plan assets	15,691	34,159

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

	2014	2013
Discount rate	4.4%	4.4%
Expected return on plan assets	5.1%	5.2%
Future salary increases	3.9%	3.9%
Future pension increases	2.3%	3.4%
Inflation	2.3%	3.4%
Life expectancy - member age 65 (retiring at balance sheet date)	21.9 years	21.8 years
- member age 45 (retiring 20 years from balance sheet date)	24.1 years	24.0 years

23. Pension arrangements - continued

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

	31 March 2014 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2011 £'000	31 March 2010 £'000
Defined benefit obligation	(363,300)	(370,410)	(310,619)	(271,260)	(258,497)
Plan assets	349,871	330,151	285,884	255,625	231,409
Deficit	(13,429)	(40,259)	(24,735)	(15,635)	(27,088)

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

	31 March 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Plan assets:					
Amount (£'000)	(1,253)	19,160	5,690	1,336	41,961
Percentage of plan assets	0%	6%	2%	1%	18%
Plan liabilities:					
Amount (£'000)	(833)	14,261	-	230	2,865
Percentage of the present value of plan liabilities	0%	4%	-	0%	1%

The Company also operates defined contribution schemes for which the pension charge for the year amounted to £460,000 (2013 - £509,000).

24. Ultimate controlling party

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

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

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 24 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 24 of the Condition.