Northern Gas Networks Finance Plc
(formerly Northern Gas Networks Finco Plc)

Annual report and accounts
for the period from incorporation to 31 December 2005

Registered number: 5575923

Directors' report

For the period ended 31 December 2005

The directors present their annual report on the affairs of the company, together with the accounts and independent auditors' report, for the period from incorporation to 31 December 2005.

Principal activity and business review

The company was incorporated on 27 September 2005 to raise funds in the financial markets for Northern Gas Networks Limited.

The company changed its name from Northern Gas Networks Finco Plc to Northern Gas Networks Finance Plc on 17 October 2005.

The company's principal activity is to raise funds for Northern Gas Networks Limited, it is not expected to make a profit or a loss in the forthcoming year.

Results and dividends

The profit for the period after taxation was £nil.

The directors do not recommend payment of a dividend.

Directors

The directors, who served throughout the period except as noted, were as follows:

The Company Registration Agents Limited	(appointed 27 September 2005, resigned 27 September 2005)
Luciene James Limited	(appointed 27 September 2005, resigned 27 September 2005)
E Bing Sing Kwan	(appointed 27 September 2005)
B Scarsella	(appointed 27 September 2005)
G A I Waters	(appointed 27 September 2005)
F R Frame	(appointed 14 November 2005)
A Hunter	(appointed 14 November 2005)
W Shurniak	(appointed 14 November 2005)
D V Latham	(appointed 14 November 2005)
H Lam Kam	(appointed 14 November 2005)
K Sum Tso	(appointed 14 November 2005)

Directors' interests

The directors who held office at 31 December 2005 had no interests in the shares of the company at any time in the period. The directors do not have any other interests required to be disclosed under Schedule 7 of the Companies Act 1985.

Directors' report (continued)

Auditors

During the period Deloitte & Touche LLP were appointed as first auditors of the company. The directors will place a resolution before the annual general meeting to reappoint Deloitte & Touche LLP as auditors for the ensuing year.

1100 Century Way
Thorpe Park Business Park
Colton
Leeds
LS15 8TU

By order of the Board,

Director

12 April 2006

B Scarsella

Directors' responsibilities

UK company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the Members of Northern Gas Networks Finance Plc

We have audited the accounts of Northern Gas Networks Finance Plc for the period ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 12. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice. Our responsibility is to audit the accounts in accordance with relevant United Kingdom legal and regulatory requirements and International Standards of Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the Directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of opinion

We conducted our audit in accordance with International Standards of Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the company as at 31 December 2005 and its result for the period then ended and the accounts have been properly prepared in accordance with the Companies Act

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

12 April 2006

Profit and loss account

For the period ended 31 December 2005

	Notes	2005 £'000
Operating profit		-
Finance charges (net)	1	-
Profit on ordinary activities before taxation	2	-
Tax on profit on ordinary activities		-
Retained profit for the period after taxation transferred to reserves		-

All results arise from continuing operations.

The accompanying notes are an integral part of this profit and loss account.

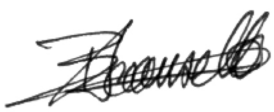
There are no recognised gains or losses in the period other than the result for the period.

Balance sheet

31 December 2005

	Notes	2005 £'000
Current assets		
Debtors – amounts due within one year	3	3,350
Debtors – amounts due after one year	4	505,000
		508,350
Creditors: Amounts falling due within one year	5	(4,182)
Net current assets		504,168
Creditors: Amounts falling due after more than one year	6	(504,118)
Net assets		50
Capital and reserves		
Called-up share capital	8	50
Profit and loss account	9	-
Equity shareholders' funds	10	50

The accounts were approved by the board of directors on 3 April 2006 and signed on its behalf by:



Director

12 April 2006

The accompanying notes are an integral part of this balance sheet.

Statement of accounting policies

31 December 2005

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

The company is exempt from the requirement of Financial Reporting Standard 1 (FRS1) to present a cash flow statement as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited, which prepares consolidated accounts which are publicly available.

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the 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 measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Finance costs

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

Debt

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

1 Finance charges (net)

	2005
	£'000
Interest payable and similar charges	3,299
Interest receivable and similar income	(3,299)
	-

Interest receivable and similar income is all received from the parent undertaking. All interest payable and similar charges incurred are recharged to the parent undertaking.

Interest payable and similar charges

	2005
	£'000
Guaranteed Bonds	3,299
	3,299

2 Directors remuneration and auditors fee

The directors did not receive any remuneration in relation to their services to the company during the period. The audit fee will be borne by Northern Gas Networks Limited.

3 Debtors – amounts falling due within one year

	2005
	£'000
Amounts falling due within one year:	
Amounts owed by group undertakings	3,350
	3,350

4 Debtors – amounts falling due after one year

	2005
	£'000
Amounts falling due after one year:	
Amounts owed by group undertakings	505,000
	505,000

The intercompany loan is repayable in two tranches at par, £250m on 30 June 2027 and £255m on 15 November 2035 in line with the related bond repayments (see note 6). Interest is paid annually on 30 June in relation to the £250m loan and on 15 November in relation to the £255m loan at a rate equivalent to that paid on the related bonds.

5 Creditors: Amounts falling due within one year

	2005 £'000
Accruals and deferred income	3,563
Amounts owed to group undertakings	619
	4,182

6 Creditors: Amounts falling due after more than one year

	2005 £'000
Guaranteed bond due 2027	249,564
Guaranteed bond due 2035	254,554
	504,118

The guaranteed bond due 2027 of £250m matures on 30 June 2027 and will be redeemed at par. Interest is paid annually on 30 June at a rate of 4.875%.

The guaranteed bond due 2035 of £255m matures on 15 November 2035 and will be redeemed at par. Interest is paid annually on 15 November at a rate of 4.875%.

7 Derivatives and other financial instruments

The company's financial instruments, other than derivatives, comprise borrowings, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations.

The group 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 Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The approach adopted in eliminating interest rate exposures on debt, is to synchronise the maturities of fixed rate interest hedges with the timing of the regulator's five yearly Gas Distribution Price Determination. This ensures that interest rate hedges are reset in the same economic environment prevailing at the time the regulator is re-calculating the industry's weighted average cost of capital.

Currency risk

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

Currency risk management will be used to hedge underlying commercial exposures i.e. trading in currency is prohibited. Therefore if an underlying exposure ceases to exist then the corresponding hedge is to be closed out immediately.

All non-sterling borrowings and associated service costs are hedged into sterling at the time the commitment to draw down is made.

Liquidity risk

The maturities of required committed debt facilities will be 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 will be staggered to mature over a timeframe of up to ten years avoiding excessive concentrations in any twelve month period (though the value of facilities required may be insufficient to allow split maturities) as well as removing refinancing risk if such timeframes coincide with a regulatory reset date. Non-facility debt maturities will also be staggered where practicable.

7 Derivatives and other financial instruments (continued)

Short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures. The directors believe that the fair values are not materially different from the balance sheet values.

Interest rate profile

The interest rate profile of the company's financial assets at 31 December 2005 was as follows:

	Fixed rate 31 December 2005 £'000
Intercompany Loan	505,000
Total	505,000

Further analysis of the interest rate profile at 31 December 2005 is as follows:

	Fixed rate	
	Effective fixed interest rate	Weighted average period for which rate is fixed
	%	Years
Intercompany Loan	4.875	26

Further details of interest rates on long term debtors are given in note 4.

Maturity of financial assets

The maturity profile of the company's financial assets at 31 December 2005 was as follows:

	2005 £'000
In more than five years	505,000
	505,000

7 Derivatives and other financial instruments (continued)

Fair values

The fair value of the intercompany loan is £524.988m.

The interest rate profile of the company's financial liabilities at 31 December 2005 was as follows:

	Fixed rate 31 December 2005 £'000
Borrowings	504,118
Total	504,118

Further analysis of the interest rate profile at 31 December 2005 is as follows:

	Fixed rate	
	Effective fixed interest rate %	Weighted average period for which rate is fixed Years
Borrowings	4.875	26

Further details of interest rates on long term borrowings are given in note 6.

Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 31 December 2005 was as follows:

	2005 £'000
In more than five years	504,118
	504,118

7 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 liabilities at 31 December 2005.

	31 December 2005	
	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the group's operations		
Guaranteed bonds	504,118	524,988

The fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

8 Called-up share capital

	2005 £'000
Authorised	
50,000 ordinary shares of £1 each	50
	50
Allotted and called-up	
50,000 ordinary shares of £1 each	50
	50

During the period the company allotted 50,000 ordinary shares with a nominal value of £1 each for consideration of £50,000. The balances remained outstanding on the intercompany account at the period end.

9 Reserves

	Profit and loss account £'000
Retained profit for the period	-
At 31 December 2005	-

10 Reconciliation of movements in equity shareholders' funds

	2005 £'000
Profit for the financial period	-
	-
New shares issued	50
Net addition to equity shareholders' funds	50
Opening equity shareholders' funds	-
Closing equity shareholders' funds	50

11 Financial commitments

The company has a total commitment of £13.1m over the term of the bonds in relation to the financial guarantee from FGIC UK Limited to cover the guaranteed bonds included within long term borrowings in note 6. The company has also entered in to a Guarantee and Reimbursement Agreement with FGIC UK Limited ("FGIC") in conjunction with its parent, Northern Gas Networks Limited ("NGN"), in relation to those bonds. NGN guarantees the punctual payment of any and all sums and fees due to FGIC and undertakes to pay any amount due from the company but not paid by it and indemnifies FGIC against any loss or liability suffered by it if any obligation guaranteed by it 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.

12 Ultimate controlling party

The directors regard Northern Gas Networks Holdings Limited (formerly Gas Networks Limited), a company incorporated in England and Wales as the ultimate parent company and the ultimate controlling party. Northern Gas Networks Limited (formerly Blackwater F Limited), is the immediate parent company.

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 accounts are available from 1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU.

The Shareholders of Northern Gas Networks Holdings Limited are a consortium consisting of:

Able Ventures Profits Limited (40%)
Alpha Central Profits Limited (19.9%)
Goldia Resources Limited (15.2%)
United Utilities Contracts Solutions Limited (15%)
Challenger Northern Gas Limited (5.8%)
SAS Trustee Corporation (4.1%)

12 Ultimate controlling party (continued)

As a subsidiary undertaking of Northern Gas Networks Holdings Limited, the company has taken advantage of the exemption in FRS 8 “Related party disclosures” from disclosing transactions with other members of the group headed by Northern Gas Networks Holdings Limited.