

**Northern Gas Networks Finance Plc**

Annual Report and accounts  
for the year ended 31 December 2009

Registered number: 5575923

## Directors' report

For the year ended 31 December 2009

The directors present their Annual Report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 2009.

### **Principal activity**

The company's principal activity is to raise funds for group operations.

### **Business review**

The company's primary role is to raise funds in the financial markets for Northern Gas Networks Limited ("NGN").

During the year £200.0m of long term bonds maturing in 2019 have been raised and subsequent to the year end, a further £200.0m of long term bonds maturing in 2040 have been raised, both used to replace other group short term debt.

As shown in the company's profit and loss account, the company has not made a profit or loss in the year.

The company's balance sheet shows that the financial position at the year end is consistent with the prior year. Details of amounts owed by its parent company are shown in note 3.

The company is managed as part of the overall group. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the group, including the company, is discussed in the Northern Gas Networks Holdings Limited Annual Report which does not form part of this report.

### *Principal risks and uncertainties*

The company is financed by bonds, the proceeds of which were loaned to its parent company. Associated risks are discussed below.

Group risks and uncertainties are discussed in the Northern Gas Networks Holdings Limited Annual Report which does not form part of this report.

### *Future outlook*

The directors do not expect the company to make a profit or loss in the forthcoming year.

### **Financial risk management objectives and policies**

The company's financial instruments comprise guaranteed bonds and intercompany debt. The main purpose of these financial instruments is to finance the group's operations.

The main qualitative and quantitative risks arising from the company's financial instruments are liquidity risk and interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

## Directors' report (continued)

### *Liquidity risk*

The maturity of group 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 maturity to avoid excessive concentrations in any twelve month period as well as removing refinancing risk if such timeframes coincide with a regulatory reset date.

### *Interest rate risk*

Any interest rate exposure to the company is borne by the parent company so any rate change would be passed on to the parent company (see note 3 for details).

### *Sensitivity analysis*

Sensitivity analysis has no impact on the liquidity or interest rate risks as the only potential variable is interest rate which is fixed.

### **Going concern**

The company's purpose is to raise funds for Northern Gas Networks Holdings Limited, and all costs are recharged to NGN. The going concern risk of the group, including the company, is discussed in the Northern Gas Networks Holdings Limited Annual Report which does not form part of this report.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

### **Dividends**

The directors do not recommend payment of a dividend (2008 - £nil).

### **Directors**

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

W Shurniak (Chairman)

B Scarsella (Chief Executive Officer)

F R Frame

H Lam Kam

K Sum Tso

N McGee

A Hunter

S Fraser (resigned 19 May 2009)

M Robinson

C Cornish (appointed 19 May 2009, resigned 13 January 2010)

## Directors' report (continued)

### The Board of Directors

The daily operations of the business are managed by the Senior Management Team ("SMT") and the Chief Executive Officer ("CEO"). All significant decisions are referred to the Board of Directors ("the Board").

The Board meet at least three times a year. The number of Board meetings held during the year and attendees (including alternates) at the Board meetings is detailed below:

2009		2008	
Date	Attendees	Date	Attendees
2 March	9 out of 9	3 March	6 out of 9
6 May	9 out of 9	7 May	8 out of 9
6 July	9 out of 9	8 September	7 out of 9
14 September	9 out of 9		

The effectiveness of systems and internal controls are reviewed on an ongoing basis by the SMT who formally report to the CEO bi-annually. The Board is ultimately responsible for the system of internal controls and for the review of their overall effectiveness.

### Auditors

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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

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

By order of the Board,



1 April 2010

B Scarsella

Director

## Directors' responsibilities

The directors are responsible for preparing the Annual Report and accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare accounts for each financial year. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 year ended 31 December 2009 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ("United Kingdom Generally Accepted Accounting Practice").

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Through management, the directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

### **Scope of the audit of the accounts**

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts.

### **Opinion on accounts**

In our opinion the accounts:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Independent auditors' report (continued)

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Christopher Powell FCA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

**Chartered Accountants and Statutory Auditors**

**Leeds, England**

1 April 2010

## Profit and loss account

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
<b>Operating profit</b>		-	-
Finance charges (net)	1	-	-
<b>Profit on ordinary activities before taxation</b>	2	-	-
Tax on profit on ordinary activities		-	-
<b>Profit for the financial year</b>		-	-

The above 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 year.



## Balance sheet

31 December 2009

	Notes	2009 £'000	2008 £'000
<b>Current assets</b>			
Debtors			
– due within one year	3	12,025	7,141
– due after one year	3	703,244	505,000
		<u>715,269</u>	<u>512,141</u>
<b>Creditors: Amounts falling due within one year</b>	4	<u>(13,654)</u>	<u>(7,956)</u>
<b>Net current assets</b>		<u>701,615</u>	<u>504,185</u>
<b>Creditors: Amounts falling due after more than one year</b>	5	<u>(701,565)</u>	<u>(504,135)</u>
<b>Net assets</b>		<u>50</u>	<u>50</u>
<b>Capital and reserves</b>			
Called-up share capital	7	50	50
Profit and loss account	8	-	-
<b>Shareholders' funds</b>	9	<u>50</u>	<u>50</u>

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

The accounts of Northern Gas Networks Finance Plc, Registered number 5575923, were approved by the Board of Directors and authorised for issue on 15 March 2010 and signed on its behalf by:



B Scarsella

Director

1 April 2010

## Statement of accounting policies

31 December 2009

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

### **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 FRS1 (revised) "Cash flow statements" 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.

### **Going concern**

The Directors' report includes a note on page 2 stating that the directors consider the business to be a going concern at the time of the approval of the Annual Report and accounts.

### **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 years 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 years 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 year and reduced by payments made in the year.

## Notes to the accounts

31 December 2009

### 1 Finance charges (net)

	2009 £'000	2008 £'000
Interest payable and similar charges	31,001	25,168
Interest receivable and similar income	(31,001)	(25,168)
	<u>-</u>	<u>-</u>

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*

	2009 £'000	2008 £'000
Bonds	31,001	25,168
	<u>31,001</u>	<u>25,168</u>

### 2 Directors remuneration and auditors fee

The directors did not receive any remuneration in relation to their services to the company during the current or prior year. The total remuneration received by the directors during the year was £761,000 (2008 - £778,000) which was paid by other group companies for their services to other group companies. The audit fee of £5,500 (2008 - £5,500) will be borne by Northern Gas Networks Limited. There are no employees other than the directors.

### 3 Debtors

	2009 £'000	2008 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	12,025	7,141
	<u>12,025</u>	<u>7,141</u>
<b>Amounts falling due after one year:</b>		
Amounts owed by group undertakings	703,244	505,000
	<u>703,244</u>	<u>505,000</u>
	<u>715,269</u>	<u>512,141</u>

Balances have been accounted for as loans and receivables.

## Notes to the accounts (continued)

### 3 Debtors (continued)

The amounts owed by group undertakings falling due after one year is an intercompany loan repayable in three tranches, £198.2m on 8 July 2019, £250.0m on 30 June 2027 and £255.0m on 15 November 2035 in line with the related bond repayments (see note 5). Interest is paid annually on 8 July in relation to the £198.2m loan, on 30 June in relation to the £250.0m loan and on 15 November in relation to the £255.0m loan at a rate equivalent to that paid on the related bonds.

The amounts owed by group undertakings are not impaired in any way and are fully recoverable as the group undertaking holding the debt has been deemed a going concern by the directors of that company due to a net asset position and future profit forecasts.

### 4 Creditors: Amounts falling due within one year

	2009 £'000	2008 £'000
Accruals and deferred income	13,654	7,956
	<u>13,654</u>	<u>7,956</u>

Balances have been accounted for as loans and payables.

### 5 Creditors: Amounts falling due after more than one year

	2009 £'000	2008 £'000
Bond due 2019	197,391	-
Guaranteed bond due 2027	249,604	249,582
Guaranteed bond due 2035	254,570	254,553
	<u>701,565</u>	<u>504,135</u>

Balances have been accounted for as loans and payables.

The bond due 2019 of £200.0m matures on 8 July 2019 and will be redeemed at par. Interest is paid annually on 8 July 2009 at a rate of 5.875%.

The guaranteed bond due 2027 of £250.0m 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 £255.0m matures on 15 November 2035 and will be redeemed at par. Interest is paid annually on 15 November at a rate of 4.875%.

Further detail of the bond guarantee is included in note 10.

## Notes to the accounts (continued)

### 5 Creditors: Amounts falling due after more than one year (continued)

#### Maturity analysis of bonds

	2009	2008
	£'000	£'000
Maturity analysis of interest and repayments:		
In one year or less	36,369	24,619
In more than one year but less than two years	36,369	24,619
In more than two years but less than five years	109,106	73,856
In more than five years but less than ten years	381,844	123,094
In more than ten years but less than twenty years	471,813	477,906
In more than twenty years	329,588	340,465
	<u>1,365,089</u>	<u>1,064,559</u>

Maturity is measured as actual cash flows.

### 6 Derivatives and other financial instruments

Pages 1 and 2 of the Directors' report provide 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.

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 sheet values.

#### *Fair values*

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

	2009		2008	
	Book Value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Financial liabilities</b>				
Bonds	701,565	655,401	504,135	386,319
<b>Financial assets</b>				
Intercompany loan	703,244	655,401	505,000	386,319

The fair values shown above have been determined from the market price of the listed debt.

## Notes to the accounts (continued)

### 7 Called-up share capital

	2009 £'000	2008 £'000
<i>Authorised</i>		
50,000 ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>
<i>Allotted and called-up</i>		
50,000 ordinary shares of £1 each	50	50
	<u>50</u>	<u>50</u>

The unpaid shares remain outstanding within debtors at the year end.

### 8 Reserves

	Profit and loss account £'000
At 1 January 2009	-
Profit for the financial year	-
	<u>-</u>
At 31 December 2009	<u>-</u>

### 9 Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	-	-
	<u>-</u>	<u>-</u>
Net movement in shareholders' funds	-	-
	<u>-</u>	<u>-</u>
Opening shareholders' funds	50	50
	<u>50</u>	<u>50</u>
Closing shareholders' funds	<u>50</u>	<u>50</u>

## Notes to the accounts (continued)

### **10 Financial commitments**

The company has a total commitment of £11.1m (2008 - £11.6m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from FGIC UK Limited ("FGIC") to cover the 2027 and 2035 bonds included within long term borrowings in note 5.

The company has also entered into a Guarantee and Reimbursement Agreement with FGIC in conjunction with its parent, 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. NGN 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.

### **11 Ultimate controlling party**

The directors regard Northern Gas Networks Holdings Limited, a company incorporated in England and Wales as the ultimate parent company and the ultimate controlling party. Northern Gas Networks 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:

PG (April) Limited (47.1%)

Beta Central Profits Limited (41.3%)

SAS Trustee Corporation (11.6%)

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

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.