

Northern Gas Networks Finance Plc

Annual Report and accounts
for the year ended 31 December 2010

Registered number: 5575923

Directors' report

For the year ended 31 December 2010

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report, for the year ended 31 December 2010.

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 2040 have been raised 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 have been 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.

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 the Northern Gas Networks Holdings Limited group, and all costs are currently 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.

The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the facilities available, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Dividends

The directors do not recommend payment of a dividend (2009 - £nil).

Directors

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

W Shurniak (Chairman)

B Scarsella (Chief Executive Officer, resigned 4 January 2011)

M J Horsley (Chief Executive Officer, appointed 4 January 2011)

F R Frame

H L Kam

K S Tso

N McGee

A Hunter

M Robinson

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

2010		2009	
Date	Attendees	Date	Attendees
11 January	8 out of 9	2 March	9 out of 9
15 March	6 out of 8	6 May	9 out of 9
17 May	8 out of 8	6 July	9 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.

Auditor

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

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

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

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

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

By order of the Board,

24 March 2011

M J Horsley
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 auditor's 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 2010 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 auditor's 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 auditor

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 and express an opinion on 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 2010 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 auditor's 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 Auditor

Leeds, England

24 March 2011

Profit and loss account

For the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Operating profit		-	-
Finance charges (net)	1	-	-
Profit on ordinary activities before taxation	2	-	-
Tax on profit on ordinary activities		-	-
Profit for the financial year		-	-

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 current or prior years.

Balance sheet
31 December 2010

	Notes	2010 £'000	2009 £'000
Current assets			
Debtors			
– due within one year	3	19,709	12,025
– due after one year	3	900,130	703,244
		<u>919,839</u>	<u>715,269</u>
Creditors: Amounts falling due within one year	4	<u>(22,390)</u>	<u>(13,654)</u>
Net current assets		<u>897,449</u>	<u>701,615</u>
Creditors: Amounts falling due after more than one year	5	<u>(897,399)</u>	<u>(701,565)</u>
Net assets		<u>50</u>	<u>50</u>
Capital and reserves			
Called-up share capital	7	50	50
Profit and loss account	8	-	-
Shareholders' funds	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 14 March 2011 and signed on its behalf by:

M J Horsley

Director

24 March 2011

Statement of accounting policies

31 December 2010

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 2010

1 Finance charges (net)

	2010 £'000	2009 £'000
Interest payable and similar charges	46,056	31,001
Interest receivable and similar income	(46,056)	(31,001)
	<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

	2010 £'000	2009 £'000
Bonds	46,056	31,001
	<u>46,056</u>	<u>31,001</u>

2 Directors remuneration and auditor's fee

The directors did not receive or accrue 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 £822,000 (2009 - £761,000) which was paid by other group companies for their services to other group companies. The audit fee of £5,700 (2009 - £5,500) will be borne by Northern Gas Networks Limited. There are no employees other than the directors (2009 – none).

3 Debtors

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	19,709	12,025
	<u>19,709</u>	<u>12,025</u>
Amounts falling due after one year:		
Amounts owed by group undertakings	900,130	703,244
	<u>900,130</u>	<u>703,244</u>
	<u>919,839</u>	<u>715,269</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 four tranches, £198.2m on 8 July 2019, £250.0m on 30 June 2027, £255.0m on 15 November 2035 and £196.9m on 23 March 2040 in line with the related bond repayments (see note 5). Interest is paid annually in line with the related bond interest payment dates as set out in note 5 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

	2010 £'000	2009 £'000
Accruals and deferred income	22,390	13,654
	<u>22,390</u>	<u>13,654</u>

Balances have been accounted for as loans and payables.

5 Creditors: Amounts falling due after more than one year

	2010 £'000	2009 £'000
Bond due 2040	195,520	-
Bond due 2019	197,666	197,391
Guaranteed bond due 2027	249,627	249,604
Guaranteed bond due 2035	254,586	254,570
	<u>897,399</u>	<u>701,565</u>

Balances have been accounted for as loans and payables.

The bond due 2040 of £200.0m matures on 23 March 2040 and will be redeemed at par. Interest is paid annually on 23 March at a rate of 5.625%.

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 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

	2010	2009
	£'000	£'000
Maturity analysis of interest and repayments:		
In one year or less	47,619	36,369
In more than one year but less than two years	47,619	36,369
In more than two years but less than five years	142,856	109,106
In more than five years but less than ten years	426,344	381,844
In more than ten years but less than twenty years	572,125	471,813
In more than twenty years	629,656	329,588
	<u>1,866,219</u>	<u>1,365,089</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.

	2010		2009	
	Book Value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial liabilities				
Bonds	897,399	892,537	701,565	655,401
Financial assets				
Intercompany loans	900,130	892,537	703,244	655,401

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

	2010 £'000	2009 £'000
<i>Allotted and called-up</i>		
50,000 ordinary shares of £1 each	50	50

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

8 Reserves

	Profit and loss account £'000
At 1 January 2010	-
Profit for the financial year	-
At 31 December 2010	-

9 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Profit for the financial year	-	-
Net movement in shareholders' funds	-	-
Opening shareholders' funds	50	50
Closing shareholders' funds	50	50

10 Financial commitments

The company has a total commitment of £10.6m (2009 - £11.1m) 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.

Notes to the accounts (continued)

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%)

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.