Northern Gas Networks Limited
(formerly Blackwater F Limited)

Annual report and accounts
for the nine month period to 31 December 2005

Registered number: 5167070

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 nine month period from 31 March 2005 to 31 December 2005.

Principal activity

The company was incorporated on 30 June 2004 to facilitate the sale of the North of England gas distribution network from its then parent, National Grid Gas plc (formerly Transco plc). Since 1 May 2005, the principal activity of the company has been the distribution of gas for the North of England network.

Business review

On 1 May 2005 the business of the North of England gas distribution network was hived down to the company by National Grid Gas plc (formerly Transco plc). On 1 June 2005 the company was purchased by Northern Gas Networks Holdings Limited.

The company changed its name from Blackwater F Limited to Northern Gas Networks Limited on 1 June 2005. The company also shortened its accounting period by changing its accounting reference date from 30 March 2006 to 31 December 2005.

On acquisition the directors chose to separate the asset management and ownership responsibilities of the network from the delivery of operational activity under a model referred to as strategic asset management. This split of assets and operations means Northern Gas Networks Limited ("NGN") retains all the obligations and responsibilities required by its Licence to Operate, issued by the industry regulator Ofgem (Office of Gas & Electricity Markets) and the safety case agreed with the Health & Safety Executive. NGN owns the assets and is responsible and accountable for the continued safe and efficient running of the gas distribution network, ensuring the highest possible performance standards from planning through to asset maintenance and replacement. The operation and maintenance of the network, together with the implementation of the asset maintenance and replacement programmes has been contracted out to United Utilities Operations Limited ("UUOL"), a company owned by United Utilities plc, under the terms of an Asset Services Agreement.

The overall loss for the period is as a result of the seasonality within the business. The key revenue months of January to March were pre acquisition, whilst the expenditure required to maintain the network and meet obligations must still be carried out throughout the calendar year.

The directors expect the general level of activity to remain stable with the company benefiting from the effect of a full year of trade in 2006.

Results and dividends

The loss for the period after taxation was £13,337,000 (profit of £8,275,000 for the period ended 30 March 2005).

The directors do not recommend payment of a final dividend. An interim dividend of £90,000 per ordinary share was paid on 26 May 2005 and a further interim dividend of £250,000 per ordinary share was paid on 29 December 2005.

Directors

The Directors who served during the period were as follows:

• W Shurniak (Chairman)	(appointed 31 May 2005)
• F R Frame	(appointed 31 May 2005)
• A Hunter	(appointed 31 May 2005)
• H Lam Kam	(appointed 31 May 2005)
• E Bing Sing Kwan	(appointed 31 May 2005)
• D V Latham	(appointed 31 May 2005)
• B Scarsella	(appointed 31 May 2005)
• K Sum Tso	(appointed 31 May 2005)
• G A I Waters	(appointed 31 May 2005)
• C Buck	(appointed 27 August 2004, resigned 31 May 2005)
• I C Davis	(appointed 15 April 2005, resigned 31 May 2005)
• D J Halsey	(appointed 27 August 2004, resigned 15 April 2005)
• M R Fairbairn	(appointed 27 August 2004, resigned 31 May 2005)
• S J Holliday	(appointed 27 August 2004, resigned 31 May 2005)
• A B Kay	(appointed 20 May 2005, resigned 31 May 2005)
• J O'Sullivan	(appointed 27 August 2004, resigned 31 May 2005)
• C Train	(appointed 20 May 2005, resigned 31 May 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.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the company at 31 December 2005 were equivalent to 22 (period ended 30 March 2005 – nil) days' purchases, based on the average daily amount invoiced by suppliers during the period since acquisition.

Charitable and political contributions

During the period the company made charitable donations of £500 (period ended 30 March 2005 - £nil), principally to local charities serving the communities in which the company operates.

Auditors

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 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 Limited

We have audited the accounts of Northern Gas Networks Limited for the period from 31 March to 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes numbered 1 to 23. 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 period 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 judgments 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.

Independent auditors' report (continued)

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 loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

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	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Turnover – Acquired	1	155,813	-
Cost of sales		(11,568)	-
Gross profit		144,245	-
Net other operating expenses	2	(127,591)	-
Operating profit - Acquired		16,654	-
Net finance (charges) income	3	(29,032)	11,822
(Loss) profit on ordinary activities before taxation	4	(12,378)	11,822
Tax on (loss) profit on ordinary activities	7	(959)	(3,547)
(Loss) profit on ordinary activities after taxation		(13,337)	8,275
Dividends paid on equity shares	8	(34,000)	-
Retained (loss) profit for the period transferred to reserves	19	(47,337)	8,275

All results arise from continuing operations.

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

Statement of total recognised gains and losses

For the period ended 31 December 2005

	Notes	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
(Loss) profit for the financial period		(47,337)	8,275
Actuarial loss relating to the pension scheme	22	(4,400)	-
Deferred tax attributable to actuarial loss		1,320	-
Total recognised gains and losses relating to the period		(50,417)	8,275

The accompanying notes are an integral part of this statement of total recognised gains and losses.

Balance sheet
31 December 2005

	Notes	31 December 2005 £'000	30 March 2005 £'000
Fixed assets			
Intangible assets - goodwill	9	162,073	-
Tangible assets	11	1,370,768	-
Investments	12	154	-
		1,532,995	-
Current assets			
Debtors	13	42,009	501,822
Cash at bank and in hand		201	-
		42,210	501,822
Creditors: Amounts falling due within one year	14	(88,504)	(3,547)
Net current (liabilities) assets		(46,294)	498,275
Total assets less current liabilities		1,486,701	498,275
Creditors: Amounts falling due after more than one year	15	(902,173)	-
Provisions for liabilities and charges excluding pension liability	17	(115,880)	-
Net assets excluding pension liability		468,648	498,275
Pension liability	22	(20,790)	-
Net assets including pension liability		447,858	498,275
Capital and reserves			
Called-up share capital	18	-	-
Profit and loss account	19	447,858	498,275
Equity shareholders' funds	20	447,858	498,275

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

Director

B Scarsella

12 April 2006

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

Statement of accounting policies

31 December 2005

Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the preceding 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 FRS1 to present a cash flow statement as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited (formerly Gas Network Limited) which prepares consolidated accounts which are publicly available.

The company is not required to prepare group accounts as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited (formerly Gas Network Limited) which prepares consolidated accounts which are publicly available.

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. 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 & Services	55 to 65 years
Storage	40 years
Plant & machinery	10 to 50 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 shown 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 or lining sections of pipe. This expenditure is principally undertaken to repair and 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 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 group'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 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 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.

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.

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 account as a financing charge.

Turnover

Turnover represents amounts receivable for the distribution of gas and provision of other services in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Pension costs

The company has obligations for a defined benefit scheme which is operated on its behalf by UUOL under the terms of the Asset Services Agreement. The responsibility for making payments of current service costs lies with UUOL, however the responsibility for any scheme deficit or surplus remains with the company. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included within operating costs, as part of the charge to the company from UUOL, under the terms of the Asset Services Agreement. 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.

Defined benefit schemes are 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.

For 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 lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account 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 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 account 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. The commencement of capitalisation begins 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. Capitalisation 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 period and reduced by payments made in the period.

Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to interest rate movements. The company does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

1 Segment information

The directors consider that the company has only one class of business and one geographical segment by both destination and origin.

2 Net other operating expenses

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Distribution costs	121,442	-
Administrative expenses	6,149	-
	127,591	-

3 Net finance charges

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Interest payable and similar charges	31,646	-
Interest receivable and similar income	(1,514)	(11,822)
Other net finance income	(1,100)	-
Other interest receivable and similar income	(2,614)	(11,822)
	29,032	(11,822)

Interest payable and similar charges

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Bank loans and overdrafts	28,572	-
Intercompany interest payable	3,299	-
Finance leases and hire purchase contracts	136	-
	32,007	-
Finance costs capitalised	(361)	-
	31,646	-

3 Net finance charges (continued)

Finance costs have been capitalised based on a capitalisation rate of 6.25% which is the weighted average cost of capital of the company during the period.

Other net finance income

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Net return on pension scheme (see note 22)	(1,100)	-
	(1,100)	-

4 (Loss) profit on ordinary activities before taxation

(Loss) profit on ordinary activities before taxation is stated after charging:

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Depreciation and amounts written off tangible fixed assets		
- owned	20,854	-
- held under finance leases and hire purchase contracts	1,150	-
Amortisation of goodwill	2,384	-
Auditors' remuneration for audit services	84	-

Amounts payable to Deloitte & Touche LLP and their associates by the company in respect of non-audit services were £164,000 (period ended 30 March 2005 - £nil).

5 Staff costs

The average monthly number of employees (including executive directors) was:

	Nine month period ended 31 December 2005 Number	Nine month period ended 30 March 2005 Number
Operations	129	-
Administration	16	-
	145	-

The calculation of the average monthly number of employees includes the 1,027 operations employee's for the month of May 2005 only, prior to their transfer to United Utilities Operations Limited on 1 June 2005.

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Their aggregate remuneration comprised:		
Wages and salaries	4,028	-
Social security costs	366	-
Other pension costs	480	-
	4,874	-

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Emoluments	275	-
Company contributions to money purchase pension schemes	17	-
	292	-

6 Directors' remuneration and transactions (continued)

Pensions

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

	Nine month period ended 31 December 2005	Nine month period ended 30 March 2005
Money purchase schemes	1	-
Defined benefit schemes	-	-
	1	-

Highest-paid director

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

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Emoluments and long-term incentive schemes	275	-
Company contributions to money purchase schemes	17	-
	292	-

Transactions

There have been no transactions with directors in the period (period ended 30 March 2005 - £nil) other than as set out above in respect of remuneration.

7 Tax on (loss) profit on ordinary activities

The tax charge comprises:

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Current tax		
UK corporation tax	424	3,547
Total current tax	424	3,547
Deferred tax		
Origination and reversal of timing differences	535	-
Total deferred tax (see note 17)	535	-
Total tax on (loss) profit on ordinary activities	959	3,547

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the (loss) profit before tax is as follows.

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
(Loss) profit on ordinary activities before tax	(12,378)	11,822
Tax on (loss) profit on ordinary activities at standard UK corporation tax rate of 30%	(3,713)	3,547
Effects of:		
Expenses not deductible for tax purposes	4,672	-
Creation of tax losses	1,465	-
Capital allowances in excess of depreciation	(1,889)	-
Other timing differences	(111)	-
Current tax charge for period	424	3,547

The company earns its profits primarily in the UK. Therefore the tax rate used for tax on (loss) profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.

The company's planned level of capital investment is expected to remain at similar levels of 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 period.

8 Dividends paid on equity shares

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Dividends paid on equity shares		
Equity shares		
- interim dividend paid of £90,000 per ordinary share to National Grid Gas plc	9,000	-
- interim dividend paid of £250,000 per ordinary share to Northern Gas Networks Holdings Limited	25,000	-
	34,000	-

9 Intangible fixed assets – goodwill

	£'000
Cost	
At 31 March 2005	-
At acquisition (note 10)	164,457
At 31 December 2005	164,457
Amortisation	
At 31 March 2005	-
Charge for the period	2,384
At 31 December 2005	2,384
Net book value	
At 31 December 2005	162,073
At 30 March 2005	-

10 Acquisition of business

On 1 May 2005 the business of the North of England gas distribution network was hived down to the company by National Grid Gas plc (formerly Transco plc). The fair value of the total consideration was £1,398 million, constituted of £490 million for the issue of shares and the balance funded by the assumption of intercompany debt. The business did not exist as a separate entity prior to hive down, hence there are no pre acquisition results.

The following table sets out the book values of the identifiable assets and liabilities acquired and their provisional fair value to the company:

	Book Value	Accounting Policy Changes	Revaluation	Fair Value
	£'000	£'000	£'000	£'000
Tangible fixed assets	524,553	-	843,980	1,368,533
Investment in shares	104	-	-	104
Debtors	2,744	-	-	2,744
Creditors: due within one year	(910,768)	-	(1,391)	(912,159)
Creditors: due after one year	(548)	-	-	(548)
Provisions:				
- Deferred tax	-	(99,510)	85	(99,425)
- Environmental provisions	-	-	(7,260)	(7,260)
- Pension fund	-	(18,200)	-	(18,200)
- Other	(1,501)	-	(6,745)	(8,246)
Net assets	(385,416)	(117,710)	828,669	325,543
Goodwill				164,457
				490,000
Satisfied by:				
Shares issued				490,000

The fair value adjustments above principally arise for the following reasons:

1. Accounting policy changes to recognise the deferred tax liability and pension fund deficit, net of deferred tax in accordance with applicable United Kingdom accounting standards.

2. Revaluation adjustments represent the restatement of network assets to implied market value, the recognition of unprovided amounts for environmental restoration costs and future claims in relation to past public and employer's liabilities and adjustments to opening liabilities.

11 Tangible fixed assets

	Land and buildings £'000	Gas Distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets under the course of construction £'000	Total £'000
Cost						
At 31 March 2005	-	-	-	-	-	-
Acquisition of business	2,589	1,352,568	3,890	9,486	-	1,368,533
Additions	-	18,149	262	233	5,595	24,239
At 31 December 2005	2,589	1,370,717	4,152	9,719	5,595	1,392,772
Depreciation						
At 31 March 2005	-	-	-	-	-	-
Charge for the period	160	19,320	1,154	1,370	-	22,004
At 31 December 2005	160	19,320	1,154	1,370	-	22,004
Net book value						
At 31 December 2005	2,429	1,351,397	2,998	8,349	5,595	1,370,768
At 30 March 2005	-	-	-	-	-	-

Leased assets included above:

	Land and buildings £'000	Gas Distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets under the course of construction £'000	Total £'000
Net book value						
At 31 December 2005	41	-	2,739	-	-	2,780
At 30 March 2005	-	-	-	-	-	-

Short leasehold included within Land & Buildings above has a cost on acquisition of the business of £42,000 and depreciation charge in the period of £1,000 giving a net book value at 31 December 2005 of £41,000.

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £361,000 (period to 30 March 2005 - £nil).

12 Investments

	31 December 2005 £'000	30 March 2005 £'000
Subsidiary undertakings	50	-
Other investments	104	-
	154	-

The company has an investment in the following subsidiary undertaking.

	Country of incorporation	Principal activity	Holding	%
Subsidiary undertaking				
Northern Gas Networks Finance Plc	England & Wales	Financing	49,999 ordinary shares of £1	100

The other investment is a 10.38% holding in xoserve Limited, which provide information, data processing, invoicing and supply point administration services to the company. xoserve Limited is registered in England & Wales.

Subsidiary undertakings

	£'000
Cost and net book value	
At 31 March 2005	-
Additions	50
At 31 December 2005	50

Other investment

	£'000
Cost and net book value	
At 31 March 2005	-
Acquisition of business	104
At 31 December 2005	104

13 Debtors – due within one year

	31 December 2005 £'000	30 March 2005 £'000
Trade debtors	6,101	-
Amounts owed by group undertakings	45	501,822
Prepayments and accrued income	35,863	-
	42,009	501,822

14 Creditors: Amounts falling due within one year

	31 December 2005 £'000	30 March 2005 £'000
Bank loans and overdrafts	25,000	-
Obligations under finance leases and hire purchase contracts	705	-
Payments received on account	12,517	-
Trade creditors	3,344	-
Amounts owed to group undertakings	2,089	-
Corporation tax	-	3,547
VAT	822	-
Other taxation and social security	58	-
Other creditors	202	-
Accruals and deferred income	43,767	-
	88,504	3,547

The bank loan and overdraft is a working capital facility which is repayable on 22 March 2006 and carries interest at 6 month LIBOR plus 0.46%.

15 Creditors: Amounts falling due after more than one year

	31 December 2005 £'000	30 March 2005 £'000
Term loan	364,811	-
Amounts owed to group undertakings	529,328	-
Obligations under finance leases and hire purchase contracts	1,039	-
Deferred income	6,995	-
	902,173	-

The term loan is repayable on 31 March 2010 and carries interest at 6 month LIBOR plus a margin of 0.46%.

The amounts owed to group undertakings is an interest free loan of £24.3m, which is only repayable after the term loan has been fully repaid and an interest bearing loan of £505m, with £250m repayable in 2027 and £255m repayable in 2035. Interest is payable at a rate of 4.875% plus a margin to cover related costs.

16 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 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 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.

16 Derivatives and other financial instruments (continued)

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 except for the working capital facility and finance leases which are less than one year.

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.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). Certain financial assets such as investments in subsidiary companies are excluded from the scope of these disclosures.

As permitted by FRS 13, 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 company has no financial assets other than sterling cash deposits of £201,000 (30 March 2005 - £nil) which are part of the financing arrangements of the company. The sterling cash deposits comprise monies held in bank deposit 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 December 2005 was as follows. There were no financial liabilities as at 30 March 2005.

	Floating rate 31 December 2005 £'000	Fixed rate 31 December 2005 £'000	Interest free 31 December 2005 £'000	Total 31 December 2005 £'000
Borrowings	364,811	530,000	24,328	919,139
Finance leases	-	1,744	-	1,744
Total	364,811	531,744	24,328	920,883

16 Derivatives and other financial instruments (continued)

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

	Floating rate	Fixed rate		Interest free
	Weighted average interest rate	Weighted average interest rate	Weighted average period for which rate is fixed	Weighted average period to maturity
	%	%	Years	Years
Borrowings – Term Loans	4.5	4.6	0.25	-
Borrowings - Intercompany	-	4.875	26	n/a
Finance leases	-	15	5	-

Further details of interest rates on long term borrowings are given in note 15.

Maturity of financial liabilities

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

	31 December 2005 £'000	30 March 2005 £'000
In one year or less	25,705	-
In more than one year but not more than two years	807	-
In more than two years but not more than five years	389,371	-
In more than five years	505,000	-
	920,883	-

Borrowing facilities

The company had undrawn committed borrowing facilities at 31 December 2005, in respect of which all conditions precedent had been met, as follows:

	31 December 2005 £'000	30 March 2005 £'000
Expiring in more than two years	128,564	-
	128,564	-

16 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 December 2005.

	31 December 2005		30 March 2005	
Liabilities (assets)	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the company's operations				
Working capital facility	25,000	24,363	-	-
Long term borrowings	364,811	371,166	-	-
Intercompany borrowings	529,328	549,316	-	-
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	(15,198)	-	-

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 the 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 £	Losses £	Net £
Unrecognised gains and losses on hedges at 31 March 2005	-	-	-
Gains and losses arising in previous periods that were recognised in the period to 31 December 2005	-	-	-
Gains and losses arising before 31 March 2005 that were not recognised in the period to 31 December 2005	-	-	-
Gains and losses arising in the period to 31 December 2005 that were not recognised in the period to 31 December 2005	17,436	2,238	15,198
Unrecognised gains and losses on hedges at 31 December 2005	17,436	2,238	15,198
Of which:			
Gains and losses expected to be recognised in 2006	-	-	-
Gains and losses expected to be recognised in 2007 or later	17,436	2,238	15,198

17 Provisions for liabilities and charges

	Environmental restoration costs £'000	Deferred tax £'000	Other provisions £'000	Total £'000
At 31 March 2005	-	-	-	-
Created on acquisition of the business	7,260	99,425	8,246	114,931
Charged to profit and loss account	-	325	631	956
Utilised in the period	-	-	(7)	(7)
At 31 December 2005	7,260	99,750	8,870	115,880

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

Deferred tax is provided as follows:

	31 December 2005 £'000	30 March 2005 £'000
Accelerated capital allowances	99,218	-
Other timing differences	949	-
Tax losses available	(417)	-
Provision for deferred tax	99,750	-

18 Called-up share capital

	31 December 2005 £	30 March 2005 £
Authorised		
100 ordinary shares of £1 each	100	100
	100	100

	31 December 2005 £	30 March 2005 £
Allotted, called-up and fully-paid		
100 (30 March 2005 – 1) ordinary shares of £1 each	100	1
	100	1

On 1 May 2005, 99 ordinary shares of £1 each were issued to facilitate the hive down (see note 10), resulting in authorised and issued share capital of 100 ordinary shares of £1 each.

19 Reserves

	Profit and loss account £'000
At 31 March 2005	498,275
Retained loss for the period	(47,337)
Actuarial loss relating to the pension scheme (note 22)	(4,400)
UK deferred tax attributable to actuarial loss	1,320
At 31 December 2005	447,858

20 Reconciliation of movements in equity shareholders' funds

	31 December 2005 £'000	30 March 2005 £'000
(Loss) profit for the financial period	(47,337)	8,275
Other recognised gains and losses relating to the period	(3,080)	-
New shares issued	-	490,000
Net (reduction in) addition to equity shareholders' funds	(50,417)	498,275
Opening equity shareholders' funds	498,275	-
Closing equity shareholders' funds	447,858	498,275

21 Financial commitments

Capital commitments are as follows:

	31 December 2005 £'000	30 March 2005 £'000
Contracted for but not provided for	1,415	-
	1,415	-

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

	Land and buildings	
	31 December 2005 £'000	30 March 2005 £'000
Expiry date		
- between two and five years	234	-
- after five years	683	-
	917	-

The company has entered in to a Guarantee and Reimbursement Agreement with FGIC UK Limited ("FGIC") in conjunction with its subsidiary Northern Gas Networks Finance Plc ("the Issuer") in relation to the bonds issued by that company in November 2005 of £505m. 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 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.

21 Financial commitments (continued)

Under the terms of the Asset Services Agreement which expires on 31 March 2013, the operation and maintenance of the network, together with the implementation of the asset and replacement programmes has been contracted out to UUOL. The total value of the contract, to its expiry date, is estimated to be £1.1bn.

22 Pension arrangements

The company has obligations for a defined benefit pension scheme which is operated on its behalf by UUOL which is responsible for making payments of current service costs, which are then charged to the company under the terms of the Asset Services Agreement. The scheme was set up following the hive down of the business and the first full actuarial valuation will be carried out in 2007. The position at hive down and at 31 December 2005 was calculated by a qualified actuary. The major assumptions used for the actuarial valuation were:

	31 December 2005	1 May 2005
Rate of increase in salaries	3.30%	3.30%
Rate of increase in pensions in payment	2.80%	2.80%
Discount rate	4.70%	5.30%
Inflation assumption	2.80%	2.80%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date and at hive down were:

	31 December 2005 %	31 December 2005 £'000	1 May 2005 %	1 May 2005 £'000
Equities	7.00	82,500	7.50	137,900
Gilts & Bonds	4.20	81,800	-	-
Cash	4.50	3,300	-	-
Total fair value of assets		167,600		137,900
Present value of scheme liabilities		(197,300)		(163,900)
Deficit in the scheme		(29,700)		(26,000)
Related deferred tax asset		8,910		7,800
Net pension liability		(20,790)		(18,200)

The contribution rate for 2005 was 23% of pensionable earnings and the agreed contribution rate from December 2005 is 31% of pensionable earnings.

22 Pension arrangements (continued)

The scheme is a closed scheme and therefore under the projected unit method the current service cost would be expected to increase as the members of the scheme approach retirement.

Analysis of the amount charged to operating profit

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Current service cost	(3,700)	-

Analysis of the amount credited to net finance charges

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
Expected return on pension scheme assets	7,000	-
Interest on pension scheme liabilities	(5,900)	-
	1,100	-

Analysis of the actuarial gain in the statement of total recognised gains and losses

	Nine month *period ended* 31 December 2005 £'000	Nine month *period ended* 30 March 2005 £'000
Actual return less expected return on pension scheme assets	21,500	-
Experience gains and losses arising on the scheme liabilities	400	-
Changes in assumptions underlying the present value of the scheme liabilities	(26,300)	-
	(4,400)	-

22 Pension arrangements (continued)

Movement in scheme deficit during the period before deferred tax:

	Nine month period ended 31 December 2005 £'000	Nine month period ended 30 March 2005 £'000
On acquisition	(26,000)	-
Current service cost	(3,700)	-
Contributions	3,300	-
Net finance income	1,100	-
Actuarial loss	(4,400)	-
At 31 December	(29,700)	-

History of experience gains and losses

	31 December 2005	1 May 2005
Difference between the expected and actual return on scheme assets:		
Amount (£'000)	21,500	-
Percentage of scheme assets	13%	-
Experience gains and losses on scheme liabilities:		
Amount (£'000)	400	-
Percentage of the present value of scheme liabilities	0%	-
Total actuarial loss in the statement of total recognised gains and losses:		
Amount (£'000)	(4,400)	-
Percentage of the present value of scheme liabilities	(2%)	-

The company also operates defined contribution schemes for which the pension cost charge for the year amounted to £58,000 (period ended 30 March 2005 - £nil).

23 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 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%)

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.