

Xoserve Limited

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Directors' Report

And Financial Statements

For the year ended 31 March 2012

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Xoserve Limited

Directors' Report

For the year ended 31 March 2012

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2012

Principal activities

The Company's principal activity during the year was to provide transactional billing and other services to gas shippers on behalf of the largest gas network operators who are responsible for transporting gas through eight gas distribution networks and the National Transmission System

Business review

For the year ended 31 March 2012 the Company's profit before tax was £3.3m (£2.9m after tax) (2011 £3.5m (£3.0m after tax))

Income

The principal source of revenue for the Company comes from contracts with the gas network operators for the provision of transactional services and consultancy services. These services accounted for £43.0m (90.9%) (2011 £35.4m (90.1%)) of the Company's total turnover.

In addition, during the year the Company earned further revenue of £4.3m (9.1% of turnover) (2011 £3.9m (9.9% of turnover)) through the provision of other contracted services mainly to Gas Shippers, Major Energy Users and Meter Asset Managers.

Human Resources

Xoserve's direct employees were supported by agency staff utilised to perform certain clerical as well as management and technical roles. These agency staff are employed through external companies and not directly by the Company. For 2011/12 the average number of employees and agency staff in aggregate was 315 (2010/11 324).

Total employee and agency staff costs of £14.6m were incurred for the year ended 31 March 2012 (2011 £13.9m).

Bought in Goods and Services

The Company obtains its goods and services through arrangements with its immediate holding company, National Grid Gas plc and through contracts with third party suppliers. Goods and services purchased through National Grid Gas plc amounted to £11.2m (2011 £11.9m) while purchases from third party suppliers amounted to £26.5m (2011 £16.9m).

IS Applications

The Company operates a number of major Information Systems (IS applications) in order to support services to its customers. These require significant investment in order to maintain and ensure their robustness and availability. Over the course of 2011/12 the Company made significant progress towards delivering a number of changes to these systems either at the request of customers or for the purposes of sustaining or improving the efficiency of the Company's own business processes. Key customer requested deliverables during the year included Phase 2 delivery and Phase 3 building and testing of the Capacity Exit Reform project, revisions to the Supply Interruption Regime (DN Interruption) and incremental changes to a wide range of services for Shippers, Networks and Transmission operators.

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Directors' Report (continued)

For the year ended 31 March 2012

Business review (continued)

IS Applications (continued)

During the year the Company progressed a number of projects to upgrade or replace key business applications. These projects were part of a significant programme of work referred to as the Strategic Investment Programme. Progress was made as follows:

2011/12 saw the successful delivery of the final phase of data for the Information Provisioning project which replaces Xoserve's Operational Data Store System and delivery of the associated reports, marking the completion of this project. Xoserve also implemented a new Data Enquiry Service to replace the ageing Internet Access to Data service (IAD) which enables customers to directly assess Xoserve held data.

Good progress was made during the year on designing and building a new technology stack as part of the project to upgrade the infrastructure of the Gemini application referred to as the Gemini Replatforming project (GRP) (Gemini supports the Gas Management, energy balancing and associated invoicing processes on behalf of National Grid Transmission and the Shipper community). Sustaining measures are continuing to enable the existing Gemini application to continue to operate for an extended period.

Work was also undertaken to identify the technology sustaining actions required to enable the core UK-Link system to sustain current levels of service until its planned replacement (currently targeted for 2015/16). Performance upgrades were delivered during the year and an increase in storage capacity will be completed during 2012/13.

Project Nexus (the project to define Xoserve's future services) continued to engage with the industry in order to define customer requirements for changes required to Xoserve's services, including continued support of the Department of Energy and Climate Change's Smart Metering Implementation Programme. The purpose of this engagement is to inform the scope, nature and scale of services that Xoserve's IT systems will need to support into the future and to marshal requirements to maximise the efficiency with which the Company can deliver enhanced capability and sustain existing services.

A project to replace Xoserve's Telecoms capability continued with the delivery of a new file transfer mechanism and upgrades delivered to both onshore and offshore network capability to support communication between our data centres and to meet the access requirements of our offshore IT supplier.

There were delays to the implementation of the contact management system to replace Xoserve's Conquest query system (Q Project) arising from issues identified in system and performance testing. However progress was made on the design and build of the new system and User Acceptance Testing has commenced. The implementation is being re-planned to take account of technical upgrades with an expectation that the new system will be implemented during 2012.

Future developments

Xoserve's principal contract for the provision of transactional services to the largest gas network operators (the ASA) continues until May 2013. This will automatically extend until May 2016 unless 12 months written notice is given.

As part of the Gas Transmission and Distribution networks Price Control Reviews Ofgem have reviewed Xoserve's funding, governance and ownership arrangements and have concluded that some changes may be required. They have concluded that a "co-operative model" represents the optimal set of arrangements – whereby decisions about the future provision of data services supporting the supplier market will be made and the funding of those services will be recovered from the users of the services (i.e. shippers/ suppliers). There is currently no indication of what specific changes Ofgem will be looking for in order to implement their conclusions or what may be the impact to Xoserve's

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Directors' Report (continued)

For the year ended 31 March 2012

Future developments (continued)

service provision in the longer term Ofgem have as yet still to appoint the consultant to oversee this process however Xoserve are committed to working with Ofgem, any appointed consultant and with the wider industry to ensure there is a proper understanding of any proposed changes and continuity of services required for the Gas Industry in Great Britain

Xoserve anticipates the continuation of the strategic investment programme started during 2006/7 in order to amend and update its customer facing computer applications to ensure they continue to meet customers' requirements

Over the next twelve months the key deliverables include completion of the Q project, implementation of the final phase of Capacity Exit reform and the conclusion of the Telecoms Programme There will also be continued work for GRP implementation readiness (scheduled for delivery in 2013 and the commencement of the programme to replace the core UK-Link systems while sustaining the current services delivered until this replacement is completed

Customer engagement will continue to be a key element to ensuring delivery against agreed priorities and that all stakeholders understand delivery plans and their implications

Results and dividends

The Company's profit for the financial year was £2 9m (2011 £3 0m)

During the year an interim dividend of £27 55 (2011 £26 13) per share, amounting to £2 8m (2011 £2 6m) was paid No final dividend has been declared or is proposed (2011 £nil)

An interim dividend for 2012/13 of £33 56 per ordinary share, amounting to £3 4m has been approved by the Board

Financial position

The financial position of the Company is presented in the balance sheet Total shareholders' funds at 31 March 2012 were £5,774,000 (2011 £5,471,000) comprising fixed assets of £18,555,000 (2011 £15,637,000), net current assets of £1,736,000 (2011 £3,734,000) less long term creditors and provisions for liabilities and charges of £14,517,000 (2011 £13,900,000)

Financial risk management

The Company actively manages its exposure to credit risk through its Credit Review Panel (an internal committee) and reduces its exposure to other financial risks through its contracting arrangements and an agreed loan facility with its immediate parent company

Price risk

The Company secures a significant proportion of its goods and services on long term contracts with pre-determined price escalation clauses and notice periods A number of IS services are acquired from key suppliers under the terms of long term framework agreements and the Company also makes extensive use of fixed price contracts Most of its suppliers have enjoyed long term relationships with the Company and National Grid before it Because of these arrangements the Company's exposure to price risk is not considered to be material

Xoserve Limited

Directors' Report (continued)

For the year ended 31 March 2012

Financial risk management (continued)

Liquidity risk

The Company manages its liquidity risk through two loan agreements with its immediate holding company. One provides the Company with the facility to draw down working capital as required and one that allows it to hold any surplus funds in an interest bearing account operated on the Company's behalf by National Grid Gas plc. Any such funds held by National Grid Gas plc are available on demand by the Company.

Credit risk

The Company has implemented a credit policy and associated credit rules that maintain a consistent framework for limiting its exposure to the risk of financial loss resulting from the provision of services and/or supply of goods to its customers. This requires the active monitoring of its current and future contractual exposures to its customers against a limit framework that has been approved in accordance with the Company's governance structure.

The credit policy specifies the following:

- how the Company will carry out credit assessment,
- how a customer's exposure will be monitored,
- how credit limits are set, monitored and reviewed,
- how failures will be escalated including debt recovery activities, and
- the forms and types of security that the Company will accept in order to facilitate trading activities.

Delegation for the continued operation and development of the framework is extended from the Board to the Executive Committee. The day to day operation of the policy is overseen by the Credit Review Panel reporting to the Executive Committee. As at the year end, no potential bad debts were identified by the Company and no provision for such was made within the financial statements.

Cash flow risk

The Company continues to earn a significant proportion of its revenue stream through its contracts with the gas networks (2011/12 90.9%, 2010/11 90.1%). A schedule of monthly charges is determined prior to the commencement of the financial year based on the Company's forecast expenditure. The certainty of a major proportion of its income stream significantly reduces the Company's exposure to cash flow risk.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

As outlined in the Business Review above the Company is currently delivering the Strategic Investment Programme. There is a risk that this Programme (or elements thereof) will not be delivered in line with Xoserve's business plan or achieve the expected benefits. The risk is being managed at an overall Programme level and with individual projects managing specific risks to ensure successful delivery. During this period of change there is continuing reliance on ageing IT infrastructure and applications prior to their replacement through Xoserve's Strategic Investment Programme. Tactical solutions are being explored where appropriate to ensure the continued provision of Xoserve's services is not compromised.

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Directors' Report (continued)

For the year ended 31 March 2012

Principal risks and uncertainties (continued)

There is a risk that the Company is unable to retain key staff and their associated skills or recruit staff with the necessary skills to deliver the significant amount of change required along with the continued provision of core services. Where necessary, staff with specialist technical skills are recruited on a temporary basis to alleviate bottlenecks and support delivery of the Programme.

There is also a significant risk to the Company that decisions made in the medium to long term by Government and other regulatory bodies in relation to the application of Smart Metering across the UK may affect the scope and nature of the services it provides. The Company is engaging with the industry to ensure the impacts of any potential changes in scope or service delivery are fully understood and can be accommodated.

As explained under Future Developments (above) Ofgem have reviewed Xoserve's funding, governance and ownership arrangements and at this stage it's not known what if any impact this review will have on Xoserve.

Key performance indicators (KPIs)

Given the specific nature of the business and the approach to setting prices for its contract with gas networks, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Directors

The Directors of the Company during the year and up to the date of signing of the financial statements were

Mr M Ashworth	
Mr M Bedford	(alternate Director to Mr R Wilby)
Mr C Bielby	(appointed as an alternate Director to Mr A Quail on 1 July 2012)
Mr R Court	(alternate Director to Mr C Bennett)
Mr C Hazelwood	(resigned 25 July 2011)
Ms A Kay	
Mr C Bennett	
Mr A Quail	
Mr R Wilby	
Miss P Hunt	(resigned as an alternate director to Mr A Quail on 31 May 2011)
Mr P Pike	(appointed on 25 July 2011)
Mr S Edwards	(appointed as an alternate Director to Mr P Pike on 25 July 2011, previously an alternate Director to Mr C Hazelwood)
Mr C Johns	(alternate Director to Mr M Ashworth)
Mr M Ripley	(resigned as an alternate Director to Ms A Kay on 01 May 2012)

Mr A Chenhall resigned as non-executive Chairman of the Company on 1 April 2011. Mr N Durlacher was appointed as non-executive Chairman from 1 April 2011. Neither Mr Chenhall nor Mr Durlacher are or were Directors of the Company and have no rights or powers as such.

Xoserve Limited

Directors' Report (continued)

For the year ended 31 March 2012

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements 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 financial statements 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 those financial statements, 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements 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 financial statements 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.

Directors' indemnities and insurance

The Company has purchased insurance to indemnify individual Directors' and Officers' personal legal liability and cost for claims arising out of actions taken in connection with the business of Xoserve. This insurance was in place during the year and continues to be in place at the date of approval of these financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out within the Directors' Report. In addition there are details of the Company's financial position and the financial risks that the Directors have highlighted as significant to the business.

The Directors have considered the findings of Ofgem's review of Xoserve's funding, governance and ownership arrangements (as outlined in Future Developments above). Whilst the ultimate outcome of this review has created some uncertainty over medium term arrangements, there is an ongoing requirement for the services the Company provides to the gas network operators and gas shippers. At present no alternative solutions are being considered or are in development. The existing ASA contract also has termination protection clauses. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Xoserve Limited

Directors' Report (continued)

For the year ended 31 March 2012

Employees

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that employees are made aware of the financial and economic performance of the Company. Communication with employees was through a series of company wide briefings to all employees every six months, ad hoc bulletins from the Chief Executive Officer and other managers via the Company's intranet site and consultation with the staff union in relation to the annual staff pay review. In addition a series of CEO surgeries and breakfast meetings between members of the executive management team and staff were held during the year. The Company also participated in the Sunday Times 100 Best Companies through an employee survey which measures employee engagement.

The Company has an Inclusion and Diversity Policy which is actively supported in the business by the Inclusion and Diversity Group and a published charter. Applications for employment by disabled persons are always fully considered, taking account of the qualifications, experience and capabilities of all applicants. In the event of members of staff becoming disabled every effort would be made to ensure that their employment with the Company continues and that appropriate adjustments and training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

During the year the company operated two performance management schemes – "Xomore" which was used as a basis for setting individual objectives and monitoring performance of employees on Xoserve staff grades and "Performance for Growth" which was applied to Xoserve's manager grades. Both schemes provided a basis for informing individual salary reviews and performance bonus awards. A "Line of Sight" document was produced and distributed to all staff and managers to enable individuals to identify and align their personal and team objectives with the Company's objectives and Business Plan.

Policy and practice on payment of creditors

It is the Company's policy to agree the terms of payment at the start of business with each supplier, ensure that suppliers are aware of the terms of payment, and to pay in accordance with contractual and other legal obligations.

Based upon trade creditors as at 31 March 2012 and the equivalent purchases for the year the average creditor payment period was 9 days (22 days at 31 March 2011). The Company's usual payment terms are to settle suppliers' invoices in no more than 42 days.

Charitable donations

Total donations to charities for the year were £9,088 (2011 £6,170). The Company operates a scheme where a fixed amount within pre-determined limits is donated to charity in return for staff identifying and reporting hazards within the Company's office environment. Staff are encouraged to nominate registered charities with local connections and with which they have some personal involvement. During the year the Company made charitable donations through this scheme to 17 charities totalling £6,900. There was also a £500 donation to Acorns Children's Hospice as well as £88 for Children in Need and £300 for Macmillan Cancer Support. In addition the Company donated goods to the value of £250 to the Grace Academy, a local school, and £1,000 to Xoserve Education Foundation, which has as its objectives the support of educational projects in India and the UK. There was also £50 donated to IGEM.

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Directors' Report (continued)

For the year ended 31 March 2012

Disclosure of information to auditors

In accordance with Section 418 of the Companies Act 2006, in the case of each Director in office at the date the Directors' Report is approved, the Directors confirm that

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he/she has taken all steps that he/she ought to have taken as a Director in order to make him/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

On behalf of the Board

A handwritten signature in black ink, appearing to read 'R. Wilby', with a stylized flourish at the end.

R Wilby
Director
19 July 2012

Registered office.
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 5046877

Independent auditors' report to the members of

Xoserve Limited

We have audited the financial statements of Xoserve Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. 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).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 7 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2012 and of its profit and cash flows 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

Opinion on other matter prescribed by the Companies Act 2006

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

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 financial statements 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



Simon Evans (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
19 July 2012

Xoserve Limited

Profit and loss account

For the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	47,380	39,299
Administrative expenses		44,235	(35,888)
Operating profit	3	<u>3,145</u>	<u>3,411</u>
Interest receivable and similar income	5	118	98
Interest payable and similar charges		(3)	-
Profit on ordinary activities before taxation		<u>3,260</u>	<u>3,509</u>
Tax on profit on ordinary activities	6	(340)	(541)
Profit for the financial year	17	<u>2,920</u>	<u>2,968</u>

The results reported above relate to continuing activities

The Company has no recognised gains and losses other than those included in the results above and therefore no separate statement of total recognised gains and losses has been presented


There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial years stated above and their historical cost equivalents

Xoserve Limited
Balance sheet
As at 31 March 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	10	659	1,019
Tangible assets	11	17,896	14,618
		<u>18,555</u>	<u>15,637</u>
Current assets			
Debtors (including £340,000 (2011 £304,000) due after one year)	12	21,803	18,603
		<u>21,803</u>	<u>18,603</u>
Creditors' amounts falling due within one year	13	(20,067)	(14,869)
Net current assets		<u>1,736</u>	<u>3,734</u>
Total assets less current liabilities		<u>20,291</u>	<u>19,371</u>
Creditors' amounts falling due after more than one year	14	(14,075)	(13,456)
Provisions for liabilities and charges	15	(442)	(444)
Net assets		<u>5,774</u>	<u>5,471</u>
Capital and reserves			
Called up share capital	16	199	199
Share premium account	17	801	801
Profit and loss account	17	4,774	4,471
Total shareholders' funds	18	<u>5,774</u>	<u>5,471</u>

The financial statements on pages 11 to 28 were approved by the Board of Directors on 19 July 2012 and signed on its behalf by

R Wilby
Director



19/7/2012

Xoserve Limited
Cash flow statement
For the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Net cash inflow/(outflow) from operating activities	19a	2,745	(778)
Returns on investments and servicing of finance			
Interest received		103	89
Taxation			
Corporation tax (paid)/received		(513)	1,517
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(3,957)	(5,803)
Payments received for developing capital assets		5,172	6,947
Dividends paid to shareholders	7	(2,755)	(2,613)
Increase/(decrease) in cash	19b	<u>795</u>	<u>(641)</u>

Xoserve Limited

Notes to the financial statements

For the year ended 31 March 2012

1 Accounting policies

(a) Basis of preparation

These financial statements have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006

These financial statements have been prepared using the historical cost convention and in accordance with the consistently applied accounting policies set out below. There have been no changes to accounting policies during the year.

These financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(b) Going Concern

The Company's business activities, together with the factors likely to affect its future development and position are set out within the Directors' Report. In addition there are details of the Company's financial position and the financial risks that the Directors have highlighted as significant to the business.

The Directors have considered the findings of Ofgem's review of Xoserve's funding, governance and ownership arrangements (as outlined in Future Developments above). Whilst the ultimate outcome of this review has created some uncertainty over medium term arrangements, there is an ongoing requirement for the services the Company provides to the gas network operators and gas shippers. At present no alternative solutions are being considered or are in development. The existing ASA contract also has termination protection clauses. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Intangible assets

Intangible fixed assets are carried at amortised historical cost and are amortised on a straight line basis at a rate estimated to write off their book value over their useful economic lives as follows:

Amortisation periods	Years
Software licences	4

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

1 Accounting policies (continued)

(d) Tangible assets

Tangible fixed assets are included in the balance sheet at their historic purchase cost less accumulated depreciation. Cost includes payroll and finance costs incurred which are directly attributable to the construction of tangible fixed assets. Additions represent the purchase or construction of new assets, and extensions to, or significant increases in the capacity of, tangible fixed assets.

No depreciation is charged on assets in the course of construction. When these assets are subsequently brought into use they are reclassified to the relevant asset category and depreciated at the appropriate rate.

Other tangible fixed assets are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are as follows:

Depreciation periods	Years
Office equipment, fixtures and fittings	3-5

(e) Capital contributions

Contributions received towards the cost of tangible and intangible fixed assets are credited to a deferral account within creditors (within accruals and deferred income) and are released to the profit and loss account evenly over the useful life of the relevant asset.

(f) Taxation

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(g) Turnover

Turnover comprises the value of services provided excluding value added tax, rebates and discounts. Turnover is recognised when it can be reliably measured and in the period that the service is provided. The Company bases its estimates on historical results and the specifics of each arrangement.

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

1 Accounting policies (continued)

(h) Pensions

The Company does not operate its own pension scheme but the substantial majority of the Company's employees are members of either the defined benefit or defined contribution sections of The National Grid UK Pension Scheme for which the Company makes contributions. The Company's share of the underlying assets and liabilities of the defined benefit section of the scheme cannot be identified separately. Consequently, the Company accounts for the Scheme as if it were a defined contribution scheme, recognising a charge equivalent to cash paid or payable to the scheme and to the scheme's sponsoring company, Lattice Group plc, a fellow subsidiary undertaking of the Company.

(i) Leases

Operating lease payments are charged to the profit and loss account on a straight-line basis over the term of the lease.

(j) Share-based payments

National Grid issues equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value at the date of grant based on an estimate of the number of shares that will eventually vest. This fair value is recognised on a straight-line basis over the vesting period, as an operating cost and an increase in equity. Payments made by the Company to National Grid in respect of share-based payments are recognised as a reduction in equity.

(k) Dividends

Interim dividends are recognised when they are approved for payment to the Company's shareholders.

2 Turnover

	2012	2011
	£'000	£'000
External customers	2,731	3,105
Fellow National Grid subsidiary undertakings	30,487	22,809
Other related undertakings	14,162	13,385
	47,380	39,299

Geographical analysis of turnover is not provided as the Company's operations are all undertaken in the UK for customers based in the UK.

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

3 Operating profit

	2012 £'000	2011 £'000
Operating profit is stated after charging.		
Amortisation of intangible fixed assets	360	359
Depreciation of tangible fixed assets – owned assets	2,789	2,010
Amortisation of deferred capital contributions	(3,262)	(2,474)
Employee costs capitalised	(1,120)	(895)
Operating lease rentals.		
Plant and machinery	127	132
Other	942	949
Services provided by the Company's auditor		
Audit fees	27	23
Other services	68	76

The fees paid to the Company's auditors for other services relate to work undertaken on controls and volumes reporting in relation to the gas distribution and transmission billing systems provided to customers

4 Directors and employees

No emoluments were paid during the year to the Directors in their capacity as Directors of the Company (2011 £nil) During the year 3 Directors (2011 2) exercised share options in the ordinary shares of the ultimate parent company, National Grid plc

Staff costs

	2012 £'000	2011 £'000
Wages and salaries	9,969	9,614
Social security costs	886	801
Other pension costs	2,773	2,752
Incentive and share schemes	941	698
	<u>14,569</u>	<u>13,865</u>

Details of the staff incentive and share schemes can be found in the Annual Report and Accounts of National Grid plc Details of the Company's Shared Based Payments charges are included in note 9

The average monthly number of employees (including Directors and agency) employed by the Company during the year was as follows

	2012 No	2011 No
By activity		
Administration	<u>315</u>	<u>324</u>

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

5 Interest receivable and similar income

	2012 £'000	2011 £'000
Interest receivable from fellow subsidiary undertakings	118	84
Other interest receivable	-	14
	<u>118</u>	<u>98</u>

6 Tax on profit on ordinary activities

	2012 £'000	2011 £'000
Current tax		
UK corporation tax	388	606
Adjustments in respect of prior periods	122	(49)
Total current tax	<u>510</u>	<u>557</u>
Deferred tax		
Origination and reversal of timing differences	42	32
Adjustments in respect of prior periods	(212)	(48)
Total deferred tax	<u>(170)</u>	<u>(16)</u>
Tax charge on profit on ordinary activities	<u>340</u>	<u>541</u>

The deferred tax charge is net of a credit of £22,845 (2011 £34,127) that relates to the reduction in the UK corporation tax rate from 26% to 24% (2011 28% to 26%)

The tax assessed for the year is lower (2011 lower) than the standard rate of corporation tax in the UK of 26% (2011 28%) The differences are explained below

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	<u>3,260</u>	<u>3,509</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2011 28%)	848	983
Effect of		
Expenses not deductible for tax purposes	36	18
Non-taxable income	(407)	(315)
Taxation on transfer pricing adjustments	2	-
Capital allowances for period in excess of depreciation	(91)	(80)
Adjustments in respect of prior periods	122	(49)
Total current tax charge for the year	<u>510</u>	<u>557</u>

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

6 Tax on profit on ordinary activities (continued)

Factors that may affect future tax charges

In the March 2012 UK Budget Statement it was announced that the main rate of corporation tax was to be reduced to 24% from 1 April 2012, and not 25% as included in the Finance Act 2011. The reduced rate of corporation tax was substantively enacted on 26 March 2012 and therefore deferred taxes have been measured at 24% accordingly.

Other changes such as the proposed reduction in the UK corporation tax rate to 23% from April 2013 with a further reduction in the following year will result in a UK corporation tax rate of 22% from April 2014. Although the reduction in the UK corporation tax rate to 23% from April 2013 has now been substantively enacted, these rate changes had not been substantively enacted as at the balance sheet date and, therefore, are not included in these financial statements. The effect of these changes are not material and as such have not been disclosed.

7 Dividends

	2012	2011
	£'000	£'000
Equity - ordinary dividends		
Interim paid £27.55 (2011 £26.13) per share	<u>2,755</u>	<u>2,613</u>

The Directors have approved an interim dividend for the year ended 31 March 2013 of £33.56 per share that is a total of £3,356,000.

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

8 Pensions

The Company does not operate its own pension scheme but substantially all the Company's employees are members of the National Grid UK Pension Scheme (either the defined benefit section or defined contribution section) for which the Company makes contributions. The Scheme ceased to offer final salary defined benefits for new hires from 31 March 2002. A defined contribution arrangement was offered for employees joining from 1 April 2002 onwards.

The defined benefit scheme is funded with assets held in separate trustee administered funds. It is subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme. The next valuation will be based on the position at 31 March 2013.

The latest full actuarial valuation was carried out by Towers Watson as at 31 March 2010. The market value of the Scheme's assets was £13,399m and the value of the assets represented approximately 96% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2010 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £599m (£455m net of tax) on the valuation date in light of which the parent company agreed a recovery plan with the trustees.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 35% of pensionable earnings (32% employers and 3% employees). The employer also makes payments to the scheme to cover administration costs and the Pension Protection Fund levy. The employer contribution rate will be reviewed as part of the next valuation in 2013, while administration costs are reviewed annually.

The Company accounts for the Scheme as if it were a defined contribution scheme, as its share of the underlying assets and liabilities of the Scheme's defined benefit section cannot be identified separately. This is because the scheme is a mature scheme with a reducing number of active members and in addition over time the split of pensioners and deferred members is difficult to allocate given the changes in group structure over the period of the scheme's existence. The total charge for the year (including defined contribution scheme contributions) was £2,773,000 (2011 £2,752,000). There were no outstanding/prepaid pension contributions at 31 March 2012 (2011 £nil).

The fair value of liabilities and assets of the whole scheme are recognised in the consolidated financial statements of National Grid plc (the Company's ultimate parent company) in accordance with International Accounting Standard 19 'Employee Benefits'. The fair value of liabilities and assets of the whole scheme at 31 March 2012 and 2011, calculated in accordance with FRS 17 'Retirement Benefits', are set out below.

Years ended 31 March	2012 £m	2011 £m
Actuarial value of plan liabilities	(14,464)	(13,322)
Fair value of plan assets	14,368	13,755
(Liability)/Surplus in the plan	(96)	433
(Liability)/Surplus recognised in the consolidated financial statements of National Grid plc	(96)	433

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

9 Share-based payment charges

The charge to the profit and loss account is based on the fair value of grants in accordance with FRS 20 'Share-based Payment'. All share awards are equity settled.

The charge to the profit and loss account for the year ended 31 March 2012 was £138,454 (2011 £165,863). The charge relates to share awards made by the Company's ultimate parent company National Grid plc ('National Grid').

Awards under share option plans

The average share prices at the date of options being granted, the average exercise prices of the options granted and the estimated average fair values of the options granted during each of the financial years ended 31 March were as follows:

	2012	2011
Share options		
Average share price (pence)	607.0p	564.5
Average exercise price (pence)	496.0p	445.0
Average fair value (pence)	90.5p	137.5

The fair values of the options granted were estimated using the following principal assumptions:

	2012	2011
Dividend yield (%)	6.4 - 6.9	4.4 - 5.0
Volatility (%)	25.4 - 28.0	22.4 - 26.1
Risk-free investment rate (%)	0.6 - 1.2	2.5
Average life (years)	4.0	4.0

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. The fair value of awards with total shareholder return performance conditions are calculated using a Monte Carlo Simulation model. Fair values of other awards are calculated as the share price at grant date, less the present value of dividends not received in the vesting period.

Volatility was derived based on the following and is assumed to revert from its current implied level to its long run mean, based on historical volatility under (i) below:

- i) implied volatility in traded options over National Grid shares,
- ii) historical volatility of National Grid's shares over a term commensurate with the expected life of each option, and
- iii) implied volatility of comparator companies where options in their shares are traded

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

10 Intangible assets

	Software licences £'000
Cost:	
At 1 April 2011 and 31 March 2012	1,438
Amortisation	
At 1 April 2011	419
Charged to the profit and loss account	360
At 31 March 2012	779
Net book value	
At 31 March 2012	659
At 31 March 2011	1,019

11 Tangible assets

	Assets in the course of construction £'000	Office equipment fixtures and fittings £'000	Total £'000
Cost:			
At 1 April 2011	9,585	10,826	20,411
Additions	6,063	4	6,067
Disposals	-	-	-
Reclassifications	(9,358)	9,358	-
At 31 March 2012	6,290	20,188	26,478
Depreciation:			
At 1 April 2011	-	5,793	5,793
Charge for the year	-	2,789	2,789
Disposals	-	-	-
At 31 March 2012	-	8,582	8,582
Net book value			
At 31 March 2012	6,290	11,606	17,896
At 31 March 2011	9,585	5,033	14,618

The Company has an ongoing programme of investment in its IS infrastructure and is recovering the cost of this investment from the gas network operators in the form of capital contributions over the course of the programme, although the assets will still be owned by the Company. Additions to assets under this programme are classified as "Assets in the course of construction" and reclassified as "Office equipment, fixtures and fittings" when the assets are commissioned for use.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of fixed assets amounting to £5,247,000 (2011: £3,955,000) and £14,075,000 (2011: £13,456,000) respectively.

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

12 Debtors

	2012 £'000	2011 £'000
Trade debtors	329	280
Amounts owed by fellow subsidiary undertakings (see note 22a)	17,959	16,389
Amounts owed by other related undertakings (see note 22b)	1,934	22
Other debtors	-	283
Prepayments and accrued income	1,581	1,629
	<u>21,803</u>	<u>18,603</u>

Prepayments and accrued income include £340,000 (2011 £304,000) falling due after more than one year

13 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Bank overdraft	165	960
Trade creditors	642	1,026
Amounts owed to fellow subsidiary undertakings (see note 22a)	1,858	4,080
Amounts owed to other related undertakings (see note 22b)	876	871
Other taxation and social security payable	322	300
Corporation tax payable	232	235
Other creditors	1,384	614
Accruals and deferred income	14,588	6,783
	<u>20,067</u>	<u>14,869</u>

The bank overdraft facility is unsecured

Accruals and deferred income includes deferred capital and other contributions of £5,247,000 (2011 £3,955,000)

14 Creditors: amounts falling due after more than one year

	2012 £'000	2011 £'000
Accruals and deferred income	<u>14,075</u>	<u>13,456</u>

Deferred income relates to contributions to capital projects

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

15 Provisions for liabilities and charges

	Dilapidations Provision £'000	Deferred Tax Provision £'000	Total £'000
1 April 2011	-	444	444
Charged/(credited) to the profit and loss account	168	(170)	(2)
31 March 2012	<u>168</u>	<u>274</u>	<u>442</u>

Dilapidations provision

The company subleases its business premises from National Grid Property Limited, a fellow subsidiary of the ultimate parent company National Grid plc. This lease is due to expire in July 2016 at which time the company will be liable for a share of the dilapidations costs. A provision has been made for the company's expected liability as accrued to date based on an independent valuation of the costs.

Deferred tax provision

	2012 £'000	2011 £'000
Accelerated capital allowances	2,287	2,295
Timing differences on capital contributions	(1,914)	(1,769)
Other short term timing differences	(99)	(82)
Deferred tax liability	<u>274</u>	<u>444</u>
	2012 £'000	2011 £'000
Deferred tax liability at 1 April	444	460
Charged to profit and loss account	(170)	(16)
Deferred tax liability at 31 March	<u>274</u>	<u>444</u>

16 Called up share capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
89,000 ordinary 'A' shares of £1 each	89	89
11,000 ordinary 'B' shares of £10 each	110	110
	<u>199</u>	<u>199</u>

The Articles of Association allow for both 'A' and 'B' shares to be converted only in the circumstances of a network operator ceasing to hold a Gas Transportation License in respect of any network area. The shares are considered to reflect the form of an equity instrument. Both 'A' and 'B' shares rank pari passu with each other in all respects.

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

17 Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2011	801	4,471	5,272
Profit for the financial year	-	2,920	2,920
Dividends paid (see note 7)	-	(2,755)	(2,755)
Adjustments in respect of employee share schemes	-	138	138
At 31 March 2012	801	4,774	5,575

18 Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit for the financial year	2,920	2,968
Dividends (see note 7)	(2,755)	(2,613)
	165	355
Adjustment in respect of employee share schemes	138	163
Net increase in shareholders' funds	303	518
Opening shareholders' funds	5,471	4,953
Closing shareholders' funds	5,774	5,471

19 Cash flow statement

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2012 £'000	2011 £'000
Operating profit	3,145	3,411
Depreciation of tangible fixed assets	2,789	2,010
Amortisation of intangible fixed assets	360	359
Amortisation of capital contributions	(3,262)	(2,474)
Loss on disposal of assets	-	25
(Increase) in debtors	(3,186)	(6,763)
Increase in creditors	2,592	2,491
Increase in provisions for liabilities and charges	169	-
Share-based payments	138	163
	2,745	(778)

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

19 Cash flow statement (continued)

(b) Reconciliation of net cash inflow to movement in net debt

	2012 £'000	2011 £'000
Net debt at 1 April	(960)	(319)
Increase/(decrease) in cash during the year	795	(641)
Net debt at 31 March	<u>(165)</u>	<u>(960)</u>

(c) Analysis of changes in net debt

	At 1 April 2011 £'000	Cash flow £'000	At 31 March 2012 £'000
Bank overdraft	<u>(960)</u>	<u>795</u>	<u>(165)</u>

20 Capital and other commitments

	2012 £'000	2011 £'000
Contracts placed for future capital expenditure not provided for in the financial statements	<u>1,072</u>	<u>1,028</u>

21 Financial commitments

At 31 March 2012 the Company had annual commitments under non-cancellable operating leases expiring as follows

	2012			2011		
	Land and buildings £000	Other assets £000	Total £000	Land and buildings £000	Other assets £000	Total £000
Expiring within 1 year	-	16	16	-	17	17
Expiring in 2 to 5 years	863	183	1,046	863	184	1,047
	<u>863</u>	<u>199</u>	<u>1,062</u>	<u>863</u>	<u>201</u>	<u>1,064</u>

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

22 Related party transactions

(a) Transactions and balances with subsidiaries of National Grid plc (largely National Grid Gas plc)

During the year Xoserve made sales to subsidiaries of National Grid plc (largely National Grid Gas plc) totalling £30,487,000 (2011 £22,809,000) Xoserve also received capital contributions from National Grid Gas plc totalling £3,057,000 (2011 £3,682,000)

National Grid Gas plc provided a number of services to Xoserve during the year as follows

	2012 £'000	2011 £'000
Business Services	389	396
Demand Estimation	310	282
Insurance	72	65
M-number consumer enquiry line	429	866
Property	3,055	2,915
IS	6,958	7,419
	<u>11,213</u>	<u>11,943</u>

Balances with fellow subsidiaries of National Grid (largely National Grid Gas plc) as at 31 March 2012 were as follows

	2012 £'000	2011 £'000
Amounts owed by fellow subsidiaries of National Grid (note 12)		
Treasury loan account	13,269	16,315
Treasury loan account interest receivable	30	18
Other	4,660	56
	<u>17,959</u>	<u>16,389</u>

The Treasury loan account bears an interest rate of 3 month LIBOR less 0.625% and is repayable on demand

Other amounts represent trade balances which are unsecured and on normal commercial terms

	2012 £'000	2011 £'000
Amounts owed to fellow subsidiaries of National Grid (note 13)	<u>1,858</u>	<u>4,080</u>

Amounts owed to fellow subsidiaries of National Grid are unsecured and on normal commercial terms

Xoserve Limited

Notes to the financial statements (continued)

For the year ended 31 March 2012

22 Related party transactions (continued)

(b) Transactions and balances with other related parties

The following companies each have a shareholding in Xoserve Limited Transactions and balances with these companies were as follows

	Sales and capital contributions received		Amounts owed by related parties	
	2012	2011	2012	2011
	£000	£000	£000	£000
Southern Gas Networks plc	6,192	6,043	980	13
Scotland Gas Networks plc	2,720	2,728	439	5
Northern Gas Networks Limited	3,875	3,812	260	2
Wales & West Utilities Limited	3,803	3,734	255	2

Amounts owed by other related parties are unsecured and on normal commercial terms

Amounts owed to other related parties of £876,000 (2011 £871,000) are unsecured and on normal commercial terms

23 Ultimate parent company and controlling party

The ultimate parent and controlling party is National Grid plc and the immediate parent company is National Grid Gas plc National Grid Gas plc owns 45,570 ordinary 'A' shares of £1 each and 11,000 ordinary 'B' shares of £10 each representing 51.2% of the ordinary 'A' shares and 100% of the ordinary 'B' shares

The largest and smallest groups which include the Company and for which consolidated financial statements are prepared are headed by National Grid plc and National Grid Gas plc respectively All of these companies are registered in England and Wales

Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH