

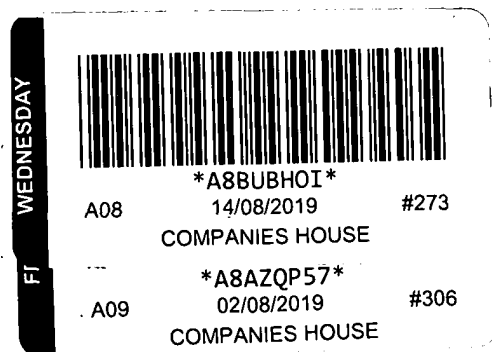
Xoserve Limited

Report and Financial Statements

Year Ended

31 March 2019

Company Number 05046877



Xoserve Limited

Report and financial statements for the year ended 31 March 2019

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Directors

Y Cohen
S Edwards
M Hogg
C McClay
A Quail
D Sedgwick
C Rees
N Shaw
C Spottiswoode

Secretary and registered office

E L Bradley, Lansdowne Gate, 65 New Road, Solihull, B91 3DL
V M Palmer, Lansdowne Gate, 65 New Road, Solihull, B91 3DL (appointed 1 September 2018)

Company number

05046877

Auditors

BDO LLP, Two Snowhill, Birmingham, B4 6GA

Xoserve Limited

Strategic report for the year ended 31 March 2019

The Directors present their Strategic Report for the year ended 31 March 2019.

Review of the business

Principal activities

The Company ('Xoserve') continued to provide transactional billing and other data services under the Data Services Contract (DSC) on behalf of gas network operators in the United Kingdom who are responsible for transporting gas through eight gas distribution networks and the National Transmission System. In addition the Company provides essential reporting and other services to gas shippers, retailers and other industry participants.

Funding Arrangements and Ownership

On 1 April 2017, Xoserve was appointed by the Gas Transporters as the gas industry's Central Data Services provider ('the CDSP'). The DSC parties provide the majority of Xoserve's funding, are consulted on Xoserve's Business Plan and Budget, and participate in governance meetings. They also have rights to appoint customer nominated Directors to the Xoserve Board. Specifically, the CDSP arrangements prohibit the distribution of profits to Xoserve's Shareholders.

Results

For the year ended 31 March 2019 the Company's profit before tax (after exceptional items) was £0.1m (£0.1m after tax) (2018: £3.2m loss (£3.1m loss after tax)). The profit before tax (and before exceptional items) was £0.9m (2018: £2.0m). The exceptional items relate to fundamental restructuring costs of £0.8m incurred during the year (2018: £5.2m).

Income

The principal source of revenue for the Company comes from the Data Services Contract (DSC) for the provision of transactional and data management services. These services accounted for £50.1m (72%) (2018: £56.4m (75%)) of the Company's total turnover.

In addition, during the year the Company earned further revenue of £4.7m (7% of turnover) (2018: £4.5m (6% of turnover)) through the provision of other contracted services, mainly to gas Shippers, Major Energy Users and Meter Asset Managers. The remaining revenue relates to amounts recognised for capital contributions received from customers.

Financial position

The financial position of the Company is presented in the statement of financial position. Total shareholders' funds at 31 March 2019 were £1.7m (2018: £1.6m) comprising fixed assets of £55.0m (2018: 66.0m); net current liabilities of £10.8m (2018: net current liabilities £10.9m) less long term creditors and provisions for liabilities of £42.5m (2018: £53.6m).

Xoserve Limited

Strategic report for the year ended 31 March 2019 (*continued*)

Business strategy

In 2018 the Company developed a new set of strategic objectives; the culmination of a comprehensive review of its strategy and purpose. This marked a turning point for the Company, shifting its thinking towards a new vision.

The Company's vision – to simplify the Energy Market through maintaining and leveraging industry assets for the benefit of all – is being delivered through six strategic ambitions:

- Customer Centric - From Reliability to Trust
- Data Driven - From Stewardship to Value Creation
- Change Leading - From Consistency to Certainty
- Operationally Excellent - From Necessity to Choice
- People Powered - From Learning to Leading
- Responsible Business - From Assurance to Confidence

In support of our strategy to leverage our assets, during 2018/19 the Company prepared a bid to become the Central Switching Service provider. Although making the final shortlist, this bid was ultimately unsuccessful.

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 as well as keeping pace with customer requirements. During 2018/19 the Company implemented a number of important system changes totalling £4.6m.

Xoserve continued to support National Grid's Transmission System Operator (TSO) obligations to comply with European Union (EU) reform; implementing changes to the Gemini Balancing and Settlement application to support further phases of change.

Xoserve continued to fulfil its role with the Data Communications Company (DCC) on behalf of Gas Transporters and Independent Gas Transporters, in support of the planned rollout of Smart meters.

During the year Company provided information and analysis to customers in response to concerns about the absolute levels and volatility of Unidentified Gas, with a number of industry recommendations resulting from this work.

Xoserve also implemented its new Finance ERP system, followed by a new Payroll system during the year, replacing services previously provided by National Grid. All principal processes and services have successfully entered a steady state arrangement post implementation. Further activities are planned in 2019 to enable full separation of support services from National Grid, including the roll out of new desktops and core network services.

Xoserve made steady progress during the year towards replacing the existing IX network provider and associated infrastructure. The project aims to provide a more secure and resilient network at a lower overall cost to customers.

An Online Consumer Enquiry Services channel was launched during the year as part of the Company's aims to promote greater digital interfaces and self service capabilities for its customers.

Xoserve Limited

Strategic report for the year ended 31 March 2019 (*continued*)

People

Xoserve's direct employees are supported by agency staff, who are employed through external companies and not directly by the Company and utilised to perform process as well as management and technical roles. For 2018/19 the average number of employees and agency staff in aggregate was 395 (2017/18: 394 and 2016/17: 428).

In 2017/18 the Company launched an Optional Leavers Scheme to create opportunities and restructure the business. This programme was rolled out and completed by 31st March 2019 with 70 employees leaving the organisation through this scheme. This allowed the introduction of new skills and capabilities into the organisation and development into new roles for existing employees.

Total employee and agency staff costs of £26.1m were incurred for the year ended 31 March 2019, inclusive of £0.7m restructuring costs (2018: £30.0m inclusive of £5.1m of restructuring costs).

Engagement with employees and their representatives has continued at all levels, ensuring that their views are taken into account when decisions are made that could affect their interests and that employees are made aware of the financial and economic performance of the Company.

Communication with employees occurred through a series of six-monthly Companywide briefings, ad hoc bulletins and briefings from the Chief Executive Officer (CEO) and other managers via the Company's intranet site and consultation with the staff union in relation to the annual staff pay review and other relevant collective employee matters as appropriate. A series of breakfast meetings between members of the executive management team and staff were held throughout the year as well as listening sessions with the CEO and other Executive members.

During the year both the Company's HR and payroll systems were replaced with the new solutions having fully automated interfaces, resulting in an increase in the quality and security of the data for our people. In the latter part of the year the People Function was created to address some of the key themes identified in our engagement activities and focus all activities relating to people under one Executive responsibility, including HR, Engagement and Communications, Business Change and the delivery and support of People Platforms and Tools.

Inclusion and Diversity is actively supported in the business by the Inclusion & Diversity Action Group and Diversity Champions. 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 is 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 and career development of a disabled person should, as far as possible, remain identical to a person who does not suffer from a disability.

During the year the Company operated a performance management scheme as a basis for setting individual objectives and monitoring performance of employees. This provides a basis for informing individual salary reviews and performance bonus awards. This has been complemented with the introduction of a collaboration tool where individuals' goals are visible across the organisation.

Xoserve Limited

Strategic report for the year ended 31 March 2019 (*continued*)

Principal risks and uncertainties

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

There is a risk that Xoserve is unable to cultivate appropriate skills, knowledge and capability within the organisation to effectively manage ongoing change and respond to customer requirements. There is also a risk that the timing of change and any delays will create additional change congestion and resource constraints. There is an ongoing plan for recruitment of staff with appropriate skills and an aim to reduce reliance on short-term contractors in order to develop and retain skills within the business. The Company is also developing a resource strategy to meet current and future requirements, including a succession and capability framework and a robust training plan.

As outlined above in the Review of the Business the Company manages data on behalf of the gas network operators and operates a number of Information Systems in support of this. It is recognised that Information Security is a significant risk in the operation of the Company's activities and therefore the Company continues to invest in a Security Improvement Programme to progressively strengthen this area. The Company has ISO27001 certification, has established a new governance structure and is rolling out further cyber awareness training to its employees to further embed Information Security.

The governance and funding model could constrain the Company's ability to leverage its assets, given the diversity in risk appetite across customers and any funding restrictions in place for some regulated customers. The Company consults with its customers on the Business Plan and Budget as well as the development of its strategy to ensure these are understood and aligned with industry requirements, thereby facilitating approval of annual charges.

The Company uses a number of specialist third party vendors who operate under agreed framework arrangements to provide some of the support services and asset development work. As a result of these long standing relationships there is a growing reliance on a few key suppliers which increases the risk that any third party failure might have on the business. Options are being explored to mitigate this risk including ongoing revisions to procurement strategy and embedding a new contract management centre of excellence.

A Central Switching Service Consequential (CSSC) programme was established in 2018 to undertake consequential changes to Xoserve's systems and processes due to the introduction of a new Central Switching Service being run through the Data Communications Company (DCC). Delivery commenced at the start of 2019 to complete the Design phases using approved funding.

DCC have announced the appointment of Landmark as the CSS Provider (CSSP). Given Xoserve's consequential programme is larger in scale and size than most existing service providers (ESPs) this could place operational, contractual and financial strain on the Company. Scenario planning and close partnering with the stakeholders involved is being pursued to help mitigate any exposures.

Xoserve Limited

Strategic report for the year ended 31 March 2019 (*continued*)

Key performance indicators (KPIs)

The Company reports on a number of targets against a 'Balanced Scorecard' of measures as set out by the Board, to gauge progress against its strategic aims. 2018/19 outturn is described below.

Responsible Business

The Company has a target for its total expenditure to be less than budget and ensure any spend can be funded from its charges for the year. This was achieved before accounting for restructuring costs. In addition the business sickness absence levels were well within allowable tolerance.

In total 84% of internal audit findings due were completed within the allotted timescales in the year, against a target of 100%, meaning this aspect of the Responsible Business measure was not met. All findings were subsequently closed within agreed revised timescales.

Customer Centric

Customer satisfaction is measured through a number of customer surveys issued during the year. The Institute of Customer Services (ICS) measures Xoserve's customer view of its performance across several independently benchmarked metrics on an annual basis, with the UK Customer Satisfaction Index (CSI) adopted for the Balanced Scorecard.

The Company first adopted (ICS) Business Benchmarking in 2017/18, with a CSI score of 63. In March 2019 this score increased by 7 to 70, hitting target performance and constituting one of the biggest improvements across all UK companies that use and publish this index.

Operationally Excellent

The Key Value Index (KVI) outcome for 2018/19 was 78% versus a Board Target of 85%, with the shortfall relating to newly introduced measures around change management and data service delivery. Improvements to controls, communication and measurements for the next Financial Year have been identified to facilitate performance enhancement.

The Company met its targets to ensure that major IS systems it provides to customers were available at least 99% of the time within scheduled service hours. In relation to its Priority 1 and 2 Operational KPIs, the Company did not meet its target due to minor incidents experienced across both UK Link and Non-UK Link estates - failing on 20 P1 and P2 reported incidents in the year.

Change Leading & Data Driven

A target to have 95% of investments delivered to time, budget and quality was set for the year, of which a score of 90% was achieved for the year, with 2nd half of the year activity exceeding 95%.

Within the Data Office, the Data Access Platform (DAP) build was a key success measure for the year. Xoserve achieved this target, with 95% of milestones completed to Plan.

People Powered

A bar of 10% year on year improvement to the Company's average employee engagement score was missed, with a 4% uplift measured in March 2019. However this was an improved score and achieved against a backdrop of significant restructuring taking place during the year.

Xoserve Limited

Strategic report for the year ended 31 March 2019 (continued)

Future Developments

Xoserve's principal contract for the provision of services to all Gas Transporters (GT), Shippers and independent Gas Transporters, the DSC, is established under the GT Licence and Uniform Network Code arrangements and has no contractual end date.

Xoserve will continue its programme of investment in strategic IT applications to sustain its services and prepare for future change demand, based on its IT Architectural Roadmap.

The Company aims to press forward with achieving the ultimate ambitions given by the new vision and six strategic ambitions launched in 2018.

Customer engagement will remain pivotal in ensuring delivery against Xoserve's agreed priorities, in addition to ensuring all stakeholders understand the delivery plans and their implications.

Ofgem is moving forward with its programme of work to place obligations on the Data Communications Company (DCC) to procure, deliver and operate a Central Switching Service (CSS). Xoserve continues to support the industry to redraft necessary industry codes, specifically the Uniform Network Code (UNC) and a new Retail Energy Code (REC) to support these revised arrangements.

RIIO-2

Xoserve has developed a business plan in response to Ofgem's requirement for information from gas and electricity network companies to inform the RIIO-2 price control setting process. This plan accelerates the usual timelines for the Company's annual business planning cycle through to March 2026 and as such could be subject to further change. As part of this process, in May 2019 Ofgem confirmed a pass-through arrangement for gas distribution networks in terms of Xoserve costs for the RIIO-2 period.

Given the positioning and timing of the RIIO-2 process the energy market outlook remains very uncertain and dynamic, with Xoserve at the centre of what will be significant customer and market change. The Company's strategic response to this changing outlook is to evolve ahead of the market, embracing automation, digitising the business and opening up its data, moving its infrastructure to the cloud, protecting the industry against an ever-increasing cyber security threat, and building a next generation Gemini platform fit for the future.

Xoserve Limited

Strategic report for the year ended 31 March 2019 (continued)

Going concern

The Company's business activities and funding arrangements, together with the factors likely to affect its future development and position are set out within the Strategic 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 Company incurred a profit for the year after restructuring costs and has net current liabilities as at 31 March 2019. Therefore the Company has prepared a profit and cash flow forecast for the period ending 31 March 2021 that demonstrates that the Company will be able to operate within its current available funds (cash at bank and current asset investments) for at least the twelve months following the date of approval of the financial statements. The cash flow forecast reflects the changes implemented as a result of Xoserve's funding, governance and ownership arrangements.

As previously mentioned, Ofgem's recent decision in May 2019 to confirm a pass-through arrangement for Xoserve funding for the RIIO-2 period post March 2021 for Gas Transporters will serve to reduce the Company's going concern risk.

Therefore the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Approved by the Board and signed on its behalf by:



S Edwards
Director

Date 25.07.19

Xoserve Limited

Directors' report for the year ended 31 March 2019

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

Future Developments

Details of future developments have been included within the Strategic Report on page 6.

Dividends

Dividends were not paid during the year or the previous year. Changes to the Company's funding model have resulted in restrictions on the Company's ability to distribute dividends in the future.

Financial risk management

The Company continued to actively manage any exposure to credit risk through a Credit Review Panel (an internal committee) and managed other financial risks via its contracting arrangements.

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. Because of these arrangements the Company's exposure to price risk is not considered to be material.

Liquidity risk

The Company invests surplus funds in AAA rated Money Market Funds which are repayable on demand. It also has an agreed overdraft facility with its bankers.

Credit risk

During the year the Company followed its credit policy and associated rules 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 required the active monitoring of its current and future contractual exposures to its customers against an approved framework in accordance with the Company's governance structure.

Day to day operation of the policy was overseen by the Credit Review Panel reporting to the Executive Committee, and overseen by the DSC Credit Committee consisting of industry representatives. As at the year end, potential bad debts were identified by the Company and provision for such was made within the financial statements as appropriate.

Existing DSC arrangements transfers a large part of the Company's credit risk to DSC customers, leading to a consistent on time customer payment performance above 97% each month.

Xoserve Limited

Directors' report for the year ended 31 March 2019 (continued)

Financial risk management (continued)

Cash flow risk

The Company continued to earn a significant proportion of its revenue stream through its contracts with the gas networks and Shippers (2018/19: 93%, 2017/18: 93%). A schedule of monthly charges was 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.

Directors

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

Y Cohen
N Durlacher (resigned 31 December 2018)
S Edwards
M Hogg
C McClay (appointed 22 November 2018)
N Pitts (resigned 31 October 2018)
A Quail
D Sedgwick
C Rees
N Shaw
C Spottiswoode (appointed 1 January 2019)

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 himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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.

Approved by the Board and signed on its behalf by


S Edwards
Director

Date 25.07.19

Xoserve Limited

Directors' responsibilities report for the year ended 31 March 2019

The Directors are responsible for preparing the Strategic Report, 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, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Xoserve Limited

Independent auditor's report

Opinion

We have audited the financial statements of Xoserve Limited ("the Company") for the year ended 31 March 2019, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related Notes to the Financial Statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of the Company's profit for the year then ended;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Xoserve Limited

Independent auditor's report (*continued*)

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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 Company 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Xoserve Limited

Independent auditor's report (*continued*)

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Y/O LLP

Thomas Lawton (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

Birmingham

United Kingdom

Date *12 July 2019*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Xoserve Limited

Statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Turnover	3	69,798	74,766
Administrative expenses (including restructuring costs of £788,000 (2018 - £5,242,000))		(69,798)	(77,993)
Operating profit/(loss)	4	-	(3,227)
Interest receivable and similar income	7	138	68
Interest payable and similar expenses	7	(3)	-
Profit/(loss) on ordinary activities before taxation		135	(3,159)
Tax on profit on ordinary activities	8	-	27
Profit/(loss) for the financial year		135	(3,132)
Other comprehensive income for the year (net of tax)		-	-
Total comprehensive profit/(loss) for the year		135	(3,132)

All amounts relate to continuing activities.

There are no material differences between the profit (prior year: loss) on ordinary activities before taxation and the retained profit (prior year: loss) for the financial years stated above and their historical cost equivalents.

The notes on pages 18 to 35 form part of these financial statements.

Xoserve Limited

Statement of financial position at 31 March 2019

Company number 05046877	Note	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Fixed assets					
Intangible assets	10		50,348		61,869
Tangible assets	11		4,606		4,160
			54,954		66,029
Current assets					
Debtors (including £316,000 (2018 - £254,000) due after one year)	12	6,364		9,028	
Current asset investments	13	20,252		21,085	
Cash at bank and in hand		732		312	
		27,348		30,425	
Creditors: amounts falling due within one year	14	(38,101)		(41,277)	
Net current liabilities			(10,753)		(10,852)
Total assets less current liabilities			44,201		55,177
Creditors: amounts falling due after more than one year	15		(40,673)		(51,556)
Provision for liabilities	16		(1,840)		(2,068)
Net assets			1,688		1,553
Capital and reserves					
Called up share capital	18		1		1
Profit and loss account			1,687		1,552
Total equity			1,688		1,553

The financial statements were approved by the Board of Directors and authorised for issue on 25 July 2019.


S Edwards
Director

The notes on pages 18 to 35 form part of these financial statements.

Xoserve Limited

Statement of changes in equity for the year ended 31 March 2019

	Called up Share Capital £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 2017	1	4,684	4,685
Loss for the year	-	(3,132)	(3,132)
Balance at 31 March 2018	1	1,552	1,553
Balance at 1 April 2018	1	1,552	1,553
Profit for the year	-	135	135
Balance at 31 March 2019	1	1,687	1,688

The notes on pages 18 to 35 form part of these financial statements.

Xoserve Limited

Statement of cash flows for the year ended 31 March 2019

	2019 £'000	2018 £'000
<i>Cash flows from operating activities</i>		
Profit/(loss) for the financial year	135	(3,132)
Adjustments for:		
Tax on profit on ordinary activities	-	(27)
Interest receivable and similar income	(138)	(68)
Interest payable and similar income	3	-
Depreciation of tangible fixed assets	635	558
Amortisation of intangible fixed assets	14,821	13,296
Decrease in debtors	2,664	5,536
Decrease in creditors	(11,390)	(2,713)
Increase/(decrease) in provisions for liabilities and charges	(228)	1,422
Share-based payments	-	-
	<hr/>	<hr/>
Cash from operations	6,502	14,872
Interest paid	(3)	-
Taxation paid	-	-
	<hr/>	<hr/>
<i>Net cash generated from operating activities</i>	6,499	14,872
	<hr/>	<hr/>
<i>Cash flows from investing activities</i>		
Purchases of fixed assets	(7,289)	(8,401)
Interest received	138	68
	<hr/>	<hr/>
<i>Net cash from investing activities</i>	(7,151)	(8,333)
	<hr/>	<hr/>
<i>Cash flows from financing activities</i>		
Net capital movement of finance leases	239	-
	<hr/>	<hr/>
<i>Net cash from financing activities</i>	239	-
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	(413)	6,539
Cash and cash equivalents at beginning of year	21,397	14,858
	<hr/>	<hr/>
Cash and cash equivalents at end of year	20,984	21,397
	<hr/>	<hr/>
Cash and cash equivalents comprise:		
Cash at bank and in hand	732	312
Current asset investment	20,252	21,085
	<hr/>	<hr/>
	20,984	21,397
	<hr/>	<hr/>

The notes on page 18 to 35 form part of these financial statements.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019

1 Accounting policies

Xoserve Limited provides transactional billing and other services on behalf of the largest gas network operators and also provides gas transportation related reporting and other services to gas shippers and others. The Company sets its charges to customers in order to recover all costs incurred with an appropriate margin. The margin is set at a level that ensures that the Company should maintain an adequate level of working capital during the year.

The Company is a private limited Company limited by shares and is incorporated and domiciled in England. The address of its registered office during the year was Lansdowne Gate, 65 New Road, Solihull, B91 BDL

The financial statements of Xoserve Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The following principal accounting policies have been applied:

Basis of preparation

These financial statements have been prepared on the going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out within the Strategic 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 Company incurred a profit for the year after restructuring costs and has net current liabilities as at 31 March 2019. The Company has prepared a profit and cash flow forecast for the period ending 31 March 2020 that shows the Company will be able to operate within its current available funds (cash at bank and current asset investments) for at least twelve months following the date of approval of the financial statements. The forecast reflects the changes implemented as a result of Ofgem's review of Xoserve's funding, governance and ownership.

Therefore the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Turnover

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

The Company receives contributions from customers to fund its expenditure for the development of Fixed Assets. These contributions are credited to a deferral account within creditors (within accruals and deferred income) and are then released as turnover evenly over the useful life of the relevant asset.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

1 Accounting policies (continued)

Employee benefits

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution plans

1. Annual bonus arrangements

The Company operates an annual bonus scheme for employees based on performance. An expense is recognised in the profit and loss account when the Company has a legal or constructive obligation to make payments under the scheme as a result of past events and a reliable estimate of the obligation can be made.

2. Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the benefit is accrued.

3. Pensions

The substantial majority of the Company's employees are members of the defined benefit section of The National Grid UK Pension Scheme or are members of a defined contribution pension plan. Xoserve membership of the defined contribution pension plan operated by the National Grid YouPlan Trust ceased during the year and members had the opportunity to transfer to the MyXoserve pension plan (a Master Trust pension plan operated by Standard Life). 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 subsidiary undertaking of the Company's former parent undertaking, National Grid plc (see note 9).

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

1. Current tax

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.

2. Deferred tax

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.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (*continued*)

1 Accounting policies (*continued*)

Intangible assets

Intangible fixed assets are included in the statement of financial position at their historical purchase cost less accumulated amortisation. Additions represent the purchase or construction of new assets, and extensions to, or significant increases in the capacity of, intangible fixed assets. Cost includes internal costs incurred which are directly attributable to the construction of intangible fixed assets where it is probable that the expected future economic benefits that are attributable to the asset created will flow to the Company and the cost or value of the asset can be measured reliably.

In making this assessment on a particular intangible fixed asset the Company considers things such as the technical feasibility of the development project for the asset, the likelihood of the asset being created being used, how the asset will generate future economic benefits, the availability of resources to complete the asset and realise value and the ability of the Company to reliably measure the expenditure incurred on the asset.

Intangible fixed assets are amortised, principally on a straight line basis, at a rate estimated to write off their book value over their useful economic lives assuming no residual value. 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 amortisation periods for the principal categories of intangible fixed assets are as follows:

Software and licences	- 2 – 5 years
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No amortisation 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 amortised at the appropriate rate.

Tangible assets

Tangible fixed assets are included in the statement of financial position at their historical purchase cost less accumulated depreciation. Additions represent the purchase or construction of new assets, and extensions to, or significant increases in the capacity of, tangible fixed assets. Cost includes internal costs incurred which are directly attributable to the construction of tangible fixed assets where it is probable that the expected future economic benefits that are attributable to the asset created will flow to the Company and the cost or value of the asset can be measured reliably.

In making this assessment on a particular tangible fixed asset the Company considers things such as the technical feasibility of the development project for the asset, the likelihood of the asset being created being used, how the asset will generate future economic benefits, the availability of resources to complete the asset and realise value and the ability of the Company to reliably measure the expenditure incurred on the asset.

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 assuming no residual value. 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:

Office equipment, fixtures and fitting	- 2 – 11 years
Dilapidations provision	- Over the life of the lease

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.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

1 Accounting policies (continued)

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to profit or loss over the shorter of estimated useful economic life and the term of the lease.

Finance lease payments are analysed between capital and interest components so that the interest element of the payment is charged to profit or loss over the term of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to profit or loss on a straight line basis over the term of the lease.

On transition to FRS 102, the group took advantage of the optional transition exemption available which allowed lease incentives on leases entered into before the date of transition to the standard (1 January 2014) to continue to be charged over the shorter period to the first market rent review rather than the term of lease.

For leases entered into on or after 1 January 2014, reverse premiums and similar incentives received to enter into operating lease agreements are released to profit or loss over the term of the lease.

Where the Company has a legal obligation, a dilapidations provision is created on inception of a lease. These provisions are a best estimate of the cost required to return leased properties to their original condition upon termination of the lease. Where the obligation arises from 'wear and tear', the provision is accrued as the 'wear and tear' occurs.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within current liabilities.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount.

Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable, bank overdrafts or deposits with financial institutions.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (*continued*)

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

Defined benefit pension scheme

Certain employees participate in a defined benefit pension scheme with companies in the National Grid group (the Company's former parent undertaking). There is no contractual arrangement or stated policy for charging to individual group companies the net defined benefit cost of the scheme as a whole. National Grid have confirmed that current arrangements between parties mean that the Company has no current legal obligation to contribute towards any of the Section B deficit identified in March 2017 as there are mechanisms in place to recover these costs directly. This position will be reviewed at each Actuarial Valuation. The latest funding valuation for March 2019 is in progress, with these conditions not expected to change. Should the Company be specifically included on the Schedule of Contributions following a future valuation then the Company would be formally notified by National Grid and past liabilities would need to be identified and a commensurate proportion of the deficit assigned to the Company. For these reasons the Directors consider that it is appropriate that the Company accounts for the scheme as a defined contribution scheme and recognises a cost equal to their contribution payable for the period (see note 9).

Valuation of assets in the course of construction

The Company estimates accruals due relating to the value of assets in the course of construction by considering the degree of completion in respect of significant contracts within the project which are still to be invoiced. Employee costs are capitalised within internally developed assets by an allocation of time recorded by employees on activities that can be directly attributed to the construction of the asset. Employee costs incurred on project management activities within a project are apportioned between capital and operating expenditure in proportion to the allocation of costs for the activities being managed.

Contributions to capital expenditure

Contributions received from customers towards the construction of Fixed Assets are recognised as turnover within the Statement of Comprehensive Income evenly across the asset's useful life.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of intangible fixed assets

The annual amortisation charge for internally developed software within intangible fixed assets is sensitive to changes in the estimated useful lives of the assets which are re-assessed annually. They are amended when necessary to reflect current estimates based on economic utilisation and future investment plans for replacement or upgrade. See note 10 for the carrying amount of software and licences and note 1 for amortisation periods.

Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful lives of the assets which are re-assessed annually. They are amended when necessary to reflect current estimates based on economic utilisation and future investment plans for replacement or upgrade. See note 11 for the carrying amount of tangible fixed assets and note 1 for depreciation periods.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

2 Critical accounting estimates and judgements (continued)

Provisions

Provision is made for dilapidation obligations, onerous contracts and tax liabilities. These provisions require management's best estimate of the cost and whether it will be incurred based on legislative and contractual requirements and the timing of cash flows. See note 16 for detail of the amounts provided for each of these items.

Impairment of debtors

The Company has a good history of collecting debts due and only makes provision for the impairment of debtors in specific circumstances where all options available to the Company have been exhausted and the debt is not considered to be recoverable. See note 12 for the net carrying amount of debtors and associated impairment provision.

Taxation

The directors consider that the accounting policy noted in section 1 above in relation to the deferral and subsequent release to turnover of customers' contributions to capital expenditure has not had any impact on the taxation position of the Company on the basis that the tax computations prepared are appropriate in the treatment of contributions received from customers to support the purchase of certain tangible and intangible assets as being capital contributions for tax purposes. In forming their views on this matter the directors have taken detailed formal advice from the tax adviser to the Company. It is noted that the 2019 tax computation has not yet been submitted to, and is therefore subject to review by HMRC.

3 Turnover

	2019 £'000	2018 £'000
<i>Analysis by customer group</i>		
External customers	24,303	11,100
Related undertakings (including contributions to capital expenditure)	45,495	63,666
	<u>69,798</u>	<u>74,766</u>
<i>Analysis by service type</i>		
General services	50,101	56,436
Other contracted services	4,663	4,486
Contributions to capital expenditure	15,034	13,844
	<u>69,798</u>	<u>74,766</u>

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 forming part of the financial statements for the year ended 31 March 2019 (continued)

4 Operating profit/(loss)

	2019 £'000	2018 £'000
This is arrived at after charging/(crediting):		
Amortisation of intangible fixed assets	14,515	13,296
Depreciation of tangible fixed assets – owned assets	595	558
Depreciation of tangible fixed assets – under finance lease and hire purchase contracts	40	-
Impairment of trade debtors	36	-
Employee costs capitalised	(367)	(1,752)
Operating lease charges	1,099	498
Restructuring costs	788	5,242
Dilapidations provisions	(224)	617
Commercial provisions	(685)	805
	<u> </u>	<u> </u>

Exceptional costs related to restructuring costs include salaries and pensions costs of £736,000 (2018 - £5,073,000) and other professional and advisory fees of £52,000 (2018 - £169,000).

	2019 £'000	2018 £'000
Fees payable for services provided by the current Company's auditors:		
Statutory audit of the Company's financial statements	36	28
Taxation services	-	5
	<u> </u>	<u> </u>

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

5 Employees

	2019 £'000	2018 £'000
Staff costs (including directors) consist of:		
Wages and salaries (including bonuses)	15,319	15,113
Social security costs	1,677	1,765
Defined benefit pension costs (see note 9)	2,575	2,844
Defined contribution pension costs (see note 9)	864	1,218
Agency costs	4,922	4,082
Restructuring costs (see note 4)	736	5,073
	<u>26,093</u>	<u>30,095</u>

The average number of employees (including directors) during the year was as follows:

	2019 Number	2018 Number
Employees	349	349
Agency	46	45
	<u>395</u>	<u>394</u>

Key management compensation

Key management includes the members of the Xoserve executive team. The compensation paid or payable to key management for employee services is shown below:

	2019 £'000	2018 £'000
Salaries and other short term benefits	1,182	1,218
Other pension costs	176	162
	<u>1,358</u>	<u>1,380</u>

6 Directors' remuneration

	2019 £'000	2018 £'000
Directors' emoluments	203	187

Of the 11 (2018 - 10) Directors who served during the year, 4 (2018 - 4) waived their right to remuneration.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (*continued*)

7 Interest receivable and similar income

	2019 £'000	2018 £'000
Dividend receivable from current asset investment	138	68

Interest payable and similar expenses

	2019 £'000	2018 £'000
Finance leases and hire purchase contracts	3	-

8 Tax on profit on ordinary activities

	2019 £'000	2018 £'000
<i>Current tax</i>		
UK corporation tax	-	-
Adjustments in respect of previous years	-	(27)
Total current tax	-	(27)
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	-
Adjustments in respect of previous periods	-	-
Total deferred tax	-	-
Tax (credit) on profit on ordinary activities	-	(27)

The deferred tax (credit)/charge includes a credit of £nil (2018 - £nil).

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

8 Tax on profit on ordinary activities (continued)

Factors affecting future tax charges

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred tax balances have been calculated at this rate.

The tax assessed for the year is lower (2018 - lower) than the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019 £'000	2018 £'000
Profit/(loss) on ordinary activities before taxation	135	(3,159)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	25	(600)
Effect of:		
Fixed asset differences	43	30
Expenses not deductible for tax purposes	1	345
Non-taxable income	(98)	(1,226)
Adjustments in respect of prior periods	-	(27)
Deferred tax not recognised	(14)	-
Rate changes	43	1,451
Total tax (credit) for the year	-	(27)

9 Pensions

The Company operates a number of pension schemes for its employees.

Defined benefit scheme

The Company has certain employees who participate in a defined benefit pension scheme with companies in the National Grid group (the Company's former parent undertaking). There is no contractual arrangement or stated policy for charging to individual companies the net defined benefit cost of the scheme as a whole. The scheme administrator has confirmed that whilst it would be possible to calculate the liabilities relating to the Company it is not possible to allocate the assets specifically to the Company. National Grid have confirmed that current arrangements between parties mean that the Company has no current legal obligation to contribute towards any of the Section B deficit identified in March 2017 as there are mechanisms in place to recover these costs directly. This position will be reviewed at each Actuarial Valuation. The latest funding valuation for March 2019 is in progress, with these conditions not expected to change. Should the Company be specifically included on the Schedule of Contributions following a future valuation then Company would be formally notified by National Grid and past liabilities would need to be identified and a commensurate proportion of the deficit assigned to the Company. Therefore the net defined benefit cost is recognised in the individual company financial statements of the company that is legally the sponsoring employer of the scheme. The other companies in their individual financial statements recognise a cost equal to their contribution payable for the period and Xoserve accounts for its pension arrangements in this way. For these reasons the Directors consider it is appropriate that the Company accounts for the scheme as a defined contribution scheme and recognises a cost equal to their contribution payable for the period.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

9 Pensions (continued)

Defined benefit scheme (continued)

The defined benefit arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by a trustee Company with a board consisting of Company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with National Grid, the qualified actuary certifies the 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. The last full actuarial valuation was carried out as at 31 March 2017.

The last full actuarial valuation was carried out by Willis Towers Watson as at 31 March 2017. The market value of the Scheme's assets was £5,849m and the value of the assets represented approximately 97% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2017 on an ongoing basis and allowing for projected increases in pensionable earnings. This valuation showed the scheme had a funding deficit of £208m. This deficit is being fully funded by National Grid Gas plc with no obligation for Xoserve to make any contributions. This arrangement will continue at least until the next full actuarial valuation which is due to be carried out as at March 2019.

Following the 2017 actuarial valuation, the employers contribute 51.4% of pensionable salary less member contributions, in respect of ongoing service. In addition National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund Levy.

The amount recognised as an expense for the defined benefit scheme was:

	2019 £'000	2018 £'000
Current period contributions	2,575	2,844

Defined contribution scheme

Following the closure of the defined benefit schemes to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2019 £'000	2018 £'000
Current period contributions	864	1,218

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

10 Intangible assets

	Assets in the course of construction £'000	Software and licences £'000	Total £'000
<i>Cost</i>			
At 1 April 2018	811	85,081	85,892
Additions	1,320	2,980	4,300
Reclassifications	(1,482)	1,482	-
Disposals	-	(1,306)	(1,306)
At 31 March 2019	649	88,237	88,886
<i>Amortisation</i>			
At April 2018	-	24,023	24,023
Charge for the year	-	14,821	14,821
Disposals	-	(306)	(306)
At 31 March 2019	-	38,538	38,538
<i>Net book value</i>			
At 31 March 2019	649	49,699	50,348
At 31 March 2018	811	61,058	61,869

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 "Software" when the assets are commissioned for use.

Included within creditors (amounts falling due within one year) are contributions to the cost of intangible fixed assets amounting to £15,018,000 (2018 - £14,847,000).

Included within creditors (amounts falling due after more than one year) are contributions to the cost of intangible fixed assets amounting to £37,212,000 (2018 - £47,695,000).

The contributions to the cost of intangible fixed assets noted above are released to turnover evenly over the useful life of the corresponding asset, in line with amortisation.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

11 Tangible assets

	Computer hardware £'000	Leasehold improvements, fixtures and fittings £'000	Total £'000
<i>Cost</i>			
At 1 April 2018	-	7,318	7,318
Additions	286	795	1,081
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2019	286	8,113	8,399
	<hr/>	<hr/>	<hr/>
<i>Amortisation</i>			
At April 2018	-	3,158	3,158
Charge for the year	40	595	635
Disposals	-	-	-
	<hr/>	<hr/>	<hr/>
At 31 March 2019	40	3,753	3,793
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 31 March 2019	246	4,360	4,606
	<hr/>	<hr/>	<hr/>
At 31 March 2018	-	4,160	4,160
	<hr/>	<hr/>	<hr/>

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) are contributions to the cost of tangible fixed assets amounting to £592,000 (2018 - £473,000).

Included within creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £3,316,000 (2018 - £3,664,000).

The contributions to the cost of tangible fixed assets noted above are released to turnover evenly over the useful life of the corresponding asset, in line with depreciation.

The net book value of tangible fixed assets includes an amount of £239,000 (2018 - £nil) in respect of assets held under finance leases and hire purchase contracts.

The provision for dilapidation in respect of the current occupied property is included within the net book value of tangible fixed assets within leasehold improvements, fixtures and fittings and is being depreciated over the lease term. Its current net book value is £681,000 (2018 - £nil). Depreciation of £112,000 (2018 - £nil) was recognised through the statement of comprehensive income in the year.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 *(continued)*

12 Debtors

	2019 £'000	2018 £'000
Trade debtors	2,562	2,098
Amounts owed by related undertakings (see note 21)	2,293	4,460
Corporation tax receivable	396	393
Other debtors	11	17
Prepayments and accrued income	1,102	2,060
	<u>6,364</u>	<u>9,028</u>

Prepayments and accrued income include £316,000 (2018 - £253,000) falling due after more than one year.

Trade debtors are stated after provisions for impairment of £41,000 (2018 - £4,000).

13 Current asset investments

	2019 £'000	2018 £'000
Money Fund Account	20,252	21,085

The Company invests its surplus cash balances in a short-term liquidity money fund account which is payable on demand.

14 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	4,570	965
Amounts owed to related undertakings (see note 21)	8,003	7,853
Other taxation and social security payable	697	689
Obligations under finance lease and hire purchase contracts	94	-
Other creditors	2,225	3,300
Accruals and deferred income	22,512	28,470
	<u>38,101</u>	<u>41,277</u>

The bank overdraft facility is unsecured.

Accruals and deferred income includes deferred contributions to capital expenditure of £15,610,000 (2018 - £15,320,000).

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

15 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Obligations under finance lease and hire purchase contracts	145	-
Accruals and deferred income	40,528	51,556
	<u>40,673</u>	<u>51,556</u>

Accruals and deferred income includes deferred contributions to capital expenditure of £40,528,000 (2018 - £51,360,000).

The maturity of sources of debt finance are as follows:

	Finance leases	
	2019 £'000	2018 £'000
In one year or less, or on demand	94	-
In more than one year but not more than two years	96	-
In more than two years but not more than five years	49	-
	<u>239</u>	<u>-</u>

16 Provisions for liabilities

	Other provisions £'000	Deferred tax provision £'000	Total £'000
1 April 2018	2,068	-	2,068
Credited to profit and loss account	(909)	-	(909)
Capitalised in fixed assets	681	-	681
	<u>1,840</u>	<u>-</u>	<u>1,840</u>
31 March 2019	1,840	-	1,840

Other provisions

The Company subleases its business premises from National Grid Property Limited, a former fellow subsidiary of National Grid plc. The lease for the Company's former business premises expired in July 2016 at which time the Company became liable for a share of the dilapidations costs. Final settlement was formally agreed between National Grid Property Limited and the ultimate landlord in April 2019 and so the Company expects to utilise this provision in the next year to settle any sub-tenancy liability in respect of these dilapidation costs. In December 2015 the Company started a new lease for a new property which is due to expire in December 2026. A provision has been made for the Company's expected future liability based on an estimate of the costs and expects to utilise this provision after the expiry of the lease.

The Company also identified an onerous contract relating to third party service partner changes in the prior year, with formal settlement now agreed in June 2019. Provision has been made for the Company's liability in relation to this full and final settlement of the contract.

No separate analysis is shown for each of the provisions being carried due to commercial sensitivity.

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

16 Provisions for liabilities (continued)

Deferred tax provision

	2019 £'000	2018 £'000
Accelerated capital allowances	-	-
Share based payments	-	-
Tax losses	-	-
Other short term timing differences	-	-
	<hr/>	<hr/>
Deferred tax liability	-	-
	<hr/>	<hr/>
	2019 £'000	2018 £'000
Deferred tax liability/(asset) at 1 April	-	-
Charged to profit and loss account	-	-
Credited to reserves	-	-
	<hr/>	<hr/>
Deferred tax liability	-	-
	<hr/>	<hr/>

A deferred tax asset totalling £1,387,000 (2018: £11,331,000) has not been recognised as the future recovery is uncertain. Trading losses are available to carry forward indefinitely.

17 Financial instruments

The Company has the following financial instruments:

	2019 £'000	2018 £'000
Financial assets that are debt instruments measured at amortised cost:		
Trade debtors (note 12)	2,562	2,098
Amounts owed by related undertakings (note 12)	2,293	4,460
Other debtors (note 12)	11	17
Cash at bank and in hand	732	312
Current asset investments (note 13)	20,252	21,085
	<hr/>	<hr/>
	25,850	27,972
	<hr/>	<hr/>
Financial liabilities measured at amortised cost:		
Trade creditors (note 14)	4,570	965
Amounts owed to related undertakings (note 14)	8,003	7,853
Obligations under finance lease and hire purchase contracts	239	-
	<hr/>	<hr/>
	12,812	8,818
	<hr/>	<hr/>

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

18 Share capital

	2019 £	2018 £
<i>Allotted, called up and fully paid</i>		
100,000 ordinary shares of £0.01 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>

The Articles of Association (as amended from 1 April 2017) provide that if a Network Operator of a given Network Area ceases to hold a Gas Transportation Licence in respect of that Network Area, or part of the Network Area, then all ordinary shares held by that Network Operator in relation to that Network Area (or if relevant part of Network Area) will convert to deferred shares. All ordinary shares held by a Network Operator in relation to the Network Areas operated by that Network Operator will also convert into deferred shares if an insolvency event occurs in relation to the Network Operator and the Board elects to convert the shares.

19 Capital and other commitments

	2019 £'000	2018 £'000
Contracts placed for future capital expenditure not provided for in the financial statements	362	1,992
	<u>362</u>	<u>1,992</u>

20 Financial commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2019 £'000	2018 £'000
Not later than one year	941	914
Later than one year and not later than five years	3,271	4,008
Later than five years	2,381	3,592
	<u>6,593</u>	<u>8,514</u>

Xoserve Limited

Notes forming part of the financial statements for the year ended 31 March 2019 (continued)

21 Related party transactions

Transactions and balances with related parties:

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

	Sales and contributions received		Amounts owed by related parties	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
National Grid Gas plc	18,015	15,792	528	1,530
Cadent Gas Limited	11,997	19,381	1,206	1,685
Southern Gas Networks plc	5,220	6,547	-	187
Scotland Gas Networks plc	2,961	2,920	-	277
Northern Gas Networks Limited	3,657	4,050	280	393
Wales & West Utilities Limited	3,644	4,010	279	388

Amounts received from related parties represent charges to related party customers. These amounts include contributions to capital expenditure recoverable and do not reflect the amortisation of those amounts recognised as turnover.

Amounts owed by related parties are unsecured and on normal commercial terms. Related parties provided a number of services to Xoserve during the year, the cost of these were £3,477,000 (2018 - £3,659,000).

Amounts owed to related parties of £8,003,000 (2018 - £7,853,000) are unsecured and on normal commercial terms. Amounts owed include £3,087,000 of deferred income (2018: £4,320,000).

22 Ultimate parent company and controlling party

No entity has a controlling interest in the Company.