

## Northern Gas Networks Holdings Limited

Annual Report and accounts  
for the year ended 31 March 2019

Registered number: 05213525



## Strategic report

For the year ended 31 March 2019

The directors present their Annual Report on the affairs of Northern Gas Networks Holdings Limited ("the group"), together with the accounts and auditor's report, for the year ended 31 March 2019. The accounts are presented under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

### Review of the business

The group's purpose is to provide safe and secure gas supplies to the people and the businesses within the distribution network, being the North of England. The group's vision of success is to be consistently viewed by the regulators, Ofgem and the Health and Safety Executive ("HSE") as being market leading in safety management, efficiency and customer service, which in turn will generate value to the shareholders of the group.

### Financial and operational review

Group operating profit for the year is £185.8m (2018 - £183.4m) with revenue decreasing by £1.4m based on Ofgem allowances, and cost reductions of £3.8m despite a depreciation and amortisation increase of £3.8m due to cost efficiency management.

The group generated a net cash inflow from operating activities for the year of £272.6m (2018 - £260.7m). At the end of the year, the group's undrawn borrowing facilities available for use amounted to £160.0m (2018 - £115.0m). The group has debt at the 31 March 2019 of £1,892.3m (2018 - £1,729.5m) as follows:

- bank loans due within one year of £nil (2018 - £44.7m) which carry interest at LIBOR plus a margin of 0.4%;
- bonds of £200.0m (2018 - £199.7m) which carry interest of 5.875% and are repayable in 2019;
- bonds of £196.8m (2018 - £196.6m) which carry interest of 5.625% and are repayable in 2040;
- bonds of £681.3m (2018 - £679.0m) which carry interest of 4.875%, £314.0m of which is repayable in 2027 and £367.2m in 2035;
- bank loans of £387.6m (2018 - £389.5m) carrying interest at 3 month LIBOR plus a margin which varies by facility as detailed in note 14 to the accounts, £25.0m of which is repayable in 2023, £185.0m in 2024, £30.0m in 2027, £80.0m in 2028, £40.0m in 2029 and £27.6m in 2034;
- a bank loan of £40.0m (2018 - £40.0m) which carries interest of 3.446% and is repayable in 2024;
- shareholder loans of £180.0m (2018 - £180.0m) which carry interest of 10.0% and are repayable in 2033;
- a US Private Placement loan (USPP) of £51.3m (2018 - £nil) which carries interest of 2.84% and is repayable in 2029; and
- a USPP of £155.3m (2018 - £nil) which carries interest of 2.97% and is repayable in 2031.

The increase in debt of £162.8m is primarily due to the raising of £200.0m of USPP debt which, along with the post balance sheet raising of an additional £100m of USPP debt, funds the repayment of the 2019 bond in July 2019. This debt structure has given rise to net interest payable and similar charges of £67.3m in the year (2018 - £65.6m), which is managed through the use of interest rate swaps (see 'interest rate risk' section on page 5). The resulting 'debt:RAV' ratio is 64.1% at 31 March 2019 (2018 - 64.9%) well within the internal 70% target.

The tax charge for the year was £23.5m (2018 - £25.3m) which represents an effective tax rate of 19% (2018 - 21%).

## Strategic report (continued)

Capital additions ("Capex") for the year was £166.3m (2018 - £154.4m) principally focused on investment in network assets including replacement expenditure and a new SAP system. The group had net assets of £524.0m at 31 March 2019 (2018 - £515.6m). As shown in notes 9 and 10, computer software with a net book value of £36.0m at 31 March 2018 was reclassified as intangible assets in the year, to enhance the understanding of expenditure following significant software investment in 2018 and 2019 financial years. The net book value of software has grown by £19.4m across 2019, hence the decision to separate the now significant balance.

### *Key performance indicators (KPI's)*

The key financial and non-financial performance indicators used by the Board of Directors in their monitoring of the group, focus on the areas of safety management, efficiency and customer service and include:

	Year ended 31 March 2019	Year ended 31 March 2018
<b>Financial performance (efficiency)</b>		
Operating profit	185.8m	£183.4m
Net cash from operating activities	£272.6m	£260.7m
Dividends paid	£75.5m	£73.4m
External debt less cash / regulatory asset value	64.1%	64.9%
<b>Customer service</b>		
Quarterly customer satisfaction survey scores	9 out of 10	9 out of 10
<b>Safety management</b>		
Number of lost time injuries to employees and contractors	2	0
Reported injuries to members of the general public	0	1

All of the targets for the above KPI's have been achieved.

### *Environment and Safety*

The group recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements and higher standards where possible. The group is committed to the protection of the environment in the region it serves as well as climate change. The group's environmental management systems are certified under ISO 14001 and OHSAS 18001.

Safety performance remains exceptionally strong with no injuries to members of the general public and only 2 lost time injuries to employees and contractors. Despite this the company will always seek to improve safety performance.

### *Customers*

Customer service is central to how the group operates and is a key consideration in all strategic decisions. As shown in the above KPIs the group continues to do well scoring 9 out of 10 with customer surveys.

### **Principal risks and uncertainties**

The group's principal risks and uncertainties are set out below.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### *Regulatory environment, revenue and costs*

The gas industry is subject to legal and regulatory obligations and controls which Northern Gas Networks Limited ("NGN"), as the licensed entity, must comply with. All key commitments made with the current price control are being delivered. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of the group or in the case of misreporting, a fine.

#### *Mitigation*

The group engages with the regulatory authority extensively at all levels of seniority to understand future plans and potential impacts on the business. The business responds to all potential changes which impact on the business and seek to mitigate any adverse impacts. The business has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations. The implications of the next price control, R110-GD2, are being assessed although this does not start until 1 April 2021. The final business plan for R110-GD2 will be submitted to Ofgem in late 2019, with initial indications obtained from Ofgem's discussion documents being discussed with Board representation on a monthly basis.

#### *Health and safety*

There is a risk that an incident within the network leads to injury to an employee, contractor or a member of the general public. Any such incident could have an adverse effect primarily for individuals concerned, but also on the reputation of the group, or lead to potential prosecution or reduced productivity.

#### *Mitigation*

Health and Safety is our priority. The business has an Environment Health & Safety team that ensure compliance with our management safety system and monitor it on a monthly basis with key KPIs.

#### *Network performance (including cyber risk)*

If the network assets were to fail it could result in a loss in supply of gas to customers and associated adverse publicity and an unexpected increase in costs. The biggest cyber risk to NGN is the loss of control over the network.

#### *Mitigation*

The group has a set of policies and procedures that we adhere to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent. The company has comprehensive IT infrastructure governance which covers cyber risk.

#### *Employees*

The success of the group depends to a significant extent on the contribution of its employees and the employees of operational contractors. Fair and effective recruitment, training and employee development are critical to the successful functioning and progression of the business. The ability to adapt in a climate of change is dependent on the appointment and retention of a high calibre, competent, flexible, quality conscious and customer focused workforce all of whom are committed to business success and are given appropriate training.

#### *Mitigation*

The group's succession planning strategies mean that development of existing staff is crucial. The group, as an equal opportunities employer, ensures that no job applicant receives less favourable treatment because of his or her age, colour, disability, ethnic or national origin, gender, marital status or sexuality or is disadvantaged by conditions or

## Strategic report (continued)

requirements which are irrelevant to performance and the group's needs. The company has published its gender pay gap analysis which can be found at: <https://www.northerngasnetworks.co.uk>. The group comply with all UK human rights laws and has processes and procedures to assess risk and ensure compliance in this area, including an employee grievance procedure.

The group also has a fraud policy statement which protects employees from bribery and corruption. No issues have been reported in the year.

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

The group's financial instruments, other than derivatives, comprise borrowings, cash, overdrafts debt and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the group's operations. The group also enters into derivative transactions, principally interest rate swaps. The purpose of such transactions is to manage the interest rate risks arising from the group's sources of finance. The main risks arising from the group's financial instruments are interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### *Interest rate risk*

Interest rate risk is the risk of debt costs being in excess of that expected. The long term approach adopted in minimising interest rate exposures on debt is as follows:

- To have a balanced debt portfolio comprising a mixture of nominal and index-linked debt aiming to achieve a degree of symmetry with the Regulator's broad approach to setting cost of debt allowances and so as to maintain a debt portfolio consistent with those of comparable utility companies; and
- To structure debt maturities and interest rate hedges in such a way as to provide protection against adverse movements in the indexed regulatory cost of debt allowance.

#### *Credit risk*

Credit risk is the risk that a counterparty fails to discharge an obligation to the group. The group is exposed to this risk for various financial instruments including cash deposits and interest rate swaps. The group monitors the credit standing of counterparties to whom it has financial exposures and monitors the size of these exposures against Board-approved limits. If a counterparty's credit standing falls below a certain benchmark and/or exposure to a counterparty rises above a certain level, no new transactions are entered into with that counterparty, economic ways to reduce the exposure are explored.

#### *Liquidity risk*

The maturities of all debt and committed debt facilities other than amortising loans, are managed such that at any one time they all have a time to maturity of more than one year and that at least 50% by value have a time to maturity of more than five years. Debt and facility maturities are staggered to avoid excessive concentrations in any twelve month

## Strategic report (continued)

period as well as the period around regulatory reset dates where possible. Note the group currently has £200m of debt with maturity being less than 1 year, as detailed in the going concern assessment on page 8.

By order of the Board

  
M J Horsley, Director

12 July 2019

## Directors' report

For the year ended 31 March 2019

The directors present their annual report on the affairs of the group, together with the accounts and auditor's report, for the year ended 31 March 2019. The following disclosures have been disclosed in the strategic report but are cross referenced here: principal activities, business review including KPI's, principal risks and uncertainties, and financial risk management objectives and policies.

### Directors

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

A J Hunter	(Chairman)	D N Macrae
M J Horsley	(Chief Executive Officer)	L S Chan
H L Kam		C C Tsai
C T Wan		S D Beer
N D McGee		

### The Board of Directors

The daily operations of the business are managed by a Senior Management Team ("SMT") and the Chief Executive Officer ("CEO"). All significant decisions are referred to the Northern Gas Networks Limited Board of Directors on behalf of the group.

The Board of Northern Gas Networks Holdings Ltd (NGNH) meets at least three times a year. The number of Board meetings held during the year and attendees (including alternates) at the Board meetings are detailed below:

Year ended 31 March 2019		Year ended 31 March 2018	
Date	Attendees	Date	Attendees
18 April 2018	7 out of 9	25 April 2017	4 out of 9
18 July 2018	8 out of 9	26 July 2017	7 out of 9
16 November 2018	8 out of 9	10 November 2017	9 out of 9

The effectiveness of systems and internal controls are reviewed on an ongoing basis by the SMT. The Board is ultimately responsible for the system of internal controls and for the review of their overall effectiveness.

### Dividends

The directors do not recommend payment of a final dividend. Interim dividends of 24.77p per share were paid on 20 June 2018 and of 80.51p per share were paid on 20 December 2018 making a total of 105.28p per share for the year (2018 – 102.35p). See note 8 for details. Declared dividends are in line with the expectations of the Board.

## Directors' report (continued)

### Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Future developments and events after the balance sheet date

The group continues to consider the potential impact of Brexit on its business, through the transition period and beyond. For now, existing laws and trading arrangements are unchanged. Based on the assessment of the latest available information, our principal risk continues to be that there could be a sustained period when the import of certain raw materials could be challenging, which could curtail planned work if inventory levels were depleted. In mitigation, stock levels of critical spares have been elevated as at 31 March 2019.

From 1 April 2013, the current price control (RIIO-GD1) period commenced, which gives the group security over regulated revenue until 31 March 2021. The implications of the next price control, RIIO-GD2, are being assessed although this does not start until April 2021. The directors therefore expect the general level of activity to remain stable. In late June the group raised funds of £100m (US Private Placement). There are no other material post balance sheet events.

### Financial instruments

Financial Instruments have been disclosed within note 15 and associated risks discussed within the strategic report.

### Going concern

The group's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report and above. In addition, note 15 to the accounts includes further details of the group's debt position and details of its derivatives and other financial instruments. The group is able to pay its liabilities as they fall due, due to the reliability of regulated revenue under RIIO-GD1.

The group has significant liquid resources and uses long term debt instruments to mitigate any liquidity risk as detailed in the strategic report. It should be noted that the group had £200m of debt falling due within one year. Following the £200m of USPP loans received in January 2019 together with undrawn borrowing facilities, sufficient funds exist to repay this debt. On 7 July 2019 this debt was repaid. It was agreed by the Board that the treasury policy provision requiring long term debt to be refinanced at least 12 months before its maturity date, could be waived. The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the facilities available to the group, have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. The net current liabilities balance sheet position is supported by revenue generated post year end and reduced by the fore-mentioned refinance of short term debt with long term USPP loans. Accordingly, the going concern basis is adopted in preparing the Annual Report and accounts.



## Directors' report (continued)

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees.

### Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through both formal and informal meetings. Employees are consulted regularly on a wide range of matters affecting their current and future interests. Some employees are eligible to receive an annual bonus related to the overall financial and operational performance of the group.

### Supplier payment policy

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

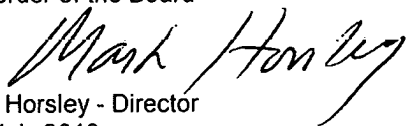
### Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006. The directors will place a resolution before the annual general meeting to reappoint Deloitte LLP as auditor for the ensuing year.

By order of the Board



M J Horsley - Director  
12 July 2019

1100 Century Way  
Thorpe Park Business Park  
Leeds, LS15 8TU  
United Kingdom

## Directors' responsibilities statement

The directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 judgments and accounting 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.

# Independent auditor's report to the members of Northern Gas Networks Holdings Limited

## ***Report on the audit of the financial statements***

### ***Opinion***

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Northern Gas Networks Holdings Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and company balance sheets;
- the consolidated and company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 22.

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).

### ***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 group and the parent 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, 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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 group's or the parent 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.

We have nothing to report in respect of these matters.

### ***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.

## Independent auditor's report to the members of Northern Gas Networks Holdings Limited (continued)

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.

We have nothing to report in respect of these matters.

### ***Responsibilities of directors***

As explained more fully in the directors' responsibilities statement, 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 group's and the parent 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### ***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.

### ***Report on other legal and regulatory requirements***

#### ***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.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

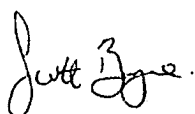
Independent auditor's report to the members of Northern Gas Networks Holdings Limited  
(continued)

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

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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.

We have nothing to report in respect of these matters.



**Scott Bayne FCA (Senior Statutory Auditor)**  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds, United Kingdom  
12 July 2019

# Consolidated profit and loss account

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Turnover</b>	1	409,603	411,048
<b>Cost of sales</b>		(9,534)	(13,019)
<b>Gross profit</b>		400,069	398,029
<b>Other operating expenses</b>	2	(214,314)	(214,661)
<b>Operating profit</b>		185,755	183,368
<b>Finance costs (net)</b>	3	(63,130)	(61,761)
<b>Profit on ordinary activities before taxation</b>	4	122,625	121,607
<b>Tax on profit on ordinary activities</b>	7	(23,505)	(25,329)
<b>Profit for the financial year</b>		99,120	96,278

The above results arise from continuing operations.

Profit for the year is all attributable to the equity shareholders of the company.

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

Consolidated statement of comprehensive income  
For the year ended 31 March 2019

	2019 £'000	2018 £'000
Profit for the financial year	99,120	96,278
Re-measurement of defined benefit asset (note 20)	(14,550)	39,030
(Losses) / gains in respect of cash flow hedges	(9,516)	7,304
Transferred to profit or loss in respect of cash flow hedges	5,617	6,905
Tax relating to components of other comprehensive income	3,136	(9,051)
<b>Comprehensive income relating to the year</b>	<b>83,807</b>	<b>140,466</b>

Comprehensive income for the year is all attributable to the equity shareholders of the company.

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

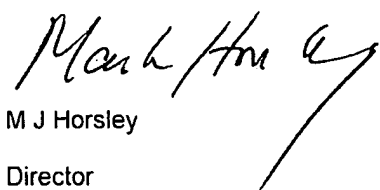
# Consolidated balance sheet

As at 31 March 2019

	Notes	2019 £'000	2018 £'000 (restated)
<b>Fixed assets</b>			
Intangible assets (reclassified)	9	203,989	190,433
Tangible fixed assets (reclassified)	10	2,451,381	2,379,298
Investments	11	104	104
		<u>2,655,474</u>	<u>2,569,835</u>
<b>Current assets</b>			
Stock - raw materials		3,552	2,560
Debtors - amounts falling due within one year	12	143,555	38,824
amounts falling due after one year	12	345,562	337,097
Cash at bank and in hand		21,173	8,124
		<u>513,842</u>	<u>386,605</u>
<b>Creditors: Amounts falling due within one year</b>	13	<u>(345,525)</u>	<u>(155,920)</u>
<b>Net current assets</b>		<u>168,317</u>	<u>230,685</u>
<b>Total assets less current liabilities</b>		<u>2,823,791</u>	<u>2,800,520</u>
<b>Creditors: Amounts falling due after more than one year</b>	14	<u>(1,989,976)</u>	<u>(1,966,810)</u>
<b>Provisions for liabilities</b>	16	<u>(309,858)</u>	<u>(318,110)</u>
<b>Net assets</b>		<u>523,957</u>	<u>515,600</u>
<b>Capital and reserves</b>			
Called-up share capital	17	71,671	71,671
Hedging reserve		(22,629)	(19,392)
Profit and loss account		474,915	463,321
<b>Shareholders' funds</b>		<u>523,957</u>	<u>515,600</u>

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

The accounts of Northern Gas Networks Holdings Limited, Registered number 05213525, were approved by the Board of Directors and authorised for issue on 10 July 2019 and signed on its behalf by:



M J Horsley

Director

12 July 2019



# Company balance sheet

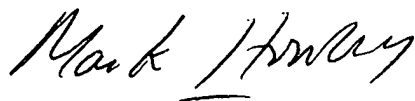
As at 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Investments	11	574,502	574,502
<b>Current assets</b>			
Debtors			
- amounts falling due within one year	12	10,796	7,355
Cash at bank and in hand		1	1
		10,797	7,356
Creditors: Amounts falling due within one year	13	(194)	(173)
<b>Net current assets</b>		10,603	7,183
<b>Total assets less current liabilities</b>		585,105	581,685
Creditors: Amounts falling due after more than one year	14	(180,000)	(180,000)
<b>Net assets</b>		405,105	401,685
<b>Capital and reserves</b>			
Called-up share capital	17	71,671	71,671
Profit and loss account		333,434	330,014
<b>Shareholders' funds</b>		405,105	401,685

The profit for the financial year dealt with in the accounts of the parent company was £78,870,000 (2018 - £76,820,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

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

The accounts of Northern Gas Networks Holdings Limited, Registered number 05213525, were approved by the Board of Directors and authorised for issue on 12 July 2019 and signed on its behalf by:



M J Horsley

Director

12 July 2019

# Consolidated statement of changes in equity

For the year ended 31 March 2019

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
<b>At 31 March 2017</b>	71,671	(31,185)	407,998	448,484
Profit for the financial year	-	-	96,278	96,278
Remeasurement of defined benefit liability	-	-	39,030	39,030
Tax on remeasurement of defined benefit liability	-	-	(6,635)	(6,635)
Cash flow hedges: gains arising during the year	-	14,209	-	14,209
Tax on cash flow hedges movement	-	(2,416)	-	(2,416)
<b>Total comprehensive income</b>	-	11,793	128,673	140,466
Dividends paid on equity shares (note 8)	-	-	(73,350)	(73,350)
<b>At 31 March 2018</b>	71,671	(19,392)	463,321	515,600
Profit for the financial year	-	-	99,120	99,120
Remeasurement of defined benefit liability	-	-	(14,550)	(14,550)
Tax on remeasurement of defined benefit liability	-	-	2,474	2,474
Cash flow hedges: losses arising during the year	-	(3,899)	-	(3,899)
Tax on cash flow hedges movement	-	662	-	662
<b>Total comprehensive income</b>	-	(3,237)	87,044	83,807
Dividends paid on equity shares (note 8)	-	-	(75,450)	(75,450)
<b>At 31 March 2019</b>	71,671	(22,629)	474,915	523,957

Company statement of changes in equity  
For the year ended 31 March 2019

	Called up share capital £'000	Profit and loss account £'000	Total £'000
<b>At 31 March 2017</b>	71,671	326,544	398,215
Profit for the financial year	-	76,820	76,820
<b>Total comprehensive income</b>	-	76,820	76,820
Dividends paid on equity shares	-	(73,350)	(73,350)
<b>At 31 March 2018</b>	71,671	330,014	401,685
Profit for the financial year	-	78,870	78,870
<b>Total comprehensive income</b>	-	78,870	78,870
Dividends paid on equity shares	-	(75,450)	(75,450)
<b>At 31 March 2019</b>	71,671	333,434	405,105

## Consolidated cash flow statement

For the year ended 31 March 2019

	Notes	2019 £'000	2018 £'000
<b>Net cash inflows from operating activities</b>	18	272,645	260,724
<b>Cash flow from investing activities</b>			
Interest received		296	54
Interest paid		(67,784)	(64,778)
Taxation - UK corporation tax paid		(17,172)	(13,426)
Purchase of tangible fixed assets		(162,692)	(152,602)
Sale of tangible fixed assets		721	229
		<u>(246,631)</u>	<u>(230,523)</u>
<b>Cash flow from financing activities</b>			
Dividends paid		(75,450)	(73,350)
Withdrawal of borrowings		(46,843)	43,158
Issue of new borrowings		200,000	-
Expenses on issue of new loans		(672)	(128)
		<u>77,035</u>	<u>(30,320)</u>
Net increase / (decrease) cash and cash equivalents		103,049	(119)
Cash and cash equivalents at beginning of year		8,124	8,243
Cash and cash equivalents at end of year		<u>111,173</u>	<u>8,124</u>

The cash and cash equivalents balance at 31 March 2019 includes loans due from banks of £90.0m (2018 - £nil) as shown below.

	2019 £'000	2018 £'000
Cash at bank and in hand	21,173	8,124
Deposits with banks (see note 12)	90,000	-
	<u>111,173</u>	<u>8,124</u>

The accompanying notes are an integral part of this consolidated cash flow statement.

## Statement of accounting policies

For the year ended 31 March 2019

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of capital expenditure on software which has been reclassified from tangible to intangible fixed assets. As shown in notes 9 and 10, computer software with a net book value of £36.0m at 31 March 2018 was classified as intangible assets in the year to enhance the understanding of expenditure following significant software investment in 2018 and 2019 financial years. The net book value of software has grown by £19.4m across 2019, hence the decision to separate the now significant balance.

### Basis of accounting

Northern Gas Networks Holdings Limited is a company incorporated in the United Kingdom under the Companies Act. The company is a private company limited by shares and is registered in England and Wales. The address of the company is 1100 Century Way, Leeds, LS15 8TU. The accounts have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. Principal activities and nature of operations are shown in the strategic report.

The group accounts consolidate the accounts of the company and its subsidiary undertakings drawn up to 31 March 2019 in accordance with FRS 102. The results of subsidiaries acquired or disposed of are consolidated for the years from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. Where necessary, adjustments are made to the statements of subsidiaries to bring the accounting policies used in line with those used in the group. All intergroup transactions, balances, income and expenses are eliminated on consolidation. The parent company financial statements of the group meets the definition of a qualifying entity under FRS 102 and have therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel. The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the group operates. The consolidated financial statements are also presented in pound sterling.

### Going concern

The group's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report and above. In addition, note 15 and the Directors' report includes further details of the group's debt position and details of its derivatives and other financial instruments. The group is able to pay its liabilities as they fall due, due to the reliability of regulated revenue under RIIO-GD1. The group has significant liquid resources and uses long term debt instruments to mitigate any liquidity risk as detailed in the strategic report. The group continues to consider the potential impact of Brexit on its business, through the transition period and beyond. For now, existing laws and trading arrangements are unchanged. Based on the assessment of the latest available information, our principal risk continues to be that there could be a sustained period when the import of certain raw materials could be challenging, which could curtail planned work if inventory levels were depleted. In mitigation, stock levels of critical spares have been elevated as at 31 March 2019. The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the facilities available to the group, have a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future (as detailed in the strategic report). The net liabilities

## Statement of accounting policies

For the year ended 31 March 2019

position of the group is financeable due to the revenue provided by RIIO-GD1. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

### **Intangible assets – goodwill**

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is estimated to be 40 years in line with the acquired asset base. Provision is made for any impairment.

### **Intangible assets – licence**

The Gas Transporter Licence (licence) has been recognised as a separately identifiable intangible asset, the value of which has been derived from an independent valuation. The licence has been capitalised and written off on a straight line basis over its useful economic life, which is estimated to be 40 years in line with the acquired asset base. Provision is made for any impairment.

### **Intangible assets – computer software**

Costs associated with maintaining computer software are recognised as expenses are incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use of it;
- there is an ability to use the software;
- it can be demonstrated how the software will generate probable future economic benefit;
- adequate technical, financial and other resources to complete the development and to use the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which range from 3 to 10 years. Computer software under construction is not amortised until it is ready for use.

## Statement of accounting policies (continued)

For the year ended 31 March 2019

### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Cost includes internal labour costs and finance costs incurred which are directly attributable to the construction of tangible fixed assets.

Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated economic lives of the assets. No residual value is estimated for assets. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Gas distribution assets	
Gas mains & services	55 to 65 years
Gas storage	40 years
Plant & machinery	10 to 30 years
Replacement expenditure	60 years
Land and buildings	Lesser of lease period and 50 years
Motor vehicles and other equipment	3 to 10 years

### Investments

Fixed asset investments are shown at cost less any provision for impairment. Current asset investments are stated at the lower of cost and net realisable value.

### Replacement expenditure (repex)

Replacement expenditure represents the cost of planned maintenance of the gas mains and services assets by replacing sections of pipe. This expenditure is principally undertaken to maintain the safety of the network and is capitalised.

### Stocks

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete or defective items where appropriate.

### Taxation

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

## Statement of accounting policies (continued)

For the year ended 31 March 2019

### **Taxation (continued)**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the accounts.

Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax is measured on a non-discounted basis.

### **Provisions**

Gas holder decommissioning and restructuring costs are provided for in full and discounted when the impact is considered to be material. Environmental costs are provided for in full, the liability being based on a probability basis. Claims costs are provided for in full and discounted, the unwinding of the discount being included within the profit and loss account as a financing charge.

### **Turnover**

Turnover represents income receivable for the distribution of gas and provision of other services in the normal course of business, net of Value Added Tax. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end. Turnover is recognised in the month the service is provided.



## Statement of accounting policies (continued)

For the year ended 31 March 2019

### Pension costs

The group has obligations for a defined benefit scheme. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments which are included within operating costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total comprehensive income. The defined benefit scheme is funded with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. A resulting defined benefit asset is presented within debtors gross, with the deferred tax shown within provisions. Assets are only recognised when the company has a legal right to cash on windup.

The group also operates defined contribution schemes. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the consolidated balance sheet.

### Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful economic lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful economic lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

## Statement of accounting policies (continued)

For the year ended 31 March 2019

### Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument financial liabilities and equity instruments are classified according to the substance of the *contractual arrangements entered into*. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### *Financial assets and liabilities*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction.

If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

## Statement of accounting policies (continued)

For the year ended 31 March 2019

### Financial instruments (continued)

- a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment. With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

## Statement of accounting policies (continued)

For the year ended 31 March 2019

### **Derivative financial instruments**

The group only holds or issues derivative financial instruments to manage interest rate exposures or commodity price risks in respect of expected gas usage. The principal derivatives used are interest rate swaps. The group does not hold or issue any derivative financial instruments for speculative purposes.

Interest rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest rates associated with the borrowing requirements of the group. The interest rate swaps are accounted for at fair value on the balance sheet with movements in fair value being recognised through either the profit and loss account or cash flow hedge reserve.

The group applies the recognition and measurement principles of IFRS9: Financial Instruments, as applicable within FRS 102.

### *Fair value accounting*

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

### *Hedge accounting*

The Group designates certain derivatives as hedging instruments in cash flow hedges and certain others as hedge instruments in Fair Value hedges. At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents causes for hedge ineffectiveness.

Amounts payable or receivable in respect of the interest rate swaps are recognised within net interest payable in the profit and loss account over the life of the financial instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

## Statement of accounting policies (continued)

For the year ended 31 March 2019

### **Critical accounting judgments and key sources of estimation uncertainty**

In the application of the group's accounting policies, which are described in the statement of accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### *Critical judgements in applying the group's accounting policies*

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the group's accounting policies.

### **Key sources of estimation uncertainty**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### *Fair value of financial instruments*

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available, using an individual trade basis provided by an external reporting system meaning market assumptions are applied by the third party and not by the group.

#### *Pension arrangements*

Note 20 contains information about the principal actuarial assumptions used in the determination of defined benefit pension balance. These key assumptions include discount rates, inflation and mortality rates and have been determined following advice received from an independent qualified actuary.

## Notes to the accounts

For the year ended 31 March 2019

### 1 Turnover

The directors consider that the group has only one class of business. The group's turnover is generated wholly from within the UK, principally being from gas distribution in the North of England.

### 2 Other operating expenses

	2019 £'000	2018 £'000
Distribution costs	160,377	161,943
Administrative expenses	53,937	52,718
	<u>214,314</u>	<u>214,661</u>

### 3 Finance costs (net)

	2019 £'000	2018 £'000
Interest payable and similar charges	67,260	65,649
Less: investment income	(293)	(54)
Other finance income	(3,837)	(3,834)
	<u>63,130</u>	<u>61,761</u>

	2019 £'000	2018 £'000
<i>Interest payable and similar charges</i>		
Shareholder loans	18,000	18,000
Bank loans and overdrafts	3,156	6,135
Bonds	47,897	42,798
	<u>69,053</u>	<u>66,933</u>
Finance costs capitalised	(1,793)	(1,284)
	<u>67,260</u>	<u>65,649</u>

Finance costs have been capitalised based on a cost of debt capitalisation rate of 3.60% (2018 – 3.65%).

# Notes to the accounts (continued)

For the year ended 31 March 2019

## 3 Finance costs (net) (continued)

<i>Investment income</i>	2019 £'000	2018 £'000
Interest receivable and similar income	(293)	(54)
	<u>(293)</u>	<u>(54)</u>
 <i>Other finance (income) / charges</i>	 2019 £'000	 2018 £'000
Fair value movement on financial instruments (see note 15)	(3,251)	(4,125)
Exchange rate differences	109	2
Unwinding of discount on provisions (see note 16)	105	(11)
Net interest on pension scheme (see note 20)	(800)	300
	<u>(3,837)</u>	<u>(3,834)</u>

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging / (crediting):

	2019 £'000	2018 £'000
Depreciation and amounts written off tangible fixed assets (see note 10)		
- owned	71,016	70,858
Amortisation of intangible fixed assets included in administrative expenses (see note 9)	9,320	5,651
Profit on disposal of fixed assets	(438)	(181)
Operating lease rentals - vehicles	1,028	1,103
Operating lease rentals - property	1,421	1,360
	<hr/>	<hr/>

The analysis of auditor's remuneration is as follows:

	2019 £'000	2018 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts and consolidation	30	28
<i>Fees payable to the company's auditor and its associates for other services to the group</i>		
- The audit of the company's subsidiaries	109	107
Total audit fees	<hr/> 139	<hr/> 135
<i>Fees payable to the company's auditor and its associates for other services to the group</i>		
- Audit related assurance services*	69	80
Total non-audit fees	<hr/> 69	<hr/> 80

\* Relate to the audit of regulatory accounts and procedures, covenant compliance checking and provision of guidance for new accounting standards



## Notes to the accounts (continued)

For the year ended 31 March 2019

### 5 Staff costs

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

	2019 Number	2018 Number
Administration	129	144
Operations	1,302	1,326
	<u>1,431</u>	<u>1,470</u>

	2019 £'000	2018 £'000
Their aggregate remuneration comprised:		
Wages and salaries	61,106	57,558
Social security costs	6,592	6,269
Pension costs	6,944	6,962
	<u>74,642</u>	<u>70,789</u>

### 6 Directors' remuneration and transactions

#### Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Emoluments	70	70	886	845
Amounts receivable (other than shares) under long-term incentive schemes	-	-	237	227
	<u>70</u>	<u>70</u>	<u>1,123</u>	<u>1,072</u>

The remuneration of non-executive directors as shown above relates to the independent non-executive directors of the subsidiary company Northern Gas Networks Limited, that are required by that company pursuant to its Public Gas Transportation Licence. Only one executive director is remunerated through the group, with the rest being remunerated by other companies within the ownership group (see note 22). It is not possible to allocate a share of this cost to NGN.

#### Pensions

No directors were members of pension schemes in either the current or prior year.

# Notes to the accounts (continued)

For the year ended 31 March 2019

## 8 Dividends on equity shares

	2019 £'000	2018 £'000
Equity shares		
- interim dividend paid of 24.77p (2018 – 24.07p) per ordinary share	17,750	17,250
- interim dividend paid of 80.51p (2018 – 78.28p) per ordinary share	57,700	56,100
	<u>75,450</u>	<u>73,350</u>

## 9 Intangible assets

	<i>Reclassified Software £'000</i>	<i>Reclassified Software in the course of construction £'000</i>	Licences £'000	Goodwill £'000	Total £'000
<b>Cost</b>					
At 1 April 2018	31,874	19,202	161,200	65,712	277,988
Additions	615	22,261	-	-	22,876
Transfers	1,041	(1,041)	-	-	-
At 31 March 2019	<u>33,530</u>	<u>40,422</u>	<u>161,200</u>	<u>65,712</u>	<u>300,864</u>
<b>Amortisation</b>					
At 1 April 2018	15,037	-	51,720	20,798	87,555
Charge for the year	3,483	-	4,031	1,806	9,320
At 31 March 2019	<u>18,520</u>	<u>-</u>	<u>55,751</u>	<u>22,604</u>	<u>96,875</u>
<b>Net book value</b>					
At 31 March 2019	<u>15,010</u>	<u>40,422</u>	<u>105,449</u>	<u>43,108</u>	<u>203,989</u>
At 31 March 2018	<u>16,837</u>	<u>19,202</u>	<u>109,480</u>	<u>44,914</u>	<u>190,433</u>

Assets in the course of construction are predominantly linked to projects that are associated with the implementation of a new SAP system going live in the second half of 2019.

As shown in notes 9 and 10 computer software with a net book value of £36.0m at 31 March 2018 was reclassified as intangible assets in the year to enhance the understanding of expenditure following significant software investment in 2018 and 2019 financial years. The net book value of software has grown by £19.4m across 2019, hence the decision to separate the now significant value.

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 10 Tangible fixed assets

Group	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Reclassified Other equipment £'000	Reclassified Assets in the course of construction £'000	Total £'000
<b>Cost</b>						
At 1 April 2018	6,751	2,794,325	21,986	106,114	23,963	2,953,139
Additions	-	128,331	376	2,370	12,304	143,381
Disposals	(13)	(438)	(1,406)	(478)	-	(2,335)
Transfers	1,741	10,613	2,394	2,269	(17,017)	-
At 31 March 2019	8,479	2,932,831	23,350	110,275	19,250	3,094,185
<b>Depreciation</b>						
At 1 April 2018	4,309	485,180	9,301	75,051	-	573,841
Charge for the period	896	58,599	3,037	8,484	-	71,016
Disposals	(6)	(283)	(1,290)	(474)	-	(2,053)
At 31 March 2019	5,199	543,496	11,048	83,061	-	642,804
<b>Net book value</b>						
At 31 March 2019	3,280	2,389,335	12,302	27,214	19,250	2,451,381
At 31 March 2018	2,442	2,309,145	12,685	31,063	23,963	2,379,298

Undepreciated land equates to £774,000 (2018 - £774,000). Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £13,755,000 (2018 - £11,962,000).

As shown in notes 9 and 10 computer software with a net book value of £36.0m at 31 March 2018 was reclassified as intangible assets in the year to enhance the understanding of expenditure following significant software investment in 2018 and 2019 financial years. The net book value of software has grown by £19.4m across 2019, hence the decision to separate the now significant value.

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 11 Investments

	Group		Company	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	574,502	574,502
Other investments	104	104	-	-
	<u>104</u>	<u>104</u>	<u>574,502</u>	<u>574,502</u>

#### *All group investments*

The parent company and the group have investments in the following subsidiary undertakings which affected the profits or net assets of the group:

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Northern Gas Networks Limited * ("NGN")	England & Wales	Gas distribution	100 ordinary shares of £1	100
Northern Gas Networks Finance Plc ("NGNF")	England & Wales	Financing	50,000 ordinary shares of £1	100
Northern Gas Networks Operations Limited ("NGNOL")	England & Wales	Gas network operations	2 ordinary shares of £1	100
Northern Gas Networks Pensions Trustee Limited ("NGNPT")	England & Wales	Pension scheme trustee	1 ordinary share of £1	100
Northern Gas Networks General Partner Limited ("NGNGP")	Scotland	Pension Partnership	100 ordinary shares of £1	100
Northern Gas Networks Pension Funding Limited Partnership ("NGNPF")	Scotland	Pension Partnership	n/a	n/a

\* Held directly by Northern Gas Networks Holdings Limited.

All subsidiaries have a registered address of 1100 Century Way, Leeds, LS15 8TU, with the exception of NGNGP and NGNPF whose registered office is 1<sup>st</sup> Floor, City Point, Haymarket Terrace, Edinburgh, EH12 5HD, Scotland.

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

The group also holds 1 ordinary share of £1 in Smart Energy Code Company Limited (registered in England & Wales) which represents a holding of 1.15%.

# Notes to the accounts (continued)

For the year ended 31 March 2019

## 11 Investments (continued)

### *Subsidiary undertakings*

£'000

#### Cost and net book value

At 31 March 2018 and 31 March 2019

574,502

### *Other investments*

#### Cost and net book value

£'000

At 31 March 2018 and 31 March 2019

104

## 12 Debtors

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year:</b>				
Deposits with banks	90,000	-	-	-
Trade debtors	3,354	150	-	-
Amounts owed by parent undertakings	1	1	5,177	5,156
Other debtors	34	36	5,619	2,199
Prepayments and accrued income	39,516	33,783	-	-
Derivative financial assets	10,650	4,854	-	-
	<u>143,555</u>	<u>38,824</u>	<u>10,796</u>	<u>7,355</u>
<b>Amounts falling due after more than one year:</b>				
Defined benefit pension scheme (see note 20)	16,935	26,558	-	-
Derivative financial assets	328,627	310,539	-	-
	<u>345,562</u>	<u>337,097</u>	<u>-</u>	<u>-</u>
	<u>489,117</u>	<u>375,921</u>	<u>10,796</u>	<u>7,355</u>

## Notes to the accounts (continued)

For the year ended 31 March 2019

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

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Bank loans	-	44,666	-	-
Bond due 2019	199,931	-	-	-
Derivative financial liabilities	10,726	63	-	-
Payments received on account	2,473	1,983	-	-
Trade creditors	4,931	4,834	-	-
UK corporation tax	41,183	37,071	-	-
Other taxation and social security	11,779	5,730	-	-
Accruals and deferred income	74,502	61,573	194	173
	<u>345,525</u>	<u>155,920</u>	<u>194</u>	<u>173</u>

The bond due 2019 maturing at £200m was repaid on 7 July 2019 including all outstanding interest charged at 5.875% paid annually. The repayment was funded through the cash and cash equivalents held at 31 March 2019 and through the raising of £100m of USPP debt completed in June 2019.

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

	Group		Company	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Shareholder loans	180,000	180,000	180,000	180,000
Bank loans	427,632	429,474	-	-
Guaranteed bond due 2027	314,038	317,571	-	-
Guaranteed bond due 2035	367,225	361,421	-	-
Bond due 2019	-	199,657	-	-
Bond due 2040	196,766	196,623	-	-
USPP 2029	51,267	-	-	-
USPP 2031	155,333	-	-	-
Deferred income	124,780	113,447	-	-
Derivative financial liabilities	172,935	168,617	-	-
	<u>1,989,976</u>	<u>1,966,810</u>	<u>180,000</u>	<u>180,000</u>

## Notes to the accounts (continued)

For the year ended 31 March 2019

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

The bank loans comprise ten loans as detailed below.

Principal value (£m)	Interest terms	Repayable on
25.0	3 month LIBOR + 0.36%	23 January 2023
100.0	3 month LIBOR + 0.62%	30 March 2024
25.0	3 month LIBOR + 0.55%	24 June 2024
60.0	3 month LIBOR + 0.46%	30 July 2024
40.0	Fixed rate of 3.446%	20 December 2024
30.0	3 month LIBOR + 0.53%	31 March 2027
30.0	3 month LIBOR + 0.63%	29 February 2028
50.0	3 month LIBOR + 0.86%	20 December 2028
40.0	3 month LIBOR + 0.834%	29 March 2029
27.6	3 month LIBOR + 0.934%	25 March 2034
<u>427.6</u>		

The guaranteed bond due 2027 of £250.0m matures on 30 June 2027 and will be redeemed at par. Interest is paid annually on 30 June at a rate of 4.875%. The guaranteed bond due 2035 of £255.0m matures on 15 November 2035 and will be redeemed at par. Interest is paid annually on 15 November at a rate of 4.875%. The bond due 2040 of £200.0m matures on 23 March 2040 and will be redeemed at par. Interest is paid annually on 23 March at a rate of 5.625%.

The sum total of these bonds is £705.0m, with a carrying value in the balance sheet of £878.1m. The difference represents: (1) the fair value adjustment on the proportion of the loan that is in a fair value hedge relationship; (2) unamortised fees of £1,505,000.

The USPP loans due 2029 of £51.3m mature on 10 January 2029 and will be redeemed at par. Interest is paid quarterly at a fixed rate of 2.84%. The USPP loan due 2031 of £155.3m matures on 10 January 2031 and will be redeemed at par. Interest is paid quarterly at a fixed rate of 2.97%. The USPP loans include contractual obligations to settle cross-currency derivative financial instruments that the lender has entered into pursuant to the loan, in the event NGN defaults or repay the USPP loans early. The resulting embedded derivatives have been valued at nil on the basis that NGN is not in default or forecast to be so, or expected to repay the USPP loan before the maturity date. The directors of the company are satisfied that the company can control the expectation of a 'no default / early repayment' position.

## Notes to the accounts (continued)

For the year ended 31 March 2019

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

	31 March 2019 £'000	31 March 2018 £'000
Maturity analysis of bond interest and repayments: ( <i>measured as actual cash flows</i> )		
In one year or less	247,619	47,619
In more than one year but less than two years	35,869	239,669
In more than two years but less than five years	107,606	107,081
In more than five years but less than ten years	404,969	167,160
In more than ten years but less than twenty years	442,088	462,814
In more than twenty years	211,250	222,502
	<u>1,449,401</u>	<u>1,246,845</u>

### 15 Derivatives and other financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below. Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available, using an individual trade basis provided by an external reporting system meaning no assumptions are applied by the group.

	2019 £'000	2018 £'000
<b>Financial assets</b>		
Measured at fair value through the profit and loss account		
- Derivative financial assets (see note 12)	209,884	203,046
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets – cash flow hedges (see note 12)	30	1,392
- Derivative financial assets – fair value hedges (see note 12)	129,363	110,955
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 12)	3,388	186
- Amounts owed by parent undertaking (see note 12)	1	1
- Prepayments and accrued income	39,516	33,783
- Deposits with banks	90,000	-
Equity instruments measured at cost less impairment		
- Fixed asset investments (see note 11)	104	104
	<u>472,286</u>	<u>349,467</u>



## Notes to the accounts (continued)

For the year ended 31 March 2019

### 15 Derivatives and other financial instruments (continued)

	2019 £'000	2018 £'000
<b>Financial liabilities</b>		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities (see notes 13 and 14)	165,151	153,936
- Other financial liabilities – bonds (see notes 13 and 14)	50,824	55,362
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities – cash flow hedges (see notes 13 and 14)	18,510	14,744
- Other financial liabilities – bonds (see notes 13 and 14)	125,880	119,122
- Other financial liabilities – loans (see notes 13 and 14)	7,254	-
Measured at amortised cost		
- Loans payable (see notes 13 and 14)	806,978	654,140
- Other financial liabilities - bonds (see notes 13 and 14)	901,256	900,788
Measured at undiscounted amount payable		
- Trade and other creditors (see note 13)	7,404	6,817
- Accruals and deferred income (see notes 13 and 14)	199,282	175,020
- Corporation tax (see note 13)	41,183	37,071
- Other taxation and social security (see note 13)	11,779	5,730
	<u>2,335,501</u>	<u>2,122,730</u>

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 15 Derivatives and other financial instruments (continued)

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	2019 £'000	2018 £'000
<b>Interest income and expense on items at amortised cost</b>		
- Total interest payable on financial liabilities at amortised cost	75,246	72,088
- Total interest receivable on financial assets measured at amortised cost	(293)	(54)
	<u>74,953</u>	<u>72,034</u>
<b>Interest income and expense on derivatives</b>		
- Total interest receivable on financial assets measured at fair value through the P&L	(30,611)	(33,968)
- Total interest payable on financial liabilities measured at fair value through the P&L	18,831	21,378
- Total interest payable on financial assets designated in an effective hedging relationship	(643)	717
- Total interest payable on financial liabilities designated in an effective hedging relationship	5,733	6,188
	<u>(6,690)</u>	<u>(5,685)</u>
<b>Fair value gains and losses</b>		
- On financial assets measured at fair value through the profit and loss account	1,270	41,880
- On financial liabilities measured at fair value through the profit and loss account	(1,221)	(42,957)
- On derivative financial assets designated in an effective hedging relationship – cash flow hedges	8	(24)
- On derivative financial assets designated in an effective hedging relationship – fair value hedges	(26,633)	(2,747)
- On derivative financial liabilities designated in an effective hedging relationship – cash flow hedges	(124)	(277)
- On derivative financial liabilities designated in an effective hedging relationship – fair value hedges	23,449	-
	<u>(3,251)</u>	<u>(4,125)</u>
<b>Other net finance costs</b>	<u>(1,882)</u>	<u>(463)</u>
	<u>63,130</u>	<u>61,761</u>

The movement in the fair value of debt associating with fixed to floating interest rate swaps is a loss of £23.4m (2018 – gain of £2.1m).

Other net finance costs includes bank and agency fees, pension accounting adjustments and other miscellaneous interest.

# Notes to the accounts (continued)

For the year ended 31 March 2019

## 15 Derivatives and other financial instruments (continued)

The maturity of the carrying value of the Group's derivatives in hedging relationships split between less than 1 year and greater than 1 year.

	Current (less than 1 year)		Greater than 1 year	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Derivatives that are designated and effective as hedging instruments carried at fair value</b>				
<b>Assets</b>				
Interest rate swaps	-	7	30	112,357
<b>Liabilities</b>				
Interest rate swaps	(2,048)	-	(16,462)	(14,442)
	<u>(2,048)</u>	<u>7</u>	<u>(16,432)</u>	<u>97,915</u>

Interest rate swaps are valued at present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, adjusted for the Group's own credit risk when determining the fair value of derivatives liabilities and for counterparty credit risk when determining the fair value of derivatives assets.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding:

### Interest rate swap contracts designated as hedges of variable interest rate risk of recognised financial liabilities:

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2019 %	2018 %	2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>Cash flow hedges</b>						
Less than 1 year	4.91	0.47	50,000	12,500	(2,048)	7
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years +	1.64	2.24	411,316	376,974	(16,431)	(13,359)
			<u>461,316</u>	<u>389,474</u>	<u>(18,479)</u>	<u>(13,352)</u>

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 15 Derivatives and other financial instruments (continued)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three month LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

The receive floating pay fixed contracts that are designated as hedges are designed to swap the floating rate on various loans from the European Investment Bank to fixed rate for periods of up to ten years.

The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2019	2018	2019	2018	2019	2018
	%	%	£'000	£'000	£'000	£'000
<b>Fair value hedges</b>						
5 years plus	4.88	4.88	350,000	350,000	122,507	110,955
			<u>350,000</u>	<u>350,000</u>	<u>122,507</u>	<u>110,955</u>

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2019	2018	2019	2018	2019	2018
	%	%	£'000	£'000	£'000	£'000
<b>Fair value hedges</b>						
Outstanding fair value hedges of USPP notes 5 years plus	2.94	-	10,000	-	6,856	-
			<u>10,000</u>	<u>-</u>	<u>6,856</u>	<u>-</u>

The forward-starting interest rate swaps settle on a semi-annual basis in the case of the floating rate legs and on an annual basis in the case of the fixed rate leg. The floating rate on the interest rate swaps is six month LIBOR. Interest will be settled on a gross basis as the settlement dates for the fixed and floating rate legs do not coincide. The swaps hedge the exposure to changes in the fair value of the underlying bonds that are attributable to changes in interest rates. The USPP loans include contractual obligations to settle cross-currency derivative financial instruments that the lender has entered into pursuant to the loan, in the event that NGN defaults or repays the USPP loans early. The resulting embedded derivatives have been valued at nil on the basis that NGN is not in default or forecast to be so, or expected to repay the USPP loan before the maturity date.

At 31 March 2019 the group's undrawn borrowing facilities available for use amounted to £160.0m (2018 £115.0m).

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 16 Provisions for liabilities

	Gas holder Decommissioning £'000	Restructuring £'000	Deferred tax £'000	Environmental restoration £'000	Other £'000	Total £'000
<b>Group</b>						
At 1 April 2018	3,569	7,235	296,181	4,976	6,149	318,110
Charged / (credited) to profit and loss	-	(1,083)	2,181	163	250	1,511
Charged to hedge reserve	-	-	(663)	-	-	(663)
Charge to pension reserve	-	-	(2,473)	-	-	(2,473)
Utilised in the year	(1,375)	(4,125)	-	(626)	(606)	(6,732)
Adjustment arising from discounting	-	-	-	-	105	105
At 31 March 2019	2,194	2,027	295,226	4,513	5,898	309,858

#### Deferred tax

Deferred tax is provided as follows:

	2019 £'000	2018 £'000
<b>Group</b>		
Accelerated capital allowances	55,402	60,348
Other timing differences	236,945	231,318
Deferred tax on pension surplus (see note 20)	2,879	4,515
	<u>295,226</u>	<u>296,181</u>

No provisions exist within the company, they are held within Northern Gas Networks Limited.

#### Provision for deferred tax

Deferred tax is only recognised in respect of timing differences where transactions or events have occurred, that result in an obligation to pay more or less tax in the future, at the balance sheet date. The other timing differences relate to transitional FRS102 adjustments, financial instruments, intangible fixed assets and pensions.

#### Restructuring

Estimated costs of an over 55 early retirement programme offered to employees and a current redundancy programme. The restructuring provision value represents the anticipated liabilities at the balance sheet date. The timing of cash flow assumption is based on agreed retirement and leaving dates with employees which runs to 2021.

## Notes to the accounts (continued)

For the year ended 31 March 2019

### *Gas holder decommissioning provision*

The provision represents the estimated cost of removing gas holders from the network as committed under RIIO-GD1 and to be spent within RIIO-GD1. Sensitivity analysis was applied on the estimated unit cost of removal, with a 5% increase causing a £0.1m variance although this variance is deemed to be highly unlikely.

### *Environmental restoration*

Estimated environmental restoration costs are provided where the group has a legal obligation to restore sites at the balance sheet date. The provision represents the estimated net present value for statutory decontamination of old gas sites. It also reflects the obligations associated with other environmental damage. The timing of the utilisation of the environmental restoration provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. The provision has been calculated using the probability of cash flows method and management have used an expert to assess the probability of a restoration event and the potential cost. The cash exposure based on a worst case scenario is an additional expense of £1.1m but this is deemed highly unlikely based on historic trends.

### *Other*

Other provisions relate to the estimated net present value of future claims in relation to past public and employer's liability events. The timing of the utilisation of the other provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. Sensitivity analysis shows that a movement of 5% on the applied discount rate would cause a £0.3m movement although this is deemed unlikely.

## **17 Called-up share capital and revenues**

### *Share capital*

	2019 £'000	2018 £'000
<i>Allotted, called-up and fully-paid</i>		
71,669,980 ordinary shares of £1 each	71,670	71,670
<i>Allotted and called-up</i>		
999 ordinary shares of £1 each	1	1
1 special share of £1	-	-
	<u>71,671</u>	<u>71,671</u>

The unpaid shares remain outstanding within debtors at the balance sheet date. The ordinary shares and the special share are separate classes of shares and carry the same rights and privileges and rank pari passu in all respects.

*Profit and loss account* - This is the accumulative earnings retained by the group.

*Hedging reserve* - This represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges.

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 18 Reconciliation of operating profit to operating cash flows

	2019 £'000	2018 £'000
Operating profit	185,755	183,368
Depreciation and amortisation	80,336	76,509
Profit on sale of tangible fixed assets	(438)	(181)
(Increase) / decrease in stock	(992)	83
(Increase) / decrease in debtors	(8,735)	6,913
Increase in creditors	28,355	5,526
Decrease in provisions	(7,402)	(1,606)
Adjustment for pension funding	(4,234)	(9,888)
<b>Net cash inflow from operating activities</b>	<b>272,645</b>	<b>260,724</b>

### 19 Financial commitments

Total future commitments under non-cancellable operating leases are as follows:

	31 March 2019		31 March 2018	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<b>Group</b>				
Expiry date:				
- within one year	1,392	542	1,142	761
- between one and two years	1,136	169	1,285	482
- between two and five years	2,278	18	1,854	99
- after five years	2,286	-	2,787	-
	<b>7,092</b>	<b>729</b>	<b>7,068</b>	<b>1,342</b>

The group has a total commitment of £6.6m (2018 - £7.1m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from FGIC UK Limited ("FGIC") to cover the 2027 and 2035 guaranteed bonds included within long term borrowings in note 14.

The group has also entered into a Guarantee and Reimbursement Agreement with FGIC in relation to the 2027 and 2035 bonds issued by Northern Gas Networks Finance Plc ("the Issuer") in November 2005 of £505.0m. The group guarantees the punctual payment of any and all sums and fees due to FGIC and undertakes to pay any amount due from the Issuer but not paid by it. The group also indemnifies FGIC against any loss or liability suffered, if any obligation guaranteed by FGIC is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGIC would otherwise have been entitled to recover.

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 20 Pension arrangements

The group has obligations for a defined benefit pension scheme. During the year a valuation of the pension scheme was carried out by a third party actuarial firm. The present valuation of the obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The amounts recognised in the balance sheet are as follows:

	2019 £'000	2018 £'000
Present value of funded obligations	(459,282)	(456,393)
Fair value of plan assets	476,217	482,951
Surplus	16,935	26,558
Related deferred tax liability	(2,879)	(4,515)
Net asset	14,056	22,043
Amounts in the balance sheet		
- Asset	14,056	22,043

The total amounts recognised in the profit and loss account are as follows:

	2019 £'000	2018 £'000
<i>Amount charged to operating profit</i>		
Current service costs	3,114	5,002
Past service costs	2,800	1,467
	5,914	6,469
<i>Amount credited to net finance charges</i>		
Interest costs	11,430	12,685
Expected cost return on plan assets	(12,230)	(12,385)
Net return on pension scheme (see note 3)	(800)	300
Total	5,114	6,769

The total amounts recognised in the statement of comprehensive income are as follows:

	2019 £'000	2018 £'000
Actuarial (losses) / gains	(14,550)	39,030



## Notes to the accounts (continued)

For the year ended 31 March 2019

### 20 Pension arrangements (continued)

The cumulative amount of actuarial gains and losses recognised in the statement of comprehensive income is as follows:

	2019 £'000	2018 £'000
Actuarial losses	<u>(79,069)</u>	<u>(64,519)</u>

Changes in the present value of the defined benefit obligation are as follows:

	2019 £'000	2018 £'000
Opening defined benefit obligation	456,393	517,084
Service cost	3,114	5,002
Past service cost	2,800	1,467
Interest cost	11,430	12,685
Member contributions	381	573
Actuarial losses / (gains)	38,479	(39,363)
Benefits paid	<u>(53,315)</u>	<u>(41,055)</u>
Closing defined benefit obligation	<u>459,282</u>	<u>456,393</u>

Changes in the fair value of plan assets are as follows:

	2019 £'000	2018 £'000
Opening fair value of plan assets	482,951	495,024
Expected return	12,230	12,385
Actuarial gains / (losses)	23,929	(333)
Employer contributions	10,041	16,357
Member contributions	381	573
Benefits paid	<u>(53,315)</u>	<u>(41,055)</u>
	<u>476,217</u>	<u>482,951</u>

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 20 Pension arrangements (continued)

The major categories of plan assets as a percentage of the total plan assets are as follows:

	31 March 2019	31 March 2018
	%	%
Equity and cash securities	27.8	21.3
Bond securities	55.8	54.2
Property	9.7	9.0
Other	6.7	15.5

To determine the overall expected rate of return on plan assets the group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the assets are invested and the expectations for future returns of each asset class in the plan. The expected return for each asset class was then weighted, based on the asset allocation in the plan to develop the assumption for the expected rate of return on plan assets.

The actual return on plan assets is as follows:

	2019 £'000	2018 £'000
Actual return on plan assets	<u>36,159</u>	<u>12,052</u>

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages) are:

	2019	2018
Discount rate	2.4%	2.7%
Future salary increases	3.8%	3.6%
Future pension increases	3.3%	3.1%
Inflation (RPI)	3.3%	3.1%
Life expectancy on retirement age 65;		
- member aged 65 (retiring today)	21.5 years	22.1 years
- member aged 45 (retiring in 20 years)	23.2 years	24.2 years

During the prior year the group entered into an "asset backed contribution" arrangement with its defined benefit pension scheme whereby the NGN Pension Funding Limited Partnership was funded to acquire a £70m loan note. The partnership members are Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit pension scheme and the Northern Gas Networks General Partner Limited. Contributions to the pension scheme of £4.2m (2018 - £58.8m) were made in the year.

The group also operates defined contribution schemes for which the pension charge for the period amounted to £3,666,000 (2018 - £3,035,000). At 31 March 2019 unpaid contributions amounted to £nil (2018 - £358,000).

## Notes to the accounts (continued)

For the year ended 31 March 2019

### 21 Related party transactions

There have been no transactions with directors in the year (2018 - £nil) other than remuneration as disclosed in note 6 to the accounts.

During the year the group was recharged £197,000 (2018 - £255,000) in the ordinary course of business from CK Infrastructure Holdings Limited (see note 22 for relationship to the group). During the year the group was recharged £2,801,000 (2018 - £3,986,000) by xoserve, an investment of the company, for billing services provided.

During the year interest was charged on shareholder loans held by the company as detailed in note 14 and analysed below:

Shareholder/Lender	Interest Charged to the Company	Value of Loan
	£'000	£'000
PG (April) Limited	8,471	84,706
Beta Central Profits Limited	7,433	74,329
SAS Trustee Corporation	2,096	20,965
	<hr/> 18,000 <hr/>	<hr/> 180,000 <hr/>

### 22 Ultimate controlling party

The company is wholly owned by a consortium comprising of:

<u>Shareholder</u>	<u>Ultimate parent undertaking</u>
PG (April) Limited (47.1%)	CK Infrastructure Holdings Limited
Beta Central Profits Limited (41.3%)	Power Assets Holdings Limited
SAS Trustee Corporation (11.6%)	Not applicable