Northern Gas Networks Holdings Limited

Annual Report and accounts
for the year ended 31 March 2020

Registered number: 05213525

Strategic report

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 2020. 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 £213.2m (2019 - £185.8m) with revenue increasing by £40.4m based on Ofgem allowances, and cost increases of £13.0m. The main drivers of the cost increase were: (1) additional depreciation and amortisation increase of £8.2m following continued investment in the network; (2) an increase in costs of sales of £1.1m; (3) central network rates increase of £1.0m; (4) general cost increases driven by inflation.

At the end of the year, the group's undrawn borrowing facilities available for use amounted to £100.0m (2019 - £160.0m). The group has debt at the 31 March 2020 with a principal value of £1,670.8m (2019 - £1,712.6m) as follows:

Debt instrument	Maturity date	Interest rate / basis	Principal amount (£m)	Book value (£m)
Shareholder Loan Notes	Dec 2033	10.0% fixed	180.0	180.0
Fixed rate bond	Jun 2027	4.875% fixed	250.0	313.3
Fixed rate bond	Nov 2035	4.875% fixed	255.0	393.5
Fixed rate bond	Mar 2040	5.625% fixed	200.0	196.9
US Private Placement notes	Jan 2029	2.84% fixed	50.0	53.0
US Private Placement notes	Jan 2031	2.97% fixed	150.0	162.8
US Private Placement notes	Jun 2039	2.71% fixed	100.0	99.7
European Investment Bank (EIB) fixed rate loan	Dec 2024	3.446% fixed	40.0	40.0
European Investment Bank (EIB) floating rate loans *See note 14 for breakdown*	Various	3 mth Libor + margin	360.0	360.0
European Investment Bank (EIB) amortising loan	Mar 2034	3 mth Libor + 0.86%	25.8	25.8
Revolving Credit Facility drawings	Apr 2020	1 month Libor +0.40%	60.0	59.7

Group debt (principal value net of cash) in the year decreased by £34.3m, with cash reducing by £7.6m and debt reducing by £41.8m. The decrease was principally driven by the repayment of a £200.0m bond in June 2019 funded through receiving £100.0m of new US Private placement notes in June 2019, the drawing down a further £60.0m on the revolving credit facility, and by the reduction in cash.

Interest payable in the year on the above debt (and that held within the year) net of associated interest rate swaps used to hedge the debt amounted to £65.5m (2019 - £67.3m) as detailed in note 3. Details of the way interest rate swaps are used to manage interest rate exposures, and the impact this has on finance costs, are included in the 'Financial risk management and objectives' section below.

The tax charge for the year was £80.6m (2019 - £23.5m). In March 2020 the group restated deferred tax balances to 19% from 17% following the announcement from the Government that the previously enacted legislation to take UK corporation tax rates to 17% rate was to be removed. The one off impact of the change in the tax rate was a tax charge of £35.7m. In the year, following review by the directors, a provision in relation to deferred tax of £13.7m was also recognised relating to the tax deductibility of an intangible asset, for which further details are provided in note 7. Excluding the impact of these one off impacts the tax charge in the year would have been £31.2m in the year which represents an effective tax rate of 21% (2019 – 19%).

The group generated a net cash inflow from operating activities for the year of £261.6m (2019 - £255.5m), the growth mainly due to additional operation profits, offset by increased tax payments. Capital additions in the year across tangible and intangible assets was £167.8 (2019 - £166.3m) principally focused on investment in network assets including replacement expenditure and a new SAP system. The group had net assets of £536.7m at 31 March 2020 (2019 - £524.0m). Debt to RAV at the end of the year was 64.5% (2019 – 64.1%), being well within the internal target of 70%.

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 2020	Year ended 31 March 2019
Financial performance (efficiency)		
Operating profit	£213.2m	£185.8m
Net cash from operating activities	£261.6m	£255.5m
Dividends paid	£79.0m	£75.5m
External debt less cash / regulatory asset value (gearing ratio)	64.5%	64.1%
Customer service		
Quarterly customer satisfaction survey scores	9 out of 10	9 out of 10
Safety management		
Number of lost time injuries to employees and contractors (LTIs)	2	2
Reported injuries to members of the general public (MOPs)	0	0

All of the targets for the above KPI's have been achieved. Financial performance is discussed above with the financial and operational review. Customer service and safety management remains central to how NGN operate, and during the year we have continued to perform well. We have achieved an overall score of 9 out of 10 for customer satisfaction survey scores, as well as winning three awards in the November 2019 UK Customer Experience Awards.

We continue to lead the industry with regard to MOPs and LTIs and continue to achieve our annual target of no more than 2 MOPs and 2 LTIs.

Principal risks and uncertainties

The group's principal risks and uncertainties are set out below. They reflect any risks associated with COVID-19, further details of which are provided on page 6.

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, RIIO-GD2, are being assessed although this does not start until 1 April 2021. The final business plan for RIIO-GD2 will be released by Ofgem in late 2020. Early indications obtained from Ofgem suggest the groups initially submitted business plan will be close to final settlements. The Board have frequent communication with the company to assess RIIO-GD2.

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, 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 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 that adverse movements in interest rates will result in the group experiencing:

- an unacceptable variation to interest expense / cash flows in either the current year or the current regulatory price control period, and / or
- unacceptable variations between actual interest expense / cash flows and the element of revenue linked to the regulatory cost of debt allowance.

The group's approach adopted in minimising interest rate exposures on debt is as follows:

- On an ongoing basis to take account of the average cost of all NGN debt compared with the actual and expected level of the regulatory allowance,
- To achieve an interest cost on new debt and/or hedging that is in line with, or lower than, the regulatory allowance for that year,
- To take account of the average life (in addition to average maturity) of actual debt and its relationship with the average life of the indexed cost of debt allowance,
- To combine derivatives and bonds in the overall strategy, using derivatives only where needed to align actual debt costs with the allowance,

- To achieve an appropriate balance of fixed/floating/index-linked debt,
- To factor in the impact of an increasing regulatory asset value and hence increasing debt levels,
- To incorporate an element of flexibility in hedging and funding strategy to enable the above objectives to be met, and
- To maintain a debt portfolio broadly consistent with those of comparable utilities.

In practice, most floating rate debt, in addition to debt issued at fixed rate and swapped back to floating rate for life, has its rate re-fixed with interest rate swaps on a staggered basis in order to align the rate re-fixing profile on this debt with the regulatory cost of debt allowance, which is calculated with reference to a trailing average of certain corporate bond yields. Until March 2021 the period of this trailing average is ten years. In this manner the group is achieving certainty of interest costs and future cash flows on either pure floating rate debt or an aggregate floating rate exposure represented by a fixed rate debt instrument swapped to floating rate.

This means that up to 10% of the group's existing debt has its rate re-fixed (generally for 10 years) in any year. By the same token, 10% of the regulatory cost of debt calculation is based on the same year's interest rates and credit spreads. If interest rates rise, the cost of only a portion of the group's debt will also rise and the higher rates will also be reflected in the cost of debt allowance. Conversely, if interest rates fall and the cost of debt element of revenue is lower, the group will be re-fixing the rate on up to 10% of its debt in the same interest rate environment. In the year to March 2020 £90.0m of group debt had its rate re-fixed on this basis.

Within the above strategy the group applies hedge accounting where appropriate to minimise the impact on earnings of movements in the fair value of derivatives.

From April 2021 a new cost of debt allowance mechanism will apply for the five-year duration of the RIIO-GD2 Regulatory Price Control Period. The precise nature of the way the cost of debt allowance will be calculated is currently unknown. The group's approach to managing interest rate exposures will remain the same but the mechanism by which the strategy objectives are achieved will change to accommodate changes to the allowance calculation.

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 period as well as the period around regulatory reset dates where possible.

COVID-19

The Board continue to assess the impact of COVID-19 on the group. The safety of our customers and employees is of paramount importance, and as a result, non-essential operations stopped from 24 March 2020, following the announcement from the UK Government that the UK should be on 'lock down'. Non-essential operations equates to the majority of all repex and capex work, along with non-essential maintenance leaving only emergency work (gas escapes) and essential maintenance as active work steams.

With regard to essential work being carried out, operational staff work wear additional personnel protective equipment (PPE) and exercise social distancing when possible. As a consequence, PPE expenditure has increased in the short to medium term but the impact of this is predominately with the March 2021 calendar year. The investment in technology over the last few years means that support staff are able to work from home without any issues and this has been actively encouraged except when working in the office is essential. Two support teams are safety critical (network pressure control team and emergency dispatch team) and so continue to work from an office.

The group has been monitoring staff sickness and those in self isolation. Management have been working on the assumption that essential operations can continue with a staff reduction of 25%, although the group has not encountered anywhere near this level of reduction.

Due to the nature of the business, the revenue of the group is unlikely to be impacted in the short term. The group is participating in a revenue collection deferral scheme which defers the revenue cash receipts from the summer of 2020 until the 2021/22 regulatory year. This scheme is fully supported by Ofgem meaning the group have no debt exposure. This cash flow decrease is less than the cash flow increase arising from the group's election to defer VAT payments, this being the only financial package taken of those offered by the government.

To summarise the financial implications, which are predominately within the March 2021 financial year: (1) the group has encountered additional PPE costs, the impact of which is reduced by corresponding corporation tax savings; (2) there have been cash out flow savings due to reduced repex and capex activity and VAT deferrals which are in excess of the deferral of revenue receipts; (3) the Board will continue to monitor Ofgem's view with regard to revenue although any reduction is unquantifiable at this stage; and (4) no asset impairment is considered necessary at the date of these accounts.

The Board has reviewed updated financial forecasts which factor in the implications of COVID-19, and do not consider the impact to either influence going concern, or result in any asset impairment. The impact of COVID-19 has been reflected within the principle risks and uncertainties set out on pages 3-5.

Brexit

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 2020. These products are not perishable and as such the financial risk of holding additional stock is minimal.

The group holds EIB debt of £425.8m however this debt will not need to be repaid as a consequence of Brexit.

Statement of corporate governance arrangements

The Directors present a corporate governance statement under the guidance of section 172 of the Companies Act. As far as the Directors are aware all legal requirements under section 172 of the Companies Act have been complied with during the period and up to the date of signing the accounts. Within the corporate governance statement reference is made as to how the Directors engage with the employees of the company and how they have regard to employee interests, and the effect of that regard, including on the principle decisions taken by the company during the financial year. The statement also details how the Directors have maintained relationships with key suppliers and customers.

Approved by the Board and signed on its behalf by

Mark Horsley

M J Horsley, Director

22 July 2020

Directors' report

For the year ended 31 March 2020

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 2020. 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. A Corporate Governance Statement is presented on page 13.

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 2020		Year ended 31 March 2019	
Date	**Attendees**	**Date**	**Attendees**
10 April 2019	9 out of 9	18 April 2018	7 out of 9
10 July 2019	8 out of 9	18 July 2018	8 out of 9
15 November 2019	8 out of 9	16 November 2018	8 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 25.95p per share were paid on 20 June 2019 and of 84.30p per share were paid on 20 December 2019 making a total of 110.26p per share for the year (2019 – 105.28p). See note 8 for details. Declared dividends are in line with the expectations of the Board.

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. This also covers the responsibilities that the directors have for subsidiaries within the NGN group.

Future developments and events after the balance sheet date

As mentioned within the Strategic report the group continues to monitor the impact of COVID-19, Brexit and RIIO-DG2 negotiations, to consider the potential impacts on its business. As at the date of the signing of these accounts, no further disclosures in these areas are deemed necessary and 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 accounts have been prepared on a going concern basis. 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. This includes the implication of RIIO-GD2, Brexit and COVID-19. In addition, notes 13-15 to the accounts include 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 directors have made enquiries and reviewed the forecasts, and in light of the group facilities available, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Disabled employees / employee engagement

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. Details of employee engagement can be found within the corporate governance statement.

Energy and carbon

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. The group is committed to reducing its carbon emissions under Regulatory Instructions and Guidance (RIGS). The overall target is a year-on-year emissions reduction of c0.5% across RIIO-GD1, followed by a further c0.5% reduction in RIIO-GD2.

We report using an operational control approach, on all material emissions which NGN are accountable for across the entire business covering all work streams and geography. Details of what has been included within each reported scope is listed in the table below. Unreported emissions, which would form part of scope 3, are deemed insignificant compared to shrinkage. These include employee commuting, some forms of waste generated in operations, end of life treatment of solid products and some gas emissions.

The emissions reduction program is managed by the Head of HS&E within the company, supported by the senior management team and Board as needed. Reported data has not been externally verified, as permitted, due to robust internal processes.

Reported emissions follow 'Greenhouse Gas Emissions Reporting Guidance (June 2013)' as provided by the Department for Environment, Food and Rural Affairs (Defra). The conversion factors used for emission disclosures follow Ofgem guidance.

Business Carbon Footprint	Performance			
	tonnes of CO_2e		tonnes of CO_2e per £m turnover	
	2020	2019	2020	2019
Shrinkage	380,739	395,240	846.03	964.93
Scope 1: energy consumption (excl electricity), commercial vehicles and business miles	5,451	5,347	12.11	13.05
Scope 2: electricity consumption	1,033	1,389	2.30	3.39
Scope 3: indirect emissions – PE pipe, contractor vehicle, rail, air and ferry travel	15,780	15,095	35.06	36.85
Total	403,003	417,071	895.50	1,018.23

As shown in the table shrinkage remains the key element of emissions which is being targeted through efficient gas pressure management, gas escape management and gas mains replacement. Other activity to reduce emissions include fleet upgrading, vehicle route planning, driver efficiency tracking, use of carbon efficient technology in depot and office refurbishments, increased use of teleconferencing and a contractor carbon awareness program.

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.

Approved by the Board and signed on its behalf by

Mark Horsley

M J Horsley, Director
22 July 2020

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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 judgements 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.

Corporate governance statement

For the year ended 31 March 2020

Scope of statement

NGN is not a listed entity, but as a large private company is required to prepare a corporate governance statement under section 172 of Companies Act. This statement has been prepared using the 'Wates Principles' to provide a clear message on the business model, future strategies and core values and of NGN. It describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of Companies Act, as listed below:

- the likely consequences of any decision in the long term (approving the strategic direction and values);
- the interests of the company's employees;
- the desirability of the company maintaining a reputation for high standards of business conduct;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment; and
- the need to act fairly as between members of the company.

The company is committed to pursuing leading governance practices as appropriate.

Overview of the Board

The Board of Northern Gas Networks Holdings Limited is comprised of nine directors as at 31 March 2020, who are appointed by the shareholders. They are independent of the day to day management of the company with the exception of the CEO who is a Board member and leads the company senior management team (SMT) who in turn manage the company. The Board are presented with information by the CEO and SMT to enable them to influence all the key business decisions of NGN. This arrangement ensures the shareholders are involved in making all the key business decisions through their appointed directors.

As the company is a holding company of the group, it is important to understand that the trading subsidiary, Northern Gas Networks Limited, which holds the licence to transport gas, has the same Board members plus an additional two independent directors, this being a requirement of the gas transportation licence. The various committees of the NGN group which assist the Board of this company with its duties are held under Northern Gas Networks Limited and any reference to committees within this statement refers to those committees of Northern Gas Networks Limited.

Board Members

The Board members who held office during the year are listed within the Directors' report.

The position of the Chairman of the Board is held by A Hunter. The position of Chief Executive Officer (CEO) is held by M J Horsley. These positions are separate with a view to maintaining an effective segregation of duties between management of the Board and the day to day management of the business.

P Rogerson and J Burnham are independent non-executive members of the Board of Northern Gas Networks Limited.

Board Meetings

The Board hold at least three scheduled meetings throughout the year. Comprehensive papers are presented to the Board both for information and approval which facilitate debate on the performance and future direction of the company. The number of Board meetings held during the year and attendees, including alternates, at the Board meetings is detailed in the Directors report.

Evaluation of the Board

Evaluation of the performance of the Board is conducted by virtue of their appointments being made and monitored by the shareholders. The performance of the CEO is assessed by the Board on an annual basis under the remit of the remuneration committee. The performance of each SMT member is assessed annually by the CEO as part of NGN's performance management process.

Overview of the committees

The Board has six committees, as listed below, to assist in the execution of its duties and to allow a detailed consideration of complex issues.

All Board members are entitled to attend all committees under the terms of reference, with the minimum requirement being a quorum of at least two members from different shareholders. The attendance of the committees is also largely the same as for the Board. The audit and treasury committees are chaired by L S Chan, the risk management and compliance committees are chaired by C Tsai and the remuneration and nominations committee are chaired by A Hunter.

Attendance including alternates of committees in the year is shown below:

Date of Committee	Audit Committee	Compliance Committee	Risk Management Committee	Treasury Committee	Remuneration Committee	Nominations Committee
2020						
Jun 19	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a
Sep 19	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a
Jan 20	4 out of 6	5 out of 7	5 out of 7	5 out of 7	4 out of 7	n/a
2019						
Jun 18	5 out of 6	6 out of 7	6 out of 7	6 out of 7	n/a	n/a
Aug 18	4 out of 6	5 out of 7	5 out of 7	5 out of 7	n/a	n/a
Jan 19	5 out of 6	6 out of 7	6 out of 7	6 out of 7	7 out of 7	n/a

Audit committee

The audit committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes. In addition, the committee provides an avenue for communication between internal audit, the external auditors and the Board. The activities of the committee are reported to and considered by the Board. The committee also reviews auditor independence where non-audit services are provided and the auditors confirm their independence as part of their reporting to the audit committee.

Compliance committee

The compliance committee assists the Board with its responsibilities to oversee compliance with obligations determined by statute, legislation, regulation (including licence obligations), contract or agreement. This committee considers, inter alia, reports on the application of the regulatory compliance process which covers licence and network code obligations.

Risk management committee

The risk management committee is responsible for reviewing the risk profile of the business and oversight of risk management processes. The committee provides the Board with regular reports of activities and findings. The business has a formal risk management policy. In addition, an integrated risk management framework is in place that includes a regular review of the business risk exposures. At each meeting of the risk management committee, the high level risk register is considered including any movement in the assessment of risk or changes in measurement or relative position to each other.

Treasury committee

The treasury committee assists the Board in fulfilling its oversight responsibilities with respect to compliance with its treasury policy, strategy and procedure development. The committee recommends any changes or amendments as appropriate. It also ensures that management undertakes to identify, monitor and manage treasury risks in a manner consistent with corporate strategy and objectives and its treasury policy.

Remuneration committee

The remuneration committee reviews and makes recommendations to the Board on overall remuneration policy of the company and determines the salary and bonus entitlement for the CEO, the SMT and all other company employees. The activities of the remuneration committee are reported to the Board at least annually.

Nominations committee

The nominations committee exists to consider potential changes to independent Board membership and to assess the performance of these Directors.

Actions and responsibilities of the Board and its committees
The Board is responsible for and makes key decisions on the following areas.

Approving the strategic direction and values, with consideration of the likely consequences in the long term

The Board is responsible to the shareholders for the strategic direction of the company in both the short and long term and seeks to balance the best interests of the company with the objective of enhancing shareholder value.

The long term primary objectives which reflect the strategic value of the company have been established since acquisition in 2005, that being to be a top performing gas distribution network with regard to safety, customer satisfaction and efficiency of delivery. The Board ensure they are aware of how well the company is performing in these areas through the establishment of KPIs which are reported upon at Board meetings, and the Board have linked the remuneration of the SMT to achieving Board approved targets in these areas.

Each autumn the Board invites the CEO to present the performance targets of the company over the next 5 years, with reference to the strategic direction of the company. If approved the Board set these targets as the budget for the following financial year (short term objectives).

In 2019 and 2020 the SMT have been working on the business plan for the next price control period which commences in April 2021, and so the Board have established a steering group combined of NGN staff and shareholder representation. This group has created a medium-term business plan as submitted to Ofgem, which will form the basis of the company's future regulated revenue and ensures the strategic direction and values of the Board are reflected.

The Board approved the existing corporate values of NGN: intellectually curious; trail blazing, heartfelt; empowered, happy and customer focus. To encourage the demonstration of these values, employee performance objectives include the demonstration of these values.

Interests of the company's employees including evaluating the performance and remuneration of employees

The Board has fully encouraged the SMT to make NGN an employee of choice and supports the decisions made by the SMT with regard to employee engagement and evaluation.

The Board and SMT place considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees. This is achieved through various communications including: the CEO's call which are live teleconference broad-casts and include a question and answer section, and are available to be listened to in all offices and depots; regular business chats where groups gather and discuss what is occurring in the business and has SMT representation; email and letter communication when formal communication is needed.

Some employees are eligible to receive an annual bonus related to the overall financial and operational performance of the NGN group along with individual performance against set objectives. Other employees receive monthly incentive payments based on performance against operational efficiency, safety and customer targets.

Employees are encouraged to influence their own working environment, and are able to present changes in working practices, subject to meeting the desired company criteria over customer, safety and efficiency targets.

The overall control environment of the company, to protect the shareholders' investment and manage risk

The Board expect the SMT of the company to develop and maintain a control environment which protects the company's assets. The Board ensure this is achieved through several processes including the establishment of a risk register which is reported to the Board three times a year via the risk management committee. This register quantifies the impact of risks facing NGN, both on a financial and non-financial basis, and documents the likelihood of the risk occurring, along with the controls which exist to mitigate the risk.

The Board have established an internal audit function which undertakes independent appraisals and provides assurance on the adequacy and effectiveness of business controls. All internal audit work is carried out according to the relevant best practice standards. The schedule of work carried out by internal audit is planned and Board approved so that key or higher risk areas are reviewed on a recurring basis, and all findings are reported by internal audit to the audit committee.

In the calendar year the Board approved the establishment of a data governance team, whose focus is ensuring assurance over the accurate capture and reporting of data to third parties, ensuring a further layer of control.

Some of the key controls of the company are those surrounding the financial processes of the company and the Board request a summary of all such financial controls to be documented each year in a document call the Directors Questionnaire. This document is signed by the SMT and is representation to the Board that the SMT have maintained a suitable financial control environment throughout the period, which supports the financial statements for that year. The Board also request the internal and external auditors to review the Directors Questionnaire, so to ensure the document is a true reflection of the control environment in place.

At the end of the financial year COVID-19 became a key consideration for the Board, following the announcement by the UK Government of a UK 'lock down'. The Board established weekly reporting from NGN management, covering safety, operational performance and financial risk.

Maintaining a reputation for high standards of business conduct

As a company we believe that we are trusted by our stakeholders and have a good reputation for high standards of professionalism within the business we conduct.

As part of this the Board look for a strong control environment which is managed through the SMT as detailed in the section above (see 'the overall control environment of the company, to protect the shareholders' investment and manage risk'). As noted in that section the Board review NGN's risk register which includes a quantification of non-financial risks, one of which is reputational risk, which covers the impact of changes in business standards.

The reputation of the company is maintained by the behaviour of its employees and so the Board have approved a code of conduct which is a guide to the professional standards expected of employees. Fraud policies and whistleblowing policies also exist to protect the reputation of NGN, should any detrimental employee behaviour exist. Suitable recruitment practices exist to minimise this risk.

Maintaining relationships with key suppliers, customers and other

Under the delegated authority of the Board the SMT has established a dedicated commercial services team covering all elements of procurement and supplier relations. All contracts are signed off by members of the SMT having first been reviewed by the NGN legal department and having agreed terms with the supplier. Within the commercial services team there is a dedicated contract management function which supports in pre-contract activity and also post-contract work including the review of variations, again to ensure a strong relationship with suppliers. NGN seek to treat all suppliers fairly through compliance with the policies of the Official Journal of the European Union (OJEU).

The Board are focused on maintaining strong relationships with NGN's customers to ensure this is to the benefit of both parties. NGN's primary customers are shippers, who transport gas through the network, and the communities (both businesses and residents) in which NGN work. Shipper relationships are managed through the application of Unified Network Code, the regulations established by Ofgem, and this regulation ensures fair working practice is maintained. The impact of NGN's work on community customers is important to the Board and NGN not only monitor feedback through customer feedback scores, but also spend time engaging with communities to understand how NGN could work differently to the benefit of such communities (see next section, 'monitoring the impact of the company: environmental matters and community impact').

Other key stakeholders include, Ofgem and the HSE with whom NGN have ongoing relationships. NGN have designated regulation and health and safety teams who work with these stakeholders.

Monitoring the impact of the company: environmental matters and community impact

Stakeholder engagement is of upmost importance to NGN and encouraged by the Board via delegation to the SMT.

In the current financial year NGN has continued to engage with local communities to understand how NGN could work differently to the benefit of such communities, and some of these finding have fed into NGNs business plan for the next price control. NGN continue to invest in local communities by providing free energy to vulnerable customer, and this has been rewarded with two accolades at the Corporate Social Responsibility awards in November 2019. Carbon monoxide awareness is another scheme we continue to push at NGN.

NGN's environmental impact and carbon footprint is an area of focus which the Board is encouraging the SMT to look at. To facilitate a greater understanding of this NGN report environmental data and report policies and procedures via shareholder submissions on an annual basis. These feed into group wide Dow Jones Sustainability Index and Hang Seng Corporate Sustainability Index submissions.

Dividend payments

The Board approve any dividend declarations that are recommended by the CEO with the payment of such dividends made subsequent to such approvals.

Maintenance of the need to act fairly between members of the company

The Board is comprised of directors who are appointed by the shareholders of the group. As such each shareholder has representation and the ability to contribute to all Board meetings and so influence the decisions made by the Board.

The shareholder agreement in place for NGN is a legal entitlement for each shareholder to have this representation and as such the shareholders are appropriately protected.

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 of Northern Gas Networks Holdings Limited (the 'parent company') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2020 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 which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent 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 Financial Reporting Council's (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.

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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

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.

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.

Scott Bayne FCA *(Senior Statutory Auditor)*
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
22 July 2020

Consolidated profit and loss account

For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Turnover	1	450,031	409,603
Cost of sales		(10,594)	(9,534)
Gross profit		439,437	400,069
Other operating expenses	2	(226,191)	(214,314)
Operating profit		213,246	185,755
Finance charges (net)	3	(65,780)	(63,130)
Profit on ordinary activities before taxation	4	147,466	122,625
Tax on profit on ordinary activities	7	(80,613)	(23,505)
Profit for the financial year		66,853	99,120

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 2020

	2020 £'000	2019 £'000
Profit for the financial year	66,853	99,120
Re-measurement of defined benefit asset (note 20)	41,967	(14,550)
Losses in respect of cash flow hedges	(18,060)	(9,516)
Transferred to profit or loss in respect of cash flow hedges	6,188	5,617
Tax relating to components of other comprehensive income	(5,194)	3,136
Comprehensive income relating to the year	91,754	83,807

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 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Intangible assets	9	206,535	203,989
Tangible fixed assets	10	2,528,199	2,451,381
Investments	11	104	104
		2,734,838	2,655,474
Current assets			
Stock - raw materials		4,946	3,552
Debtors - amounts falling due within one year	12	53,054	143,555
amounts falling due after one year	12	459,879	345,562
Cash at bank and in hand		13,614	21,173
		531,493	513,842
Creditors: Amounts falling due within one year	13	(192,429)	(345,525)
Net current assets		339,064	168,317
Total assets less current liabilities		3,073,902	2,823,791
Creditors: Amounts falling due after more than one year	14	(2,177,538)	(1,989,976)
Provisions for liabilities	16	(359,673)	(309,858)
Net assets		536,691	523,957
Capital and reserves			
Called-up share capital	17	71,671	71,671
Hedging reserve		(31,699)	(22,629)
Profit and loss account		496,719	474,915
Shareholders' funds		536,691	523,957

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 22 July 2020 and signed on its behalf by:

Mark Horsley

M J Horsley

Director

22 July 2020

Company balance sheet

As at 31 March 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Investments	11	574,502	574,502
Current assets			
Debtors			
- amounts falling due within one year	12	18,654	10,796
Cash at bank and in hand		1	1
		18,655	10,797
Creditors: Amounts falling due within one year	13	(4,681)	(194)
Net current assets		13,974	10,603
Total assets less current liabilities		588,476	585,105
Creditors: Amounts falling due after more than one year	14	(180,000)	(180,000)
Net assets		408,476	405,105
Capital and reserves			
Called-up share capital	17	71,671	71,671
Profit and loss account		336,805	333,434
Shareholders' funds		408,476	405,105

The profit for the financial year dealt with in the accounts of the parent company was £82,391,000 (2019 - £78,870,000). 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 22 July 2020 and signed on its behalf by:

Mark Horsley

M J Horsley

Director

22 July 2020

Consolidated statement of changes in equity

For the year ended 31 March 2020

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2018	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
Total comprehensive (expenses) / income	-	(3,237)	87,044	83,807
Dividends paid on equity shares (note 8)	-	-	(75,450)	(75,450)
At 31 March 2019	71,671	(22,629)	474,915	523,957
Profit for the financial year	-	-	66,853	66,853
Remeasurement of defined benefit asset	-	-	41,967	41,967
Tax on remeasurement of defined benefit asset	-	-	(7,996)	(7,996)
Cash flow hedges: losses arising during the year	-	(11,872)	-	(11,872)
Tax on cash flow hedges movement	-	2,802	-	2,802
Total comprehensive (expenses) / income	-	(9,070)	100,824	91,754
Dividends paid on equity shares (note 8)	-	-	(79,020)	(79,020)
At 31 March 2020	71,671	(31,699)	496,719	536,691

Company statement of changes in equity

For the year ended 31 March 2020

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 1 April 2018	71,671	330,014	401,685
Profit for the financial year	-	78,870	78,870
Total comprehensive income	-	78,870	78,870
Dividends paid on equity shares	-	(75,450)	(75,450)
At 31 March 2019	71,671	333,434	405,105
Profit for the financial year	-	82,391	82,391
Total comprehensive income	-	82,391	82,391
Dividends paid on equity shares	-	(79,020)	(79,020)
At 31 March 2020	71,671	336,805	408,476

Consolidated cash flow statement

For the year ended 31 March 2020

	Notes	2020 £'000	2019 £'000 *(restated*)*
Net cash inflows from operating activities	18	261,611	255,473
Cash flow from investing activities			
Interest received		378	296
Purchase of tangible fixed assets		(165,098)	(162,692)
Sale of tangible fixed assets		780	721
		(163,940)	(161,675)
Cash flow from financing activities			
Dividends paid		(79,020)	(75,450)
Withdrawal of borrowings		(200,000)	(46,843)
Increase of borrowings		160,000	200,000
Interest paid		(75,897)	(67,784)
Expenses on issue of new loans		(313)	(672)
		(195,230)	9,251
Net (decrease) / increase cash and cash equivalents		(97,559)	103,049
Cash and cash equivalents at beginning of year		111,173	8,124
Cash and cash equivalents at end of year		13,614	111,173

The cash and cash equivalents balance	2020 £'000	2019 £'000
Cash at bank and in hand	13,614	21,173
Deposits with banks (see note 12)	-	90,000
	13,614	111,173

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

* During the year the Directors reviewed the classification of interest paid and taxation in the cash flow statement. In review of the requirements of FRS 102, the Directors consider that these should be presented within cash flows from financing activities and net cash inflows from operating activities respectively, as opposed to within cash flows from investing activities. Therefore, the Directors have restated the prior year comparatives within the cash flow statement and note 18 to reflect this restated presentation. Further details are provided on page 37.

Statement of accounting policies

For the year ended 31 March 2020

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year. Note the cash flow has been restated as detailed on page 37.

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. The group has applied the amendments to FRS 102 issued by the FRC in December 2017 with effect from 1 January 2019. The transitional provisions relating to the triennial review amendments have not resulted in any restatements of comparative information by the group. 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 2020 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. 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 2020.

The implications of the next price control, RIIO-GD2, are not yet finalised with final proposals expected in November 2020. Correspondence with Ofgem to date indicates that the latest expectation of management, which formed the basis of the financial plan to December 2024 presented to the Board, will be close to the final outcome. The Board are confident that the outcome does not realise any risk to going concern.

The directors have made enquiries and reviewed the forecasts, including sensitivity analysis which includes the impact of COVID-19 as detailed in the strategic report, 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). 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.

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 (being the purchase price only) and net realisable value. Provision is made for obsolete or defective items where appropriate. Values are held on a first in first out basis. There is no material difference between the carrying and replacement value.

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.

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.

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.

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:

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

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.

Financial instruments (continued)

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.

Cash is treated as a basic financial instrument in accordance with FRS102. Cash and cash equivalents represent cash held and readily available overnight deposits.

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.

Derivative financial instruments (continued)

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 potential causes of 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. Some derivatives have been designated cash flow hedges hedging aggregate floating rate exposures (such exposure being the aggregate of a portion of fixed rate debt and an overlaid fixed-to-floating interest rate swap.

Changes in the fair value of derivatives that are designated as fair value hedges are recognized in profit and loss in the period in which the movement occurs, along with any movement in the fair value of the hedged debt instrument.

Hedge accounting is discontinued when 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.

Interest receivable

Interest receivable is recognised on an accruals basis in accordance with FRS102.

Restatement of cash flow statement

During the year the Directors reviewed the classification of Interest paid and Taxation in the Cash flow statement. In review of the requirements of FRS 102, the Directors consider that these should be presented within Cash flows from financing activities and Net cash inflows from operating activities respectively, as opposed to within Cash flows from investing activities. Therefore, the Directors have restated the prior year comparatives within the Cash flow statement and note 18 to reflect this restated presentation. Whilst there is no impact on the FY19 total cash flows, the impact of this adjustment is that the FY19, i) Net cash inflows from operating activities are reduced from £272,645k to £255,473k, ii) Cash flow from financing activities are increased due to a decrease in outflow from £246,631k to £161,675k, and iii) Cash flow from financing activities are reduced from an inflow of £77,035k to £9,251k.

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 company 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 company. Further details can be found within note 15.

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. The scheme net surplus of £65m (consisting of assets of £464m and liabilities of £399m) was based on underlying scheme asset valuations as at 31 March 2020. Valuations as at 31 March 2020 for £46m of the £464m constituting 10% of total assets were valued at 31 March 2020 in respect of property funds. The property valuers' have included a material uncertainty on the value of the properties at the valuation date. Management has considered each fund where a material uncertainty has been included by the valuer and concluded that this does not lead to a material change to the value disclosed as at the balance sheet date.

Notes to the accounts

For the year ended 31 March 2020

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

	2020 £'000	2019 £'000
Distribution costs	168,945	160,377
Administrative expenses	57,246	53,937
	226,191	214,314

3 Finance charges (net)

	2020 £'000	2019 £'000
Interest payable and similar charges	65,462	67,260
Less: investment income	(378)	(293)
Other finance income	696	(3,837)
	65,780	63,130

Interest payable and similar charges	2020 £'000	2019 £'000
Shareholder loans	18,049	18,000
Bank loans and overdrafts	9,778	3,156
Bonds	39,201	47,897
	67,028	69,053
Finance costs capitalised	(1,566)	(1,793)
	65,462	67,260

Finance costs have been capitalised based on a cost of debt capitalisation rate of 3.40% (2019 – 3.60%).

Cumulative capitalised costs amount to £15.3m (2019 - £13.8m).

3 Finance costs (net) (continued)

Investment income	2020 £'000	2019 £'000
Interest receivable and similar income	(378)	(293)
	(378)	(293)

Other finance (income) / charges	2020 £'000	2019 £'000
Fair value movement on financial instruments (see note 15)	773	(3,251)
Exchange rate differences	155	109
Unwinding of discount on provisions (see note 16)	259	105
Net interest on pension scheme (see note 20)	(491)	(800)
	696	(3,837)

4 Profit on ordinary activities before taxation

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

	2020 £'000	2019 £'000
Depreciation and amounts written off tangible fixed assets (see note 10)		
- owned	74,385	71,016
Amortisation of intangible fixed assets included in administrative expenses (see note 9)	14,149	9,320
Profit on disposal of fixed assets	(745)	(438)
Operating lease rentals - vehicles	680	1,028
Operating lease rentals - property	1,519	1,421

The analysis of auditor's remuneration is as follows:

	2020 £'000	2019 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts and consolidation	32	30
Fees payable to the company's auditor and its associates for other services to the group		
- The audit of the company's subsidiaries	111	109
Total audit fees	143	139
Fees payable to the company's auditor and its associates for other services to the group		
- Audit related assurance services*	103	69
Total non-audit fees	103	69

* *Relate to the audit of regulatory procedures, covenant compliance checking, audit of IT systems, pension reviews and provision of guidance for new accounting standards*

5 Staff costs

The average monthly number of employees, all of whom are employees of Northern Gas Networks Limited (the company has no employees) including executive directors was:

	2020 Number	2019 Number
Administration	127	129
Operations	1,339	1,302
	1,466	1,431

	2020 £'000	2019 £'000
Their aggregate remuneration comprised:		
Wages and salaries	62,331	61,106
Social security costs	6,320	6,592
Pension costs	6,697	6,944
	75,348	74,642

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Emoluments	75	70	911	886
Amounts receivable (other than shares) under long-term incentive schemes	-	-	244	237
	75	70	1,155	1,123

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.

6 Directors' remuneration and transactions (continued)

Highest paid director

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

	2020 £'000	2019 £'000
Emoluments	1,155	1,123

Transactions

There have been no transactions with directors in the year (2019 - £nil) other than as set out above in respect of remuneration. Only directors are deemed to be key personnel.

7 Tax on profit on ordinary activities

The tax charge comprises:

	2020 £'000	2019 £'000
Current tax		
UK corporation tax	35,323	26,752
Adjustments in respect of prior periods	(1,746)	(5,428)
Total current tax	33,577	21,324
Deferred tax		
Current period - origination and reversal of timing differences	7,850	(3,228)
Effect of increase in tax rate on opening liability	35,654	-
Adjustments in respect of prior periods	3,532	5,409
Total deferred tax	47,036	2,181
Total tax on profit on ordinary activities	80,613	23,505

7 Tax on profit on ordinary activities (continued)

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

	2020 £'000	2019 £'000
Group profit on ordinary activities before tax	147,466	122,625
Tax on group profit on ordinary activities at standard UK corporation tax rate of 19% (2019 – 19.0%)	28,019	23,299
Effects of:		
Expenses not deductible for tax purposes	871	515
Income not taxable in determining taxable profit	(586)	(497)
Differences in tax rates	-	207
Interest not deductible for tax purposes	1,140	-
Change in tax rate on opening position*	35,654	-
Deferred tax on intangible**	13,729	-
Adjustments in respect of prior year	1,786	(19)
Group total tax charge for the year	80,613	23,505

The group earns its profits in the UK. Therefore, the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 19.0% (2019 – 19.0%).

The group's planned level of capital investment is expected to remain at similar levels as current investment. Therefore, it expects to be able to claim capital allowances in excess of depreciation in future years, at a similar level to the current period. Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly, 19% has been applied when calculating deferred tax assets and liabilities as at 31 March 2020.

* In March 2020 the group restated deferred tax balances to 19% from 17% following the announcement from the Government that the previously enacted legislation to take UK corporation tax rates to 17% rate was to be removed. The impact of this one off charge was £35.7m.

** In the year deferred tax of £13.7m was recognised on an intangible for which the tax deductibility is under enquiry with HMRC, and this reflects the latest status of the enquiry. In determining the estimated provision at the year end, the directors would highlight that the range of possible outcomes could result in an adjustment to the deferred tax recognised, however the directors do not consider that it is likely that any subsequent adjustment would be material. To illustrate, a 1% adjustment in the level of tax deduction would result in a £0.3m adjustment in the deferred tax provision required.

8 Dividends on equity shares

	2020 £'000	2019 £'000
Equity shares		
- interim dividend paid of 25.95p (2019 – 24.77p) per ordinary share	18,600	17,750
- interim dividend paid of 84.30p (2019 – 80.51p) per ordinary share	60,420	57,700
	79,020	75,450

9 Intangible assets

	Software £'000	Software in the course of construction £'000	Licences £'000	Goodwill £'000	Total £'000
Cost					
At 1 April 2019	33,530	40,422	161,200	65,712	300,864
Additions	-	16,695	-	-	16,695
Transfers	53,035	(53,035)	-	-	-
At 31 March 2020	86,565	4,082	161,200	65,712	317,559
Amortisation					
At 1 April 2019	18,520	-	55,751	22,604	96,875
Charge for the year	8,477	-	4,027	1,645	14,149
At 31 March 2020	26,997	-	59,778	24,249	111,024
Net book value					
At 31 March 2020	59,568	4,082	101,422	41,463	206,535
At 31 March 2019	15,010	40,422	105,449	43,108	203,989

Goodwill and licences are described within the accounting policies note of the accounts. Within software the biggest individual assets are those related to the new SAP system which become operational within the period and had a carrying value of £42.0m at 31 March 2020 and a useful economic life ending in 2029.

10 Tangible fixed assets

Group	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 April 2019	8,479	2,932,831	23,350	110,275	19,250	3,094,185
Additions	329	99,754	46	1,888	49,219	151,076
Disposals	(4)	-	(641)	-	-	(645)
Transfers	3,766	31,724	-	272	(35,762)	-
At 31 March 2020	12,570	3,064,309	22,755	112,435	32,707	3,244,776
Depreciation						
At 1 April 2019	5,199	543,496	11,048	83,061	-	642,804
Charge for the period	831	61,686	2,467	9,401	-	74,385
Disposals	(4)	-	(608)	-	-	(612)
At 31 March 2020	6,026	605,182	12,907	92,462	-	716,577
Net book value						
At 31 March 2020	6,544	2,459,127	9,848	19,973	32,707	2,528,199
At 31 March 2019	3,280	2,389,335	12,302	27,214	19,250	2,451,381

Undepreciated freehold land equates to £774,000 at 31 March 2020 (2019 - £774,000).

11 Investments

	Group		Company	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	574,502	574,502
Other investments	104	104	-	-
	104	104	574,502	574,502

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 1st 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%.

11 Investments (continued)

Subsidiary undertakings

	£'000
Cost and net book value	
At 31 March 2019 and 31 March 2020	574,502

Other investments

Cost and net book value	£'000
At 31 March 2019 and 31 March 2020	104

12 Debtors

	Group		Company	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Amounts falling due within one year:				
Deposits with banks	-	90,000	-	-
Trade debtors	4,121	3,354	-	-
Amounts owed by group undertakings	1	1	9,615	5,177
Other debtors	144	34	9,039	5,619
Accrued income	38,837	35,387	-	-
Prepayments	5,013	4,129	-	-
Derivative financial assets	4,938	10,650	-	-
	53,054	143,555	18,654	10,796
Amounts falling due after more than one year:				
Defined benefit pension scheme (see note 20)	65,412	16,935	-	-
Derivative financial assets	394,467	328,627	-	-
	459,879	345,562	-	-
	512,933	489,117	18,654	10,796

Deposits with banks represent, cash held with banks which are on short term deposit and have been deemed as a cash equivalent in cash flow statement.

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. The balances within the company arise in relation to rechargeable services provided by other group companies.

13 Creditors: Amounts falling due within one year

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Bank loans	59,667	-	-	-
Bond due 2019	-	199,931	-	-
Derivative financial liabilities	538	10,726	-	-
Payments received on account	647	2,473	-	-
Trade creditors	10,064	4,931	-	-
UK corporation tax	32,742	41,183	-	-
Other taxation and social security	14,089	11,779	-	-
Accruals and deferred income	74,682	74,502	4,681	194
	192,429	345,525	4,681	194

The bank loans balance comprises a £20.0m loan with an interest rate of 0.64% repayable on 20 April 2020 and a £40.0m loan with an interest rate of 0.64% repayable on 30 April 2020. The facility under which the loans were drawn expires in October 2022. The bond due 2019 maturing at £200m was repaid on 7 July 2019 including all outstanding interest charged at 5.875% paid annually. Company accruals include shareholder loan interest accruals due in December 2020, based on a shareholder loan of £180.0m with an interest rate of 10%.

14 Creditors: Amounts falling due after more than one year

	Group		Company	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Shareholder loans	180,000	180,000	180,000	180,000
Bank loans	425,787	427,632	-	-
Guaranteed bond due 2027	313,312	314,038	-	-
Guaranteed bond due 2035	393,457	367,225	-	-
Bond due 2040	196,909	196,766	-	-
USPP 2039	99,700	-	-	-
USPP 2029	52,982	51,267	-	-
USPP 2031	162,813	155,333	-	-
Deferred income	131,386	124,780	-	-
Derivative financial liabilities	221,192	172,935	-	-
	2,177,538	1,989,976	180,000	180,000

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

Creditors falling due after more than one year represented by debt and other financial instruments are as follows:

Debt instrument	Maturity date	Interest rate / basis	Principal amount (£m)	Fair value adjustment (£m)	Unamortised costs & discounts (£m)	Book value (£m)
Shareholder Loan Notes	18/12/2033	10.0% fixed	180.0	-	-	180.0
Fixed rate bond	30/06/2027	4.875% fixed	250.0	63.5	(0.2)	313.3
Fixed rate bond	15/11/2035	4.875% fixed	255.0	138.7	(0.2)	393.5
Fixed rate bond	23/03/2040	5.625% fixed	200.0	-	(3.1)	196.9
US Private Placement notes	10/01/2029	2.84% fixed	50.0	3.1	(0.1)	53.0
US Private Placement notes	10/01/2031	2.97% fixed	150.0	13.3	(0.5)	162.8
US Private Placement notes	26/06/2039	2.71% fixed	100.0	-	(0.3)	99.7
European Investment Bank fixed rate loan	20/12/2024	3.446% fixed	40.0	-	-	40.0
European Investment Bank floating rate loan	23/01/2023	3 month Libor + 0.357%	25.0	-	-	25.0
European Investment Bank floating rate loan	30/03/2024	3 month Libor + 0.624%	100.0	-	-	100.0
European Investment Bank floating rate loan	24/06/2024	3 month Libor + 0.548%	25.0	-	-	25.0
European Investment Bank floating rate loan	30/07/2024	3 month Libor + 0.458%	60.0	-	-	60.0
European Investment Bank floating rate loan	31/03/2027	3 month Libor + 0.534%	30.0	-	-	30.0
European Investment Bank floating rate loan	28/02/2028	3 month Libor + 0.627%	30.0	-	-	30.0
European Investment Bank floating rate loan	20/12/2028	3 month Libor + 0.934%	40.0	-	-	40.0
European Investment Bank floating rate loan	29/03/2029	3 month Libor + 0.834%	50.0	-	-	50.0
European Investment Bank amortising loan	25/03/2034	3 month Libor + 0.860%	25.8	-	-	25.8
Interest rate derivatives designated as fair value hedges	Various	Receive fixed, pay 6 Month Libor + margin	-	-	-	0.0
Interest rate derivatives designated as cash flow hedges	Various	Pay fixed, receive 3 or 6 month Libor	-	-	-	30.9
Other interest rate derivatives	Various	Various	-	-	-	190.8

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

	31 March 2020 £'000	31 March 2019 £'000
Maturity analysis of bond interest and repayments:		
(measured as actual cash flows)		
In one year or less	35,869	247,619
In more than one year but less than two years	35,869	35,869
In more than two years but less than five years	107,606	107,606
In more than five years but less than ten years	392,781	404,969
In more than ten years but less than twenty years	629,656	442,088
In more than twenty years	-	211,250
	1,201,781	1,449,401

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.

	2020 £'000	2019 £'000
Financial assets		
Measured at fair value through the profit and loss account		
- Derivative financial assets (see note 12)	223,710	209,884
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets – cash flow hedges (see note 12)	-	30
- Derivative financial assets – fair value hedges (see note 12)	175,695	129,363
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 12)	3,572	3,388
- Amounts owed by parent undertaking (see note 12)	1	1
- Accrued income (see note 12)	38,837	35,387
- Deposits with banks	-	90,000
Equity instruments measured at cost less impairment		
- Fixed asset investments (see note 11)	104	104
	441,919	468,157

15 Derivatives and other financial instruments (continued)

	2020 £'000	2019 £'000
Financial liabilities		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities (see notes 13 and 14)	190,800	165,151
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities – cash flow hedges (see notes 13 and 14)	30,930	18,510
Measured at amortised cost		
- Loans payable (see notes 13 and 14)	964,561	806,978
- Fair value hedge adjustment of live bonds & USPP notes (see notes 13 and 14)	179,273	133,134
- Other financial liabilities - bonds (see notes 13 and 14)	695,396	901,256
- Fair value hedge adjustment – bonds previously in FV hedge relationships	39,278	50,824
Measured at undiscounted amount payable		
- Trade and other creditors (see note 13)	6,624	7,404
- Accruals and deferred income (see notes 13 and 14)	206,068	199,282
- Corporation tax (see note 13)	32,918	41,183
- Other taxation and social security (see note 13)	14,089	11,779
	2,359,937	2,333,501

15 Derivatives and other financial instruments (continued)

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

	2020 £'000	2019 £'000
Interest income and expense on items at amortised cost		
- Total interest payable on financial liabilities at amortised cost	73,019	75,246
- Total interest receivable on financial assets measured at amortised cost	(378)	(293)
	72,641	74,953
Interest income and expense on derivatives		
- Total interest receivable on financial assets measured at fair value through the P&L	(19,217)	(30,611)
- Total interest payable on financial liabilities measured at fair value through the P&L	10,019	18,831
- Total interest payable / (receivable) on financial assets designated in an effective hedging relationship:		
- Cash flow hedges	-	10
- Fair value hedges	(3,335)	(653)
- Total interest payable / (receivable) on financial liabilities designated in an effective hedging relationship:		
- Cash flow hedges	5,996	5,733
- Fair value hedges	-	-
	(6,537)	(6,690)
Fair value gains and losses		
- On financial assets measured at fair value through the profit and loss account	(15,979)	730
- On financial liabilities measured at fair value through the profit and loss account	26,070	13,296
- On derivative financial assets designated in an effective hedging relationship – ineffectiveness on live cash flow hedges	-	8
- On derivative financial assets designated in an effective hedging relationship – live fair value hedges	(43,769)	(26,633)
- On financial assets formerly designated in an effective hedging relationship – amortisation of previous FV hedge adjustments	540	540
- On derivative financial liabilities designated in an effective hedging relationship – ineffectiveness on live cash flow hedges	(141)	(124)
- On derivative financial liabilities designated in an effective hedging On non-derivative financial liabilities designated in an effective hedging relationship – live fair value hedges	46,139	23,449
- On financial liabilities formerly designated in an effective hedging relationship – amortisation of previous FV hedge adjustments	(12,087)	(14,517)
	773	(3,251)
Other net finance costs	(1,097)	(1,882)
	65,780	63,130

15 Derivatives and other financial instruments (continued)

Fair value gains and losses in finance costs include the amortisation of fair values "frozen" when accounting hedge designations were terminated (either voluntarily under FRS102 section 21 or because automatic de-designation was triggered for other reasons). Under the group's strategy of swapping fixed rate debt to floating rate and re-fixing with overlay swaps, certain fair value hedges were previously de-designated as a matter of routine under FRS102 Sections 11 and 12. As FRS102 permits interest rate swaps to be designated as cash flow hedges of aggregate floating rate exposures (fixed rate debt and swap to floating) the underlying Fair value hedges remain when the corresponding overlay swaps are transacted.

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

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	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Cash flow hedges				
Assets	-	-	-	30
Liabilities	-	(2,048)	(30,930)	(16,462)
Fair value hedges				
Assets	-	-	175,695	129,363
Liabilities	-	-	-	-
	-	(2,048)	144,765	112,931

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.

15 Derivatives and other financial instruments (continued)

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	
	2020	2019	2020	2019	2020	2019
	%	%	£'000	£'000	£'000	£'000
Outstanding cash flow hedges of floating rate EIB loans						
Less than 1 year	-	4.91	-	50,000	-	(2,048)
1 to 2 years	-	-	-	-	-	-
2 to 5 years	2.24	-	160,789	-	(11,987)	-
5 years +	1.29	1.64	225,000	411,316	(11,563)	(16,431)
			385,789	461,316	(23,550)	(18,479)

The receive floating pay fixed interest rate swaps 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 thereby eliminating the risk of adverse interest rate movements resulting in unexpected costs and cash flows over the life of the instruments. Where an individual derivative instrument has a maturity date after the maturity date of the hedged debt the expectation is that the underlying debt will replaced like-for-like such that the forecast cash exposure remains highly probable.

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

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2020	2019	2020	2019	2020	2019
	%	%	£'000	£'000	£'000	£'000
Outstanding cash flow hedges of other floating rate exposures						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years +	1.13	-	160,000	-	(7,380)	-
			160,000	-	(7,380)	-

15 Derivatives and other financial instruments (continued)

The group's £250m 2027 and £255m 2035 bonds have been swapped to floating rate for life with a number of interest rate swaps on which the group receives a fixed rate equivalent to the coupon on the bonds and pays 6 month Libor plus a margin. In some cases these swaps have been designated as fair value hedges (see the table below). The receive floating pay fixed interest rate swaps analysed in the table above are designed to re-fix the rate on the floating rate exposure thus created for periods of ten years. They have been designated as Cash Flow hedges of the aggregate floating rate exposure created by the fixed rate bond portion and corresponding swap to floating rate. Where an individual derivative instrument has a maturity date after the maturity date of the hedged the expectation is that the underlying debt will replaced like-for-like such that the forecast cash exposure remains highly probable.

Interest on the swaps is settled on a semi-annual basis. The floating rate on the swaps is six month LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2020	2019	2020	2019	2020	2019
	%	%	£'000	£'000	£'000	£'000
Outstanding fair value hedges of bonds						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years plus	4.88	4.88	350,000	350,000	160,430	122,507
			350,000	350,000	160,430	122,507

The receive fixed pay floating swaps analysed above hedge the exposure to changes in the fair value of the underlying portions of the group's 2027 and 2035 bonds that are attributable to changes in interest rates. As the start dates on the swaps vary (some are forward-starting) they also enable the interest rate on the underlying debt to be progressively re-fixed in line with the group's overall interest rate hedging strategy. The 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.

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2020	2019	2020	2019	2020	2019
	%	%	£'000	£'000	£'000	£'000
Outstanding fair value hedges of US Private Placement notes						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years plus	2.94	2.94	20,000	10,000	15,264	6,856
			20,000	10,000	15,264	6,856

The receive fixed pay floating swaps analysed above hedge the exposure to changes in the fair value of the underlying portions of the group's 2029 and 2031 USPP notes that are attributable to changes in interest rates. As the swaps have been structured on an accreting basis they also enable the effective interest rate on the underlying debt to be progressively re-fixed in line with the group's overall interest rate hedging strategy. Interest on the swaps is settled on a semi-annual basis. The floating rate on the swaps is six month LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

The USPP loan notes issued by the group 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 notes before the maturity date.

At 31 March 2020 the group's undrawn borrowing facilities available for use amounted to £100.0m (2019 £160.0m).

16 Provisions for liabilities

	Gas holder Decommissioning £'000	Restructuring £'000	Deferred tax £'000	Environmental restoration £'000	Other £'000	Total £'000
Group						
At 1 April 2019	2,194	2,027	295,226	4,513	5,898	309,858
Charged / (credited) to profit and loss	128	346	47,039	(1,087)	1,416	47,842
Charged to hedge reserve	-	-	(2,802)	-	-	(2,802)
Charge to pension reserve	-	-	7,996	-	-	7,996
Utilised in the year	(955)	(1,710)	-	(161)	(654)	(3,480)
Adjustment arising from discounting	-	-	-	-	259	259
At 31 March 2020	1,367	663	347,459	3,265	6,919	359,673

Deferred tax

Deferred tax is provided as follows:

	2020 £'000	2019 £'000
Group		
Accelerated capital allowances	82,793	78,017
Fixed asset differences	241,447	216,032
Other timing differences	10,791	(1,702)
Deferred tax on pension surplus (see note 20)	12,428	2,879
	347,459	295,226

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.

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 £0.9m 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 1% 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

	2020 £'000	2019 £'000
Allotted, called-up and fully-paid		
71,669,980 ordinary shares of £1 each	71,670	71,670
Allotted and called-up		
999 ordinary shares of £1 each	1	1
1 special share of £1	-	-
	71,671	71,671

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.

18 Reconciliation of operating profit to operating cash flows and net debt reconciliation

Reconciliation of operating profit	2020 £'000	2019 (restated*) £'000
Operating profit	213,246	185,755
Depreciation and amortisation	88,502	80,336
Taxation – UK corporation tax paid	(42,016)	(17,172)
Profit on sale of tangible fixed assets	(745)	(438)
(Increase) / decrease in stock	(1,394)	(992)
(Increase) / decrease in debtors	(5,126)	(8,735)
Increase in creditors	17,693	28,355
Decrease in provisions	(4,199)	(7,402)
Adjustment for pension funding	(4,350)	(4,234)
Net cash inflow from operating activities	261,611	255,473

* During the year the Directors reviewed the classification of taxation in the cash flow statement as detailed on page 37.

Net debt reconciliation

	1 April 2019 £'000	Cash flow £'000	Other non-cash changes £'000	31 March 2020 £'000
Cash at bank and in hand	21,173	(7,559)	-	13,614
Cash equivalents	90,000	(90,000)	-	-
	111,173	(97,559)	-	13,614
Debt due within 1 year	(199,931)	140,000	264	(59,667)
Debt due after more than 1 year	(1,692,261)	(99,687)	(33,012)	(1,824,960)
	(1,892,192)	40,313	(32,748)	(1,884,627)
Net debt	(1,781,019)	(57,246)	(32,748)	(1,871,013)

Other non-cash changes primarily result from fair value movements on derivative financial instruments.

19 Financial commitments

Total future commitments of the group (none within the company) under non-cancellable operating leases are as follows:

	31 March 2020		31 March 2019	
	Land and buildings £'000	Other £'000	*Land and* buildings £'000	Other £'000
- within one year	1,423	296	1,392	542
- between one and two years	1,059	23	1,136	169
- between two and five years	2,406	-	2,278	18
- after five years	1,806	-	2,286	-
	6,692	319	7,092	729

The group has a total commitment of £6.1m (2019 - £6.6m) 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.

20 Pension arrangements

The group has obligations for a defined benefit pension scheme. The last triennial valuation was done in March 2019. 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:

	2020 £'000	2019 £'000
Present value of funded obligations	(398,572)	(459,282)
Fair value of plan assets	463,984	476,217
Surplus (see note 12)	65,412	16,935
Related deferred tax liability	(12,428)	(2,879)
Net asset	52,984	14,056
Amounts in the balance sheet		
- Asset	52,984	14,056

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

	2020 £'000	2019 £'000
Amount charged to operating profit		
Current service costs	2,939	3,114
Past service (gains) / costs	(1,003)	2,800
	1,936	5,914
Amount credited to net finance charges		
Interest costs	10,709	11,430
Expected cost return on plan assets	(11,200)	(12,230)
Net return on pension scheme (see note 3)	(491)	(800)
Total	1,445	5,114

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

	2020 £'000	2019 £'000
Actuarial gains / (losses)	41,967	(14,550)

20 Pension arrangements (continued)

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

	2020 £'000	2019 £'000
Actuarial losses	(37,102)	(79,069)

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

	2020 £'000	2019 £'000
Opening defined benefit obligation	459,282	456,393
Service cost	2,939	3,114
Past service cost	(1,003)	2,800
Interest cost	10,709	11,430
Member contributions	318	381
Actuarial (gains) / losses	(46,287)	38,479
Benefits paid	(27,386)	(53,315)
Closing defined benefit obligation	398,572	459,282

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

	2020 £'000	2019 £'000
Opening fair value of plan assets	476,217	482,951
Expected return	11,200	12,230
Actuarial (losses) / gains	(4,320)	23,929
Employer contributions	7,955	10,041
Member contributions	318	381
Benefits paid	(27,386)	(53,315)
	463,984	476,217

20 Pension arrangements (continued)

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

	31 March 2020	31 March 2019
	%	%
Equity and cash securities	29.8	27.8
Bond securities	59.2	55.8
Property	6.9	9.7
Other	4.1	6.7

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:

	2020	2019
	£'000	£'000
Actual return on plan assets	11,412	36,159

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

	2020	2019
Discount rate	2.4%	2.4%
Future salary increases	3.6%	3.8%
Inflation (CPI)	2.0%	3.3%
Inflation (RPI)	2.6%	3.3%
Life expectancy on retirement		
- member aged 65 (retiring today) male	21.2 years	21.5 years
- member aged 65 (retiring today) female	23.7 years	23.4 years
- member aged 45 (retiring in 20 years) male	23.5 years	23.2 years
- member aged 45 (retiring in 20 years) female	25.9 years	25.3 years

The group are in 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 £4.4m (2019 - £4.2m) were made in the year.

The group also operates defined contribution schemes for which the pension charge for the period amounted to £2,633,000 (2019 - £3,666,000).

Notes to the accounts (continued)

21 Related party transactions

There have been no transactions with directors in the year (2019 - £nil) other than remuneration as disclosed in note 6 to the accounts.

During the year the group was recharged £433,000 (2019 - £197,000) 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 £2,315,000 (2019 - £2,801,000) 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** £'000	**Value of Loan** £'000
PG (April) Limited	8,471	84,706
Beta Central Profits Limited	7,433	74,329
SAS Trustee Corporation	2,096	20,965
	18,000	180,000

22 Ultimate controlling party

The company is wholly owned by a consortium comprising of:

Shareholder	Ultimate parent undertaking
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