**Northern Gas Networks Holdings Limited**

Annual Report and accounts
for the year ended 31 March 2022

Registered number: 05213525

## Strategic report

For the year ended 31 March 2022

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 2022. 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 £151.1m (2021 - £157.6m) with revenue decreasing by £18.0m based on Ofgem allowances, and cost decreases of £11.5m. The main drivers of the cost decrease were: (1) distribution expenses have decreased by £26.9m due to one off provision costs with the prior year; (2) admin expenses have decreased by £7.9m mainly due to a circa £6m credit on the closure to future accrual to the defined contribution pension scheme within March 2022, and reduced IT depreciation, and (3) these savings are part offset by cost of sales increases of £23.3m linked to increased gas prices and the increase to the cost of transporting gas into the NGN network.

At the end of the year, the group's undrawn borrowing facilities available for use amounted to £140.0m (2021 - £65.0m). The group has debt at the 31 March 2022 with a principal value of £1,803.1m (2020 - £1,703.9m) 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 green bonds | Jun 2031 | 1.6% fixed | 1.0 | 1.0 |
| Fixed rate bond | Jun 2027 | 4.875% fixed | 250.0 | 285.2 |
| Fixed rate bond | Nov 2035 | 4.875% fixed | 255.0 | 330.1 |
| Fixed rate bond | Mar 2040 | 5.625% fixed | 200.0 | 197.2 |
| US Private Placement notes | Jan 2029 | 2.84% fixed | 50.0 | 49.9 |
| US Private Placement notes | Jan 2031 | 2.97% fixed | 150.0 | 150.8 |
| US Private Placement notes | Sep 2036 | 2.02% fixed | 175.0 | 174.6 |
| 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<br>*See note 14 for breakdown* | Various | Compounded SONIA + 0.1193% CAS + margin | 360.0 | 360.0 |
| European Investment Bank (EIB) amortising loan | Mar 2034 | Compounded SONIA + 0.1193% CAS + 0.86% | 22.1 | 22.1 |
| Revolving credit facility drawings | Apr 2022 | Compounded SONIA +0.40% | 20.0 | 19.4 |

Group debt (principal) in the year increased by £99.2m following the additional £175m of US Private Placement notes and £1m of fixed rate green bonds raised, offset by repaid revolving credit and EIB loan balances.

**Financial and operational review (continued)**
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 £97.2m (2021 - £55.9m) as detailed in note 3. This significant change is primarily due to fair value movements and CPI SWAP accretion debits of £45.2m in the year (2021: £0.5m credit). Details of the way swaps are used to manage interest 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 £123.5m (2021 - £25.0m). In June 2021 the group restated deferred tax balances to 25% from 19% following the announcement and enactment by the Government to increase UK corporation tax rates to 25% from April 2023. The associated one off impact of the change in the tax rate was a tax charge of £108.9m as shown in note 7. The group's resulting loss after tax was £69.5m (2021 – profit of £76.7m).

The group generated a net cash inflow from operating activities for the year of £184.1m (2021 - £268.0m), the movement being due to operating profits falling. Capital additions in the year across tangible and intangible assets was £163.5m (2021 - £160.6m) principally focused on investment in network assets including replacement expenditure. The opening position of fixed assets has been restated as shown in note 10 to reflect categorisation differences identified, between land and buildings, gas distribution assets, motor vehicles and other equipment, both within cost and depreciation. The net impact of the reclassification at a net book value level was nil. The group had net assets of £381.1m at 31 March 2022 (2021 - £475.9m) the movement being due to losses and dividend payments in the year, offset by valuation movements in the defined benefit pension liability and cashflow hedge (see page 29).

*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:

| | 2022 | 2021 |
|---|---|---|
| **Financial performance (efficiency)** | | |
| Operating profit | £151.1m | £157.6m |
| Net cash from operating activities | £184.1m | £268.0m |
| Dividends paid | £73.7m | £83.0m |
| External debt less cash / regulatory asset value (gearing ratio) | 64.9% | 64.4% |
| **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) | 1 | 2 |
| Reported injuries to members of the general public (MOPs) | 2 | 1 |

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 the group has continued to perform well. The group achieved an overall score of 9 out of 10 for customer satisfaction survey scores, and continues to lead the industry with regard to safety, achieving the 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.

*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 within 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 within the industry and potential impacts on the business. The group has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations. From 1 April 2021 a new 5 year price control period commenced (referred to as RIIO-GD2). All legal and regulatory obligations required during RIIO-GD2 are fully understood.

*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.

*Mitigation*
Health and Safety is the number one priority. The business has an Environment Health & Safety team that ensure compliance with group management safety system and monitor it on a monthly basis with key KPIs. In February of 2022 legal proceedings concluded regarding a HSE investigation into a gas explosion in Mirfield, which occurred in 2019 leading to the tragic death of a member of the general public. While it was acknowledged that the policies and procedures of the group were good, the severity of the outcome meant that a fine of £5.0m was paid by the group.

*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 to ensure to, to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent. The group has comprehensive IT infrastructure governance which covers cyber risk. The group has invested heavily in this area over the few 24 months and are on high alert due to the ongoing European disruption.

*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.

**Principal risks and uncertainties (continued)**

*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 group has published its gender pay gap analysis which can be found at: https://www.northerngasnetworks.co.uk. The group complies with all UK human rights laws and has processes and procedures to assess risk and ensure compliance in this area.

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

*Asset life*
There is a risk that gas in its existing form is no longer used as a source of energy, with the UK government supporting 'net zero by 2050'. This could lead to stranded assets.

*Mitigation*
The NGN group, with other key industry partners, continue to invest in the use of hydrogen as an alternative energy source which could be distributed through the existing gas infrastructure, removing the need to reduce network asset useful economic lives, or apply impairment. Further details are provided within 'critical accounting judgments and key sources of estimation uncertainty' on page 40.

**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 and index linked CPI swaps. The purpose of such transactions is to manage the interest rate and inflation risks arising from the group's sources of finance and regulatory cost of debt allowance. The main risks arising from the group's financial instruments are interest rate risk, inflation 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 debt compared with the actual and expected level of the regulatory allowance,

**Financial risk management objectives and policies (continued)**

- 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 use inflation linked derivatives where appropriate to align the debt profile more closely with regulatory assumptions, and deliver cash flow, hedging and funding cost benefits,
- 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. 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.

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.

*Inflation risk*
Inflation risk is the risk that inflation increases interest costs. The group uses inflation linked derivatives where appropriate to align the debt profile more closely with regulatory assumptions, and deliver cash flow, hedging and funding cost benefits.

*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.

**Financial risk management objectives and policies (continued)**
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 with the safety of customers and employees being of paramount importance, and as a result, non-essential operations stopped from 24 March 2020 following the initial announcement from the UK Government that the UK should be in 'lock down'. This was gradually eased across the summer of 2020 with all work streams being in operation in some capacity by June of 2020. During subsequent 'lock down' periods all operations continued, following a comprehensive risk assessment, the development of new procedures, and geographical planning in a manner which reduced customer interactions. Covid has had an ongoing impact on how NGN operates as a business, with additional PPE and reduced travel being the new norm. Regarding back office staff, the group continues to assess the impact of homeworking compared to office working and over the course of 2022 develop a suitable policy to meet the needs of the business and employees.

Due to the nature of the business, the revenue of the group has not been impacted (note any movement in revenue is due to the year on year fluctuation in revenue allowances). The Board has reviewed 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 need for asset impairment.

**Brexit / European disruption (war in Ukraine)**
The group continues to consider the potential impact of Brexit on its business. The group took a comprehensive review of all trade agreements to ensure compliance with the EU-UK Trade and Cooperation Agreement, and to ensure that no continuity issues result with regard to essential supplies. Based on the assessment and due to the ongoing European disruption, the 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 since 2020. These products are not perishable and as such the financial risk of holding additional stock is minimal. Brexit has no implications on debt held with the European Investment Bank.

The ongoing disruption in Europe is being monitored to consider the implications on the group. The primary considerations are stock continuity as mentioned above and increasing gas prices, because the group buy gas to add to the network (shrinkage cost).

**Brexit / European disruption (war in Ukraine) (continued)**

While this is a pass through cost (funded through revenue with any under or over forecast being calibrated in the following regulatory year), it can have a negative impact on cash flow for 12 months when costs are above forecast. The Board do not consider this to be a significant issue given the headroom within banking facilities and low debt to RAV position as at the balance sheet date.

The European disruption has had the impact of causing issues for the customers of the group, some of whom have not been able to meet the cashflow demands of rising gas prices and so have entered administration. For NGN this can cause bad debt, however we are able to recover this through revenue in future periods under uniform network code, and so the risk is only that of cash inflow timing, which does not cause the group any concern given the headroom available to the group. Bad debt in the period totalled less that £5million, with this being recovered through revenue by March 2023.

**Cost inflation risk**

Inflation does not cause the company or the NGN group a significant risk, because a key variable in the regulated revenue mechanism of the group is inflation (as inflation grows so does revenue). As a transporter of gas, it is important to note that NGN do not own the gas and so the risks to the company with regard to energy prices is no different to that of most businesses, other than the fore-mentioned impact on our customers. The group's biggest 'energy expenditure' relates to the cost of replacing gas which escapes from NGN's network. This cost is funded through regulated revenue.

The Board has reviewed financial forecasts which factor in the above, and do not consider the impact to either influence going concern, or result in any need for asset impairment.

**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 group and how they have regard to employee interests, and the effect of that regard, including on the principal decisions taken by the group 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

M J Horsley, Director

16 September 2022

## Directors' report

For the year ended 31 March 2022

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 2022. 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:

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

**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.

| Year ended 31 March 2022 | | Year ended 31 March 2021 | |
|---|---|---|---|
| Date | Attendees | Date | Attendees |
| 12 April 2021 | 9 out of 9 | 8 April 2020 | 8 out of 9 |
| 16 June 2021 | 9 out of 9 | 20 July 2020 | 8 out of 9 |
| 20 October 2021 | 3 out of 9 | 19 November 2020 | 9 out of 9 |
| 18 November 2021 | 9 out of 9 | 20 January 2021 | 9 out of 9 |

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

**Dividends**

The directors do not recommend payment of a final dividend. Interim dividends of 24.07p per share were paid on 21st June 2021, and 78.76p per share were paid on 21st December 2021 making a total of 102.83p per share for the year (2021 – 115.81p). See note 8 for details. Declared dividends are in line with the expectations of the Board.

**Directors' indemnities**

The group has made qualifying third party indemnity provisions for the benefit of its directors. This was in place during the year and remains in force at the date of this report. This also covers the responsibilities that the directors have for subsidiaries within the 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, inflation and European disruption (war in Ukraine), to consider the potential impacts on its business. Subsequent to the balance sheet date the group have drawn USPP debt of £65.0m on 30 June 2022 with a rate of 2.10% and a life of 15 years.

**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 Brexit, European disruption (war in Ukraine), inflation and COVID-19 as considered on pages 5 to 7. The group has: (1) undrawn borrowing facilities of £140.0m at the balance sheet date; (2) has net current assets of £162.0m; and (3) regulated revenue income until 31 March 2026. The directors have made enquiries and reviewed the forecasts which include assessment of covenants, and in light of the facilities available, have a reasonable expectation that the group 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's environmental management systems are certified under ISO 14001. The group is committed to reducing its carbon emissions under Regulatory Instructions and Guidance (RIGS). Between 2021 and 2026 the aim is to reduce Scope 1 and Scope 2 emissions by 47%, and key Scope 3 emissions by 11%. Carbon reporting is in accordance with Ofgem guidance, plus enhanced Scope 3 reporting. 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. The emissions reduction program is managed by the Regulation Director within the group, supported by the senior management team and Board as needed.

**Energy and carbon (continued)**

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 are as published by the UK Government (Department for Business, Energy and Industrial Strategy). The NGN Shrinkage and Leakage Model is used to generate the leakage assessment in accordance with Ofgem guidance. The model comprises of four main leakage components; leakage from Low Pressure systems, Medium Pressure systems, Above Ground Installations and Interference Damage. Each of these components has a number of internal inputs and assumptions. In addition to leakage, own use gas and theft of gas are calculated to make up the overall shrinkage calculation. These elements are fixed calculations being a percentage of throughput. Reported data has not been externally verified, due to robust internal processes.

| Business Carbon Footprint | | Performance | |
|---|---|---|---|
| | | 2022 | 2021 |
| Scope 1: gas shrinkage | tonnes of $CO_2e$ | 363,344 | 365,881 |
| Scope 1: natural gas consumption | tonnes of $CO_2e$ | 317 | 230 |
| Scope 1: commercial vehicles, company cars and grey fleet | tonnes of $CO_2e$ | 4,466 | 4,287 |
| Scope 2: electricity consumption (location based) | tonnes of $CO_2e$ | 952 | 1,019 |
| Scope 2: electricity consumption (market based) | tonnes of $CO_2e$ | 2 | 122 |
| Scope 3*: indirect emissions – purchased goods and services, capital goods, fuel and energy activity, upstream transport and distribution, operational waste and business travel | tonnes of $CO_2e$ | 22,406 | 15,150 |
| Total Scope 1 and 2 (location based) | tonnes of $CO_2e$ | 369,081 | 371,418 |
| Total Scope 1, 2 (location based) and 3 | tonnes of $CO_2e$ | 391,487 | 386,568 |
| Carbon offsets | tonnes of $CO_2e$ | - | - |
| Total annual net emissions | tonnes of $CO_2e$ | 391,487 | 386,568 |
| Total Scope 1 and 2 (location based) | emissions (tCO2e) per £m turnover | 876.04 | 845.48 |
| Total Scope 1 and 2 (location based) | emissions (tCO2e) per GWh of gas throughput | 5.50 | 5.26 |
| Total Scope 1, 2 (location based) and 3 emissions (tCO2e) per £m turnover | emissions (tCO2e) per £m turnover | 929.22 | 879.96 |
| Total Scope 1, 2 (location based) and 3 | emissions (tCO2e) per GWh of gas throughput | 5.83 | 5.48 |
| Scope 1 & 2 | energy consumption (kWh) | 339,303,392 | 343,138,962 |

** Expanded scope of reporting in 2022 compared to 2021 driving increase in emissions.*

The above figures have been prepared in accordance with guidance provided in Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance; HM Government; March 2019. All carbon and energy figures are based on actual data and are verified through our regulatory reporting process which requires robust, repeatable procedures to ensures accuracy and consistency year-on-year. Any data provided is signed off and checked by an independent party. Actual data is received in a number of formats including downloads from information systems, invoices and data from 3rd party providers showing transaction details (such as fuel card transactions). Each data source is filed and saved in a secure folder, with limited access. The data is then manipulated and converted in to tCOe or KWh using published DEFRA conversion factors for the relevant year.

**Energy and carbon (continued)**

Where market-based factors are stated these are based on REGO backed green energy tariff certification as stated in the contract between NGN and our energy suppliers, or information provided by landlords at leased properties where NGN are not in control of the electricity supply. Total annual net emissions figure uses location based methodology. Intensity metrics have been discussed via the Energy Networks Association (ENA).

As shown in the table, shrinkage remains the key element of emissions and energy consumption which is being reduced through efficient gas pressure management, treatment of the gas with a chemical to swell pipe joints to minimise leakage, swift gas escape management and gas mains replacement. Other activity to reduce emissions and energy consumption include vehicle fleet upgrading (company cars and commercial vehicles), utilising zero carbon electricity at all of our premises, 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. Increases in natural gas consumption in premises and vehicles emissions were recorded during 2022 compared to 2021 as a result of the return to more typical working practices following COVID-19. Reported Scope 3 emissions have increased in 2022 compared to 2021 as a result of the inclusion of a wider range of emissions sources. Emissions per £m turnover increased in 2022 by c.5% compared to 2021 in part due to a 4% reduction in business turnover between these periods.

**Supplier payment policy**

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

**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

M J Horsley

M J Horsley, Director
16 September 2022
1100 Century Way, Thorpe Park Business Park, Leeds, LS15 8TU, United Kingdom

## Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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.

**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 2022, 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.

**Overview of the Board (continued)**

*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 |
|---|---|---|---|---|---|---|
| **2021** | | | | | | |
| Jun 20 | 6 out of 6 | 7 out of 7 | 7 out of 7 | 7 out of 7 | n/a | n/a |
| Sep 20 | 6 out of 6 | 7 out of 7 | 7 out of 7 | 7 out of 7 | n/a | n/a |
| Jan 21 | 6 out of 6 | 7 out of 7 | 7 out of 7 | 7 out of 7 | 5 out of 7 | n/a |
| **2022** | | | | | | |
| Jun 21 | 6 out of 6 | 7 out of 7 | 7 out of 7 | 7 out of 7 | n/a | n/a |
| Sep 21 | 6 out of 6 | 7 out of 7 | 7 out of 7 | 7 out of 7 | n/a | n/a |
| Jan 22 | 6 out of 6 | 7 out of 7 | 7 out of 7 | 7 out of 7 | 7 out of 7 | n/a |

**Overview of the committees (continued)**

*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). The current financial year is the first of a new 5 year price control period (RIIO-GD2). The Board established a RIIO-GD2 steering group combined of employee and shareholder representation who worked together, with continued Board communication, to ensure the strategic direction and values of the Board are within the RIIO-GD2 business plan.

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.

*Energy Futures*

The Board aim to steer the company so to reduce its carbon footprint and to be a key contributor to the UK's aspiration to be carbon neutral. Under the guidance of the Board the SMT have been promoting the use of Hydrogen as an alternative energy source to natural gas, which could be distributed through the existing gas infrastructure. Activity in this area during the year includes:

- the continuation of the H21 research project which further develops the use of hydrogen as an alternative energy source.
- in Winlaton, a village which contains 668 homes, a primary school and several small businesses, the company operates a network with a gas supply which contains a blend including up to 20% hydrogen.
- the building of two zero emissions hydrogen homes which were opened by the Energy Minister Anne-Marie Trevelyan in July 2021, and are open to the public to visit. These houses contain hydrogen appliances and are supplied with hydrogen gas.

**Actions and responsibilities of the Board and its committees (continued)**

- work commenced on the East Coast Hydrogen Project, an ambitious but realistic plan which has the potential to produce and deliver over 7GW of hydrogen energy to around forty thousand businesses and four million homes by 2030.

The work done by the NGN group, along with its partners, has been fundamental to changing the view on hydrogen use as an energy source of the future, and the UK government now see hydrogen as part of the green industry revolution to put the UK on the path to reaching net zero emissions by 2050.

*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 employer 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 prior 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.

**Actions and responsibilities of the Board and its committees (continued)**
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.

An area of focus which is of growing interest to the Board is cyber security. The SMT have developed a cyber security resilience road map, which involves 34 projects across the RIIO-GD2 period, with funding of £14m. The plan, which amongst other things will be enhancing the groups operational technology security operations centre (OT SOC), will ensure the NGN group exceeds the growing legislative requirements, as set by the UK Cyber Security Council.

*Maintaining a reputation for high standards of business conduct*

The group are trusted by stakeholders and has a good reputation for high standards of professionalism.

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. Consideration of the potential impact of Brexit on the business, through the transition period and beyond has been assessed. The SMT have taken a comprehensive review of all trade agreements to ensure compliance with the EU-UK Trade and Cooperation Agreement, and to ensure that no continuity issues occur with regard to essential supplies.

**Actions and responsibilities of the Board and its committees (continued)**
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').

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

During the year the SMT launched a new People and Planet Strategy, to further develop the sustainability work completed by NGN so as to tackle the short and long term challenges facing the business, the society in which NGN operates, and the planet. Example of challenges established within this strategy include: the eradication of inequality in our work force; supporting wellbeing; increasing diversity to reflect the community that we serve; decarbonizing and progression toward zero emissions. To help with the delivery of sustainability matters, NGN completed two reviews during the year.

A review of governance was completed by its shareholders, with the following actions agreed within 2022: the establishment of a sustainability working group that meets quarterly, with terms of reference that define the purpose, scope, role and responsibility of this group; the publishing of NGN's sustainability policy on NGN's website; and the establishment of a sustainability risk register to identify potential issues.

The second review was completed by the third party Business in the Community, who assessed NGN's commitment to sustainability using their 'Responsible Business Tracker' tool. This tool assesses a company's commitment to societal and environmental matters aligned to the United Nations Sustainable Development Goals, and delivers benchmarking feedback to facilitate future improvement. The assessment scored NGN at 74%, compared to a cohort average of 47%, and highlighted the following strengths: embedded sustainability values within policies, processes and strategies; having specified sustainability targets within the core business; rigorous, inclusive and diverse stakeholder engagement and community involvement; strong governance around climate related strategies; a focused approach to colleague wellbeing; a leading practice social mobility strategy; and an excellent strategy to nature stewardship. Areas highlighted as requiring focus, which the group will aim to target, included: alignment of sustainability objectives within NGN's purpose statement; the further linking of sustainability targets to remuneration; consideration of board level diversity; adoption of the guidance provided by the Task Force on Climate-Related Financial Disclosure; building on the investment in colleague wellbeing actions through the establishment of a wellbeing risk register; and supporting nature stewardship strategies through senior sponsorship.

As well as establishing a strategy, and undertaking reviews to improve governance and process, NGN has taken significant actions this year which address objectives, which include:

- Reduction of scope 1 and 2 carbon emissions compared to prior year.

**Actions and responsibilities of the Board and its committees (continued)**

- The repex replacement program has delivered an additional 500km of plastic pipe, replacing old metal pipe meaning less leakage.
- NGN generate circa 200,000 tonnes of excavation spoil each year and have achieved the set target of sending no more than 13,000 tonnes of this to landfill.
- Working with a specialist third party to establish colleague communities to encourage inclusion within the workforce, leading to initiatives such as 'faith bank holiday' swapping.
- Commitment to improving local social mobility where needed, focusing opportunities to those who are struggling to find employment.
- Community education on how 'better use of energy' and carbon monoxide.

In addition to the above, NGN is a leading figure in pushing hydrogen as a zero emissions energy of the future, as detailed above.

*Dividend payments*

All dividend declarations are required to be recommended by the CEO in the first instance, and then approved by the Board prior to any payment.

*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:

In our opinion the financial statements of Northern Gas Networks Holdings Limited and its subsidiaries:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2022 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 23.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the level of borrowing including consideration of undrawn facilities and compliance with covenants.
- assessing the assumptions used in the forecasts, including performing sensitivity analysis and the impact Covid-19, climate change and the conflict in Ukraine.
- assessing the historical accuracy of forecasts prepared by management against actuals achieved; and
- testing of clerical accuracy of the model used to prepare the forecasts

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

**Other information**
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

**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.

**Extent to which the audit was considered capable of detecting irregularities, including fraud**
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included, HSE legislation regarding construction and gas transportation, and licence conditions imposed by Ofgem.

We discussed among the audit engagement team, including relevant internal specialists such as tax, IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.
As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- Revenue recognition: agreeing a sample of revenue transactions to third party documentation to gain assurance over the cut off of revenue and ensure it has been recognised in the correct period; and

- Management override of controls: agreeing a sample of manual journals to underlying support, reviewing unusual non-business transactions as well as evaluating management's estimates and judgements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports as well as reviewing correspondence with HMRC / the licensing authority.

**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 directors' report has 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.

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.

Anthony Matthews

**Anthony Matthews FCA (Senior Statutory Auditor)**
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

16 September 2022

## Consolidated profit and loss account
For the year ended 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Turnover** | 1 | 421,307 | 439,330 |
| Cost of sales | | (51,261) | (27,971) |
| **Gross profit** | | 370,046 | 411,359 |
| Operating expenses | 2 | (218,904) | (253,717) |
| **Operating profit** | | 151,142 | 157,642 |
| Finance charges (net) | 3 | (97,158) | (55,887) |
| **Profit before taxation** | 4 | 53,984 | 101,755 |
| Tax on profit | 7 | (123,529) | (25,010) |
| **(Loss) / profit for the financial year** | | (69,545) | 76,745 |

The above results arise from continuing operations.

(Loss) / 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 2022

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| (Loss) / profit for the financial year | (69,545) | 76,745 |
| Re-measurement of defined benefit liability (note 20) | 12,292 | (97,090) |
| Gains in respect of cash flow hedges | 35,606 | 23,780 |
| Transferred to profit or loss in respect of cash flow hedges | 7,927 | 5,924 |
| Tax relating to components of other comprehensive income | (7,304) | 12,803 |
| **Comprehensive (expenses) / income relating to the year** | (21,024) | 22,162 |

Comprehensive (expenses) / 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 2022

| | Notes | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 9 | 199,212 | 202,352 |
| Tangible fixed assets | 10 | 2,678,008 | 2,602,750 |
| Investments | 11 | 104 | 104 |
| | | 2,877,324 | 2,805,206 |
| **Current assets** | | | |
| Stock - raw materials | | 5,244 | 6,257 |
| Debtors - amounts falling due within one year | 12 | 47,728 | 49,311 |
| amounts falling due after one year | 12 | 243,413 | 314,685 |
| Cash at bank and in hand | | 7,280 | 13,494 |
| | | 303,665 | 383,747 |
| **Creditors:** Amounts falling due within one year | 13 | (141,695) | (248,738) |
| **Net current assets** | | 161,970 | 135,009 |
| **Total assets less current liabilities** | | 3,039,294 | 2,940,215 |
| **Creditors:** Amounts falling due after more than one year | 14 | (2,189,587) | (2,074,866) |
| **Provisions for liabilities** | 16 | (468,578) | (389,496) |
| **Net assets** | | 381,129 | 475,853 |
| **Capital and reserves** | | | |
| Called-up share capital | 17 | 71,671 | 71,671 |
| Hedging reserve | | 25,576 | (7,639) |
| Profit and loss account | | 283,882 | 411,821 |
| **Shareholders' funds** | | 381,129 | 475,853 |

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 16 September 2022 and signed on its behalf by:

M J Horsley, Director

16 September 2022

## Company balance sheet
As at 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 11 | 574,502 | 574,502 |
| **Current assets** | | | |
| Debtors | | | |
| - amounts falling due within one year | 12 | 25,478 | 22,072 |
| Cash at bank and in hand | | 1 | 1 |
| | | 25,479 | 22,073 |
| **Creditors:** Amounts falling due within one year | 13 | (4,616) | (4,630) |
| **Net current assets** | | 20,863 | 17,443 |
| **Total assets less current liabilities** | | 595,365 | 591,945 |
| **Creditors:** Amounts falling due after more than one year | 14 | (180,000) | (180,000) |
| **Net assets** | | 415,365 | 411,945 |
| **Capital and reserves** | | | |
| Called-up share capital | 17 | 71,671 | 71,671 |
| Profit and loss account | | 343,694 | 340,274 |
| **Shareholders' funds** | | 415,365 | 411,945 |

The profit for the financial year recognised with in the accounts of the parent company was £77,120,000 (2021 - £86,469,000). 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 16 September 2022 and signed on its behalf by:

M J Horsley, Director

16 September 2022

## Consolidated statement of changes in equity

For the year ended 31 March 2022

| | Called up share capital £'000 | Hedging reserve £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|---|
| **At 1 April 2020** | 71,671 | (31,699) | 496,719 | 536,691 |
| Profit for the financial year | - | - | 76,745 | 76,745 |
| Remeasurement of defined benefit liability | - | - | (97,090) | (97,090) |
| Tax on remeasurement of defined benefit liability | - | - | 18,447 | 18,447 |
| Cash flow hedges: profits arising during the year | - | 29,704 | - | 29,704 |
| Tax on cash flow hedges movement | - | (5,644) | - | (5,644) |
| **Total comprehensive income / (expenses)** | - | 24,060 | (1,898) | 22,162 |
| Dividends paid on equity shares (note 8) | - | - | (83,000) | (83,000) |
| **At 31 March 2021** | 71,671 | (7,639) | 411,821 | 475,853 |
| Loss for the financial year | - | - | (69,545) | (69,545) |
| Remeasurement of defined benefit liability | - | - | 12,292 | 12,292 |
| Tax on remeasurement of defined benefit liability | - | - | 3,014 | 3,014 |
| Cash flow hedges: profits arising during the year | - | 43,533 | - | 43,533 |
| Tax on cash flow hedges movement | - | (10,318) | - | (10,318) |
| **Total comprehensive income / (expenses)** | - | 33,215 | (54,239) | (21,024) |
| Dividends paid on equity shares (note 8) | - | - | (73,700) | (73,700) |
| **At 31 March 2022** | 71,671 | 25,576 | 283,882 | 381,129 |

## Company statement of changes in equity

For the year ended 31 March 2022

| | Called up share capital £'000 | Profit and loss account £'000 | Total £'000 |
|---|---|---|---|
| **At 1 April 2020** | 71,671 | 336,805 | 408,476 |
| Profit for the financial year | - | 86,469 | 86,469 |
| **Total comprehensive income** | - | 86,469 | 86,469 |
| Dividends paid on equity shares | - | (83,000) | (83,000) |
| **At 31 March 2021** | 71,671 | 340,274 | 411,945 |
| Profit for the financial year | - | 77,120 | 77,120 |
| **Total comprehensive income** | - | 77,120 | 77,120 |
| Dividends paid on equity shares | - | (73,700) | (73,700) |
| **At 31 March 2022** | 71,671 | 343,694 | 415,365 |

# Consolidated cash flow statement

For the year ended 31 March 2022

| | Notes | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|---|
| **Net cash inflows from operating activities** | 18 | 184,137 | 267,956 |
| | | | |
| **Cash flow from investing activities** | | | |
| Interest received | | 23 | 92 |
| Purchase of tangible fixed assets | | (166,185) | (159,781) |
| Sale of tangible fixed assets | | 699 | 1,258 |
| | | (165,463) | (158,431) |
| | | | |
| **Cash flow from financing activities** | | | |
| Dividends paid | | (73,700) | (83,000) |
| Decrease of borrowings | | (76,842) | (1,842) |
| Increase of borrowings | | 176,000 | 35,000 |
| Interest paid | | (49,235) | (59,803) |
| Expenses on issue of new loans | | (1,111) | - |
| | | (24,888) | (109,645) |
| | | | |
| Net decrease to cash and cash equivalents | | (6,214) | (120) |
| Cash and cash equivalents at beginning of year | | 13,494 | 13,614 |
| Cash and cash equivalents at end of year | | 7,280 | 13,494 |

| **The cash and cash equivalents balance** | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Cash at bank and in hand | 7,280 | 13,494 |

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

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

**Basis of accounting**

Northern Gas Networks Holdings Limited is a company incorporated in the United Kingdom under the Companies Act 2006. The company is a private company limited by shares and is registered in England and Wales. The address of the company is 1100 Century Way, Leeds, LS15 8TU.

The accounts have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. Principal activities and nature of operations are shown in the strategic report.

The group accounts consolidate the accounts of the company and its subsidiary undertakings 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 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 Brexit, European disruption (war in Ukraine), inflation and COVID-19 as considered on pages 5 to 7. The group has: (1) undrawn borrowing facilities of £140.0m at the balance sheet date; (2) has net current assets of £162.0m; and (3) regulated revenue income until 31 March 2026.

The directors have made enquiries and reviewed the forecasts which include as assessment of covenants, and in light of the facilities available, have a reasonable expectation that the group 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.

**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.

Software as a service arrangements are reviewed in accordance with FRS102 and recognised as an intangible asset where meet the definition under the accounting standard. Otherwise they are expensed.

**Tangible fixed assets**

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

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

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

**Investments**

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

**Replacement expenditure (repex)**

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

**Stocks**

Stocks are stated at the lower of cost and net realisable value. Provision is made for obsolete or defective items where appropriate. Values are held on a first in first out basis.

**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.

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.

**Taxation (continued)**

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. If transportation turnover is under or over recovered, it is settled according to Ofgem methodology over a future regulatory year. Under the mechanism set out in the gas licence, the group receive funds from customers as a way of being compensated for supply of last resort costs. These receipts are considered to be the collection of a levy with the group acting as an agent and as such the income and associated costs, which are equal and opposite, are netted off within the profit and loss account.

**Pension costs**

The group has obligations for a defined benefit scheme, which was closed to future accrual within March 2022. 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.

**Pension costs (continued)**

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.

**Financial instruments (continued)**

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.

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 and inflation exposures or commodity price risks in respect of expected gas usage. The principal derivatives used are interest rate and index linked 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. Index linked swaps are entered into for the purpose of matching or eliminating risk from potential movements in inflation associated with the regulatory cost of debt allowances. The index linked swaps are accounted for at fair value on the balance sheet with movements in fair value being recognised through the profit and loss account. The group applies the recognition and measurement principles of IFRS9: Financial Instruments, as applicable within FRS 102.

*Fair value accounting*

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

*Hedge accounting*

The Group designates certain derivatives as hedging instruments in cash flow hedges and certain others as hedge instruments in Fair value hedges. At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents 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 and payable**
Interest receivable and payable is recognised on an accruals basis in accordance with FRS102.

**Impairment**

Assets are assessed for indicators of impairment at each balance sheet date. For non-financial assets, if there is objective evidence of impairment, that being that the estimated recoverable value of the asset is less than the value in the balance sheet, an impairment loss is recognised in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

**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 detailed below within 'key sources of estimation uncertainty', 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 estimations 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.

*Asset life*

As a group NGN continue to support the planned 'net zero by 2050' ambition of the UK government. This gives uncertainty over how long gas, in its existing form, will remain a source of energy within the UK. The NGN group hold network assets with long useful economic lives (UELs), as detailed on page 34, meaning the current accounting policy will lead to the group holding assets with value at the end of 2050. As such, judgement is needed as to whether these network UELs remain appropriate. It is the view of the directors that the network UELs do remain appropriate and that no impairment is needed as at the balance sheet date, for the reasons set out below.

The directors were delighted by the governments publication in late 2020 of a 'ten point plan' to deliver net zero emissions, which included the possible use of hydrogen as an energy source, which would be distributed through the groups existing network assets. This has developed beyond a policy statement, with significant funded investment over the last 5 years by the NGN group alongside other key industry partners. This investment includes the East Coast Hydrogen project, Hydrogen Homes, Winlaton village, and the H21 research project (details provided on pages 16 and 17). Funded research and investment continues beyond the balance sheet date, and NGN is now working on Redcar Hydrogen Community, a plan to provide 2,000 homes and businesses with hydrogen energy by 2025. If the existing network assets are not required for an alternative energy source, such as Hydrogen, post 2050 the current regulatory regime would be adapted to address the recovery of the value of any stranded assets through mechanisms such as accelerated depreciation over an appropriate period.

### 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 Operating expenses

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Distribution costs | 139,637 | 166,508 |
| Administrative expenses | 79,267 | 87,209 |
| | 218,904 | 253,717 |

### 3 Finance charges (net)

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Interest payable and similar charges | 48,370 | 58,403 |
| Less: investment income | (23) | (92) |
| Other finance charges /(income) – details provide in below analysis | 48,811 | (2,424) |
| | 97,158 | 55,887 |

| *Interest payable and similar charges* | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Shareholder loans | 18,000 | 18,000 |
| Bank loans and overdrafts, and associated SWAPs | (4,157) | 5,747 |
| Bonds | 35,987 | 35,940 |
| | 49,830 | 59,687 |
| Finance costs capitalised | (1,460) | (1,284) |
| | 48,370 | 58,403 |

Finance costs have been capitalised based on a cost of debt capitalisation rate of 2.34% (2021 – 2.92%).

**3 Finance costs (net) (continued)**

| *Investment income* | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest receivable and similar income | (23) | (92) |
| | (23) | (92) |

| *Other finance charges / (income)* | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Fair value movement on financial instruments | 24,967 | (544) |
| Fair value movement on financial instruments (accretion) | 20,203 | - |
| Exchange rate differences | (12) | 1 |
| Unwinding of discount on provisions (see note 16) | (420) | (153) |
| Net interest on pension scheme (see note 20) | 434 | (1,728) |
| Interest on tax provisions | 3,639 | - |
| | 48,811 | (2,424) |

**4 Profit before taxation**

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Depreciation and amounts written off tangible fixed assets (see note 10) | | |
| - owned | 75,293 | 74,714 |
| Amortisation of intangible fixed assets included in administrative expenses (see note 9) | 13,828 | 14,432 |
| Loss / (profit) on disposal of fixed assets | 1,609 | (218) |
| Operating lease rentals - vehicles | 324 | 482 |
| Operating lease rentals - property | 1,114 | 1,211 |

The analysis of auditor's remuneration is as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts and consolidation | 50 | 35 |
| *Fees payable to the company's auditor and its associates for other services to the group* | | |
| - The audit of the company's subsidiaries | 188 | 116 |
| Total audit fees | 238 | 151 |
| *Fees payable to the company's auditor and its associates for other services to the group* | | |
| - Audit related assurance services* | 72 | 83 |
| Total non-audit fees | 72 | 83 |

* *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 Operations Limited (the company has no employees) including executive directors was:

| | 2022 Number | 2021 Number |
|---|---|---|
| Administration | 138 | 122 |
| Operations | 1,260 | 1,282 |
| | 1,398 | 1,404 |

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Their aggregate remuneration comprised: | | |
| Wages and salaries | 63,487 | 61,802 |
| Social security costs | 6,793 | 6,592 |
| Pension costs | 6,966 | 7,260 |
| | 77,246 | 75,654 |

**6 Directors' remuneration and transactions**

*Remuneration*

The remuneration of the directors was as follows:

| | Non-Executive Directors | | Executive Directors | |
|---|---|---|---|---|
| | 2022 £'000 | 2021 £'000 | 2022 £'000 | 2021 £'000 |
| Emoluments | 90 | 90 | 953 | 925 |
| Amounts receivable (other than shares) under long-term incentive schemes | - | - | 227 | 220 |
| | 90 | 90 | 1,180 | 1,145 |

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 the NGN group.

*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:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Emoluments | 1,180 | 1,145 |

*Transactions*

There have been no transactions with directors in the year (2021 - £nil) other than as set out above in respect of remuneration. Only directors are deemed to be key personnel.

**7 Tax on profit**

The tax charge comprises:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Current tax** | | |
| UK corporation tax | 20,445 | 31,804 |
| Adjustments in respect of prior periods | (1,314) | (1,852) |
| **Total current tax** | 19,131 | 29,952 |
| | | |
| **Deferred tax** | | |
| Current period - origination and reversal of timing differences | (11,281) | (11,895) |
| Effect of increase in tax rate on opening liability | 108,899 | - |
| Adjustments in respect of prior periods | 6,780 | 6,953 |
| **Total deferred tax** | 104,398 | (4,942) |
| **Total tax on profit** | 123,529 | 25,010 |

**7 Tax on profit (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:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Group profit before tax** | 53,984 | 101,755 |
| Tax on group profit at standard UK corporation tax rate of 19% (2021 – 19.0%) | 10,257 | 19,333 |
| Effects of: | | |
| Expenses not deductible for tax purposes | (41) | 1,119 |
| Income not taxable in determining taxable profit | (889) | (1,139) |
| Interest not deductible for tax purposes | - | 1,140 |
| Change in tax rate on opening position | 108,372 | - |
| Movement on uncertain tax positions | 364 | (544) |
| Adjustments in respect of prior year | 5,466 | 5,101 |
| **Group total tax charge for the year** | 123,529 | 25,010 |

The group earns its profits in the UK. Therefore, the tax rate used for tax on profit is the standard rate for UK corporation tax, currently 19.0% (2021 – 19.0%).

The 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. The planned change of the UK corporation tax rate to 25% from 1 April 2023 was substantively enacted on 24 May 2021 following the 2021 budget. Accordingly a tax rate of 25% has been applied across all group companies when calculating deferred tax assets and liabilities expected to reverse on or after 1 April 2023, as at 31 March 2022.

## 8 Dividends on equity shares

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Equity shares | | |
| - interim dividend paid of 24.07p (2021 – 26.51p) per ordinary share | 17,250 | 19,000 |
| - interim dividend paid of 78.76p (2021 – 79.53p) per ordinary share | 56,450 | 57,000 |
| - interim dividend paid of nil (2021 – 9.77p) per ordinary share | - | 7,000 |
| | 73,700 | 83,000 |

## 9 Intangible assets

| | Software £'000 | Software in the course of construction £'000 | Licences £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2021 | 96,283 | 4,353 | 161,200 | 65,712 | 327,548 |
| Additions | 1,457 | 11,244 | - | - | 12,701 |
| Transfers | 1,030 | (1,030) | - | - | - |
| Disposals | (3,847) | - | - | - | (3,847) |
| At 31 March 2022 | 94,923 | 14,567 | 161,200 | 65,712 | 336,402 |
| **Amortisation** | | | | | |
| At 1 April 2021 | 35,497 | - | 63,805 | 25,894 | 125,196 |
| Charge for the year | 8,156 | - | 4,027 | 1,645 | 13,828 |
| Disposals | (1,834) | - | - | - | (1,834) |
| At 31 March 2022 | 41,819 | - | 67,832 | 27,539 | 137,190 |
| **Net book value** | | | | | |
| At 31 March 2022 | 53,104 | 14,567 | 93,368 | 38,173 | 199,212 |
| At 31 March 2021 | 60,786 | 4,353 | 97,395 | 39,818 | 202,352 |

Goodwill and licences are described within the accounting policies note of the accounts.

**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 2021 | 12,538 | 3,188,647 | 23,408 | 109,185 | 54,269 | 3,388,047 |
| Restatement: 1 April 2021 | 1,049 | 5 | (4,931) | 2,687 | - | (1,190) |
| Restated at April 2021 | 13,587 | 3,188,652 | 18,477 | 111,872 | 54,269 | 3,386,857 |
| Additions | 272 | 136,457 | 3,006 | 1,557 | 9,554 | 150,846 |
| Disposals | - | (821) | (2,041) | (1,175) | - | (4,037) |
| Transfers | (15) | 16,626 | 1,609 | 4,916 | (23,136) | - |
| At 31 March 2022 | 13,844 | 3,340,914 | 21,051 | 117,170 | 40,687 | 3,533,666 |
| **Depreciation** | | | | | | |
| At 1 April 2021 | 6,952 | 666,264 | 14,680 | 97,401 | - | 785,297 |
| Restatement: 1 April 2021 | - | 7,674 | (534) | (8,330) | - | (1,190) |
| Restated at April 2021 | 6,952 | 673,938 | 14,146 | 89,071 | - | 784,107 |
| Charge for the period | 808 | 65,396 | 2,245 | 6,844 | - | 75,293 |
| Disposals | - | (658) | (1,928) | (1,156) | - | (3,742) |
| At 31 March 2022 | 7,760 | 738,676 | 14,463 | 94,759 | - | 855,658 |
| **Net book value** | | | | | | |
| At 31 March 2022 | 6,084 | 2,602,238 | 6,588 | 22,411 | 40,687 | 2,678,008 |
| At 31 March 2021 restated | 6,635 | 2,514,714 | 4,331 | 22,801 | 54,269 | 2,602,750 |
| At 31 March 2021 | 5,586 | 2,522,383 | 8,728 | 11,784 | 54,269 | 2,602,750 |

Undepreciated freehold land equates to £774,000 at 31 March 2022 (2021 - £774,000).

The opening position has been restated to reflect categorisation differences identified, between land and buildings, gas distribution assets, motor vehicles and other equipment, both within cost and depreciation. The net impact of the reclassification at a net book value level is nil.

**11 Investments**

| | Group | | Company | |
|---|---|---|---|---|
| | 31 March 2022 | 31 March 2021 | 31 March 2022 | 31 March 2021 |
| | £'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 ABC2 Pension Funding Limited Partnership | Scotland | Pension partnership | n/a | n/a |
| 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 Northern Gas Networks General Partner Limited, Northern Gas Networks ABC2 Pension Funding Limited Partnership and Northern Gas Networks Pension Funding Limited Partnership whose registered office is 1st Floor, City Point, Haymarket Terrace, Edinburgh, EH12 5HD, Scotland.

**11 Investments (continued)**

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%.

*Subsidiary undertakings*

| | £'000 |
|---|---|
| **Cost and net book value** | |
| At 31 March 2022 and 31 March 2021 | 574,502 |

*Other investments*

| | £'000 |
|---|---|
| **Cost and net book value** | |
| At 31 March 2022 and 31 March 2021 | 104 |

**12 Debtors**

| | Group | | Company | |
|---|---|---|---|---|
| | 2022 £'000 | 2021 £'000 | 2022 £'000 | 2021 £'000 |
| **Amounts falling due within one year:** | | | | |
| Trade debtors | 1,620 | 3,052 | - | - |
| Amounts owed by group undertakings | 1 | 1 | 16,439 | 16,453 |
| Other debtors | 71 | 174 | 9,039 | 5,619 |
| Accrued income | 36,593 | 38,652 | - | - |
| Prepayments | 5,889 | 3,132 | - | - |
| Derivative financial assets | 3,554 | 4,300 | - | - |
| | 47,728 | 49,311 | 25,478 | 22,072 |
| **Amounts falling due after more than one year:** | | | | |
| Derivative financial assets | 243,413 | 314,685 | - | - |
| | 243,413 | 314,685 | - | - |
| | 291,141 | 363,996 | 25,478 | 22,072 |

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 | |
|---|---|---|---|---|
| | 2022 £'000 | 2021 £'000 | 2022 £'000 | 2021 £'000 |
| Bank loans | 19,442 | 94,797 | - | - |
| Derivative financial liabilities | 47 | 817 | - | - |
| Payments received on account | 10,345 | 7,876 | - | - |
| Trade creditors | 6,683 | 8,310 | - | - |
| UK corporation tax | 32,722 | 31,610 | - | - |
| Other taxation and social security | 7,409 | 26,923 | - | - |
| Accruals and deferred income | 65,047 | 78,405 | 4,616 | 4,630 |
| | 141,695 | 248,738 | 4,616 | 4,630 |

The bank loans comprises a £20.0m loan which was repaid using existing facilities on 29 April 2022 with an interest rate of 1.0907%. The facility under which this working capital loan was drawn expires in October 2024.

Company accruals include shareholder loan interest accruals due in December 2022, 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 | |
|---|---|---|---|---|
| | 2022 £'000 | 2021 £'000 | 2022 £'000 | 2021 £'000 |
| Shareholder loans | 180,000 | 180,000 | 180,000 | 180,000 |
| Bank loans | 422,105 | 423,947 | - | - |
| Guaranteed bond due 2027 | 285,155 | 300,199 | - | - |
| Guaranteed bond due 2035 | 330,138 | 361,244 | - | - |
| Bond due 2040 | 197,248 | 197,094 | - | - |
| Green bond | 1,000 | - | - | - |
| USPP 2029 loan | 49,857 | 51,740 | - | - |
| USPP 2031 loan | 150,754 | 156,809 | - | - |
| USPP 2036 loan | 174,555 | - | - | - |
| USPP 2039 loan | 99,731 | 99,715 | - | - |
| Deferred income | 152,649 | 141,161 | - | - |
| Derivative financial liabilities | 146,395 | 162,957 | - | - |
| | 2,189,587 | 2,074,866 | 180,000 | 180,000 |

The group have commitment to the raising of USPP debt with £65.0m to be drawn in June 2022 with a rate of 2.10% and a life of 15 years.

**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 | 35.4 | (0.2) | 285.2 |
| Fixed rate bond | 15/11/2035 | 4.875% fixed | 255.0 | 75.3 | (0.2) | 330.1 |
| Fixed rate bond | 23/03/2040 | 5.625% fixed | 200.0 | - | (2.8) | 197.2 |
| Green bonds | 30/06/2031 | 1.60% fixed | 1.0 | - | - | 1.0 |
| US Private Placement notes | 10/01/2029 | 2.84% fixed | 50.0 | - | (0.1) | 49.9 |
| US Private Placement notes | 10/01/2031 | 2.97% fixed | 150.0 | 1.2 | (0.4) | 150.8 |
| US Private Placement notes | 23/09/2036 | 2.020% fixed | 175.0 | - | (0.4) | 174.6 |
| 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 | Compounded SONIA + 0.1193% CAS + 0.357% | 25.0 | - | - | 25.0 |
| European Investment Bank floating rate loan | 30/03/2024 | Compounded SONIA + 0.1193% CAS + 0.624% | 100.0 | - | - | 100.0 |
| European Investment Bank floating rate loan | 24/06/2024 | Compounded SONIA + 0.1193% CAS + 0.548% | 25.0 | - | - | 25.0 |
| European Investment Bank floating rate loan | 30/07/2024 | Compounded SONIA + 0.1193% CAS + 0.458% | 60.0 | - | - | 60.0 |
| European Investment Bank floating rate loan | 31/03/2027 | Compounded SONIA + 0.1193% CAS + 0.534% | 30.0 | - | - | 30.0 |
| European Investment Bank floating rate loan | 28/02/2028 | Compounded SONIA + 0.1193% CAS + 0.627% | 30.0 | - | - | 30.0 |
| European Investment Bank floating rate loan | 20/12/2028 | Compounded SONIA + 0.1193% CAS + 0.934% | 40.0 | - | - | 40.0 |
| European Investment Bank floating rate loan | 29/03/2029 | Compounded SONIA + 0.1193% CAS + 0.834% | 50.0 | - | - | 50.0 |
| European Investment Bank amortising loan | 25/03/2034 | Compounded SONIA + 0.1193% CAS + 0.860% | 22.1 | - | - | 22.1 |
| Interest rate derivatives designated as cash flow hedges | Various | Pay fixed, receive compounded SONIA + CAS | - | - | - | 1.3 |
| Other interest rate derivatives | Various | Various | - | - | - | 146.8 |

In the year the group transacted CPI linked swaps of £450.0m (2021: nil) that economically switched debt instruments into CPI linked debt instruments as follows:

| Debt instrument | Principal amount | Maturity | Notional swapped | Swap maturity |
|---|---|---|---|---|
| 2040 bond | £200m | March 2040 | £200m | May 2031 |
| 2039 USPP notes | £100m | June 2039 | £100m | May 2031 |
| 2036 USPP notes | £175m | September 2036 | £150m | Sept 2031 |

There is no break clause on the swaps, meaning that the first accretion paydown is not before 10 years from the swap inception.

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

| Maturity analysis of bond interest and repayments: | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| *(measured as actual cash flows)* | | |
| In one year or less | 35,885 | 35,869 |
| In more than one year but less than two years | 35,885 | 35,869 |
| In more than two years but less than five years | 357,654 | 107,606 |
| In more than five years but less than ten years | 119,470 | 380,594 |
| In more than ten years but less than twenty years | 582,294 | 605,975 |
| | 1,131,188 | 1,165,913 |

### 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.

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| **Financial assets** | | |
| Measured at fair value through the profit and loss account | | |
| - Derivative financial assets (note 12) | 114,203 | 166,058 |
| Measured at fair value and designated in an effective hedge relationship | | |
| - Derivative financial assets – cash flow hedges (note 12) | 43,004 | 18,487 |
| - Derivative financial assets – fair value hedges (note 12) | 89,760 | 134,440 |
| Measured at undiscounted amount receivable | | |
| - Trade and other debtors (note 12) | 1,691 | 3,052 |
| - Amounts owed by parent undertaking (note 12) | 1 | 1 |
| - Accrued income (note 12) | 36,593 | 38,652 |
| Equity instruments measured at cost less impairment | | |
| - Fixed asset investments (note 11) | 104 | 104 |
| | 285,356 | 360,794 |

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Financial liabilities** | | |
| Measured at fair value through the profit and loss account | | |
| - Derivative financial liabilities - interest rate swaps (notes 13 & 14) | 95,412 | 143,711 |
| - Derivative financial liabilities - inflation linked swaps (notes 13 & 14) | 49,703 | - |
| Measured at fair value and designated in an effective hedge relationship | | |
| - Derivative financial liabilities - cash flow hedges (notes 13 & 14) | 1,307 | 20,063 |
| - Derivative financial liabilities - fair value hedges (notes 13 & 14) | 20 | - |
| Measured at amortised cost | | |
| - Loans payable (notes 13 & 14) | 1,095,356 | 997,924 |
| - Fair value hedge adjustment of live bonds & USPP notes (notes 13 & 14) | 89,664 | 136,188 |
| - Other financial liabilities - bonds (see notes 13 & 14) | 702,903 | 696,131 |
| - Fair value hedge adjustment – bonds previously in FV hedge relationships | 22,063 | 29,725 |
| Measured at undiscounted amount payable | | |
| - Trade and other creditors (see note 13) | 6,683 | 8,310 |
| - Accruals and deferred income (see notes 13 & 14) | 217,696 | 219,566 |
| - Corporation tax (see note 13) | 31,038 | 31,610 |
| - Other taxation and social security (see note 13) | 7,409 | 26,923 |
| | 2,319,254 | 2,310,151 |

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

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

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Interest income and expense on items at amortised cost** | | |
| - Total interest payable on financial liabilities at amortised cost | 69,680 | 68,138 |
| - Total interest receivable on financial assets measured at amortised cost | (23) | (92) |
| | 69,657 | 68,046 |
| **Interest income and expense on derivatives** | | |
| - Total interest receivable on financial assets measured at fair value through the P&L | (21,830) | (21,192) |
| - Total interest payable on financial liabilities measured at fair value through the P&L | 14,909 | 13,758 |
| - Total interest receivables on financial liabilities measured at fair value through the P&L | (11,109) | - |
| - Total interest payable / (receivable) on financial assets designated in an effective hedging relationship: Cash flow hedges | 1,055 | 538 |
| Fair value hedges | (10,776) | (8,454) |
| - Total interest payable / (receivable) on financial liabilities designated in an effective hedging relationship: | | |
| - Cash flow hedges | 6,873 | 6,435 |
| | (20,878) | (8,915) |
| **Fair value gains and losses** | | |
| - On financial assets measured at fair value through the profit and loss account | 49,001 | 55,856 |
| - On financial liabilities measured at fair value through the profit and loss account (interest rate) | (45,643) | (47,096) |
| - On financial liabilities measured at fair value through the profit and loss account (index linked) | 50,665 | - |
| - On derivative financial assets designated in an effective hedging relationship – live fair value hedges | 45,333 | 43,594 |
| - 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 | - | (260) |
| - On derivative financial liabilities designated in an effective hedging On non-derivative financial liabilities designated in an effective hedging relationship – live fair value hedges | (46,524) | (43,085) |
| - On financial liabilities formerly designated in an effective hedging relationship – amortisation of previous FV hedge adjustments | (8,202) | (10,093) |
| | 45,170 | (544) |
| **Other net finance costs** | 3,209 | (2,700) |
| | 97,158 | 55,887 |

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

Included in fair value losses on index-linked financial liabilities measured at fair value through the profit and loss account is accretion of £20.2m on CPI linked swaps (2021 - nil).

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 | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| | £'000 | £'000 | £'000 | £'000 |
| **Derivatives that are designated and effective as hedging instruments carried at fair value** | | | | |
| **Cash flow hedges** | | | | |
| Assets | - | - | 43,004 | 18,487 |
| Liabilities | - | - | (1,307) | (20,063) |
| **Fair value hedges** | | | | |
| Assets | - | - | 89,760 | 134,440 |
| Liabilities | - | - | (20) | - |
| | - | - | 131,437 | 132,864 |

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 | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | % | % | £'000 | £'000 | £'000 | £'000 |
| **Outstanding cash flow hedges of floating rate EIB loans** | | | | | | |
| Less than 1 year | - | - | - | - | - | - |
| 1 to 2 years | - | - | 52,500 | - | (652) | - |
| 2 to 5 years | 1.76 | 2.01 | 237,105 | 261,447 | 2,431 | (14,797) |
| 5 years + | 1.70 | 1.02 | 92,500 | 122,500 | 5,231 | (1,916) |
| | | | 382,105 | 383,947 | 7,010 | (16,713) |

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 compounded SONIA plus a credit adjustment spread, subject to a 5 business day lag. 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 | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | % | % | £'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 + | 0.93 | 0.93 | 243,183 | 240,000 | 34,687 | 15,037 |
| | | | 243,183 | 240,000 | 34,687 | 15,037 |

**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 SONIA compounded for 6 months plus a credit adjustment spread, subject to a 5 business day lag. 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 between 10 and 14 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 compounded SONIA plus a credit adjustment spread, subject to a 5 business day lag. 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 | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | % | % | £'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 | 88,694 | 131,991 |
| | | | 350,000 | 350,000 | 88,694 | 131,991 |

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 compounded SONIA plus a credit adjustment spread plus a margin, subject to a 5 business day lag. Interest will be settled on a gross basis as the settlement dates for the fixed and floating rate legs do not coincide.

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

| | Average contract fixed interest rate | | Notional principal value as at 31 March | | Fair value as at 31 March | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| | % | % | £'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 | 60,000 | 40,000 | 1,046 | 9,247 |
| | | | 60,000 | 40,000 | 1,046 | 9,247 |

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 compounded SONIA plus a credit adjustment spread plus a margin, subject to a 5 business day lag. 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.

**16 Provisions for liabilities**

| | Gas holder Decommissioning £'000 | Restructuring £'000 | Deferred tax £'000 | Environmental restoration £'000 | Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 April 2021 | 15,900 | 128 | 334,229 | 3,161 | 16,828 | 370,246 |
| Charged to profit and loss account | - | - | 99,973 | 432 | 1,019 | 101,424 |
| Debit to hedge reserve | - | - | 10,318 | - | - | 10,318 |
| Credit to pension reserve | - | - | (3,014) | - | - | (3,014) |
| Utilised in the year | (2,137) | - | - | (443) | (7,534) | (10,114) |
| Released in year | - | (128) | - | - | - | (128) |
| Adjustment arising from discounting | - | - | - | - | (420) | (420) |
| At 31 March 2022 | 13,763 | - | 441,506 | 3,150 | 9,893 | 468,312 |
| Pension liability (note 20) | | | | | | 266 |
| **Total provisions** | | | | | | 468,578 |

*Deferred tax*

Deferred tax is provided as follows:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Group** | | |
| Accelerated capital allowances | 127,067 | 92,950 |
| Fixed asset differences | 289,584 | 228,405 |
| Other timing differences | 24,855 | 12,874 |
| | 441,506 | 334,229 |

No provisions exist within the company.

*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 general provisions, financial instruments, intangible fixed assets, R&D tax relief and asset backed contributions to the defined benefit pension scheme.

**16 Provisions for liabilities (continued)**

*Restructuring*

Estimated costs of an over 55 early retirement programme. The restructuring provision value represents the anticipated liabilities at the balance sheet date which is nil at 31 March 2022.

*Gas holder decommissioning provision*

The provision represents the estimated cost of removing gas holders from the network as committed under RIIO-GD2 and to be spent during the 5 years of RIIO-GD2 commencing 1 April 2021. Sensitivity analysis was applied on the estimated unit cost of removal, with a 5% movement causing a £0.7m variance although this variance is deemed to be highly unlikely.

*Environmental restoration*

Estimated environmental restoration costs are provided where the group has a legal obligation to restore sites at the balance sheet date. The provision represents the estimated net present value for statutory decontamination of old gas sites. It also reflects the obligations associated with other environmental damage. The timing of the utilisation of the environmental restoration provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. The provision has been calculated using the probability of cash flows method and management have used an expert to assess the probability of a restoration event and the potential cost. The cash exposure based on a worst case scenario is an additional expense of £1.0m 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 event. 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. Other provisions also contains a £0.3m provision for committed legal fees, expected to be spent within one year of the balance sheet date. Sensitivity analysis was applied on the estimated cost, with a 5% movement causing a £0.5m variance although this variance is deemed to be highly unlikely.

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

*Share capital*

| | 2022<br>£'000 | 2021<br>£'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 | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Operating profit | 151,142 | 157,642 |
| Depreciation and amortisation | 89,121 | 89,146 |
| Taxation – UK corporation tax paid | (21,657) | (31,082) |
| Loss / (profit) on sale of tangible fixed assets | 1,609 | (218) |
| Decrease / (increase) in stock | 1,013 | (1,311) |
| Decrease in debtors | 838 | 3,106 |
| (Decrease) / increase in creditors | (22,716) | 32,886 |
| (Decrease) / increase in provisions | (8,787) | 23,956 |
| Adjustment for pension funding | (6,426) | (6,169) |
| Net cash inflow from operating activities | 184,137 | 267,956 |

**Net debt reconciliation**

| | 1 April 2021 £'000 | Cash flow £'000 | Other non-cash changes £'000 | 31 March 2022 £'000 |
|---|---|---|---|---|
| Cash at bank and in hand | 13,494 | (6,214) | - | 7,280 |
| | 13,494 | (6,214) | - | 7,280 |
| Debt due within 1 year | (94,797) | 75,648 | (293) | (19,442) |
| Debt due after more than 1 year | (1,770,748) | (173,695) | 53,900 | (1,890,543) |
| | (1,865,545) | (98,047) | 53,607 | (1,909,985) |
| Net debt | (1,852,051) | (104,261) | 53,607 | (1,902,705) |

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 2022 | | 31 March 2021 | |
|---|---|---|---|---|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| - within one year | 1,140 | 145 | 1,242 | 69 |
| - between one and two years | 921 | 127 | 1,064 | 52 |
| - between two and five years | 2,016 | 24 | 2,568 | 34 |
| - after five years | 736 | - | 1,093 | - |
| | 4,813 | 296 | 5,967 | 155 |

The group has a total commitment of £5.1m (2021 - £5.6m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from Financial Guaranty UK Limited ("FGUK") 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 FGUK 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 FGUK and undertakes to pay any amount due from the Issuer but not paid by it. The group also indemnifies FGUK against any loss or liability suffered, if any obligation guaranteed by FGUK is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGUK would otherwise have been entitled to recover.

**20 Pension arrangements**

The group has obligations for a defined benefit pension scheme which closed for future accrual from March 2022. 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:

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Present value of funded obligations | (426,094) | (454,669) |
| Fair value of plan assets | 425,739 | 430,904 |
| Deficit | (355) | (23,765) |
| Related deferred tax asset | 89 | 4,515 |
| Net liability (see note 16) | (266) | (19,250) |
| Amounts in the balance sheet | | |
| - Liability | (266) | (19,250) |

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| *Amount charged / (credited) to operating profit* | | |
| Current service costs | 2,674 | 2,453 |
| Past service (income) / costs | (5,107) | 1,046 |
| | (2,433) | 3,499 |
| *Amount credited to net finance charges* | | |
| Interest costs | 9,543 | 9,145 |
| Expected cost return on plan assets | (9,109) | (10,873) |
| Net return on pension scheme (see note 3) | 434 | (1,728) |
| Total (income) / cost | (1,999) | 1,771 |

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Actuarial gains / (losses) | 12,292 | (97,090) |

**20 Pension arrangements (continued)**

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Actuarial losses | (121,900) | (134,192) |

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Opening defined benefit obligation | 454,669 | 398,572 |
| Service cost | 2,674 | 2,453 |
| Past service (income) / cost | (5,107) | 1,046 |
| Interest cost | 9,543 | 9,145 |
| Member contributions | 235 | 274 |
| Actuarial (gains) / losses | (13,918) | 63,042 |
| Benefits paid | (22,002) | (19,863) |
| Closing defined benefit obligation | 426,094 | 454,669 |

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

| | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| Opening fair value of plan assets | 430,904 | 463,984 |
| Expected return | 9,109 | 10,873 |
| Actuarial losses | (1,626) | (34,048) |
| Employer contributions | 9,117 | 9,684 |
| Member contributions | 237 | 274 |
| Benefits paid | (22,002) | (19,863) |
| | 425,739 | 430,904 |

**20 Pension arrangements (continued)**

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

| | 31 March 2022 | 31 March 2021 |
|---|---|---|
| | % | % |
| Equity securities | 6.8 | 8.2 |
| Bond securities | 15.8 | 9.7 |
| Assets held by insurance companies | 70.5 | 73.3 |
| Property fund | 3.5 | 5.4 |
| Other | 3.4 | 3.4 |

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:

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| Actual return / (loss) on plan assets | 7,483 | (27,708) |

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

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 2.8% | 2.2% |
| Future salary increases | 5.1% | 4.3% |
| Inflation (CPI) | 3.1% | 2.7% |
| Inflation (RPI) | 3.7% | 3.3% |
| Life expectancy on retirement | | |
| - member aged 65 (retiring today) male | 21.4 years | 21.2 years |
| - member aged 65 (retiring today) female | 23.4 years | 23.3 years |
| - member aged 45 (retiring in 20 years) male | 23.6 years | 23.4 years |
| - member aged 45 (retiring in 20 years) female | 25.7 years | 25.6 years |

The group are in two "asset backed contribution" arrangements with its defined benefit pension scheme whereby the NGN Pension Funding Limited Partnership was funded to acquire a £70m loan note and the Northern Gas Networks ABC2 Pension Funding Limited Partnership was funded to acquire a £14m loan. The partnership members of both arrangements are Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit

**20 Pension arrangements (continued)**
pension scheme and the Northern Gas Networks General Partner Limited. Contributions to the pension scheme of £6.4m (2021 - £6.2m) were made in the year.

The group also operates defined contribution schemes for which the pension charge for the period amounted to £4.3m (2021 - £4.3m).

**21 Related party transactions**
There have been no transactions with directors in the year (2021 - £nil) other than remuneration as disclosed in note 6 to the accounts.

During the year the group was recharged £93,000 (2021 - £313,000) 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 £3,394,000 (2021 - £2,131,000) 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 | 7,432 | 74,329 |
| SAS Trustee Corporation | 2,097 | 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 , incorporated in England & Wales (47.1%) | CK Infrastructure Holdings Limited |
| Beta Central Profits Limited, incorporated in England & Wales (41.3%) | Power Assets Holdings Limited |
| SAS Trustee Corporation, incorporated in Australia (11.6%) | Not applicable |

**23 Events after the balance sheet date**
Commitment has been made to USPP debt of £65.0m to be drawn on 30 June 2022 with a rate of 2.10% and a life of 15 years.