

**Northern Gas Networks Finance Plc**

Annual Report and accounts  
for the 15 month period ended 31 March 2015

Registered number: 5575923

## Strategic report

For the period ended 31 March 2015

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report for the 15 month period ended 31 March 2015, following a change in accounting reference date to 31 March, with comparison to the year ended 31 December 2013.

The company's principal activity is to raise funds for group operations.

### **Business strategy**

The company's primary role is to ensure that the NGNH group continues to have access to the required funds needed to operate.

### **Financial and operational review**

As shown in the company's profit and loss account, the company has not made a profit or loss in the period. The company's balance sheet shows that the financial position at 31 March 2015 is broadly consistent with 31 December 2013.

### *Key Performance Indicators (KPIs)*

The company is managed as part of the overall group. For this reason, the company's directors believe that specific key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the group, including the company, is discussed in the Northern Gas Networks Holdings Limited Annual Report.

### *Dividends*

The directors do not recommend payment of a dividend (2013 - £nil).

### **Outlook**

The directors do not expect the company to make a profit or loss in the forthcoming year.

### **Principal risks and uncertainties**

The company is financed by bonds, the proceeds of which have been loaned to its parent company. Associated risks are discussed in the next section.

## Strategic report (continued)

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

The company's financial instruments comprise guaranteed bonds and intercompany debt. The main purpose of these financial instruments is to finance the group's operations.

The main qualitative and quantitative risks arising from the company's financial instruments are liquidity risk and interest rate risk. The directors review and agree policies for managing each of these risks and they are summarised below.

#### *Liquidity risk*

The maturity of group debt facilities are managed such that at any one time 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 two years.

Facilities are staggered to maturity to avoid excessive concentrations in any twelve month period as well as removing refinancing risk if such timeframes coincide with a regulatory reset date.

#### *Interest rate risk*

Any interest rate exposure to the company is borne by the parent company so any rate change would be passed on to the parent company.

### **Going concern**

The company's business activities, performance and position together with its principal risks and uncertainties likely to affect its future development and performance are set out above.

The directors have made enquiries and reviewed the forecasts, and in light of the facilities available, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

By order of the Board

M J Horsley

4 August 2015

Director

## Directors' report

For the period ended 31 March 2015

### Directors

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

A Hunter	(Chairman)
M J Horsley	(Chief Executive Officer)
H L Kam	
C T Wan	
N McGee	
S Leong	
D Macrae	
L S Chan	
C C Tsai	(appointed 28 February 2014)
SS Yuen	(resigned 28 February 2014)

### 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.

The Northern Gas Networks Finance Plc Board of Directors ("the Board") meets at least three times a year. The number of Board meetings held during the period and attendees (including alternates) at the Board meetings are detailed below:

15 months ended 31 March 2015		Year ended 31 December 2013	
Date	Attendees	Date	Attendees
21 January 2014	5 out of 9	22 January	9 out of 9
25 March 2014	9 out of 9	12 March	9 out of 9
20 May 2014	7 out of 9	14 May	8 out of 9
27 January 2015	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.

## Directors' report (continued)

### **Auditor**

Each of the directors 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.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor.

1100 Century Way  
Thorpe Park Business Park  
Colton  
Leeds  
LS15 8TU

By order of the Board,

M J Horsley

4 August 2015

Director

## Directors' responsibilities statement

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

Company law requires the directors to prepare accounts for each financial period. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts 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 accounts, 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; and
- prepare the accounts 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 accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent auditor's report

### **To the Members of Northern Gas Networks Finance Plc**

We have audited the accounts of Northern Gas Networks Finance Plc for the period ended 31 March 2015 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Through management, the directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

### **Scope of the audit of the accounts**

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on accounts**

In our opinion the accounts:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its result for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Independent auditor's report (continued)

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial period for which the accounts are prepared is consistent with the accounts.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

**David Johnson BA FCA (Senior Statutory Auditor)**  
**For and on behalf of Deloitte LLP**  
**Chartered Accountants and Statutory Auditor**  
**Leeds, England**

4 August 2015



## Profit and loss account

For the 15 month period ended 31 March 2015

	Notes	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
<b>Operating profit</b>		-	-
Finance charges (net)	1	-	-
<b>Profit on ordinary activities before taxation</b>	2	-	-
Tax on profit on ordinary activities		-	-
<b>Profit for the financial period</b>		-	-

The above results arise from continuing operations.

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

There are no recognised gains or losses in the current period or prior year other than the profit or loss for the period/year.

## Balance sheet

31 March 2015

	Notes	31 March 2015 £'000	31 December 2013 £'000
<b>Current assets</b>			
Debtors			
– due within one year	3	22,308	21,110
– due after one year	3	900,130	900,130
		<u>922,438</u>	<u>921,240</u>
<b>Creditors:</b> Amounts falling due within one year	4	(23,003)	(22,389)
<b>Net current assets</b>		899,435	898,351
<b>Creditors:</b> Amounts falling due after more than one year	5	(899,385)	(898,801)
<b>Net assets</b>		<u>50</u>	<u>50</u>
<b>Capital and reserves</b>			
Called-up share capital	7	50	50
Profit and loss account	8	-	-
<b>Shareholders' funds</b>	9	<u>50</u>	<u>50</u>

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

The accounts of Northern Gas Networks Finance Plc, Registered number 5575923, were approved by the Board of Directors and authorised for issue on 4 August 2015 and signed on its behalf by:

M J Horsley

4 August 2015

Director

## Statement of accounting policies

31 March 2015

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

### **Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom ("UK") accounting standards.

The company is exempt from the requirement of FRS1 (revised) "Cash flow statements" to present a cash flow statement as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited, which prepares consolidated accounts which are publicly available.

### **Going concern**

The Strategic report includes a note stating that the directors consider the business to be a going concern at the time of the approval of the Annual Report and accounts.

### **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 company's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average UK tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on UK tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

### **Finance costs**

Finance costs of debt are recognised in the profit and loss account over the term of the instrument at a constant rate on the carrying amount.

### **Debt**

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting year and reduced by payments made in the period.

## Notes to the accounts (continued)

### 1 Finance charges (net)

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Interest payable and similar charges	60,572	48,594
Interest receivable and similar income	(60,572)	(48,594)
	-	-

Interest receivable and similar income is all received from the immediate parent undertaking. All interest payable and similar charges incurred are recharged to the immediate parent undertaking.

#### *Interest payable and similar charges*

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Bonds	60,572	48,594
	60,572	48,594

### 2 Directors remuneration and auditor's fee

The directors did not receive or accrue any remuneration in relation to their services to the company during the current period or prior year. The total remuneration received by the directors during the period was £1,238,000 (2013 - £851,000) which was paid by other group companies for their services to the group. The audit fee of £6,000 (2013 - 6,000) will be borne by Northern Gas Networks Limited. There are no employees other than the directors (2013 - none).

### 3 Debtors

	31 March 2015 £'000	31 December 2013 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	22,308	21,110
	22,308	21,110
<b>Amounts falling due after one year:</b>		
Amounts owed by group undertakings	900,130	900,130
	900,130	900,130
	922,438	921,240

## Notes to the accounts (continued)

### 3 Debtors (continued)

The amounts owed by group undertakings falling due after one year is an intercompany loan repayable in four tranches, £198.2m on 8 July 2019, £250.0m on 30 June 2027, £255.0m on 15 November 2035 and £196.9m on 23 March 2040 in line with the related bond repayments (see note 5). Interest is paid annually in line with the related bond interest payment dates as set out in note 5 at a rate equivalent to that paid on the related bonds.

The amounts owed by group undertakings are not impaired in any way and are fully recoverable as the group undertaking holding the debt has been deemed a going concern by the directors of that company due to a net asset position and future profit forecasts.

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

	31 March 2015 £'000	31 December 2013 £'000
Accruals and deferred income	23,003	22,389
	<u>23,003</u>	<u>22,389</u>

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

	31 March 2015 £'000	31 December 2013 £'000
Bond due 2040	196,172	195,980
Bond due 2019	198,833	198,490
Guaranteed bond due 2027	249,723	249,695
Guaranteed bond due 2035	254,657	254,636
	<u>899,385</u>	<u>898,801</u>

Balances have been accounted for as loans and payables.

The bond due 2040 of £200.0m matures on 23 March 2040 and will be redeemed at par. Interest is paid annually on 23 March at a rate of 5.625%. The bond due 2019 of £200.0m matures on 8 July 2019 and will be redeemed at par. Interest is paid annually on 8 July at a rate of 5.875%. The guaranteed bond due 2027 of £250.0m matures on 30 June 2027 and will be redeemed at par. Interest is paid annually on 30 June at a rate of 4.875%. The guaranteed bond due 2035 of £255.0m matures on 15 November 2035 and will be redeemed at par. Interest is paid annually on 15 November at a rate of 4.875%.

Further detail of the bond guarantee is included in note 10.

## Notes to the accounts (continued)

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

#### Maturity analysis of bonds

	31 March 2015	31 December 2013
	£'000	£'000
Maturity analysis of interest and repayments:		
In one year or less	47,619	47,619
In more than one year but less than two years	47,619	47,619
In more than two years but less than five years	342,856	142,856
In more than five years but less than ten years	179,344	391,094
In more than ten years but less than twenty years	523,375	535,563
In more than twenty years	523,681	558,613
	<u>1,664,494</u>	<u>1,723,364</u>

Maturity is measured as actual cash flows.

### 6 Derivatives and other financial instruments

The Strategic report provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the company faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

Short term debtors and creditors have been excluded from the disclosures. The directors believe that the fair values are not materially different from the balance sheet values for the current period and prior year.

#### *Fair values*

Set out below is a comparison by category of book values and fair values of the company's financial liabilities and assets at 31 March 2015 and 31 December 2013.

	31 March 2015		31 December 2013	
	Book Value £'000	Fair value £'000	Book value £'000	Fair value £'000
<b>Financial liabilities</b>				
Bonds	899,385	1,112,596	898,801	978,657
<b>Financial assets</b>				
Intercompany loans	900,130	1,112,596	900,130	978,657

The fair values shown above have been determined from the market price of the listed debt.

## Notes to the accounts (continued)

### 7 Called-up share capital

	31 March 2015 £'000	31 December 2013 £'000
<i>Allotted and called-up</i>		
50,000 ordinary shares of £1 each	50	50

The unpaid shares remain outstanding within debtors at the year end.

### 8 Reserves

	Profit and loss account £'000
At 1 January 2014	-
Profit for the financial period	-
At 31 March 2015	-

### 9 Reconciliation of movements in shareholders' funds

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Profit for the financial period	-	-
Net movement in shareholders' funds	-	-
Opening shareholders' funds	50	50
Closing shareholders' funds	50	50

### 10 Financial commitments

The company has a total commitment of £8.6m (2013 - £9.2m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from FGIC UK Limited ("FGIC") to cover the 2027 and 2035 bonds included within long term borrowings in note 5.

The company has also entered into a Guarantee and Reimbursement Agreement with FGIC in conjunction with its parent, NGN, in relation to those bonds. NGN guarantees the punctual payment of any and all sums and fees due to FGIC and undertakes to pay any amount due from the company but not paid by it. NGN also indemnifies FGIC against any loss or liability suffered, if any obligation guaranteed by FGIC is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGIC would otherwise have been entitled to recover.

## Notes to the accounts (continued)

### **11 Ultimate controlling party**

The directors regard Northern Gas Networks Holdings Limited, a company incorporated in England and Wales, as the ultimate parent company and the ultimate controlling party. Northern Gas Networks Limited is the immediate parent company.

Northern Gas Networks Holdings Limited is the parent company of the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available from 1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU.

The Shareholders of Northern Gas Networks Holdings Limited are a consortium consisting of:

PG (April) Limited (47.1%)

Beta Central Profits Limited (41.3%)

SAS Trustee Corporation (11.6%)

As a subsidiary undertaking of Northern Gas Networks Holdings Limited, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the group headed by Northern Gas Networks Holdings Limited.