Northern Gas Networks Finance Plc

Annual Report and accounts
for the year ended 31 March 2016

Registered number: 05575923

Strategic report

For the year ended 31 March 2016

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report for the year ended 31 March 2016, and prior period being the 15 months ended 31 March 2015.

This is the first time the accounts are presented under Financial Reporting Standard 102 (FRS 102). No transitional adjustments have been required following FRS 102 adoption because FRS 102 has not had a material change to the accounting policies of the company.

Review of the business

The company's primary role is to ensure that the Northern Gas Networks Holdings Limited (NGNH) group continues to have access to the required funds needed to operate.

Financial and operational review

The company's balance sheet shows that the financial position at 31 March 2016 is broadly consistent with 31 March 2015.

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 NGNH Annual Report.

Future prospects

The directors expect the future prospects of the company to be consistent with performance shown within this Annual Report and accounts.

Principal risks and uncertainties

The company is financed by bonds, the proceeds of which have been loaned to its parent company Northern Gas Networks Limited (NGN). Associated risks are discussed in the next section.

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 the policies for managing each of these risks and they are summarised below.

Liquidity risk

The maturity of group debt facilities and other amortising loans, 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.

Debt and facility maturities avoid excessive concentrations in any twelve month period, as well as the period around regulatory reset dates where possible.

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.

By order of the Board

M J Horsley

Director

19 July 2016

Directors' report

For the year ended 31 March 2016

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report for the year ended 31 March 2016, and prior period being the 15 months ended 31 March 2015. The following disclosures have been disclosed in the strategic report but are cross referenced here: business review including KPI's, principles risks and uncertainties, and future prospects.

Directors

The directors, who served throughout the year 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

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 twice a year. The number of Board meetings held during the year and attendees (including alternates) at the Board meetings are detailed below:

Year ended 31 March 2016		15 months ended 31 March 2015	
Date	**Attendees**	**Date**	**Attendees**
27 October 2015	8 out of 9	21 January 2014	5 out of 9
26 January 2016	9 out of 9	25 March 2014	9 out of 9
		20 May 2014	7 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.

Dividends

The directors do not recommend payment of a dividend (2015 - £nil).

Going concern

The company's business activities, performance and position, together with the 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.

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.

The directors have/will place a resolution before the annual general meeting to reappoint Deloitte LLP as auditor for the ensuing year.

Approval of reduced disclosure

The company, as a qualifying entity, has taken advantage, in respect of its separate financial statements, of the disclosure exemptions in FRS 102 paragraph 1.12. The company's shareholders have been notified in writing about the intention to take advantage of the disclosure exemption and no objections have been received.

The company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the company by shareholders holding in aggregate 5% or more of the allocated shares in the company. They should be served no later than 31 December 2016.

Approved by the Board and signed on its behalf by:

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

By order of the Board,

M J Horsley

Director

19 July 2016

Directors' responsibilities statement

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

Company law requires the directors to prepare accounts for each financial year. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts; 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 year ended 31 March 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of accounting policies and the related notes 1 to 9. 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) including FRS102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

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.

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 2016 and of its result for the year 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.

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 year 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.

Scott Bayne FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Leeds, United Kingdom

19 July 2016

Statement of comprehensive income
For the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Operating profit		-	-
Finance charges (net)	1	-	-
Profit on ordinary activities before taxation	2	-	-
Tax on profit on ordinary activities		-	-
Profit for the financial year/period		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-

The above results arise from continuing operations.

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

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

Balance sheet

As at 31 March 2016

	Notes	2016 £'000	2015 £'000
Current assets			
Debtors			
– due within one year	3	22,815	22,308
– due after one year	3	900,130	900,130
		922,945	922,438
Creditors: Amounts falling due within one year	4	(23,042)	(23,003)
Net current assets		899,903	899,435
Creditors: Amounts falling due after more than one year	5	(899,853)	(899,385)
Net assets		50	50
Capital and reserves			
Called-up share capital	6	50	50
Profit and loss account		-	-
Shareholders' funds		50	50

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 19 July 2016 and signed on its behalf by:

M J Horsley

Director

19 July 2016

Statement of changes in equity

For the year ended 31 March 2016

	Profit and loss account £'000	Called up share capital £'000	Total £'000
At 1 January 2014	-	50	50
Total comprehensive income	-	-	-
At 31 March 2015	-	50	50
Total comprehensive income	-	-	-
At 31 March 2016	-	50	50

Statement of accounting policies

For the year ended 31 March 2016

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

Basis of accounting

The accounts have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The prior year accounts have not required restatement on adoption of FRS 102 as accounting policies remained material consistent.

The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company is exempt from the requirement of FRS102 (Section 7) to present a cash flow statement as it is a wholly owned subsidiary of NGNH, which prepares consolidated accounts which are publicly available. The company is not required to prepare group accounts as it is a wholly owned subsidiary of NGNH which prepares consolidated accounts which are publicly available. Disclosure exemptions have been taken in relation to financial instruments, and remuneration of key management personnel on the basis that it is a wholly owned subsidiary of NGNH which produce consolidated accounts.

Going concern

The Directors' 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.

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 statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

Financial instruments (continued)

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.

Critical accounting judgments and key sources of estimation uncertainty

Fair value of financial instruments
Some of the company 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.

1 Finance charges (net)

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Interest payable and similar charges	48,631	60,572
Interest receivable and similar income	(48,631)	(60,572)
	-	-

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

Interest payable and similar charges

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Bonds	48,631	60,572
	48,631	60,572

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 year or prior period. The total remuneration received by the directors during the year was £966,000 (2015 - £1,238,000) which was paid by other group companies for their services to the group. The audit fee of £6,000 (2015 - 6,000) will be borne by Northern Gas Networks Limited. There are no employees other than the directors (2015 – none).

3 Debtors

	31 March 2016 £'000	31 March 2015 £'000
Amounts falling due within one year:		
Amounts owed by group undertakings	22,815	22,308
	22,815	22,308
Amounts falling due after one year:		
Amounts owed by group undertakings	900,130	900,130
	900,130	900,130
	922,945	922,438

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 2016 £'000	31 March 2016 £'000
Accruals and deferred income	23,042	23,003
	23,042	23,003

5 Creditors: Amounts falling due after more than one year

	31 March 2016 £'000	31 March 2015 £'000
Bond due 2040	196,326	196,172
Bond due 2019	199,108	198,833
Guaranteed bond due 2027	249,745	249,723
Guaranteed bond due 2035	254,674	254,657
	899,853	899,385

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%.

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

Maturity analysis of bonds

Maturity analysis of interest and repayments:	31 March 2016 £'000	31 March 2015 £'000
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	331,106	342,856
In more than five years but less than ten years	179,344	179,344
In more than ten years but less than twenty years	511,188	523,375
In more than twenty years	500,000	523,681
	1,616,876	1,664,494

Maturity is measured as actual cash flows.

6 Called-up share capital

	31 March 2016 £'000	31 March 2015 £'000
Allotted and called-up		
50,000 ordinary shares of £1 each	50	50

7 Financial commitments

The company has a total commitment of £8.1m (2015 - £8.6m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from FGIC UK Limited (FGIC) to cover the 2027 and 2035 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 Limited 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 Limited 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.

8 Related party transactions

The company is a wholly owned subsidiary and utilises the exemption contained in FRS102 section 33 2.2, "Related Party Disclosures", not to disclose any transactions with entities that are part of the group.

Amounts owed by group undertakings at the balance sheet date are disclosed in note 3.

9 Ultimate controlling party

The directors regard NGNH, a company incorporated in England and Wales, as the ultimate parent company and the ultimate controlling party. NGN is the immediate parent company.

NGNH 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 NGNH are a consortium consisting of:

PG (April) Limited (47.1%)
Beta Central Profits Limited (41.3%)
SAS Trustee Corporation (11.6%)