Northern Gas Networks Holdings Limited

Annual Report and accounts
for the year ended 31 March 2016

Registered number: 05213525

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 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) which has meant restatement of our prior year figures. Details of the transition to FRS 102 are shown in note 24.

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 and North East of England. The group's vision of success is to be consistently benchmarked by the regulators, Ofgem and the Health and Safety Executive ("HSE") as being in the top two comparable utilities 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 £198.2m compared to the prior period of £262.7m, as a result of the difference in time period. On a comparable basis revenue has increased based on Ofgem allowances and costs have increased mainly due to depreciation.

The group generated a net cash inflow from operating activities for the year of £262.6m (2015 15 month period - £345.3m). At the end of the year, the group's undrawn borrowing facilities available for use amounted to £238.0m (2015 - £195.0m). The group has debt before financing costs of £1,437.1m (2015 - £1,455.7m) at the period end. This comprises:

- bank loans of £12.0m (2015 - £59.0m) which carry interest at LIBOR plus a margin of 0.4%;
- bonds of £199.4m (2015 - £199.3m) which carry interest of 5.875% and are repayable in 2019;
- bonds of £197.5m (2015 - £197.4m) which carry interest of 5.625% and are repayable in 2040;
- bonds of £505.0m (2015 - £505.0m) which carry interest of 4.875%, £250.0m of which is repayable in 2027 and £255.0m in 2035;
- loans of £303.2m (2015 - £275.0m) carrying interest at 3 month LIBOR plus a margin which varies by facility as detailed in note 15 to the accounts, £25.0m of which is repayable in 2023, £185.0m in 2024, £30.0m in 2027, £30.0m in 2028 and £33.2m in 2034;
- a loan of £40.0m (2015 - £40.0m) which carries interest of 3.446% and is repayable in 2024; and
- shareholder loans of £180.0m (2015 - £180.0m) which carry interest of 10.0% and are repayable in 2033.

This debt structure has given rise to finance charges of £67.9m in the year (2015 15 month period - £88.6m).

The tax credit for the year was £3.6m (2015 15 month period - £38.0m charge) which represents an effective tax rate of (2.7)% (2015 15 month period - 21.8%). The effective tax rate is low in the year due to the impact of the adjustment of the deferred tax liability to reflect the changes in UK corporation tax rates from 20% to 18%.

Capital expenditure ("Capex") for the year was £154.6m (2015 15 month period - £185.9m) principally focused on investment in network assets including replacement expenditure and new IT systems used to support many of the group's operational business activities.

The group had net assets of £420.1m at 31 March 2016 (2015 - £349.2m).

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 these areas of safety management, efficiency and customer service and include:

	Year ended 31 March 2016	15 months ended 31 March 2015
Financial performance (efficiency)		
Operating profit	£198.2m	£262.7m
Net cash from operating activities	£262.6m	£345.3m
Dividends paid	£62.0m	£58.0m
Senior net debt/Regulatory asset value	64.9%	64.3%
Customer service		
Quarterly customer satisfaction survey for repair, replacement and connections	9 out of 10**	9 out of 10**
Safety management		
Number of lost time injuries to employees and contractors	2	1
Reported injuries to members of the general public	1	0

***For the regulatory years ended 31 March 2016 and 31 March 2015.*

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

Environment

The group recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements and higher standards where possible. The group is committed to the protection of the environment in the region it serves. The group's environmental management systems are certified under ISO 14001 and OHSAS 18001. This helps the directors deal proactively with future environmental issues and legislation and assist in the development of environmentally beneficial projects.

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 extensive legal and regulatory obligations and controls which Northern Gas Networks Limited ("NGN"), as the licensed entity, must comply with. 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 potential fine.

Mitigation
The group engages with the regulatory authority extensively at all levels of seniority to understand future plans and potential impacts on the business. The business respond to all potential changes which impact on the business and seek to mitigate any adverse impacts. The business has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations.

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 on the reputation of the group, or lead to potential prosecution or reduced productivity.

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

Network performance
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.

Mitigation
The company have a set of policies and procedures we adhere to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent.

Employees

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

Mitigation

The group's succession planning strategies mean that development of existing staff is crucial. Effective resourcing and selection processes also play a positive role in improving the image of the group in the community it serves.

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.

Financial risk management objectives and policies

The group's financial instruments, other than derivatives, comprise borrowings, cash, overdrafts and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the group's operations.

The group also enters into derivative transactions, principally interest rate swaps. The purpose of such transactions is to manage the interest rate risks arising from the group's sources of finance.

The main risks arising from the group's financial instruments are interest rate risk, currency 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

The long term approach adopted in minimising interest rate exposures on debt is as follows:

- To have a balanced debt portfolio comprising a mixture of nominal and index-linked debt aiming to achieve a degree of symmetry with the Regulator's broad approach to setting cost of debt allowances and so as to maintain a debt portfolio consistent with those of comparable utility companies; and

- To structure debt maturities and interest rate hedges in such a way as to provide protection against adverse movements in the indexed regulatory cost of debt allowance.

Currency risk

No exposures are currently identified. Regular monitoring procedures will identify material risks as they arise. Currency risk management is only used to hedge underlying commercial exposures. Therefore trading in currency is prohibited and if an underlying exposure ceases to exist then the corresponding hedge is closed out immediately. Any non-sterling borrowings and associated service costs are hedged into sterling at the time the commitment to draw down is made.

Liquidity risk

The maturities of all debt and committed debt facilities other than 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 are staggered to avoid excessive concentrations in any twelve month period as well as the period around regulatory reset dates where possible.

Future prospects

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

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 group, together with the accounts and auditor's report, for the year ended 31 March 2016. 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 Board") on behalf of the group.

The Board meets at least five times a year. The number of NGNH 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**
28 April 2015	9 out of 9	21 January 2014	5 out of 9
4 August 2015	8 out of 9	25 March 2014	9 out of 9
27 October 2015	7 out of 9	20 May 2014	7 out of 9
3 November 2015	9 out of 9	25 July 2014	5 out of 9
26 April 2016	6 out of 9	05 August 2014	9 out of 9
		23 September 2014	8 out of 9
		21 November 2014	9 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 final dividend. Interim dividends of 21.6p per share were paid on 19 June 2015 and of 64.9p per share were paid on 21 December 2015 making a total of 86.5p per share for the year (2015 15 month period – 80.9p).

Future developments and events after the balance sheet date

From 1 April 2013, the RIIO-GD1 price control (RIIO-GD1) commenced, which gives NGN security over regulated revenue until 31 March 2021. The directors therefore expect the general level of activity to remain stable.

Financial Instruments

Financial Instruments have been disclosed within note 16 and associated risks discussed within the Strategic Report.

Going Concern

The group's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out above. In addition note 16 to the accounts includes further details of the group's net debt position and details of its derivatives and other financial instruments. The group is able to pay its liabilities as they fall due, due to the reliability of regulated revenue under RIIO-GD1.

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

Disabled employees

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

Employee consultation

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

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.

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.

By order of the Board

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

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 group and of the profit or loss of the group 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, subject to any material departures disclosure and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

To the Members of Northern Gas Networks Holdings Limited

We have audited the accounts of Northern Gas Networks Holdings Limited for the year ended 31 March 2016 which comprise the group profit and loss account, the group statement of comprehensive income, the group and parent company balance sheets, the group and parent company statement of changes in equity, the group cash flow statement, the statement of accounting policies and the related notes 1 to 24. 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 FRS 102 "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 group's and the parent 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 group's and the parent company's affairs as at 31 March 2016 and of the group's profit 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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

Consolidated profit and loss account

For the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Turnover	1	415,761	511,346
Cost of sales		(13,396)	(19,655)
Gross profit		402,365	491,691
Other operating expenses	2	(204,154)	(228,951)
Operating profit		198,211	262,740
Finance costs (net)	3	(67,906)	(88,621)
Profit on ordinary activities before taxation	4	130,305	174,119
Tax on profit on ordinary activities	7	3,573	(37,999)
Profit for the financial year/period		133,878	136,120

The above results arise from continuing operations.

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

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

Consolidated statement of comprehensive income

For the year ended 31 March 2016

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Profit for the financial year/period	133,878	136,120
Re-measurement of net defined benefit liability	2,900	(20,146)
Cash flow hedges - losses arising during the year/period	(4,644)	(13,078)
Tax relating to components of other comprehensive income	753	8,737
Comprehensive income relating to the year/period	132,887	111,633

Profit 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 2016

	Notes	31 March 2016 £'000	31 March 2015 £'000
Fixed assets			
Intangible assets	10	165,696	171,346
Tangible fixed assets	11	2,249,825	2,157,528
Investments	12	104	104
		2,415,625	2,328,978
Current assets			
Stock - raw materials		2,415	1,973
Debtors - amounts falling due within one year	13	43,252	40,115
amounts falling due after one year	13	324,915	313,520
Cash at bank and in hand		5,009	8,562
		375,591	364,170
Creditors: Amounts falling due within one year	14	(133,990)	(115,201)
Net current assets		241,601	248,969
Total assets less current liabilities		2,657,226	2,577,947
Creditors: Amounts falling due after more than one year	15	(1,892,599)	(1,838,432)
Provisions for liabilities	17	(344,527)	(390,302)
Net assets		420,100	349,213
Capital and reserves			
Called-up share capital	18	71,671	71,671
Hedging reserve		(30,136)	(26,482)
Profit and loss account		378,565	304,024
Shareholders' funds		420,100	349,213

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 19 July 2016 and signed on its behalf by:

M J Horsley

Director

19 July 2016

Company balance sheet

As at 31 March 2016

	Notes	31 March 2016 £'000	31 March 2015 £'000
Fixed assets			
Investments	12	574,502	574,502
Current assets			
Debtors			
- amounts falling due within one year	13	4,803	4,852
Cash at bank and in hand		1	1
		4,804	4,853
Creditors: Amounts falling due within one year	14	(3,469)	(7,069)
Net current assets (liabilities)		1,335	(2,216)
Total assets less current liabilities		575,837	572,286
Creditors: Amounts falling due after more than one year	15	(180,000)	(180,000)
Net assets		395,837	392,286
Capital and reserves			
Called-up share capital	18	71,671	71,671
Profit and loss account		324,166	320,615
Shareholders' funds		395,837	392,286

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 19 July 2016 and signed on its behalf by:

M J Horsley

Director

19 July 2016

Consolidated statement of changes in equity

For the year ended 31 March 2016

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 31 December 2013 as previously stated	71,671	-	(123,252)	(51,581)
Changes on transition to FRS 102 (see note 24)	-	(18,112)	365,273	347,161
At 1 January 2014 as restated	71,671	(18,112)	242,021	295,580
Profit for the financial period	-	-	136,120	136,120
Remeasurement of net defined benefit liability	-	-	(16,117)	(16,117)
Net change in fair value of cash flow hedge transferred to the income statement	-	1,448	-	1,448
Net movement on cash flow hedges	-	(9,818)	-	(9,818)
Total comprehensive income	-	(8,370)	120,003	111,633
Dividends paid on equity shares	-	-	(58,000)	(58,000)
At 31 March 2015 as restated	71,671	(26,482)	304,024	349,213
Profit for the financial year	-	-	133,878	133,878
Remeasurement of net defined benefit liability	-	-	2,663	2,663
Net change in fair value of cash flow hedge transferred to the income statement	-	1,159	-	1,159
Net movement on cash flow hedge	-	(4,813)	-	(4,813)
Total comprehensive income	-	(3,654)	136,541	132,887
Dividends paid on equity shares	-	-	(62,000)	(62,000)
At 31 March 2016	71,671	(30,136)	378,565	420,100

Company statement of changes in equity

For the year ended 31 March 2016

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2014	71,671	319,514	391,185
Profit for the financial period (see note 8)	-	59,101	59,101
Total comprehensive income	-	59,101	59,101
Dividends paid on equity shares	-	(58,000)	(58,000)
At 31 March 2015	71,671	320,615	392,286
Profit for the financial year (see note 8)	-	65,551	65,551
Total comprehensive income	-	65,551	65,551
Dividends paid on equity shares	-	(62,000)	(62,000)
At 31 March 2016	71,671	324,166	395,837

Consolidated cash flow statement

For the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Net cash inflows from operating activities	19	262,576	345,309
Cash flow from investing activities			
Interest received		67	65
Interest paid		(63,717)	(81,018)
Taxation - UK corporation tax paid		(20,578)	(11,304)
Purchase of tangible fixed assets		(155,116)	(185,947)
Sale of tangible fixed assets		709	2,601
		(238,635)	(275,603)
Cash flow from financing activities			
Dividends paid		(62,000)	(58,000)
Repayment of borrowings		-	(34,000)
Withdrawal of borrowings		35,158	30,000
Expenses on issue of new loans		(652)	-
		(27,494)	(62,000)
Net (decrease) / increase in cash and cash equivalents		(3,553)	7,706
Cash and cash equivalents at beginning of year/period		8,562	856
Cash and cash equivalents at end of year/period		5,009	8,562

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 period, subject to the changes following adoption of FRS 102 as detailed in note 24.

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 were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 24.

The group accounts consolidate the accounts of the company and its subsidiary undertakings drawn up to 31 March 2016 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 is 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 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.

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

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. :

Tangible fixed assets (continued)

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 mains & services	55 to 65 years
Gas storage	40 years
Plant & machinery	10 to 30 years
Freehold buildings	50 years
Leasehold land and buildings	Lesser of lease period and 50 years
Motor vehicles and office equipment	3 to 10 years
Replacement expenditure	60 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.

Stocks

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

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 following adoption of FRS 102 on 1 April 2015. Prior to adoption of FRS 102 this activity was expensed.

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.

Decommissioning and environmental costs

Decommissioning and environmental costs, based on discounted future estimated expenditures, are provided for in full and where appropriate a corresponding tangible fixed asset is also recognised. The unwinding of the discount is included within the profit and loss account as a financing charge.

Turnover

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

Pension costs

The group has obligations for a defined benefit scheme. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments which are included within operating costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total comprehensive income.

The defined benefit scheme is funded with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the consolidated balance sheet.

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 instruments (continued)

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.

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).

Financial instruments (continued)

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.

Derivative financial instruments

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

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

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. At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Group determines and documents causes for hedge ineffectiveness.

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

Critical accounting judgments and key sources of estimation uncertainty

Investments

The directors consider the value of the company investment to be supported by the value of future cash flows received and net assets of the investment.

Provisions

The valuation of provisions includes estimation of future cash outflows, the estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of liabilities that are not readily available. The estimates and underlying assumptions are reviewed on an ongoing basis and discussed in further details in note 17.

Fair value of financial instruments

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the group uses market-observable data to the extent it is available. Information about the valuation technique is disclosed in note 16.

Pension arrangements

Note 21 contains information about the principle actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation and mortality rates and have been determined following advice received from an independent qualified actuary.

Taxation

Liabilities recognised are determined by reference to the likelihood of settlement to be made to tax authorities and tax assets represent the best estimate of recoverable amounts based on forecasts.

Accrued income

Revenue is billed in the month following the distribution of gas and provision for other services, an estimation of the month's revenue is calculated based using market-observable data and volumes. The estimation and underlying assumptions are reviewed on an ongoing basis and historical accuracy is tracked.

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.

2 Other operating expenses

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Distribution costs	168,429	193,067
Administrative expenses	35,725	35,884
	204,154	228,951

3 Finance costs (net)

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Interest payable and similar charges	63,780	77,859
Less: investment income	(515)	(485)
Other finance charges	4,641	11,247
	67,906	88,621

Interest payable and similar charges

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Shareholder loans	18,049	22,439
Bank loans and overdrafts	5,975	6,952
Bonds	41,137	49,538
	65,161	78,929
Finance costs capitalised	(1,381)	(1,070)
	63,780	77,859

Finance costs have been capitalised based on a capitalisation rate of 3.79% (2015 15 month period – 3.69%).

3 Finance charges (net) (continued)

Investment income	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Income from fixed asset investments	(453)	(420)
Interest receivable and similar income	(62)	(65)
	(515)	(485)

Other finance charges (income)

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Fair value movement on financial instruments	4,076	11,823
Exchange rate differences	10	(30)
Unwinding of discount on provisions (see note 17)	158	2,476
Net interest on pension scheme (see note 21)	397	(3,022)
	4,641	11,247

4 Profit on ordinary activities before taxation

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Depreciation and amounts written off tangible fixed assets (see note 11)		
- owned	64,785	64,339
- held under finance leases and hire purchase contracts	7	6
Amortisation of intangible fixed assets included in administrative expenses (see note 10)	5,650	7,064
Profit on disposal of fixed assets	(553)	(1,501)
Operating lease rentals - other	1,993	2,111

The analysis of auditor's remuneration is as follows:

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts and consolidation	33	17
Fees payable to the company's auditor and its associates for other services to the group		
- The audit of the company's subsidiaries	104	101
Total audit fees	137	118
Fees payable to the company's auditor and its associates for other services to the group		
- Audit related assurance services	57	50
- Tax services (compliance)	25	25
- Tax services (advisory)	153	160
- Other services	32	6
Total non-audit fees	267	241

5 Staff costs

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

	Year ended 31 March 2016 Number	15 months ended 31 March 2015 Number
Administration	125	103
Operations	1,388	1,333
	1,513	1,436

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Their aggregate remuneration comprised:		
Wages and salaries	60,045	69,564
Social security costs	5,915	6,850
Other pension costs	17,767	11,690
	83,727	88,104

Other pension costs include only those included within other operating expenses. Items reported elsewhere are excluded.

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Emoluments	70	70	769	901
Amounts receivable (other than shares) under long-term incentive schemes	-	-	197	267
	70	70	966	1,168

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.

Pensions

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

6 Directors' remuneration and transactions (continued)

Highest paid director

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Emoluments	966	1,168

Transactions

There have been no transactions with directors in the year (2015 15 month period – £nil) other than as set out above in respect of remuneration.

7 Tax on profit on ordinary activities

The tax charge comprises:

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Current tax		
UK corporation tax	33,939	19,208
Adjustments in respect of prior periods	1,284	(593)
Total current tax	35,223	18,615
Deferred tax		
Current period - origination and reversal of timing differences	(6,678)	17,001
Adjustments in respect of prior periods	306	-
Effects of decrease in tax rate on opening liability	(32,424)	2,383
Total deferred tax	(38,796)	19,384
Total tax on profit on ordinary activities	(3,573)	37,999

7 Tax on profit on ordinary activities (continued)

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Group profit on ordinary activities before tax	130,305	174,119
Tax on group profit on ordinary activities at standard UK corporation tax rate of 20.0% (2015 – 21.4%)	26,061	37,262
Effects of:		
Expenses not deductible for tax purposes	1,391	1,340
Income not taxable in determining taxable profit	(901)	(849)
Differences in tax rates	(31,714)	(1,544)
Adjustments in respect of prior year	1,590	1,790
Group total tax charge for the period	(3,573)	37,999

The group earns its profits in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 20.0% (2015 15 month period – 21.4%).

The group's planned level of capital investment is expected to remain at similar levels as current investment. .

The Finance Act 2015 (No. 2), which was substantially enacted in October 2015, included provisions to reduce the rate of Corporation Tax to 18% with effect from 1 April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 18%, which has resulted in a credit to the profit and loss account of £32.4m and a credit to reserves of £0.5m.

8 Profit attributable to the company

The profit for the financial period dealt with in the accounts of the parent company was £65,551,000 (2015 15 month period - £59,101,000). 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.

9 Dividends on equity shares

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Equity shares		
- interim dividend paid of 21.63p (2015 – 25.46p) per ordinary share	15,500	18,250
- interim dividend paid of 64.88p (2015 – 55.46p) per ordinary share	46,500	39,750
	62,000	58,000

10 Intangible assets

	Licences £'000	Goodwill £'000	Total £'000
Cost			
At 31 March 2015 and 31 March 2016	161,200	65,712	226,912
Amortisation			
At 1 April 2015	39,628	15,938	55,566
Charge for the year	4,030	1,620	5,650
At 31 March 2016	43,658	17,558	61,216
Net book value			
At 31 March 2016	117,542	48,154	165,696
At 31 March 2015	121,572	49,774	171,346

11 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 2015	3,589	2,395,313	18,164	106,041	31,747	2,554,854
Additions	541	115,357	2,279	8,576	30,491	157,244
Disposals	-	(396)	(4,146)	(3,998)	-	(8,540)
Transfers	642	12,832	1,874	5,925	(21,273)	-
At 31 March 2016	4,772	2,523,106	18,171	116,544	40,965	2,703,558
Depreciation						
At 1 April 2015	2,031	324,928	8,919	61,448	-	397,326
Charge for the period	603	51,053	1,710	11,426	-	64,792
Disposals	-	(261)	(4,125)	(3,999)	-	(8,385)
At 31 March 2016	2,634	375,720	6,504	68,875	-	453,733
Net book value						
At 31 March 2016	2,138	2,147,386	11,667	47,669	40,965	2,249,825
At 31 March 2015	1,558	2,070,385	9,245	44,593	31,747	2,157,528
Leased assets included above:						
Net book value						
At 31 March 2016	175	-	-	-	-	175
At 31 March 2015	184	-	-	-	-	184

Undepreciated land equates to £774,000 (2015 - £774,000). Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £9,181,000 (2015 - £7,800,000).

12 Investments

	Group		Company	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£'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

+ Held directly by Northern Gas Networks Holdings Limited.

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 2015 and 31 March 2016	574,502

12 Investments (continued)

Other investments

	£'000
Cost and net book value	
At 31 March 2015 and 31 March 2016	104

13 Debtors

	Group		Company	
	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000
Amounts falling due within one year:				
Trade debtors	2,512	1,413	-	-
Amounts owed by parent undertakings	1	1	1	1
Other debtors	29	130	4,802	4,851
Prepayments and accrued income	37,766	37,016	-	-
Derivative financial assets (see note 16)	2,944	1,555	-	-
	43,252	40,115	4,803	4,852
Amounts falling due after more than one year:				
Derivative financial assets (see note 16)	324,915	313,520	-	-
	324,915	313,520	-	-
	368,167	353,635	4,803	4,852

14 Creditors: Amounts falling due within one year

	Group		Company	
	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000
Bank loans	11,403	4,600	-	-
Payments received on account	6,674	1,001	-	-
Trade creditors	5,570	3,140	-	-
Amounts owed to group undertakings	-	-	3,287	6,861
Other taxation and social security	6,309	4,836	-	8
Accruals and deferred income	44,273	55,829	182	200
UK corporation tax	44,627	30,189	-	-
Derivative financial liabilities (see note 16)	15,134	15,606	-	-
	133,990	115,201	3,469	7,069

14 Creditors: Amounts falling due within one year (continued)

Bank loans comprise a revolving credit facility of £12.0m repayable on 29 April 2016. This facility is available to be redrawn until 28 October 2020 and carries interest at LIBOR plus a margin of 0.4%. At 31 March 2016 bank loans include unamortised fees of £597,000.

15 Creditors: Amounts falling due after more than one year

	Group		Company	
	31 March 2016 £'000	31 March 2015 £'000	31 March 2016 £'000	31 March 2015 £'000
Shareholder loans	180,000	180,000	180,000	180,000
Bank loans	343,124	314,962	-	-
Guaranteed bond due 2027	249,745	249,723	-	-
Guaranteed bond due 2035	254,674	254,657	-	-
Bond due 2019	199,107	198,833	-	-
Bond due 2040	196,326	196,172	-	-
Deferred income	94,894	90,403	-	-
Derivative financial liabilities (see note 16)	374,729	353,682	-	-
	1,892,599	1,838,432	180,000	180,000

Shareholder loans comprise £180.0m with interest of 10.0% payable annually, repayable on 20 December 2033.

At 31 March 2016 bank loans include unamortised fees of £2,127,000The bank loans comprise eight loans as detailed below.

Principal value (£m)	Interest terms	Repayable on
25.0	3 month LIBOR + 0.36%	23 January 2023
100.0	3 month LIBOR + 0.62%	30 March 2024
25.0	3 month LIBOR + 0.55%	24 June 2024
60.0	3 month LIBOR + 0.46%	30 July 2024
40.0	Fixed rate of 3.446%	20 December 2024
33.2	3 month LIBOR + 0.86%	25 March 2034
30.0	3 month LIBOR + 0.53%	31 March 2027
30.0	3 month LIBOR + 0.63%	29 February 2028

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%.

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

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 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%.

16 Derivatives and other financial instruments

The carrying values of the Group's financial assets and liabilities are summarised by category below:

	31 March 2016 £'000	31 March 2015 £'000
Financial assets		
Measured at fair value through the profit and loss account		
- Derivative financial assets	210,356	209,200
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets	117,503	105,875
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 13)	2,541	1,543
- Amounts owed by parent undertaking (see note 13)	1	1
Equity instruments measured at cost less impairment		
- Fixed asset investments (see note 12)	104	104
	330,505	316,723

16 Derivatives and other financial instruments (continued)

	31 March 2016 £'000	31 March 2015 £'000
Financial liabilities		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities	235,779	231,909
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities	24,048	18,828
- Other financial liabilities – bonds	130,036	118,552
Measured at amortised cost		
- Loans payable (see notes 14 and 15)	1,434,379	1,398,947
Measured at undiscounted amount payable		
- Trade and other creditors (see note 14)	12,244	4,141
	1,836,486	1,772,377

16 Derivatives and other financial instruments (continued)

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Interest income and expense on items at amortised cost		
- Total interest payable on financial liabilities at amortised cost	70,827	88,054
- Total interest receivable on financial assets measured at amortised cost	(62)	(65)
Interest income and expense on derivatives		
- Total interest receivable on financial assets measured at fair value through the P&L	(34,184)	(43,484)
- Total interest payable on financial liabilities measured at fair value through the P&L	21,363	27,419
- Total interest payable on financial assets designated in an effective hedging relationship	-	28
- Total interest payable on financial liabilities designated in an effective hedging relationship	5,334	4,859
Fair value gains and losses		
- On financial assets measured at fair value through the profit and loss account	3,978	(76,409)
- On financial liabilities measured at fair value through the profit and loss account	(81)	77,486
- On derivative financial assets designated in an effective hedging relationship	113	(86,991)
- On derivative financial liabilities designated in an effective hedging relationship	66	97,738
	67,354	88,635

16 Derivatives and other financial instruments (continued)

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

	Current (less than 1 year)		Greater than 1 year	
	31 March 16	31 March 15	31 March 16	31 March 15
	£'000	£'000	£'000	£'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Assets	-	6	117,503	105,869
Interest rate swaps				
Liabilities				
Interest rate swaps	-	-	(24,048)	(18,828)
	-	6	93,455	87,041

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

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

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

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2016	2015	2016	2015	2016	2015
	%	%	£'000	£'000	£'000	£'000
Outstanding receive floating pay fixed contracts						
Less than 1 year						
1 to 2 years	-	0.56	-	72,500	-	6
2 to 5 years	-	-	-	-	-	-
5 years +	-	-	-	-	-	-
	2.51	2.96	305,000	202,500	(24,048)	(18,828)
			305,000	275,000	(24,048)	(18,822)

16 Derivatives and other financial instruments (continued)

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

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

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

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2016 %	2015 %	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Outstanding pay floating receive fixed contracts						
5 years plus	4.88	4.88	490,000	505,000	117,503	105,869
			490,000	505,000	117,503	105,869

The forward-starting interest rate swaps settle on a semi-annual basis in the case of the floating rate legs and on an annual basis in the case of the fixed rate leg. The floating rate on the interest rate swaps is six month LIBOR.

Interest will be settled on a gross basis as the settlement dates for the fixed and floating rate legs do not coincide.

The swaps hedge the exposure to changes in the fair value of the underlying bonds that are attributable to changes in interest rates.

17 Provisions for liabilities

	Restructuring £'000	Deferred tax £'000	Environmental restoration £'000	Contractor claims £'000	Other £'000	Total £'000
Group						
At 1 April 2015	8,691	349,366	9,327	601	6,768	374,753
Charged (credited) to profit and loss account	7,821	(38,796)	-	-	300	(30,675)
Deferred tax in relation to pension scheme	-	(2,235)	-	-	-	(2,235)
Utilised in the year	(2,444)	-	(528)	(601)	(602)	(4,175)
Adjustment arising from discounting	-	-	124	-	34	158
At 31 March 2016	14,068	308,335	8,923	-	6,500	337,826
Provision for net defined benefit scheme deficit (see note 21)						6,701
						344,527

Deferred tax

Deferred tax is provided as follows:

	31 March 2016 £'000	31 March 2015 £'000
Group		
Accelerated capital allowances	76,771	82,220
Other timing differences	231,564	267,146
	308,335	349,366

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.

Restructuring

Estimated costs of an over 55 early retirement programme offered to employees. The restructuring provision value represents the net present value of anticipated liabilities at the balance sheet date. The timing of the utilisation of the other provision is inherently uncertain although the directors expect that such utilisation will occur mainly within two year from the balance sheet date.

17 Provisions for liabilities excluding pension liability (continued)

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.

Contractor claims

The provision for contractor claims relates to claims received from primary contractors in respect of work variations and final invoice valuations upon closing out contracts and represents the best estimate of the amounts required to settle these claims.

Other

Other provisions relate to the estimated net present value of future claims in relation to past public and employer's liability events. The timing of the utilisation of the other provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date.

18 Called-up share capital

	31 March 2016 £'000	31 March 2015 £'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.

19 Reconciliation of operating profit to operating cash flows

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Operating profit	198,211	262,740
Depreciation and amortisation	70,442	71,409
Profit on sale of tangible fixed assets	(553)	(1,501)
(Increase) decrease in stock	(442)	269
(Increase) decrease in debtors	(1,747)	13,672
Increase in creditors	1,482	12,379
Decrease (increase) in provisions	3,946	(4,449)
Adjustment for pension funding	(8,763)	(9,210)
Net cash inflow from operating activities	262,576	345,309

20 Financial commitments

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

	31 March 2016		31 March 2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Group				
Expiry date:				
- within one year	12	244	406	71
- between one and two years	134	452	38	793
- between two and five years	492	267	493	958
- after five years	6,930	-	5,360	-
	7,568	963	6,297	1,822

The group 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 guaranteed bonds included within long term borrowings in note 15.

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

21 Pension arrangements

The group has obligations for a defined benefit pension scheme.

The amounts recognised in the balance sheet are as follows:

	31 March 2016 £'000	31 March 2015 £'000
Present value of funded obligations	427,139	440,181
Fair value of plan assets	(418,967)	(420,745)
Deficit	8,172	19,436
Related deferred tax asset	(1,471)	(3,887)
Net liability	6,701	15,549
Amounts in the balance sheet		
- Liabilities	6,701	15,549

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Amount charged to operating profit		
Current service costs	5,919	8,198
Past service costs	3,810	1,547
	9,729	9,745
Amount credited to net finance charges		
Interest costs	14,267	20,126
Expected cost return on plan assets	(13,870)	(23,148)
Net return on pension scheme (see note 3)	397	(3,022)
Total	10,126	6,723

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Actuarial gains (losses)	2,900	(20,146)

21 Pension arrangements (continued)

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

	31 March 2016 £'000	31 March 2015 £'000
Actuarial losses	(61,450)	(64,350)

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Opening defined benefit obligation	440,181	354,933
Service cost	5,919	8,198
Past service cost	3,810	1,547
Interest cost	14,267	20,126
Member contributions	465	681
Actuarial (gains) losses	(17,756)	70,800
Benefits paid	(19,730)	(15,141)
Expenses paid	(17)	(963)
Closing defined benefit obligation	427,139	440,181

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

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Opening fair value of plan assets	420,745	343,411
Expected return	13,870	23,148
Actuarial (losses) gains	(14,856)	50,654
Employer contributions	18,490	18,955
Member contributions	465	681
Benefits paid	(19,730)	(15,141)
Expenses paid	(17)	(963)
	418,967	420,745

21 Pension arrangements (continued)

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

	31 March 2016	31 March 2015
	%	%
Equity securities	18.1	23.9
Bond securities	63.8	50.5
Property	9.3	8.0
Other	8.8	17.6

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:

	Year ended 31 March 2016	15 months ended 31 March 2015
	£'000	£'000
Actual return on plan assets	(986)	73,802

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

	31 March 2016	31 March 2015
Discount rate	3.6%	3.3%
Future salary increases	3.5%	3.4%
Future pension increases	3.0%	2.9%
Inflation	3.0%	2.9%
Life expectancy on retirement age 65;		
- member aged 65 (retiring today)	22.2 years	22.0 years
- member aged 45 (retiring in 20 years)	24.4 years	24.2 years

The group also operates defined contribution schemes for which the pension charge for the period amounted to £2,526,000 (2015 15 month period - £1,500,000). At 31 March 2016 unpaid contributions amounted to £29,000 (2015 - £20,000).

22 Related party transactions

There have been no transactions with directors in the year (2015 15 month period - £nil) other than remuneration as disclosed in note 6 to the accounts.

During the year the group was recharged £235,000 (2015 15 month period - £152,000) in the ordinary course of business from Cheung Kong Infrastructure Holdings Limited whose ultimate parent undertaking is CK Hutchison Holdings Limited. There was £nil within creditors (CHED Services Limited, a company controlled within Cheung Kong Infrastructure Holdings Limited) at 31 March 2016 (2015- £69,200).

During the year interest was charged on shareholder loans held by the company as detailed in note 15 and analysed below:

Shareholder/Lender	Interest Charged to the Company £'000	Value of Loan £'000
PG (April) Limited	8,494	84,706
Beta Central Profits Limited	7,453	74,329
SAS Trustee Corporation	2,102	20,965
	18,049	180,000

23 Ultimate controlling party

The company is wholly owned by a consortium comprising of:

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

24 Explanation of transition to FRS 102

This is the first year that the group has presented its accounts under FRS 102 issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last accounts were under previous UK GAAP were for the period ended 31 March 2015 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

Replacement expenditure

The group's network of metallic pipes is being replaced with polyetheline pipes. This activity, referred to as repex, is treated as capital expenditure under FRS 102 whereas it was expensed under the previous UK GAAP.

Diversions

Diversions have previously been accounted for on a net basis (cost less contribution) within repex expenditure. Under FRS 102, consistent with repex the cost is now treated as a fixed asset with the contribution as a deferred contribution in creditors. The depreciation of the asset and the amortisation of the contribution is then charged / credited to the profit and loss account over the life of the relevant asset.

Financial instruments (IAS 39)

On transition to FRS 102, the group adopted IAS 39 for financial instrument reporting to give continuity with the shareholder group reporting. The adjustments on transition are to recognise the fair value of NGN's interest rate swaps and hedged bonds as at 1 January 2014.

The future movements in the fair value of the instruments are then charged / credited to the profit and loss account or hedging reserve. In respect of the swaps and bonds that were recognised at fair value on transition the corresponding reserve and hedging reserve balances will reach zero as each instrument reaches maturity.

Deferred tax on opening asset valuation

Under FRS 102 there is a requirement to account for the balance of the deferred tax on the fair value uplift of fixed assets acquired on acquisition of the gas transportation licence in 2005, which is then amortised over 40 years since acquisition, consistent with the treatment of intangibles and in line with the acquired asset base.

Intangible Asset – Gas Transporter Licence

The value of the Gas Transporter Licence (licence) has previously been included within the total value of goodwill. Under FRS 102 intangible assets acquired can be recognised separately if the fair value can be measured reliably. NGN have undertaken an exercise to value the licence and as such the licence is now disclosed as an intangible asset. There is no impact on shareholder funds as a result of this change and therefore it is not listed as an adjustment in the table below.

24 Explanation of transition to FRS 102 (continued)

Reconciliation of equity

	Group		Company	
	At 31 March 2015	At 1 January 2014	At 31 March 2015	At 1 January 2014
	£'000	£'000	£'000	£'000
Equity shareholders fund (deficit) under previous UK GAAP	(78,878)	(51,581)	392,286	391,185
Repex	594,259	501,392	-	-
Diversions costs	30,325	26,985		
Diversions income	(25,823)	(23,100)		
Financial instruments (IAS 39)	(43,370)	(25,541)	-	-
Deferred tax on opening asset valuation	(127,300)	(132,575)	-	-
Total FRS 102 adjustments	428,091	347,161	-	-
Equity shareholders funds under FRS 102	349,213	295,580	392,286	391,185

Notes to the reconciliation

Reconciliation of profit or loss for the 15 month period ended 31 March 2015

	Group	Company
	£'000	£'000
Profit for the financial period under previous UK GAAP	46,820	59,101
Repex	92,867	-
Diversions costs	3,340	-
Diversions income	(2,723)	-
Financial instruments (IAS 39)	(9,459)	-
Deferred tax on opening asset revaluation	5,275	-
Profit for the financial period under FRS 102	136,120	59,101