

Northern Gas Networks Limited

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

Registered number: 5167070

Strategic report

For the period ended 31 March 2015

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

The principal activity of the company throughout the period was the distribution of gas through the North of England network.

Business strategy

The company's purpose is to provide safe and secure gas supplies to the people and the businesses within the distribution network. The company'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 company.

Finance and operational review

Operating profit for the 15 month period is £147.8m compared to the prior year of £106.8m as a result of an increase in revenue, when time apportioned, of 3.0%, offset by cost increases of less than 0.1% due to tight cost management.

The company has debt before financing costs of £1,220.2m (2013 - £1,248.5m) at the period end. This comprises:

- bank loans of £5.0m (2013 - £39.0m) which carry interest at LIBOR plus a margin of 0.7%;
- an intercompany loan of £198.2m (2013 - £198.2m) which carries interest at 5.875% and is repayable in 2019;
- an intercompany loan of £197.0m (2013 - £197.0m) which carries interest at 5.625% and is repayable in 2040;
- an intercompany loan of £505.0m (2013 - £505.0m) which carries interest at 4.875%, with £250.0m repayable in 2027 and £255.0m in 2035;
- loans of £275.0m (2013 - £245.0m) carrying interest at 3 month LIBOR plus a margin which varies by facility as detailed in note 14 to the accounts, £25.0m of which is repayable in 2023, £185.0m in 2024, £30.0m in 2027 and £35.0m in 2034; and
- a loan of £40.0m (2013 - £40.0m) which carries interest of 3.446% and is repayable in 2024.

This debt structure has given rise to finance charges of £54.4m in the 15 month period (2013 year - £44.8m).

The tax charge for the 15 month period was £27.3m (2013 year - £5.8m) which represents an effective tax rate of 29.2% (2013 - 9.4%). The tax effective tax rate is higher than the prior year which benefited from a £13.4m deferred tax credit as a result of the adjustment of the deferred tax liability to reflect the changes in UK corporation tax rates from 23% to 20%.

Capital expenditure ("Capex") for the 15 month period was £64.7m (2013 year - £40.9m) principally focused on investment in network assets and new IT systems used to support many of the company's operational business activities.

The company has net assets of £57.8m at 31 March 2015 (31 December 2013 - £60.0m).

Strategic report (continued)

Key performance indicators (KPIs)

The key financial and non-financial performance indicators used by the Board of Directors in their monitoring of the company, focus on the areas of safety management, efficiency and customer service. Key financial and non-financial performance indicators include:

	15 months ended 31 March 2015	Year ended December 2013
Financial performance (efficiency)		
Operating profit	£147.8m	£106.8m
Dividends paid	£76.6m	£71.0m
Senior net debt/Regulatory asset value	64.3%	67.9%
Customer services		
Quarterly customer satisfaction survey for repair, replacement and connections	9 out of 10**	8 out of 10
Safety management		
Number of lost time injuries to employees and contractors	1	3
Reported injuries to members of the general public	0	3

**For the regulatory year ended 31 March 2015.

Dividends

The directors do not recommend payment of a final dividend. Interim dividends of £5.33 per share were paid on 20 June 2014 and of £17.05 per share were paid on 22 December 2014 making a total of £22.38 per share for the period (2013 – £710,000). The fall in earnings per share is the result of an increase in shares which were issued during the period (see note 17).

Environment

The company 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 company is committed to the protection of the environment in the region it serves. The company'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.

Strategic report (continued)

Outlook

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

Principal risks and uncertainties

The company'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 the company, as a 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 company or in the case of misreporting, a potential fine.

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

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.

Employees

The success of the company 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. NGN'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 company in the community it serves.

The company, 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 company's needs.

Financial risk management objectives and policies

The company'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 company's operations.

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

Strategic report (continued)

The main risks arising from the company'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.

All 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 required committed debt facilities are managed such that at any one time all have a time to maturity of more than one year and that at least 50% by value have a time to maturity of more than two years. Facilities are staggered to maturity to avoid excessive concentrations in any twelve month period as well as removing refinancing risk if such timeframes coincide with a regulatory reset date. Non-facility debt maturities are also staggered where practicable.

Going concern

The company's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out above. In addition note 15 to the accounts includes further details of the company's net debt position and details of its derivatives and other financial instruments. The company is able to pay its liabilities as they fall due despite the net current liability position of the balance sheet at 31 March 2015, 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, 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.

Strategic report (continued)

By order of the Board,

M J Horsley

4 August 2015

Director

Directors' report

For the period ended 31 March 2015

Directors

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

A Hunter	(Chairman)
M J Horsley	(Chief Executive Officer)
H L Kam	
C T Wan	
N McGee	
S Leong	
D Macrae	
L S Chan	
C C Tsai	(appointed 28 February 2014)
SS Yuen	(resigned 28 February 2014)
P Rogerson	(appointed 1 April 2014, independent non-executive)
J Burnham	(appointed 1 April 2014, independent non-executive)

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 Board of Directors ("the Board").

The Board meets at least five times a year. The number of Board meetings held during the period and attendees (including alternates) at the Board meetings are detailed below:

15 months ended 31 March 2015		Year ended 31 December 2013	
Date	Attendees	Date	Attendees
21 January 2014	5 out of 9	22 January	9 out of 9
25 March 2014	9 out of 9	13 March	9 out of 9
20 May 2014	9 out of 11	14 May	8 out of 9
25 July 2014	7 out of 11	16 July	8 out of 9
5 August 2014	11 out of 11	24 September	7 out of 9
23 September 2014	10 out of 11	22 November	9 out of 9
21 November 2014	11 out of 11		
27 January 2015	11 out of 11		

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.

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 company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees.

Directors' report (continued)

Employee consultation

The company 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 company. 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 company.

Auditor

Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

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

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

By order of the Board,

M J Horsley

4 August 2015

Director

Directors' responsibilities statement

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

Company law requires the directors to prepare accounts for each financial period. Under that law the directors have elected to prepare the accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

To the Members of Northern Gas Networks Limited

We have audited the accounts of Northern Gas Networks Limited for the period ended 31 March 2015 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the statement of accounting policies and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ("United Kingdom Generally Accepted Accounting Practice").

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the accounts

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

Opinion on accounts

In our opinion the accounts:

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

Independent auditor's report (continued)

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Johnson BA FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Leeds, England

4 August 2015

Profit and loss account

For the period ended 31 March 2015

	Notes	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Turnover	1	511,346	397,328
Cost of sales		<u>(19,655)</u>	<u>(18,519)</u>
Gross profit		491,691	378,809
Other operating expenses	2	<u>(343,846)</u>	<u>(272,030)</u>
Operating profit		147,845	106,779
Finance charges (net)	3	<u>(54,360)</u>	<u>(44,779)</u>
Profit on ordinary activities before taxation	4	93,485	62,000
Tax on profit on ordinary activities	7	<u>(27,341)</u>	<u>(5,819)</u>
Profit for the financial period	18	<u>66,144</u>	<u>56,181</u>

The above results arise from continuing operations.

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

Statement of total recognised gains and losses

For the period ended 31 March 2015

	Notes	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Profit for the financial period		66,144	56,181
Actuarial loss relating to the pension scheme	21	(20,146)	(7,140)
Deferred tax attributable to actuarial loss		4,029	117
Total recognised gains and losses relating to the period		50,027	49,158

The accompanying notes are an integral part of this statement of total recognised gains and losses.

Balance sheet

31 March 2015

	Notes	31 March 2015 £'000	31 December 2013 £'000
Fixed assets			
Intangible assets - goodwill	9	124,028	129,167
Tangible assets	10	1,376,932	1,377,686
Investments	11	2,209	2,209
		<u>1,503,169</u>	<u>1,509,062</u>
Current assets			
Debtors - due within one year	12	50,165	50,645
Cash at bank and in hand		8,561	856
		<u>58,726</u>	<u>51,501</u>
Creditors: Amounts falling due within one year	13	<u>(106,618)</u>	<u>(123,068)</u>
Net current liabilities		<u>(47,892)</u>	<u>(71,567)</u>
Total assets less current liabilities		1,455,277	1,437,495
Creditors: Amounts falling due after more than one year	14	(1,273,218)	(1,258,890)
Provisions for liabilities excluding pension liability	16	<u>(108,740)</u>	<u>(109,372)</u>
Net assets excluding pension liability		73,319	69,233
Pension liability	21	<u>(15,549)</u>	<u>(9,218)</u>
Net assets including pension liability		<u>57,770</u>	<u>60,015</u>
Capital and reserves			
Called-up share capital	17	24,328	-
Profit and loss account	18	33,442	60,015
		<u>57,770</u>	<u>60,015</u>
Shareholders' funds	19	<u>57,770</u>	<u>60,015</u>

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

The accounts of Northern Gas Networks Limited, Registered number 5167070, were approved by the Board of Directors and authorised for issue on 4 August 2015 and signed on its behalf by:

Director

4 August 2015

M J Horsley

Statement of accounting policies

31 March 2015

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

Basis of accounting

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

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

The company is not required to prepare group accounts as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited which prepares consolidated accounts which are publicly available.

Going concern

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

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.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Cost includes internal labour costs and finance costs incurred which are directly attributable to the construction of tangible fixed assets. Contributions received towards the cost of tangible fixed assets are included in creditors as deferred income and credited on a straight-line basis to the profit and loss account over the estimated economic lives of the assets. 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

Statement of accounting policies (continued)

Investments

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

Replacement expenditure

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 expensed as incurred. Expenditure that enhances the performance of the mains and services assets is treated as an addition to tangible fixed assets.

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 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 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.

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.

Statement of accounting policies (continued)

Pension costs

The company 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 recognised gains and losses.

The defined benefit scheme is funded with the assets of the scheme held separately from those of the company, 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 balance sheet.

The company 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 year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the 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.

Finance costs

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

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. Capitalisation commences when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress and ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Statement of accounting policies (continued)

Debt

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

Derivative financial instruments

The company 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 company 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 company. 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.

Notes to the accounts (continued)

1 Segment information

The directors consider that the company has only one class of business. The company's turnover is generated wholly from within the UK.

2 Other operating expenses

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Distribution costs	307,962	239,395
Administrative expenses	35,884	32,635
	<u>343,846</u>	<u>272,030</u>

3 Finance charges (net)

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Interest payable and similar charges	55,421	47,952
Less: investment income	(485)	(497)
Other finance (income) charges	(576)	(2,676)
	<u>54,360</u>	<u>44,779</u>

Interest payable and similar charges

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Bank loans and overdrafts	(4,081)	75
Intercompany interest payable	60,572	48,594
Finance lease and hire purchase contracts	-	(520)
	<u>56,491</u>	<u>48,149</u>
Finance costs capitalised	(1,070)	(197)
	<u>55,421</u>	<u>47,952</u>

Finance costs have been capitalised based on a capitalisation rate of 3.69% (2013 – 4.08%).

Notes to the accounts (continued)

3 Finance charges (net) (continued)

Investment income

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Income from fixed asset investments	(420)	(412)
Interest receivable and similar income	(65)	(85)
	<u>(485)</u>	<u>(497)</u>

Other finance (income) charges

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Exchange rate differences	(30)	-
Unwinding of discount on provisions (see note 16)	2,476	(1,139)
Net return on pension scheme (see note 21)	(3,022)	(1,537)
	<u>(576)</u>	<u>(2,676)</u>

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Depreciation and amounts written off tangible fixed assets		
- owned	64,339	50,124
- held under finance leases and hire purchase contracts	6	90
Amortisation of goodwill	5,139	4,112
Loss on disposal of fixed assets	1,501	117
Operating lease rentals - other	45	576
Fees payable to the company's auditor for the audit of the company's annual accounts	68	69
	<u>68</u>	<u>69</u>

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated accounts of the parent company are required to disclose such fees on a consolidated basis.

Notes to the accounts (continued)

5 Staff costs

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

	15 months ended 31 March 2015 Number	Year ended 31 December 2013 Number
Administration	103	89

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
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Their aggregate remuneration comprised:

Wages and salaries	8,619	5,323
Social security costs	892	627
Other pension costs	571	680
	<u>10,082</u>	<u>6,630</u>

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Emoluments	70	-	901	641
Amounts receivable (other than shares) under long-term incentive schemes	-	-	267	210
	<u>70</u>	<u>-</u>	<u>1,168</u>	<u>851</u>

The remuneration of non-executive directors as shown above relates to the independent non-executive directors 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 period or prior year.

Notes to the accounts (continued)

6 Directors' remuneration and transactions (continued)

Highest paid director

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

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Emoluments	<u>1,168</u>	<u>851</u>

Transactions

There have been no transactions with directors in the period (2013 – £nil) other than as set out above in respect of remuneration.

7 Tax on profit on ordinary activities

The tax charge comprises:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Current tax		
UK corporation tax	24,146	17,828
Adjustments in respect of prior years	<u>(593)</u>	<u>197</u>
Total current tax	<u>23,553</u>	<u>18,025</u>
Deferred tax		
Current period - origination and reversal of timing differences	1,405	1,442
Adjustments in respect of prior years	2,383	(230)
Effects of decrease in tax rate on opening liability	<u>-</u>	<u>(13,418)</u>
Total deferred tax	<u>3,788</u>	<u>(12,206)</u>
Total tax on profit on ordinary activities	<u>27,341</u>	<u>5,819</u>

Notes to the accounts (continued)

7 Tax on profit on ordinary activities (continued)

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

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Profit on ordinary activities before tax	93,485	62,000
Tax on profit on ordinary activities at standard UK corporation tax rate of 21.4% (2013 – 23.25%)	20,006	14,415
Effects of:		
Expenses not deductible for tax purposes	5,415	5,090
Capital allowances in excess of depreciation	968	874
Other timing differences	(2,243)	(2,551)
Adjustments in respect of prior year	(593)	197
Current tax charge for the period	23,553	18,025

The company 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 21.4% (2013 – 23.25%).

The company's planned level of capital investment is expected to remain at similar levels as current investment. Therefore, it expects to be able to claim capital allowances in excess of depreciation in future years, at a similar level to the current period.

Notes to the accounts (continued)

8 Dividends paid on equity shares

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Equity shares		
- interim dividend paid of £5.33 (2013 - £177,500) per ordinary share	18,250	17,750
- interim dividend paid of £17.05 (2013 - £532,500) per ordinary share	58,350	53,250
	<u>76,600</u>	<u>71,000</u>

9 Intangible fixed assets – goodwill

	£'000
Cost	
At 1 January 2014 and 31 March 2015	<u>164,457</u>
Amortisation	
At 1 January 2014	35,290
Charge for the period	<u>5,139</u>
At 31 March 2015	<u>40,429</u>
Net book value	
At 31 March 2015	<u>124,028</u>
At 31 December 2013	<u>129,167</u>

Notes to the accounts (continued)

10 Tangible fixed assets

	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 January 2014	3,200	1,594,029	12,761	99,658	14,830	1,724,478
Additions	-	23,964	2,590	5,584	32,553	64,691
Disposals	-	(10,750)	(2,586)	-	-	(13,336)
Transfers	389	8,882	5,566	799	(15,636)	-
At 31 March 2015	<u>3,589</u>	<u>1,616,125</u>	<u>18,331</u>	<u>106,041</u>	<u>31,747</u>	<u>1,775,833</u>
Depreciation						
At 1 January 2014	1,650	286,664	9,747	48,731	-	346,792
Charge for the period	381	49,355	1,892	12,717	-	64,345
Disposals	-	(9,683)	(2,553)	-	-	(12,236)
At 31 March 2015	<u>2,031</u>	<u>326,336</u>	<u>9,086</u>	<u>61,448</u>	<u>-</u>	<u>398,901</u>
Net book value						
At 31 March 2015	<u>1,558</u>	<u>1,289,789</u>	<u>9,245</u>	<u>44,593</u>	<u>31,747</u>	<u>1,376,932</u>
At 31 December 2013	<u>1,550</u>	<u>1,307,365</u>	<u>3,014</u>	<u>50,927</u>	<u>14,830</u>	<u>1,377,686</u>

Leased assets included above:

Net book value

At 31 March 2015	<u>184</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>184</u>
At 31 December 2013	<u>190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190</u>

Short leasehold assets included within land and buildings above have a cost of £202,000 (2013 - £202,000), depreciation charge in the period of £6,000 (2013 - £4,000), accumulated depreciation of £18,000 (2013 - £12,000) and a net book value of £184,000 (2013 - £190,000).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £7,800,000 (2013 - £6,730,000).

Notes to the accounts (continued)

11 Fixed asset investments

	31 March 2015 £'000	31 December 2013 £'000
Subsidiary undertakings	2,105	2,105
Other investments	104	104
	<u>2,209</u>	<u>2,209</u>

The company has an investment in the following subsidiary undertakings:

Subsidiary undertaking	Country of incorporation	Principal activity	Holding	%
Northern Gas Networks Finance Plc ("NGNF")	England & Wales	Financing	49,999 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

The other investment represents a 10.38% holding in xoserve Limited, which provides information, data processing, invoicing and supply point administration services to the company. xoserve Limited is registered in England & Wales.

The company 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

Cost and net book value	£'000
At 1 January 2014 and 31 March 2015	<u>2,105</u>

Other investments

Cost and net book value	£'000
At 1 January 2014 and 31 March 2015	<u>104</u>

Notes to the accounts (continued)

12 Debtors – due within one year

	31 March 2015 £'000	31 December 2013 £'000
Trade debtors	780	1,480
Other debtors	80	2,320
Prepayments and accrued income	49,305	46,845
	<u>50,165</u>	<u>50,645</u>

13 Creditors: Amounts falling due within one year

	31 March 2015 £'000	31 December 2013 £'000
Bank loans	4,600	38,225
Payments received on account	1,001	814
Trade creditors	386	907
Amounts owed to group undertakings	53,073	49,229
Other taxation and social security	3,230	6,430
Accruals and deferred income	9,398	4,646
UK corporation tax	34,930	22,817
	<u>106,618</u>	<u>123,068</u>

Bank loans comprise a revolving capital facility of £5.0m repayable on 30 April 2015 available to be redrawn until 29 July 2016 and carry interest at LIBOR plus a margin of 0.7%.

Notes to the accounts (continued)

14 Creditors: Amounts falling due after more than one year

	31 March 2015 £'000	31 December 2013 £'000
Bank loans	314,962	284,957
Amounts owed to group undertakings	900,130	924,459
Deferred income	58,126	49,474
	<u>1,273,218</u>	<u>1,258,890</u>

The bank loans comprise £25.0m which carries interest at 3 month LIBOR plus a margin of 0.36% repayable on 23 January 2023, £25.0m which carries interest at 3 month LIBOR plus a margin of 0.55% repayable on 24 June 2024, £100.0m which carries interest at 3 month LIBOR plus a margin of 0.62% repayable on 30 March 2024, £60.0m which carries interest at 3 month LIBOR plus a margin of 1.13% repayable on 30 July 2024, £40.0m which carries a fixed rate interest of 3.446% paid bi-annually on 20 June and 20 December and is repayable on 20 December 2024, and £35.0m which carries interest of 3 month LIBOR plus a margin of 0.86% repayable on 25 March 2034 and £30.0m which carries interest at 3 month LIBOR plus a margin of 0.53% repayable on 31 March 2027.

The amounts owed to group undertakings are an interest bearing loan of £505.0m, with £250.0m repayable in 2027 and £255.0m repayable in 2035 with interest of 4.875% plus a margin to cover related costs, an interest bearing loan of £198.2m repayable in 2019 with interest of 5.875% plus a margin to cover related costs and an interest bearing loan of £197.0m repayable in 2040 with interest of 5.625% plus a margin to cover related costs.

15 Derivatives and other financial instruments

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

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). Certain financial assets such as investments in subsidiary undertakings are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures. The directors believe that the fair values are not materially different from the balance sheet values for the current period and prior year.

Notes to the accounts (continued)

15 Derivatives and other financial instruments (continued)

Interest rate profile

The company has no financial assets other than sterling cash deposits of £8,561,000 (2013 – £856,000) which are part of the financing arrangements of the company. The sterling cash deposits comprise monies held in bank accounts.

After taking into account interest rate swap contracts entered into by the company, the interest rate profile of the company's financial liabilities at 31 March 2015 was as follows:

	Floating rate 2015 £'000	Fixed rate 2015 £'000	Interest free 2015 £'000	Total 2015 £'000
Borrowings – Bank Loans	279,756	39,806	-	319,562
Borrowings – Intercompany Loans	-	900,130	-	900,130
Total	279,756	939,936	-	1,219,692

The profile at 31 December 2013 for comparison purposes was as follows:

	Floating rate 2013 £'000	Fixed rate 2013 £'000	Interest free 2013 £'000	Total 2013 £'000
Borrowings – Bank Loans	244,963	78,219	-	323,182
Borrowings – Intercompany Loans	-	900,131	24,328	924,459
Total	244,963	978,350	24,328	1,247,641

Further analysis of the interest rate profile at 31 March 2015 and 31 December 2013 is as follows:

	2015		
	Floating rate	Fixed rate	
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Borrowings - Bank Loans	1.3	3.2	8.8
Borrowings - Intercompany Loans	-	5.3	15.7

Notes to the accounts (continued)

15 Derivatives and other financial instruments (continued)

	2013		
	Floating rate	Fixed rate	
	Weighted average interest rate %	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Borrowings - Bank Loans	1.3	2.3	5.6
Borrowings - Intercompany Loans	-	5.3	16.9

Further details of interest rates on long term borrowings are given in note 14.

Maturity of financial liabilities

The maturity profile of the company's financial liabilities at 31 March 2015 and 31 December 2013 was as follows:

	2015 £'000	2013 £'000
In one year or less	4,600	38,225
In more than five years	1,215,092	1,209,416
	<u>1,219,692</u>	<u>1,247,641</u>

Borrowing facilities

The company had undrawn committed borrowing facilities at 31 March 2015 and 31 December 2013, in respect of which all conditions precedent had been met, as follows:

	2015 £'000	2013 £'000
Expiring in one year or less	195,000	-
Expiring in more than two years	-	161,000
	<u>195,000</u>	<u>161,000</u>

Fair values

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

Notes to the accounts (continued)

15 Derivatives and other financial instruments (continued)

Liabilities (assets)	31 March 2015		31 December 2013	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the company's operations				
Short term borrowings	4,600	5,000	38,225	39,000
Long term borrowings	314,962	315,104	284,957	281,761
Intercompany loans	900,130	1,112,596	924,459	1,002,985
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	(133,017)	-	(67,738)

The fair value of the intercompany loans has been determined by reference to the underlying bonds market price.

The fair values of the interest rate swaps have been determined by reference to prices available from the markets on which the instruments involved are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

Gains and losses on hedges

The company enters into interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the accounts until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	15 months ended 31 March 2015			Year ended 31 December 2013		
	Gains £'000	Losses £'000	Net £'000	Gains £'000	Losses £'000	Net £'000
Opening unrecognised gains and losses on hedges	166,130	(98,392)	67,738	251,878	(166,225)	85,653
Gains and losses arising in previous years that were recognised in the period	(17)	7	(10)	(10,732)	11,937	1,205
Gains and losses arising before 1 January 2014 that were not recognised in the period	166,113	(98,385)	67,728	241,146	(154,288)	86,858
Gains and losses arising in the year that were not recognised in the period	148,995	(83,706)	65,289	(75,016)	55,896	(19,120)
Closing unrecognised gains and losses on hedges	315,108	(182,091)	133,017	166,130	(98,392)	67,738
Of which:						
Gains and losses expected to be recognised within one year	1,128	(47)	1,081	15	(6)	9
Gains and losses expected to be recognised after more than one year	313,980	(182,044)	131,936	166,115	(98,386)	67,729

Notes to the accounts (continued)

16 Provisions for liabilities excluding pension liability

	Restructuring £'000	Deferred tax £'000	Environmental restoration £'000	Contractor claims £'000	Other £'000	Total £'000
At 1 January 2014	9,020	82,013	7,657	2,786	7,896	109,372
Charged to profit and loss account	1,529	1,340	-	601	375	3,845
Utilised in the period	(1,858)	-	(499)	(2,786)	(1,740)	(6,883)
Adjustment arising from discounting	-	-	2,169	-	237	2,406
At 31 March 2015	<u>8,691</u>	<u>83,353</u>	<u>9,327</u>	<u>601</u>	<u>6,768</u>	<u>108,740</u>

Deferred tax

Deferred tax is provided as follows:

	31 March 2015 £'000	31 December 2013 £'000
Accelerated capital allowances	82,220	83,125
Other timing differences	1,133	(1,112)
	<u>83,353</u>	<u>82,013</u>

Provision for deferred tax

Deferred tax in respect of the company's defined benefit pension scheme is disclosed in note 21.

Restructuring

Estimated costs of an over 55 early retirement programme offered to employees over 55 by 31 March 2016. The restructuring provision value represents the net present value of anticipated liabilities at the balance sheet date, and is expected mainly to realise beyond one year from the balance sheet date.

Environmental restoration

Estimated environmental restoration costs are provided where the company 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.

Notes to the accounts (continued)

16 Provisions for liabilities excluding pension liability (continued)

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, which is expected mainly within one year of the balance sheet date.

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.

17 Called-up share capital

	31 March 2015 £000	31 December 2013 £000
<i>Allotted, called-up and fully-paid</i>		
24,328,476 ordinary shares of £1 each	24,328	-

On 27 January 2015 the company released a £24.3m intercompany loan with Northern Gas Networks Holdings Limited in exchange for the issue of ordinary shares of equal value issued at par.

18 Reserves

	Profit and loss account £'000
At 31 December 2013	60,015
Profit for the financial period	66,144
Actuarial loss relating to the pension scheme	(20,146)
Deferred tax attributable to the actuarial loss	4,029
Dividends paid on equity shares	(76,600)
At 31 March 2015	33,442

Notes to the accounts (continued)

19 Reconciliation of movements in shareholders' funds

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Profit for the financial period	66,144	56,181
Other recognised gains and losses relating to the period (net)	(16,117)	(7,023)
Dividends paid on equity shares	(76,600)	(71,000)
Release of group loan	24,328	-
Net movement in shareholders' funds	(2,245)	(21,842)
Opening shareholders' funds	60,015	81,857
Closing shareholders' funds	57,770	60,015

20 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Land and Buildings	
	31 March 2015 £'000	31 December 2013 £'000
Expiry date		
- within one year	361	-
- between one and two years	9	24
- between two and five years	66	423
- after five years	336	60
	772	507

The company has entered into a Guarantee and Reimbursement Agreement with FGIC UK Limited ("FGIC") in conjunction with its subsidiary Northern Gas Networks Finance Plc ("the Issuer") in relation to the bonds issued by that company in November 2005 of £505.0m. The company 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 company also indemnifies FGIC against any loss or liability suffered, if any obligation guaranteed by FGIC is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGIC would otherwise have been entitled to recover.

Notes to the accounts (continued)

21 Pension arrangements

The company has obligations for a defined benefit pension scheme.

The amounts recognised in the balance sheet are as follows:

	31 March 2015 £'000	31 December 2013 £'000
Present value of funded obligations	440,181	354,933
Fair value of plan assets	(420,745)	(343,411)
Deficit	19,436	11,522
Related deferred tax asset	(3,887)	(2,304)
Net liability	<u>15,549</u>	<u>9,218</u>
Amounts in the balance sheet		
- Liabilities	<u>15,549</u>	<u>9,218</u>

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

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
<i>Amount charged to operating profit</i>		
Current service costs	8,198	6,556
Past service costs	1,547	2,394
	<u>9,745</u>	<u>8,950</u>
<i>Amount credited to net finance charges</i>		
Interest costs	20,126	14,489
Expected cost return on plan assets	(23,148)	(16,026)
Net return on pension scheme (see note 3)	(3,022)	(1,537)
Total	<u>6,723</u>	<u>7,413</u>

The total amounts recognised in the statement of total recognised gains and losses are as follows:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Actuarial losses	<u>20,146</u>	<u>7,140</u>

Notes to the accounts (continued)

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:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Actuarial losses	64,350	44,204

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

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Opening defined benefit obligation	354,933	328,339
Service cost	8,198	6,556
Past service cost	1,547	2,394
Interest cost	20,126	14,489
Member contributions	681	610
Actuarial losses	70,800	18,278
Benefits paid	(15,141)	(15,328)
Expenses paid	(963)	(405)
Closing defined benefit obligation	<u>440,181</u>	<u>354,993</u>

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

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Opening fair value of plan assets	343,411	312,280
Expected return	23,148	16,026
Actuarial gains	50,654	11,138
Employer contributions	18,955	19,090
Member contributions	681	610
Benefits paid	(15,141)	(15,328)
Expenses paid	(963)	(405)
	<u>420,745</u>	<u>343,411</u>

The company expects to contribute £18.8m to its defined benefit pension plan in the year ended 31 March 2016.

Notes to the accounts (continued)

21 Pension arrangements (continued)

The major categories of plan assets as a percentage of the total plan assets and the expected rate of return on plan assets are as follows:

	31 March 2015		31 December 2013	
	Percentage of plan assets %	Expected return on plan assets %	Percentage of plan assets %	Expected return on plan assets %
Equity securities	23.9	5.8	41.1	7.1
Bond securities	50.5	2.6	48.2	4.0
Property	8.0	4.8	8.4	6.1
Other	17.6	0.5	2.3	0.5

To determine the overall expected rate of return on plan assets the company 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:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Actual return on plan assets	<u>73,802</u>	<u>27,164</u>

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

	31 March 2015	31 December 2013
Discount rate	3.3%	4.6%
Expected return on plan assets	3.2%	5.1%
Future salary increases	3.4%	3.8%
Future pension increases	2.9%	3.3%
Inflation	2.9%	3.3%
Life expectancy - member aged 65 (retiring today)	22.0 years	21.9 years
- member aged 45 (retiring in 20 years)	24.2 years	24.1 years

Notes to the accounts (continued)

21 Pension arrangements (continued)

Amounts for the current and previous four periods are as follows:

	31 March 2015 £'000	31 December 2013 £'000	31 December 2012 £'000	31 December 2011 £'000	31 December 2010 £'000
Defined benefit obligation	(440,181)	(354,933)	(328,339)	(308,949)	(277,816)
Plan assets	420,745	343,411	312,280	275,589	251,481
Deficit	<u>(19,436)</u>	<u>(11,522)</u>	<u>(16,059)</u>	<u>(33,360)</u>	<u>(26,335)</u>

Experience adjustments for the current and previous four periods are as follows:

	31 March 2015	31 December 2013	31 December 2012	31 December 2011	31 December 2010
Plan assets:					
Amount (£'000)	50,654	11,138	10,294	334	8,473
Percentage of plan assets	12%	3%	3%	-	3%
Plan liabilities:					
Amount (£'000)	-	818	(11,065)	230	-
Percentage of the present value of plan liabilities	-	-	(3)%	-	-

The company also operates defined contribution schemes for which the pension charge for the period amounted to £428,000 (2013 - £342,000).

22 Ultimate controlling party

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

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

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

PG (April) Limited (47.1%)

Beta Central Profits Limited (41.3%)

SAS Trustee Corporation (11.6%)

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