Northern Gas Networks Limited

Annual Report and accounts
for the year ended 31 March 2021

Registered number: 05167070

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report, for the year ended 31 March 2021. The accounts are presented under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Review of the business

The company's purpose is to provide safe and secure gas supplies to the people and the businesses within the distribution network, being the North of England. The company's vision of success is to be consistently viewed by the regulators, Ofgem and the Health and Safety Executive ("HSE") as being market leading in safety management, efficiency and customer service, which in turn will generate value to the shareholders of the company.

Financial and operational review

Operating profit for the year is £159.1m (2020 - £213.3m) with revenue decreasing by £10.7m based on Ofgem allowances, and cost increases of £43.5m. The main drivers of the cost increase were: (1) an increase in exit costs of £18.4m, that being the uncontrollable cost of bringing gas into the network; (2) depreciation/amortisation growth due to continued investment in long life assets, and (3) an unusually high cost of provision growth into 2021 which includes creating a new £15.9m provision for gas holder decommissioning, 'other' provision growth is £6.3m higher than prior year, and environmental provision growth is £1.5m higher than prior year. Provisions are detailed in note 16. In November 2020, the Northern Gas Networks Pension Scheme ("the Scheme") agreed a £385m buy-in with Legal & General Assurance Society Ltd. This transaction was the Scheme's first buy in policy and covers around two thirds of its members. At the end of the year, the group's undrawn borrowing facilities available for use amounted to £65.0m (2020 - £100.0m). The company has debt at the 31 March 2021 with a principal value of £1,523.9m (2020 - £1,490.8m) as follows:

Debt instrument	Maturity date	Interest rate / basis	Principal amount (£m)	Book value (£m)
Fixed rate bond held as intercompany loan*	Jun 2027	4.875% fixed	250.0	300.2
Fixed rate bond held as intercompany loan*	Nov 2035	4.875% fixed	255.0	361.2
Fixed rate bond held as intercompany loan*	Mar 2040	5.625% fixed	200.0	197.1
US Private Placement notes	Jan 2029	2.84% fixed	50.0	51.7
US Private Placement notes	Jan 2031	2.97% fixed	150.0	156.8
US Private Placement notes	Jun 2039	2.71% fixed	100.0	99.7
European Investment Bank fixed rate loan	Dec 2024	3.446% fixed	40.0	40.0
European Investment Bank floating rate loans *See note 14 for breakdown*	Various	3 mth Libor + margin	360.0	360.0
European Investment Bank amortising loan	Mar 2034	3 mth Libor + 0.86%	23.9	23.9
Revolving Credit Facility drawings *Facility matures October 2022*	Apr 2021	1 mth Libor +0.40%	95.0	94.8

*Bonds are held by the subsidiary Northern Gas Networks Finance plc, and are loaned to the company.

Net debt (principal value net of cash) in the year increased by £32.9m, with cash increasing by £0.3m and debt increasing by £33.2m.

Financial and operational review (continued)

Interest payable in the year on the above debt and that held within the year, net of associated interest rate swaps used to hedge the debt amounted to £42.9m (2020 - £50.5m) as detailed in note 3. Details of the way interest rate swaps are used to manage interest rate exposures, and the impact this has on finance costs, are included in the section on interest rate risk on page 4.

The tax charge for the year was £28.7m (2020 - £83.7m). In the prior year two exception items influenced tax charges: (1) the group restated deferred tax balances to 19% from 17% creating a £35.7m cost, following the announcement from the Government that the previously enacted legislation to take UK corporation tax rates to 17% rate was to be removed; and (2) a provision in relation to deferred tax of £13.7m was recognised relating to the tax deductibility of an intangible asset.

Capital additions in the year across tangible and intangible assets was £160.6m (2020 - £167.9m) principally focused on investment in network assets including replacement expenditure. The company had net assets of £603.6m at 31 March 2021 (2020 - £662.2m) the movement being due to profits less dividend payments in the year, and valuation movements in the defined benefit pension liability and cashflow hedge (see page 25). Debt to RAV of the Northern Gas Networks group at the end of the year was 64.4% (2020 – 64.5%), being well within the internal target of 70%.

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 and include:

	Year ended 31 March 2021	Year ended 31 March 2020
Financial performance (efficiency)		
Operating profit	£159.1m	£213.3m
Dividends paid	£101.0m	£97.0m
Group external debt less cash/Regulatory asset value (debt:RAV)	64.4%	64.5%
Customer services		
Quarterly customer satisfaction survey scores	9 out of 10	9 out of 10
Safety management		
Number of lost time injuries to employees and contractors (LTIs)	2	2
Reported injuries to members of the general public (MOPs)	1	0

All of the targets for the above KPI's have been achieved. Financial performance is discussed above within the financial and operational review. Customer service and safety management remains central to how NGN operate, and during the year the company has continued to perform well. The company has achieved an overall score of 9 out of 10 for customer satisfaction survey scores and continues to lead the industry with regard to safety, achieving the annual target of no more than 2 MOPs and 2 LTIs.

Principal risks and uncertainties

The 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 Northern Gas Networks Limited ("NGN"), as the licensed entity, must comply with. All key commitments made in the current price control are being delivered. The application and possible changes of these laws, regulations and regulatory standards could have an adverse effect on the operations and financial position of the group or in the case of misreporting, a fine.

Mitigation

The company engages with the regulatory authority extensively at all levels of seniority, to understand future plans within the industry and potential impacts on the business. The company has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations. From 1 April 2021 a new 5 year price control period commenced (referred to as RIIO-GD2). All legal and regulatory obligations required during RIIO-GD2 are fully understood. Along with other gas networks, the company has appealed to Ofgem about the quantification of potential revenue during RIIO-GD2, and the Competition and Markets Authority are reviewing this appeal (see note 16 for further details of the provision against this cost). This appeal has no influence on legal or 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 primarily for individuals concerned, but also on the reputation of the company, or lead to potential prosecution.

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 (including cyber risk)

If the network assets were to fail it could result in a loss in supply of gas to customers with associated adverse publicity and an unexpected increase in costs. The biggest cyber risk to NGN is the loss of control over the network.

Mitigation

The company has a set of policies and procedures that we adhere to, to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent. The company has comprehensive IT infrastructure governance which covers cyber risk.

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.

Principal risks and uncertainties (continued)

Mitigation

NGN's succession planning strategies mean that development of existing staff is crucial.

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. The company has published its gender pay gap analysis which can be found at http://www.northerngasnetworks.co.uk

The company complies with all UK human rights laws and has a process to assess risk in this area, including an employee grievance procedure. The company also has a fraud policy statement which protects employees from bribery and corruption. No issues have been reported in the year.

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. The main risks arising from the company's financial instruments are interest rate risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk of debt costs being in excess of that expected. 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.

Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the group. The group is exposed to this risk for various financial instruments including cash deposits and interest rate swaps. The group monitors the credit standing of counterparties to whom it has financial exposures and monitors the size of these exposures against Board-approved limits. If a counterparty's credit standing falls below a certain benchmark and/or exposure to a counterparty rises above a certain level no new transactions are entered into with that counterparty economic ways to reduce the exposure are explored.

Principal risks and uncertainties (continued)
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 five years. Debt and facility maturities are staggered to avoid excessive concentrations in any twelve month period as well as the period around regulatory reset dates where possible.

COVID-19
The Board continue to assess the impact of COVID-19 on the company. The safety of our customers and employees is of paramount importance, and as a result, non-essential operations stopped from 24 March 2020 following the announcement from the UK Government that the UK should be in 'lock down'. This was gradually eased across the summer of 2020 with all work streams being in operation in some capacity by June of 2020. During subsequent 'lock down' periods all operations continued, following a comprehensive risk assessment, the development of new procedures, and geographical planning in a manner which reduces customer interaction. Non-essential operations equate to the majority of repex and capex, along with some parts of maintenance. Essential operations equate to the attending and repairing of emergency gas escapes along with essential maintenance.

With regard to essential work being carried out, operational staff wear additional personnel protective equipment (PPE) and exercise social distancing when possible. As a consequence, PPE expenditure has increased in the short to medium term. The investment in technology over the last few years means that support staff are able to work from home without any issues and this has been actively encouraged except when working in the office is essential. This policy will continue until August of 2021 at which point a reassessment will occur. Two support teams are safety critical (network pressure control team and emergency dispatch team) and so continue to work from an office. Increased working from home has resulted in travel and accommodation savings.

The company has been monitoring staff sickness and those in self isolation. Management have been working on the assumption that essential operations can continue with a staff reduction of 25%, although the company has not encountered anywhere near this level of reduction.

Due to the nature of the business, the revenue of the company has not been impacted (note any movement in revenue is due to the year on year fluctuation in revenue allowances). The company is participating in a revenue collection deferral scheme which deferred some revenue cash receipts from the summer of 2020 with the majority of these receipts having been collected by the balance sheet date. This scheme was fully supported by Ofgem. This cash flow decrease is less than the cash flow benefits arising from the reduced operational activity seen in the initial 'lock down' period, and the group's election to defer VAT payments, this being the only financial package taken of those offered by the government.

To summarise the financial implications: (1) the company has encountered additional PPE costs, the impact of which is reduced by travel and accommodation savings; (2) there have been cash out flow savings due to reduced capital

Principal risks and uncertainties (continued)

activity and VAT deferrals which are in excess of the deferral of revenue receipts; and (3) no asset impairment is considered necessary at the date of these accounts.

The Board has reviewed financial forecasts which factor in the implications of COVID-19, and do not consider the impact to either influence going concern, or result in any asset impairment.

Brexit

The company continues to consider the potential impact of Brexit on its business, through the transition period and beyond. The company have taken a comprehensive review of all trade agreements to ensure compliance with the EU-UK Trade and Cooperation Agreement, and to ensure that we have no continuity issues with regard to essential supplies. Based on the assessment of the latest available information, our principal risk continues to be that there could be a sustained period when the import of certain raw materials could be challenging, which could curtail planned work if inventory levels were depleted. In mitigation, stock levels of critical spares have been elevated as at 31 March 2021. These products are not perishable and as such the financial risk of holding additional stock is minimal.

The company holds European Investment Bank debt of £423.9m however this debt will not need to be repaid as a consequence of Brexit.

Statement of corporate governance arrangements

The Directors present a corporate governance statement (see page 12) under the guidance of Accounting Regulations Section 7:26 of the Companies Act 2006. As far as the Directors are aware all legal requirements under section 172 of the Companies Act have been complied with during the period and up to the date of signing the accounts. Within the corporate governance statement reference is made as to how the Directors engage with the employees of the company and how they have regard to employee interests, and the effect of that regard, including on the principle decisions taken by the company during the financial year. The statement also details how the Directors have maintained relationships with key suppliers and customers.

Approved by the Board and signed on its behalf by

M J Horsley

M J Horsley, Director

10 August 2021

Directors' report

For the year ended 31 March 2021

The directors present their annual report on the affairs of the company, together with the accounts and auditor's report for the year ended 31 March 2021. The following disclosures have been made in the strategic report but are cross referenced here: principal activities, business review including KPI's, principal risks and uncertainties, and financial risk management objectives and policies. A Corporate Governance Statement is presented on page 12.

Directors

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

A J Hunter	(Chairman)	P Rogerson	(independent non-executive)
M J Horsley	(Chief Executive Officer)	J Burnham	(independent non-executive)
H L Kam			
C T Wan			
N D McGee			
D N Macrae			
L S Chan			
C C Tsai			
S D Beer			

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 year and attendees (including alternates) at the Board meetings are detailed below:

Year ended 31 March 2021		Year ended 31 March 2020	
Date	**Attendees**	**Date**	**Attendees**
8 April 2020	10 out of 11	10 April 2019	11 out of 11
20 July 2020	10 out of 11	10 July 2019	10 out of 11
23 September 2020	11 out of 11	25 September 2019	11 out of 11
19 November 2020	11 out of 11	15 November 2019	10 out of 11
20 January 2021	11 out of 11	21 November 2019	9 out of 11
		21 January 2020	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.

Dividends

The directors do not recommend payment of a final dividend. Interim dividends of £0.78 per share were paid on 19 June 2020, of £3.08 per share were paid on 21 December 2020, and of £0.29 per share were paid on 31 March 2021, making a total of £4.15 per share for the year (2020 – £3.99). See note 8 for details. No further dividends were paid or declared during the period form 31 March 2021, up to the date of the signing of the accounts. Declared dividends are in line with the expectations of the Board.

Directors indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors. This was in place during the year and remains in force at the date of this report.

Future developments and events after the balance sheet date

As mentioned within the Strategic report the company continues to monitor the impact of COVID-19, Brexit and RIIO-GD2 negotiations, to consider the potential impacts on its business. Subsequent to the balance sheet date the company has undertaken the following treasury activity: (1) green bonds of £1.0m have been raised which have an interest rate of 1.6% and mature in 2031; (2) commitment has been made to the raising of USPP debt with £175.0m to be drawn in September 2021 with a rate of 2.02% and a life of 15 years, and £65.0m to be drawn in June 2022 with a rate of 2.10% and a life of 15 years.

Financial instruments

Financial instruments have been disclosed within note 15 and associated risks discussed within the strategic reports.

Going concern

The accounts have been prepared on a going concern basis. 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 in the strategic report and above. This includes the implication of Brexit and COVID-19 as considered on pages 5 and 6. The group's undrawn borrowing facilities available for use amounted to £65.0m.

The directors have made enquiries and reviewed the forecasts including covenant performance, 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. No sensitivity analysis is considered necessary. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Disabled employees / employee engagement

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the 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. Details of employee engagement can be found in the corporate governance statement.

Energy and carbon

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 as well as climate change. The company's environmental management systems are certified under ISO 14001 and OHSAS 18001. The company is committed to reducing its carbon emissions under Regulatory Instructions and Guidance (RIGS). The overall target is a year-on-year emissions reduction of c0.5%. We report using an operational control approach, on all material emissions which NGN are accountable for across the entire business covering all work streams and geography.

Energy and carbon (continued)

Details of what has been included within each reported scope is listed in the table below. Unreported emissions, which would form part of scope 3, are deemed insignificant compared to shrinkage. These include employee commuting, some forms of waste generated in operations, end of life treatment of solid products and some gas emissions. The emissions reduction program is managed by the Head of HS&E within the company, supported by the senior management team and Board as needed. Reported data has not been externally verified, as permitted, due to robust internal processes. The NGN Shrinkage and Leakage Model is used to generate the leakage assessment. The model comprises of four main leakage components; Low Pressure systems, Medium Pressure systems, Above Ground Installations and Interference Damage. Each of these components has a number of internal inputs and assumptions. In addition to leakage, own use gas and theft of gas are calculated to make up the overall shrinkage calculation. These elements are fixed calculations being a percentage of throughput.

Reported emissions follow 'Greenhouse Gas Emissions Reporting Guidance (June 2013)' as provided by the Department for Environment, Food and Rural Affairs (Defra). The conversion factors used for emission disclosures follow Ofgem guidance.

Business Carbon Footprint	Performance			
	tonnes of CO_2e		tonnes of CO_2e per £m turnover	
	2021	2020	2021	2020
Shrinkage	365,881	379,547	813.01	843.38
Scope 1: energy consumption (excl electricity), commercial vehicles and business miles	4,518	5,290	10.04	11.75
Scope 2: electricity consumption	1,019	1,211	2.26	2.69
Scope 3: indirect emissions – PE pipe, contractor vehicle, rail, air and ferry travel	15,150	15,793	33.66	35.09
Total	386,568	401,841	858.97	892.92

As shown in the above table shrinkage remains the key element of emissions which is being targeted through efficient gas pressure management, gas escape management and gas mains replacement. Other activity to reduce emissions include fleet upgrading, vehicle route planning, driver efficiency tracking, use of carbon efficient technology in depot and office refurbishments, increased use of teleconferencing and a contractor carbon awareness program.

Supplier payment policy

The company's policy is to establish terms of payment with suppliers when agreeing the initial contract terms, and then to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

Pension arrangements

During the year the group entered into a second 'asset backed contribution' arrangement with its defined benefit pension scheme whereby the Northern Gas Networks ABC2 Pension Funding Limited Partnership was funded to acquire a £14.0m loan note. The partnership members are Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit pension scheme and the Northern Gas Networks General Partner Limited. Contributions to the pension scheme of £13.3m were made in the year.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and

- the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006. The directors will place a resolution before the annual general meeting to reappoint Deloitte LLP as auditor for the ensuing year.

Authorise for issue by the Board

M J Horsley, Director
10 August 2021

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Thorpe Park Business Park
Colton
Leeds, LS15 8TU
United Kingdom

Directors’ responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Corporate governance statement

For the year ended 31 March 2021

Scope of statement

NGN is not a listed entity, but as a large private company is required to prepare a corporate governance statement under Accounting Regulations Section 7:26 of the Companies Act 2006. This statement has been prepared using most of the ‘Wates Principles’ to provide a clear message on the business model, future strategies and core values and of NGN. It describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of Companies Act, as listed below:

- the likely consequences of any decision in the long term (approving the strategic direction and values);
- the interests of the company’s employees;
- the desirability of the company maintaining a reputation for high standards of business conduct;
- the need to foster the company’s business relationships with suppliers, customers and others;
- the impact of the company’s operations on the community and the environment; and
- the need to act fairly as between members of the company.

The company is committed to pursuing leading governance practices as appropriate.

Overview of the Board

The Board of Northern Gas Networks Limited is comprised of eleven directors as at 31 March 2020, who are appointed by the shareholders and two of which are independent non-executive directors. All are independent of the day to day management of the company with the exception of the CEO who is a Board member and leads the company senior management team (SMT) who in turn manage the company. The Board are presented with information by the CEO and SMT to enable them to influence all the key business decisions of NGN. This arrangement ensures the shareholders are involved in making all the key business decisions through their appointed directors.

Board Members

The Board members who held office during the year are listed within the Directors’ report.

The position of the Chairman of the Board is held by A Hunter. The position of Chief Executive Officer (CEO) is held by M J Horsley. These positions are separate with a view to maintaining an effective segregation of duties between management of the Board and the day to day management of the business.

P Rogerson and J Burnham are independent non-executive members of the Board.

Overview of the Board (continued)

Board Meetings

The Board hold at least five scheduled meetings throughout the year. Comprehensive papers are presented to the Board both for information and approval which facilitate debate on the performance and future direction of the company. The number of Board meetings held during the year and attendees, including alternates, at the Board meetings is detailed in the Directors report.

Evaluation of the Board

Evaluation of the performance of the Board is conducted by virtue of their appointments being made and monitored by the shareholders. The performance of the CEO is assessed by the Board on an annual basis under the remit of the remuneration committee. The performance of each SMT member is assessed annually by the CEO as part of NGN's performance management process.

Overview of the committees

The Board has six committees, as listed below, to assist in the execution of its duties and to allow a detailed consideration of complex issues.

All Board members are entitled to attend all committees under the terms of reference, with the minimum requirement being a quorum of at least two members from different shareholders. The attendance of the committees is also largely the same as for the Board. The audit and treasury committees are chaired by L S Chan, the risk management and compliance committees are chaired by C Tsai and the remuneration and nominations committee are chaired by A Hunter.

Attendance including alternates of committees in the year is shown below:

Date of Committee	Audit Committee	Compliance Committee	Risk Management Committee	Treasury Committee	Remuneration Committee	Nominations Committee
2021						
Jun 20	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a
Sep 20	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a
Jan 21	6 out of 6	7 out of 7	7 out of 7	7 out of 7	5 out of 7	n/a
2020						
Jun 19	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a
Sep 19	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a
Jan 20	4 out of 6	5 out of 7	5 out of 7	5 out of 7	4 out of 7	n/a

Overview of the committees (continued)

Audit committee

The audit committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes. In addition, the committee provides an avenue for communication between internal audit, the external auditors and the Board. The activities of the committee are reported to and considered by the Board. The committee also reviews auditor independence where non-audit services are provided and the auditors confirm their independence as part of their reporting to the audit committee.

Compliance committee

The compliance committee assists the Board with its responsibilities to oversee compliance with obligations determined by statute, legislation, regulation (including licence obligations), contract or agreement. This committee considers, inter alia, reports on the application of the regulatory compliance process which covers licence and network code obligations.

Risk management committee

The risk management committee is responsible for reviewing the risk profile of the business and oversight of risk management processes. The committee provides the Board with regular reports of activities and findings. The business has a formal risk management policy. In addition, an integrated risk management framework is in place that includes a regular review of the business risk exposures. At each meeting of the risk management committee, the high level risk register is considered including any movement in the assessment of risk or changes in measurement or relative position to each other.

Treasury committee

The treasury committee assists the Board in fulfilling its oversight responsibilities with respect to compliance with its treasury policy, strategy and procedure development. The committee recommends any changes or amendments as appropriate. It also ensures that management undertakes to identify, monitor and manage treasury risks in a manner consistent with corporate strategy and objectives and its treasury policy.

Remuneration committee

The remuneration committee reviews and makes recommendations to the Board on overall remuneration policy of the company and determines the salary and bonus entitlement for the CEO, the SMT and all other company employees. The activities of the remuneration committee are reported to the Board at least annually.

Nominations committee

The nominations committee exists to consider potential changes to independent Board membership and to assess the performance of these Directors.

Actions and responsibilities of the Board and its committees

The Board is responsible for and makes key decisions on the following areas.

Approving the strategic direction and values, with consideration of the likely consequences in the long term

The Board is responsible to the shareholders for the strategic direction of the company in both the short and long term and seeks to balance the best interests of the company with the objective of enhancing shareholder value.

The long term primary objectives which reflect the strategic value of the company have been established since acquisition in 2005, that being to be a top performing gas distribution network with regard to safety, customer satisfaction and efficiency of delivery. The Board ensure they are aware of how well the company is performing in these areas through the establishment of KPIs which are reported upon at Board meetings, and the Board have linked the remuneration of the SMT to achieving Board approved targets in these areas.

Each autumn the Board invites the CEO to present the performance targets of the company over the next 5 years, with reference to the strategic direction of the company. If approved the Board set these targets as the budget for the following financial year (short term objectives).

Throughout the current and prior financial year the SMT have been working on the company business plan for the next 5 year price control period (RIIO-GD2) which commenced in April 2021. The Board established a RIIO-GD2 steering group combined of company staff and shareholder representation who have worked together, with continued Board communication, to ensure the strategic direction and values of the Board are reflected. This plan was submitted to Ofgem during 2020 and Ofgem's final determination, which sets the regulated revenue allowances of the group within the price control period, was published in December of 2020. Following the publication of Ofgem's final determination, the Board approved the decision for the group to appeal to Ofgem about the quantification of potential revenue during RIIO-GD2, and the Competition and Markets Authority are reviewing this (also see note 16).

The Board approved the existing corporate values of NGN: intellectually curious; trail blazing, heartfelt; empowered, happy and customer focus. To encourage the demonstration of these values, employee performance objectives include the demonstration of these values.

Interests of the company's employees including evaluating the performance and remuneration of employees

The Board has fully encouraged the SMT to make NGN an employer of choice and supports the decisions made by the SMT with regard to employee engagement and evaluation.

The Board and SMT place considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees. This is achieved through various communications including: the CEO's call which are live teleconference broad-casts and include a question and answer section, and are available to be listened to in all offices and depots; regular business chats where groups gather and discuss what is occurring in the business and has SMT representation; email and letter communication when formal communication is needed.

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

Some employees are eligible to receive an annual bonus related to the overall financial and operational performance of the NGN group along with individual performance against set objectives. Other employees receive monthly incentive payments based on performance against operational efficiency, safety and customer targets.

Employees are encouraged to influence their own working environment and are able to present changes in working practices, subject to meeting the desired company criteria over customer, safety and efficiency targets.

The overall control environment of the company, to protect the shareholders' investment and manage risk

The Board expect the SMT of the company to develop and maintain a control environment which protects the company's assets. The Board ensure this is achieved through several processes including the establishment of a risk register which is reported to the Board three times a year via the risk management committee. This register quantifies the impact of risks facing NGN, both on a financial and non-financial basis, and documents the likelihood of the risk occurring, along with the controls which exist to mitigate the risk.

The Board have established an internal audit function which undertakes independent appraisals and provides assurance on the adequacy and effectiveness of business controls. All internal audit work is carried out according to the relevant best practice standards. The schedule of work carried out by internal audit is planned and Board approved so that key or higher risk areas are reviewed on a recurring basis, and all findings are reported by internal audit to the audit committee.

In the calendar year the Board approved the establishment of a data governance team, whose focus is ensuring assurance over the accurate capture and reporting of data to third parties, ensuring a further layer of control.

Some of the key controls of the company are those surrounding the financial processes of the company and the Board request a summary of all such financial controls to be documented each year in a document call the Directors Questionnaire. This document is signed by the SMT and is representation to the Board that the SMT have maintained a suitable financial control environment throughout the period, which supports the financial statements for that year. The Board also request the internal and external auditors to review the Directors Questionnaire, so to ensure the document is a true reflection of the control environment in place.

During the financial year COVID-19 remained a key consideration for the Board, and so the Board established weekly reporting from NGN management during the early phases of the pandemic, covering safety, operational performance and financial risk.

The Board aim to steer the company so to reduce it's carbon footprint and to be a key contributor to the UK's aspiration to be carbon neutral. Under the guidance of the Board the SMT have been promoting the use of Hydrogen as an alternative energy source to natural gas, which could be distributed through the existing gas infrastructure. Activity in the year includes: (1) completion of the planning stages to enable the community of Winlaton to operate with gas supply which contains 20% hydrogen from the summer of 2022; (2) the building of hydrogen homes which

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

will be heated with hydrogen gas, using hydrogen appliances from late 2022; and (3) the continuation of the H21 research project which is the research behind the use of hydrogen as an alternative energy source.

The work done by the NGN group, along with its partners, has been fundamental to changing government policy with regard to this and the Board were delighted when Boris Johnson acknowledged that the UK would need to use hydrogen within the Government's Ten Point Plan, for a green industry revolution to put the UK on the path to reaching Net Zero Emissions by 2050.

Maintaining a reputation for high standards of business conduct

As a company we believe that we are trusted by our stakeholders and have a good reputation for high standards of professionalism within the business we conduct.

As part of this the Board look for a strong control environment which is managed through the SMT as detailed in the section above (see 'the overall control environment of the company, to protect the shareholders' investment and manage risk'). As noted in that section the Board review NGN's risk register which includes a quantification of non-financial risks, one of which is reputational risk, which covers the impact of changes in business standards.

The reputation of the company is maintained by the behaviour of its employees and so the Board have approved a code of conduct which is a guide to the professional standards expected of employees. Fraud policies and whistleblowing policies also exist to protect the reputation of NGN, should any detrimental employee behaviour exist. Suitable recruitment practices exist to minimise this risk.

Maintaining relationships with key suppliers, customers and other

Under the delegated authority of the Board the SMT has established a dedicated commercial services team covering all elements of procurement and supplier relations. All contracts are signed off by members of the SMT having first been reviewed by the NGN legal department and having agreed terms with the supplier. Within the commercial services team there is a dedicated contract management function which supports in pre-contract activity and also post-contract work including the review of variations, again to ensure a strong relationship with suppliers. NGN seek to treat all suppliers fairly through compliance with the policies of the Official Journal of the European Union (OJEU). Consideration of the potential impact of Brexit on the business, through the transition period and beyond has been assessed. The SMT have taken a comprehensive review of all trade agreements to ensure compliance with the EU-UK Trade and Cooperation Agreement, and to ensure that we have no continuity issues with regard to essential supplies.

The Board are focused on maintaining strong relationships with NGN's customers to ensure this is to the benefit of both parties. NGN's primary customers are shippers, who transport gas through the network, and the communities (both businesses and residents) in which NGN work. Shipper relationships are managed through the application of Unified Network Code, the regulations established by Ofgem, and this regulation ensures fair working practice is maintained. The impact of NGN's work on community customers is important to the Board and NGN not only monitor feedback through customer feedback scores, but also spend time engaging with communities to understand how NGN could work differently to the benefit of such communities (see next section, 'monitoring the impact of the company: environmental matters and community impact'). Other key stakeholders include, Ofgem and the HSE with

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

whom NGN have ongoing relationships. NGN have designated regulation and health and safety teams who work with these stakeholders.

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

Stakeholder engagement is of upmost importance to NGN and encouraged by the Board via delegation to the SMT.

In the current financial year NGN has continued to engage with local communities to understand how NGN could work differently to the benefit of such communities, and some of these finding have fed into NGNs business plan for RIIO-GD2. NGN continue to invest in local communities by providing free energy to vulnerable customers. Carbon monoxide awareness is another scheme we continue to promote at NGN.

NGN's environmental impact and carbon footprint is an area of focus which the Board is encouraging the SMT to look at. To facilitate a greater understanding of this NGN report environmental data and report policies and procedures via shareholder submissions on an annual basis. These feed into group wide Dow Jones Sustainability Index and Hang Seng Corporate Sustainability Index submissions.

Dividend payments

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

Maintenance of the need to act fairly between members of the company

The Board is comprised of directors who are appointed by the shareholders of the group. As such each shareholder has representation and the ability to contribute to all Board meetings and so influence the decisions made by the Board.

The shareholder agreement in place for NGN is a legal entitlement for each shareholder to have this representation and as such the shareholders are appropriately protected.

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Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Northern Gas Networks Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:
- evaluating the level of borrowing including consideration of undrawn facilities and compliance with covenants;
- assessing the assumptions used in the forecasts, including performing sensitivity analysis and the impact of Brexit, Covid-19 and climate change;
- assessing the historical accuracy of forecasts prepared by management against actuals achieved; and
- testing of clerical accuracy of the model used to prepare the forecasts.

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

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

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

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

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

We discussed among the audit engagement team, including relevant internal specialists such as tax, IT, specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

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

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

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

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

10 August 2021

Profit and loss account

For the year ended 31 March 2021

	Notes	2021 £'000	2020 £'000
Turnover	1	439,330	450,031
Cost of sales		(27,971)	(10,594)
Gross profit		411,359	439,437
Other operating expenses	2	(252,258)	(226,152)
Operating profit		159,101	213,285
Finance charges (net)	3	(36,485)	(47,940)
Profit on ordinary activities before taxation	4	122,616	165,345
Tax on profit on ordinary activities	7	(28,677)	(83,727)
Profit for the financial year		93,939	81,618

The above results arise from continuing operations.

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

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

Statement of comprehensive income

For the year ended 31 March 2021

	2021 £'000	2020 £'000
Profit for the financial year	93,939	81,618
Re-measurement of defined benefit (liability) / asset (note 19)	(97,090)	41,967
Profits / (losses) in respect of cash flow hedges	23,780	(18,060)
Transferred to profit or loss in respect of cash flow hedges	5,924	6,188
Tax relating to components of other comprehensive income	12,803	(5,194)
Comprehensive income relating to the year	39,356	106,519

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

The accompanying notes are an integral part of this statement of comprehensive income.

Balance sheet

As at 31 March 2021

	Notes	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	9	164,499	167,121
Tangible fixed assets	10	2,602,750	2,528,200
Investments	11	9,094	10,206
		2,776,343	2,705,527
Current assets			
Debtors – amounts falling due within one year	12	110,022	100,598
amounts falling due after one year	12	314,685	459,879
Cash at bank and in hand		13,493	13,613
		438,200	574,090
Creditors: Amounts falling due within one year	13	(255,219)	(193,240)
Net current assets		182,981	380,850
Total assets less current liabilities		2,959,324	3,086,377
Creditors: Amounts falling due after more than one year	14	(1,969,335)	(2,064,518)
Provisions for liabilities	16	(389,526)	(359,703)
Net assets		600,463	662,156
Capital and reserves			
Called-up share capital	17	24,328	24,328
Hedging reserve		(7,639)	(31,699)
Profit and loss account		583,774	669,527
Shareholders' funds		600,463	662,156

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

The accounts of Northern Gas Networks Limited, Registered number 05167070, were approved by the Board of Directors and authorised for issue on 10 August 2021 and signed on its behalf by:

M J Horsley

M J Horsley
Director
10 august 2021

Statement of changes in equity

For the year ended 31 March 2021

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2019	24,328	(22,629)	650,958	652,657
Profit for the financial year	-	-	81,618	81,618
Remeasurement of defined benefit asset (note 19)	-	-	41,967	41,967
Tax on remeasurement of defined benefit asset	-	-	(7,996)	(7,996)
Cash flow hedges: losses arising during the year	-	(11,872)	-	(11,872)
Tax on cash flow hedges movement	-	2,802	-	2,802
Total comprehensive income	-	(9,070)	115,589	106,519
Dividends paid on equity shares (note 8)	-	-	(97,020)	(97,020)
At 31 March 2020	24,328	(31,699)	669,527	662,156
Profit for the financial year	-	-	93,939	93,939
Remeasurement of defined benefit liability (note 19)	-	-	(97,090)	(97,090)
Tax on remeasurement of defined benefit liability	-	-	18,447	18,447
Cash flow hedges: profits arising during the year	-	29,704	-	29,704
Tax on cash flow hedges movement	-	(5,644)	-	(5,644)
Total comprehensive income	-	24,060	15,296	39,356
Dividends paid on equity shares (note 8)	-	-	(101,049)	(101,049)
At 31 March 2021	24,328	(7,639)	583,774	600,463

Statement of accounting policies

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

Basis of accounting

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

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

The company is not required to prepare group accounts as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited (NGNH) which prepares consolidated accounts which are publicly available. The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it. Exemptions have been taken in relation to presentation of cash flow statements 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 financial statements are also presented in pounds sterling.

Going concern

The accounts have been prepared on a going concern basis. 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 in the strategic report. This includes the implication of Brexit and COVID-19 as considered on pages 5 and 6.

The directors have made enquiries and reviewed the forecasts, and in light of the facilities available, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. No sensitivity analysis is considered necessary. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is estimated to be 40 years in line with the acquired asset base. Provision is made for any impairment.

Intangible assets – licence

The Gas Transporter Licence (licence) has been recognised as a separately identifiable intangible asset, the value of which has been derived from an independent valuation. The licence has been capitalised and written off on a straight line basis over its useful economic life, which is estimated to be 40 years in line with the acquired asset base. Provision is made for any impairment.

Intangible assets – computer software

Costs associated with maintaining computer software are recognised as expenses are incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use of it;
- there is an ability to use the software;
- it can be demonstrated how the software will generate probable future economic benefit;
- adequate technical, financial and other resources to complete the development and to use the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives on a straight line basis, which range from 3 to 10 years. Computer software under construction is not amortised until it is ready for use. Development costs have been capitalised in accordance with FRS 102 Section 18 Intangible Assets other than Goodwill and are therefore not treated, for dividend purposes, as a realised loss.

Software as a service (SaaS) arrangements

During April 2021 the IFRS Interpretations Committee finalised its agenda decision in relation to configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, ‘SaaS’) and the application of IAS 38. That agenda decision offers clarification of the treatment of implementation costs which is relevant to the Group’s programme to revise its access to software and systems. The Group moved a number of its applications to SaaS arrangements with third party partners as part of the SAP 4 Hana implementation during FY18-FY20.

The Group prepares its financial statements under FRS 102 and management has performed an initial evaluation as to whether the committee's decision should apply to it and any implications of this. It is the judgement of the directors that all capitalised SaaS costs are in accordance with the agenda decision published by the IFRS Interpretations Committee in April 2021. The assessment did not identify a material adjustment to the financial statements."

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.

Tangible fixed assets (continued)

No residual value is estimated for assets. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

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

Investments

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

Replacement expenditure (repex)

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

Stocks

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

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 periods 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.

Taxation (continued)

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax is measured on a non-discounted basis.

Provisions

Gas holder decommissioning and restructuring costs are provided for in full and discounted when the impact is considered to be material. Environmental costs are provided for in full, the liability being based on a probability basis. Claims costs are provided for in full and discounted, the unwinding of the discount being included within the profit and loss account as a financing charge.

Turnover

Turnover represents income receivable for the distribution of gas and provision of other services in the normal course of business, net of Value Added Tax. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end. Turnover is recognised in the month the service is provided. If transportation turnover is under or over recovered, it is settled according to Ofgem methodology over a future regulatory year.

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 comprehensive income.

The defined benefit scheme is funded with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. A resulting defined benefit asset is presented within debtors gross, with the deferred tax shown within provisions. Assets are only recognised when the company has a legal right to cash on windup.

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 period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the consolidated balance sheet.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful economic lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful economic lives.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the 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.

Financial instruments (continued)

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. 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).

c) 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.

d) 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.

e) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss. Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Cash is treated as a basic financial instrument in accordance with FRS102. Cash and cash equivalents represent cash held and readily available overnight deposits.

Derivative financial instruments

The 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.

Derivative financial instruments (continued)

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. 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.

The company applies the recognition and movement principles of IFRS 9: Financial Instruments, as applicable within FRS 102.

Fair value accounting

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

Hedge accounting

The company designates certain derivatives as hedging instruments in cash flow hedges and certain others as hedging instruments in Fair Value hedges. At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Company 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.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

Interest receivable

Interest receivable is recognised on an accruals basis in accordance with FRS102.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in the statement of accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

There are no critical judgements, apart from those detailed below within 'key sources of estimation uncertainty', that the directors have made in the process of applying the group's accounting policies.

Key sources of estimation uncertainty

The following are the critical estimations that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Fair value of financial instruments

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available, using an individual trade basis provided by an external reporting system meaning market assumptions are applied by the third party and not by the company. Further details can be found within note 15.

Pension arrangements

Note 19 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, inflation and mortality rates and have been determined following advice received from an independent qualified actuary.

1 Turnover and post balance sheet events

The directors consider that the company has only one class of business. The company's turnover is generated wholly from within the UK, principally being from gas distribution in the North of England.

There are no post balance sheet events to report.

2 Other operating expenses

	2021 £'000	2020 £'000
Distribution costs	165,049	167,506
Administrative expenses	87,209	58,646
	252,258	226,152

3 Finance charges (net)

	2021 £'000	2020 £'000
Interest payable and similar charges	42,932	50,531
Less: investment income	(92)	(378)
Other finance (income) charges	(6,355)	(2,213)
	36,485	47,940

Interest payable and similar charges

	2021 £'000	2020 £'000
Bank loans and overdrafts	7,680	12,275
Intercompany interest payable	36,536	39,822
	44,216	52,097
Finance costs capitalised	(1,284)	(1,566)
	42,932	50,531

Finance costs have been capitalised based on a cost of debt capitalisation rate of 2.92% (2020 – 3.40%).

3 Finance charges (net) (continued)

Investment income

	2021 £'000	2020 £'000
Interest receivable and similar income	(92)	(378)
	(92)	(378)

Other finance (income) charges

	2021 £'000	2020 £'000
Asset backed contribution pension movement	(3,931)	(2,909)
Fair value movement on financial investments (see note 15)	(544)	773
Exchange rate differences	1	155
Unwinding of discount on provisions (see note 16)	(153)	259
Net return on pension scheme (see note 19)	(1,728)	(491)
	(6,355)	(2,213)

4 Profit on ordinary activities before taxation

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

	2021 £'000	2020 £'000
Depreciation and amounts written off tangible fixed assets (see note 10)	74,715	74,385
Amortisation of intangible fixed assets included in administrative expenses (note 9)	12,871	12,588
Profit on disposal of fixed assets	(218)	(745)
Operating lease rentals - vehicles	482	680
Operating lease rentals - property	1,211	1,519
Fees payable to the company's auditor for the audit of the company's annual accounts	92	88

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.

5 Staff costs

The below disclosures relate to staff within Northern Gas Networks Operations Limited, a subsidiary of the company who recharges all its payroll costs to the company. The company itself has no employees.

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

	2021 Number	2020 Number (restated)
Administration	122	127
Operations	1,282	1,272
Total	1,404	1,399

Following consideration of the treatment of contractors in the current year, the prior year comparatives have been restated, resulting in a reduction of the average monthly number of employees by 67.

	2021 £'000	2020 £'000
Their aggregate remuneration comprised:		
Wages and salaries	61,802	62,332
Social security costs	6,592	6,320
Pension costs	7,260	6,697
	75,654	75,349

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Emoluments	90	75	925	911
Amounts receivable (other than shares) under long-term incentive schemes	-	-	220	244
	90	75	1,145	1,155

The remuneration of non-executive directors as shown above relates to the independent non-executive directors of the company, paid through the subsidiary company Northern Gas Networks Operations Limited, and that are required by that company pursuant to its Public Gas Transportation Licence. Only one executive director is remunerated, again through the subsidiary company Northern Gas Networks Operations Limited, with the rest being remunerated by other companies within the ownership group. It is not possible to allocate a share of this cost to the company.

Pensions

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

Highest paid director

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

	2021	2020
	£'000	£'000
Emoluments	1,145	1,155

Transactions

There have been no transactions with directors in the year (2020 – £nil) other than as set out above in respect of remuneration. Only directors are deemed to be key personnel.

7 Tax on profit on ordinary activities

The tax charge comprises:

	2021 £'000	2020 £'000
Current tax		
UK corporation tax	35,471	38,457
Adjustments in respect of prior periods	(1,852)	(1,763)
Total current tax	33,619	36,694
Deferred tax		
Current period - origination and reversal of timing differences	(11,895)	7,850
Effect of increase in tax rate on opening liability	-	35,650
Adjustments in respect of prior periods	6,953	3,533
Total deferred tax	(4,942)	47,033
Total tax on profit on ordinary activities	28,677	83,727

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:

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	122,616	165,345
Tax on profit on ordinary activities at standard UK corporation tax rate of 19.0% (2020 – 19.0%)	23,297	31,416
Effects of:		
Expenses not deductible for tax purposes	822	605
Income not taxable in determining taxable profit	(1,139)	(586)
Interest not deductible for tax purposes	1,140	1,140
Change in tax rate on opening position*	-	35,654
Deferred tax on intangible**	(544)	13,729
Adjustments in respect of prior year	5,101	1,769
Total tax charge for the period	28,677	83,727

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 19.0% (2020 – 19.0%).

7 Tax on profit on ordinary activities (continues)

Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Finance Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 however, in the March 2020 Budget it was announced that the reduction would not occur and the Corporation Tax Rate would be held at 19%. Accordingly, the deferred tax balances were re-calculated to 19% for the year ended 31 March 2020. The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date, and as result deferred tax balances as at 31 March 2021 continue to be measured at 19%. The estimated impact on the closing deferred taxation position, of the future rate change, would be to increase the deferred tax liability by £100.7m.

* In March 2020 the group restated deferred tax balances to 19% from 17% following the announcement from the Government that the previously enacted legislation to take UK corporation tax rates to 17% rate was to be removed. The impact of this one off charge was £35.7m.

** In the prior year deferred tax of £13.7m was recognised on an intangible for which the tax deductibility is under enquiry with HMRC.

8 Dividends on equity shares

	2021 £'000	2020 £'000
Equity shares		
- interim dividend paid of £0.78 (2020 - £0.76) per ordinary share	19,000	18,600
- interim dividend paid of £3.08 (2020 - £3.22) per ordinary share	75,049	78,420
- interim dividend paid of £0.29 (2020 - £nil) per ordinary share	7,000	-
	101,049	97,020

9 Intangible assets

	Licence £'000	Goodwill £'000	Software £'000	Software in the course of construction £'000	Total £'000
Cost					
At 1 April 2020	161,200	3,257	86,565	4,082	255,104
Additions	-	-	6,504	3,897	10,401
Transfers	-	-	3,626	(3,626)	-
Disposals	-	-	(412)	-	(412)
At 31 March 2021	161,200	3,257	96,283	4,353	265,093
Amortisation					
At 1 April 2020	59,778	1,208	26,997	-	87,983
Charge for the year	4,027	84	8,760	-	12,871
Disposals	-	-	(260)	-	(260)
At 31 March 2021	63,805	1,292	35,497	-	100,594
Net book value					
At 31 March 2021	97,395	1,965	60,786	4,353	164,499
At 31 March 2020	101,422	2,049	59,568	4,082	167,121

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

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 April 2020	12,570	3,065,885	22,755	112,435	32,707	3,246,352
Additions	61	121,076	84	279	28,654	150,154
Disposals	-	(1,917)	(774)	(4,192)	-	(6,883)
Transfers	(93)	5,179	1,343	663	(7,092)	-
At 31 March 2021	12,538	3,190,223	23,408	109,185	54,269	3,389,623
Depreciation						
At 1 April 2020	6,026	606,757	12,907	92,462	-	718,152
Charge for the period	926	62,970	2,468	8,351	-	74,715
Disposals	-	(1,887)	(695)	(3,412)	-	(5,994)
At 31 March 2021	6,952	667,840	14,680	97,401	-	786,873
Net book value						
At 31 March 2021	5,586	2,522,383	8,728	11,784	54,269	2,602,750
At 31 March 2020	6,544	2,459,128	9,848	19,973	32,707	2,528,200

Undepreciated freehold land equates to £774,000 at 31 March 2021 (2020 - £774,000).

11 Investments

	2021 £'000	2020 £'000
Subsidiary undertakings	8,990	10,102
Other investments	104	104
	9,094	10,206

The reduction in the carrying value of the subsidiary undertaking relates to Northern Gas Networks Pension Funding Limited Partnership.

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
Northern Gas Networks General Partners Limited	Scotland	Pension partnership	100 ordinary shares of £1	100
Northern Gas Networks ABC2 Pension Funding Limited Partnership	Scotland	Pension partnership	n/a	n/a
Northern Gas Networks Pension Funding Limited Partnership	Scotland	Pension partnership	n/a	n/a

All subsidiaries have a registered address of 1100 Century Way, Leeds, LS15 8TU, with the exception of Northern Gas Networks General Partner Limited, Northern Gas Networks ABC2 Pension Funding Limited Partnership and Northern Gas Networks Pension Funding Limited Partnership whose registered office is 1st Floor, City Point, Haymarket Terrace, Edinburgh, EH12 5HD, Scotland.

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%.

11 Investments (continued)

Subsidiary undertakings

	£'000
Cost and net book value	
At 1 April 2020	10,102
Acquisitions in the year	700
Repayment against investment in the year	(1,812)
At 31 March 2021	8,990

During the year the company, along with subsidiary undertakings Northern Gas Networks Operations Limited and Northern Gas Networks Pension Trustee Limited, acquired Northern Gas Networks Pension Funding Limited Partnership.

Other investments

	£'000
Cost and net book value	
At 1 April 2020 and 31 March 2021	104

12 Debtors

	2021 £'000	2020 £'000
Amounts falling due within one year		
Trade debtors	1,763	657
Other debtors	66,183	56,166
Accrued income	37,776	38,837
Derivative financial assets (note 15)	4,300	4,938
	110,022	100,598
Amounts falling due after more than one year		
Defined benefit pension scheme (see note 19)	-	65,412
Derivative financial assets (note 15)	314,685	394,467
	314,685	459,879
	424,707	560,477

13 Creditors: Amounts falling due within one year

	2021 £'000	2020 £'000
Bank loans	94,797	59,667
Amounts owed to group undertakings	66,596	52,704
Derivative financial liabilities (see note 15)	817	538
Payments received on account	7,876	5,645
UK corporation tax	37,210	41,514
Other taxation and social security	25,436	19,410
Accruals and deferred income	22,487	13,762
	255,219	193,240

The bank loans comprises a £55.0m loan repayable on 30 April 2021 with an interest rate of 0.4496% and a £40.0m loan repayable on 22 April 2021 with an interest rate of 0.4501%. The facility under which these working capital loans were drawn expires in October 2022. Amounts owed to group undertakings is unsecured, interest free and repayable on demand. The balances arise in relation to rechargeable services provided by other group companies.

14 Creditors: Amounts falling due after more than one year

	2021 £'000	2020 £'000
Loan notes	74,468	65,563
Bank loans	423,947	425,789
Amounts owed to group undertakings	858,538	905,092
Deferred income	141,161	131,387
Derivative financial liabilities (see note 15)	162,957	221,192
USPP 2029 loan	51,740	52,982
USPP 2031 loan	156,809	162,813
USPP 2039 loan	99,715	99,700
	1,969,335	2,064,518

The loan notes which have interest that is variable with RPI comprise: (1) £62.2m (2020 - £65.6m) held with Northern Gas Networks Pension Funding Limited Partnership; and (2) £12.3m (2020 - £nil) held with Northern Gas Networks ABC2 Pension Funding Limited Partnership. 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, and an interest bearing loan of £198.0m repayable in 2040 with interest of 5.625% plus a margin to cover related costs. The sum total of these loans is £703.0m with a carrying value in the balance sheet being £858.5m. The difference represents the fair value adjustments on the portion of the loan from Northern Gas Networks Finance Plc that is in a Fair Value hedge relationship.

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

Creditors falling due after more than one year represented by debt and other financial instruments are as follows:

Debt instrument	Maturity date	Interest rate / basis	Principal amount (£m)	Fair value adjustment (£m)	Unamortised costs & discounts (£m)	Book value (£m)
US Private Placements						
US Private Placement notes	10/01/2029	2.84% fixed	50.0	1.8	(0.1)	51.7
US Private Placement notes	10/01/2031	2.97% fixed	150.0	7.2	(0.4)	156.8
US Private Placement notes	26/06/2039	2.71% fixed	100.0	-	(0.3)	99.7
Bank Loans						
European Investment Bank fixed rate loan	20/12/2024	3.446% fixed	40.0	-	-	40.0
European Investment Bank floating rate loan	23/01/2023	3 month Libor + 0.357%	25.0	-	-	25.0
European Investment Bank floating rate loan	30/03/2024	3 month Libor + 0.624%	100.0	-	-	100.0
European Investment Bank floating rate loan	24/06/2024	3 month Libor + 0.548%	25.0	-	-	25.0
European Investment Bank floating rate loan	30/07/2024	3 month Libor + 0.458%	60.0	-	-	60.0
European Investment Bank floating rate loan	31/03/2027	3 month Libor + 0.534%	30.0	-	-	30.0
European Investment Bank floating rate loan	28/02/2028	3 month Libor + 0.627%	30.0	-	-	30.0
European Investment Bank floating rate loan	20/12/2028	3 month Libor + 0.934%	40.0	-	-	40.0
European Investment Bank floating rate loan	29/03/2029	3 month Libor + 0.834%	50.0	-	-	50.0
European Investment Bank amortising loan	25/03/2034	3 month Libor + 0.860%	24.0	-	-	24.0
Derivative Financial Liabilities						
Interest rate derivatives designated as fair value hedges	Various	Receive fixed, pay 6 Month Libor + margin	-	-	-	-
Interest rate derivatives designated as cash flow hedges	Various	Pay fixed, receive 3 or 6 month Libor	-	-	-	20.1
Other interest rate derivatives	Various	Various	-	-	-	142.9
Intercompany loans						
Amounts owed to group undertakings (amounts due >1 year)*	Various	Various	703.0	155.5	-	858.5

* This intercompany loan balance pertains to fixed rate bonds dealt by NGNF. NGNF is the bond issuer to the market within the group. The bonds are then passed to its parent, NGN, as a series of intercompany loans with terms that mirror the issued bonds.

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

Subsequent to the balance sheet date the company has undertaken the following treasury activity: (1) green bonds of £1.0m have been raised which have an interest rate of 1.6% and mature in 2031; (2) commitment has been made to the raising of USPP debt with £175.0m to be drawn in September 2021 with a rate of 2.02% and a life of 15 years, and £65.0m to be drawn in June 2022 with a rate of 2.10% and a life of 15 years.

15 Derivatives and other financial instruments

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

Some of the company assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available, using an individual trade basis provided by an external reporting system meaning no assumptions are applied by the company.

	2021 £'000	2020 £'000
Financial assets		
Measured at fair value through the profit and loss account		
- Derivative financial assets (see note 12)	166,058	223,710
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets – cashflow hedges (see note 12)	18,487	-
- Derivative financial assets – fair value hedges (see note 12)	134,440	175,695
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 12)	67,946	56,823
- Accrued income (see note 12)	37,776	38,837
Equity instruments measured at cost less impairment		
- Fixed asset investments (see note 11)	9,094	10,206
	433,801	505,271

15 Derivatives and other financial instruments (continued)

	2021 £'000	2020 £'000
Financial liabilities		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities (see notes 13 and 14)	143,711	190,800
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities (see notes 13 and 14)	20,063	30,930
- Other financial liabilities – amounts owed to group undertakings (see note 13 and 14)	858,538	905,092
Measured at amortised cost		
- Loan note (see note 14)	74,468	65,563
- Loans payable (see notes 13 and 14)	661,096	582,400
- Fair value hedge adjustment of live bonds & USPP notes (see notes 13 and 14)	136,188	179,273
- Fair value hedge adjustment – bonds previously in FV hedge relationship	29,725	39,278
- Amounts owed to group undertakings (note 13)	66,596	52,704
Measured at undiscounted amount payable		
- Trade and other creditors (see note 13)	7,876	5,645
- Accruals and deferred income (see notes 13 and 14)	163,648	145,149
- Corporation tax (see note 13)	37,210	41,514
- Other taxation and social security (see note 13)	25,436	19,410
	2,224,555	2,257,758

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

15 Derivatives and other financial instruments (continued)

	2021 £'000	2020 £'000
Interest income and expense on items at amortised cost		
- Total interest payable on financial liabilities at amortised cost	48,821	55,179
- Total interest receivable on financial assets measured at amortised cost	(92)	(378)
	48,729	54,801
Interest income and expense on derivatives		
- Total interest receivable on financial assets measured at fair value through the P&L	(21,192)	(19,217)
- Total interest payable on financial liabilities measured at fair value through the P&L	13,758	10,019
- Total interest payable / (receivable) on financial assets designated in an effective hedging relationship:		
- Cash flow hedges	538	-
- Fair value hedges	(8,454)	(3,335)
- Total interest payable / (receivable) on financial liabilities designated in an effective hedging relationship:		
- Cash flow hedges	6,435	5,996
	(8,915)	(6,537)
Fair value gains and losses		
- On financial assets measured at fair value through the profit and loss account	55,856	(15,979)
- On financial liabilities measured at fair value through the profit and loss account	(47,096)	26,070
- On derivative financial assets designated in an effective hedging relationship – live fair value hedges	43,594	(43,769)
- On financial assets formerly designated in an effective hedging relationship – amortisation of previous FV hedge adjustments	540	540
- On derivative financial liabilities designated in an effective hedging relationship – ineffectiveness on live cash flow hedges	(260)	(141)
- On derivative financial liabilities designated in an effective hedging On non-derivative financial liabilities designated in an effective hedging relationship – live fair value hedges	(43,085)	46,139
- On financial liabilities formerly designated in an effective hedging relationship – amortisation of previous FV hedge adjustments	(10,093)	(12,087)
	(544)	773
Other net finance costs	(2,785)	(1,097)
	36,485	47,940

15 Derivatives and other financial instruments (continued)

Fair value gains and losses in finance costs include the amortisation of fair values “frozen” when accounting hedge designations were terminated (either voluntarily under FRS102 section 21 or because automatic de-designation was triggered for other reasons). Under the group’s strategy of swapping fixed rate debt to floating rate and re-fixing with overlay swaps, certain fair value hedges were previously de-designated as a matter of routine under FRS102 under sections 11 and 12. As FRS102 permits interest rate swaps to be designated as cash flow hedges of aggregate floating rate exposures (fixed rate debt and swap to floating) the underlying Fair value hedges remain when the corresponding overlay swaps are transacted.

Other net finance costs includes bank and agency fees, pension accounting adjustments and other miscellaneous interest. The maturity of the carrying value of the company’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	
	2021	2020	2021	2020
	£’000	£’000	£’000	£’000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Cash flow hedges				
Assets	-	-	18,487	-
Liabilities	-	-	(20,063)	(30,930)
Fair value hedges				
Assets	-	-	134,440	175,695
Liabilities	-	-	-	-
	-	-	132,864	144,765

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

15 Derivatives and other financial instruments (continued)

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

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

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2021	2020	2021	2020	2021	2020
	%	%	£'000	£'000	£'000	£'000
Outstanding cash flow hedges of floating rate EIB loans						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	2.01	2.24	261,447	160,789	(14,797)	(11,987)
5 years +	1.02	1.29	122,500	225,000	(1,916)	(11,563)
			383,947	385,789	(16,713)	(23,550)

The receive floating pay fixed interest rate swaps that are designated as hedges are designed to swap the floating rate on various loans from the European Investment Bank to fixed rate for periods of up to ten years thereby eliminating the risk of adverse interest rate movements resulting in unexpected costs and cash flows over the life of the instruments. Where an individual derivative instrument has a maturity date after the maturity date of the hedged debt the expectation is that the underlying debt will replaced like-for-like such that the forecast cash exposure remains highly probable.

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

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2021	2020	2021	2020	2021	2020
	%	%	£'000	£'000	£'000	£'000
Outstanding cash flow hedges of other floating rate exposures						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years +	0.93	1.13	240,000	160,000	15,037	(7,380)
			240,000	160,000	15,037	(7,380)

15 Derivatives and other financial instruments (continued)

The group's £250m 2027 and £255m 2035 bonds have been swapped to floating rate for life with a number of interest rate swaps on which the group receives a fixed rate equivalent to the coupon on the bonds and pays 6 month Libor plus a margin. In some cases these swaps have been designated as fair value hedges (see the table below). The receive floating pay fixed interest rate swaps analysed in the table above are designed to re-fix the rate on the floating rate exposure thus created for periods of ten years. They have been designated as Cash Flow hedges of the aggregate floating rate exposure created by the fixed rate bond portion and corresponding swap to floating rate. Where an individual derivative instrument has a maturity date after the maturity date of the hedged the expectation is that the underlying debt will replaced like-for-like such that the forecast cash exposure remains highly probable.

Interest on the swaps is settled on a semi-annual basis. The floating rate on the swaps is six month LIBOR. The Group settles the difference between the fixed and floating interest rate on a net basis.

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2021	2020	2021	2020	2021	2020
	%	%	£'000	£'000	£'000	£'000
Outstanding fair value hedges of bonds						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years plus	4.88	4.88	350,000	350,000	131,991	160,430
			350,000	350,000	131,991	160,430

The receive fixed pay floating swaps analysed above hedge the exposure to changes in the fair value of the underlying portions of the group's 2027 and 2035 bonds that are attributable to changes in interest rates. As the start dates on the swaps vary (some are forward-starting) they also enable the interest rate on the underlying debt to be progressively re-fixed in line with the group's overall interest rate hedging strategy. The swaps settle on a semi-annual basis in the case of the floating rate legs and on an annual basis in the case of the fixed rate leg. The floating rate on the interest rate swaps is 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.

15 Derivatives and other financial instruments (continued)

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2021	2020	2021	2020	2021	2020
	%	%	£'000	£'000	£'000	£'000
Outstanding fair value hedges of US Private Placement notes						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years plus	2.94	2.94	40,000	20,000	9,247	15,264
			40,000	20,000	9,247	15,264

16 Provisions for liabilities

	Gas holder Decommissioning £'000	Restructuring £'000	Deferred tax £'000	Environmental restoration £'000	Other £'000	Total £'000
At 1 April 2020	1,367	663	347,489	3,265	6,919	359,703
Charged (credited) to profit and loss account	15,900	542	(427)	389	11,474	27,878
Debit to hedge reserve	-	-	5,644	-	-	5,644
Credit to pension reserve	-	-	(18,447)	-	-	(18,447)
Utilised in the year	(944)	(1,077)	-	(493)	(1,412)	(3,926)
Released in year	(423)	-	-	-	-	(423)
Adjustment arising from discounting	-	-	-	-	(153)	(153)
At 31 March 2021	15,900	128	334,259	3,161	16,828	370,276
Pension liability (see note 19)						19,250
Total provisions						389,526

16 Provisions for liabilities (continued)

Deferred tax

Deferred tax is provided as follows:

	2021 £'000	2020 £'000
Group		
Accelerated capital allowances	92,981	82,823
Fixed asset differences	228,405	241,447
Other timing differences	12,873	10,792
Deferred tax on pension provision (see note 19)	-	12,427
	334,259	347,489

Provision for deferred tax

Deferred tax is only recognised in respect of timing differences where transactions or events have occurred, that result in an obligation to pay more or less tax in the future, at the balance sheet date. The other timing differences relate to general provisions, financial instruments, intangible fixed assets, R&D tax relief and asset backed contributions to the defined benefit pension scheme.

Restructuring

Estimated costs of an over 55 early retirement programme offered to employees. The restructuring provision value represents the anticipated liabilities at the balance sheet date. The timing of cash flow assumption is based on agreed retirement dates with employees.

Environmental restoration

Estimated environmental restoration costs are provided where the group has a legal obligation to restore sites at the balance sheet date. The provision represents the estimated net present value for statutory decontamination of old gas sites. It also reflects the obligations associated with other environmental damage. The timing of the utilisation of the environmental restoration provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. The provision has been calculated using the probability of cash flows method and management have used an expert to assess the probability of a restoration event and the potential cost. The cash exposure based on a worst case scenario is an additional expense of £1.0m but this is deemed highly unlikely based on historic trends.

Other

Other provisions relate to the estimated net present value of future claims in relation to past public and employer's liability 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. Other provisions also contains a £3.8m provision for committed legal fees associated with a CMA appeal, expected to be spent within one year of the

16 Provisions for liabilities (continued)

balance sheet date. The provision growth in the year is due to the CMA provision being created, and due to the revaluation of the claims provision by a third party, as at the balance sheet date. Sensitivity analysis was applied on the estimated cost, with a 5% movement causing a £0.8m variance although this variance is deemed to be highly unlikely.

Gas holder decommissioning provision

The provision represents the estimated cost of removing gas holders from the network as committed under RIIO-GD2 and to be spent within RIIO-GD2. Sensitivity analysis was applied on the estimated unit cost of removal, with a 5% movement causing a £0.8m variance although this variance is deemed to be highly unlikely.

17 Called-up share capital and reserves

Share capital

	2021 £000	2020 £000
Allotted, called-up and fully-paid		
24,328,476 ordinary shares of £1 each	24,328	24,328

Profit and loss account and hedging reserve

The profit and loss account is the accumulative earnings retained by the company. The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges.

18 Financial commitments

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

	Land and Buildings	
	2021 £'000	2020 £'000
Property leases		
- within one year	1,242	1,423
- between one and two years	1,064	1,059
- between two and five years	2,568	2,406
- after five years	1,093	1,806
	5,967	6,694

The company has entered into a Guarantee and Reimbursement Agreement with Financial Guaranty UK Limited (FGUK) in conjunction with its subsidiary Northern Gas Networks Finance Plc 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 FGUK. The company also indemnifies FGUK against any loss or liability suffered, if any obligation guaranteed by FGUK is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGUK would otherwise have been entitled to recover.

19 Pension arrangements

The company has obligations for a defined benefit pension scheme. The last triennial valuation was done in March 2019. During the year a valuation of the pension scheme was carried out by a third party actuarial firm. The present value of the defined benefit obligations, the current service costs and past service costs were measured using the projected unit credit method.

The amounts recognised in the balance sheet are as follows:

	2021 £'000	2020 £'000
Present value of funded obligations	(454,669)	(398,572)
Fair value of plan assets	430,904	463,984
(Deficit) / Surplus (see note 12)	(23,765)	65,412
Related deferred tax asset / (liability)	4,515	(12,428)
Net (liability) / asset (see note 16)	(19,250)	52,984
Amounts in the balance sheet		
- (Liability) / Asset	(19,250)	52,984

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

	2021 £'000	2020 £'000
Amount charged to operating profit		
Current service costs	2,453	2,939
Past service costs / (income)	1,046	(1,003)
	3,499	1,936
Amount credited to net finance charges		
Interest costs	9,145	10,709
Expected cost return on plan assets	(10,873)	(11,200)
Net return on pension scheme (see note 3)	(1,728)	(491)
Total cost	1,771	1,445

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

	2021 £'000	2020 £'000
Actuarial (losses) / gains	(97,090)	41,967

19 Pension arrangements (continued)

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

	2021 £'000	2020 £'000
Actuarial losses	(134,192)	(37,102)

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

	2021 £'000	2020 £'000
Opening defined benefit obligation	398,572	459,282
Service cost	2,453	2,939
Past service cost / (income)	1,046	(1,003)
Interest cost	9,145	10,709
Member contributions	274	318
Actuarial losses / (gains)	63,042	(46,287)
Benefits paid	(19,863)	(27,386)
Closing defined benefit obligation	454,669	398,572

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

	2021 £'000	2020 £'000
Opening fair value of plan assets	463,984	476,217
Expected return	10,873	11,200
Actuarial losses	(34,048)	(4,320)
Employer contributions	9,684	7,955
Member contributions	274	318
Benefits paid	(19,863)	(27,386)
	430,904	463,984

19 Pension arrangements (continued)

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

	31 March 2021	31 March 2020
	%	%
Equity securities	8.2	29.8
Bond securities	9.7	59.2
Assets held by insurance companies	73.3	-
Property	5.4	6.9
Other	3.4	4.1

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:

	2021	2020
	£'000	£'000
Actual (loss) / return on plan assets	(27,708)	11,412

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

	2021	2020
Discount rate	2.2%	2.4%
Future salary increases	4.3%	3.6%
Future pension increases	2.7%	2.0%
Inflation (CPI)	3.3%	2.6%
Inflation (RPI)		
Life expectancy on retirement age 65;		
- member aged 65 (retiring today) male	21.2 years	21.2 years
- member aged 65 (retiring today) female	23.3 years	23.7 years
- member aged 45 (retiring in 20 years) male	23.4 years	23.5 years
- member aged 45 (retiring in 20 years) female	25.6 years	25.9 years
-		

The group are in two "asset backed contribution" arrangements with its defined benefit pension scheme whereby the NGN Pension Funding Limited Partnership was funded to acquire a £70m loan note and the Northern Gas Networks ABC2 Pension Funding Limited Partnership was funded to acquire a £14m loan. The partnership members of both arrangements are Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit pension scheme and the Northern Gas Networks General Partner Limited. Contributions to the pension scheme of £6.2m (2020 - £4.2m) were made in the year.

19 Pension arrangements (continued)

The group also operates defined contribution schemes for which the pension charge for the period amounted to £4.3m (2020 - £4.1m).

20 Related party transactions

The company is a wholly owned subsidiary and utilises the exemption contained in FRS 102 section 33 2.2, “Related Party Disclosures”, not to disclose any transactions with wholly owned entities that are part of the group.

Balances with members of the NGNH group are detailed in notes 13 and 14.

21 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 its registered office, 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, incorporated in England & Wales	(47.1%)
Beta Central Profits Limited, incorporated in England & Wales	(41.3%)
SAS Trustee Corporation, incorporated in Australia	(11.6%)

22 Future developments and events after the balance sheet date

As mentioned within the Strategic report the company continues to monitor the impact of COVID-19, Brexit and RIIO-GD2 negotiations, to consider the potential impacts on its business. Subsequent to the balance sheet date the company has undertaken the following treasury activity: (1) green bonds of £1.0m have been raised which have an interest rate of 1.6% and mature in 2031; (2) commitment has been made to the raising of USPP debt with £175.0m to be drawn in September 2021 with a rate of 2.02% and a life of 15 years, and £65.0m to be drawn in June 2022 with a rate of 2.10% and a life of 15 years.