

# **Northern Gas Networks Finance Plc**

Annual Report and accounts  
for the year ended 31 March 2023

Registered number: 05575923

## Strategic report

For the year ended 31 March 2023

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 2023.

### Review of the business

The company's primary role is to ensure that the Northern Gas Networks Holdings Limited (NGNH) group continues to have access to the required funds needed to operate. The company accesses long term facilities which are then utilised by the group.

### Financial and operational review

The company's balance sheet shows that the net financial position at 31 March 2023 is consistent with prior year with net assets of £50,000 (2022: £50,000). No new finance was raised in the year, with £300m raised after the balance sheet date, as discussed in note 10.

### Key performance indicators

The company is managed as part of the overall group. For this reason, the company's directors believe that specific key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the group, including the company and the groups commitment to sustainability, is discussed in the NGNH Annual Report.

### Future prospects and subsequent events

The company continues to consider the impact of Brexit and European disruption (war in Ukraine) on its business, but for now, existing laws and trading arrangements are not impacted, noting the company does not buy or sell gas. Inflation has little impact on the business, as the raising of new debt is not anticipated within the foreseeable future following the raising of £300.0m on 2nd June 2023, this being a 10 year fixed rate bond with an interest rate of 6.125%. Further details of these factors can be found in the Annual Report of NGNH.

The directors expect the future prospects of the company to be consistent with performance shown within this Annual Report and accounts. From 1 April 2021, the RIIO-GD2 price control period commenced, which gives the group of which the company is a member security over regulated revenue until 31 March 2026. Further going concern details can be found within the Directors' report.

### Principal risks and uncertainties

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

No areas of uncertainty exist, as these are borne by the parent company.

## Strategic report (continued)

### Financial risk management objectives and policies

The company's financial instruments comprise guaranteed bonds and intercompany debt. The main purpose of these financial instruments is to finance the group's operations. The main qualitative and quantitative risks arising from the company's financial instruments are liquidity risk, credit risk and interest rate risk. The directors review and agree the policies for managing each of these risks and they are summarised below. Market risk is not considered relevant at this time, with no new debt required in the foreseeable future having raised £300m in June 2023.

#### *Liquidity risk*

The maturity of debt facilities and other amortising loans are managed such that at any one time all have a time to maturity of more than one year, and that at least 50% by value have a time to maturity of more than two years. Debt and facility maturities avoid excessive concentrations in any twelve month period, as well as the period around regulatory reset dates where possible.

The balance sheet of the company and note 3 show group intercompany balances with the parent of the company, being Northern Gas Networks Limited (NGN). The directors of the company are also directors of NGN and consider it a going concern, having reviewed the results and forecasts, noting that it has regulated revenue until 31 March 2026 and working capital headroom. As such the directors do not consider the recovery of intercompany balances a risk.

#### *Credit and interest rate risk*

Any credit and interest rate exposure to the company is borne by the parent company as all costs are recharged. The parent company monitors the risk of the group in relation to various financial instruments held, through monitoring of the credit standing of counterparties with whom it has financial exposure.

### Statement of corporate governance arrangements

The Directors present a corporate governance statement 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. This statement has been prepared using the 'Wates Principles' to provide a clear message on the business model, future strategies and core values and of the company. 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, noting the company has no employees:

- the likely consequences of any decision in the long term (approving the strategic direction and values);
- 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.

## Strategic report (continued)

### **Overview of the Board and Committees**

The Board is comprised of nine directors as at 31 March 2023, who are appointed by the shareholders. All are independent of the day to day management of the company with the exception of the CEO, who is a Board member. The Board are presented with information by the CEO, who in turn is advised by the NGN group Finance Director and Treasury Manager, given the sole purpose of the entity is to raise debt, to enable the Board to influence all the key business decisions. 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 J 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.

#### Board Meetings

The Board hold at least two 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 of the NGN group.

#### Committees

Due to the limited nature of the company it does not have committees but is effectively represented within the NGN committee process. Details of these committees can be found within the group accounts of NGNH.

### **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.

At the balance sheet date the company holds four bonds as detailed in note 5, which will be held to maturity.

## Strategic report (continued)

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

The Board expect the CEO 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 an NGN group risk register which is reported to the Board (via the NGN management committee). This register quantifies the impact of risks facing the company, 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 (through the NGN group committee meeting) 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.

### *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 CEO as detailed in the section above.

### *Maintaining relationships with key suppliers, customers and other*

Due to the nature of the company the only external key suppliers are the long standing bond holders.

The Board are focused on maintaining strong relationships with the bond holders to ensure this is to the benefit of both parties, which is managed through the NGN treasury manager and NGN Finance Director.

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

Given the nature of the company no environmental or community impact exists. Further details of how the NGNH group are taking actions to ensure it is a good corporate citizen with regards to sustainability are detailed within the NGNH Annual Report.

### *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.

## Strategic report (continued)

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.

Approved by the Board and signed on its behalf by

A handwritten signature in blue ink, appearing to read 'M J Horsley', with a horizontal line underneath.

M J Horsley

Director

19 July 2023

## Directors' report

For the year ended 31 March 2023

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 2023. The following have been disclosed in the strategic report and are included in this report by cross reference here: principal activities, business review including KPI's, principal risks and uncertainties, and future prospects and subsequent events.

### Directors

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

S D Beer

L S Chan

M J Horsley (Chief Executive Officer)

A J Hunter (Chairman)

H L Kam

D N Macrae

N D McGee

C C Tsai

C T Wan

### The Board of Directors

The daily operations of the business are managed by a Senior Management Team ("SMT") and the Chief Executive Officer ("CEO"). All significant decisions are referred to the Northern Gas Networks Limited Board of Directors. The Northern Gas Networks Finance Plc Board of Directors ("the Board") meets at least twice a year. The number of Board meetings held during the year and attendees (including alternates) at the Board meetings are detailed below:

Year ended 31 March 2022		Year ended 31 March 2023	
Date	Attendees	Date	Attendees
16 June 2021	9 out of 9	29 June 2022	7 out of 9
15 July 2021	7 out of 9	7 July 2022	9 out of 9
12 January 2022	8 out of 9	10 January 2023	8 out of 9

The effectiveness of systems and internal controls are reviewed on an ongoing basis by the SMT. The Board is ultimately responsible for the system of internal controls and for the review of their overall effectiveness.

### Directors' 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.

### Dividends

The directors do not recommend payment of a dividend during the year current year, during the prior year, and during the period up to the date of the signing of the accounts.

## Directors' report (continued)

### Going concern

The company's business activities, performance and position, together with the principal risks and uncertainties likely to affect its future development and performance, are set out on pages 1 to 6. Given the role of the company is to access debt on behalf of the group, going concern is assessed on a company and group basis.

Inflation has no impact on the business, as the raising of new debt is not anticipated within the foreseeable future, following the post balance sheet raising of £300m of debt as detailed on page 2.

All future interest obligations are recharged to and settled by Northern Gas Networks Limited.

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. A letter of support from Northern Gas Networks Limited has been received by the directors. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

### Auditor

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

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

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

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

Approved by the Board and signed on its behalf by:



M J Horsley

Director

19 July 2023

1100 Century Way, Leeds, LS15 8TU

## 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 accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

## Directors' responsibilities statement (continued)

This responsibility statement was approved by the board of directors on 21<sup>st</sup> June 2023 and is signed on its behalf by:

A handwritten signature in blue ink, appearing to read 'M J Horsley', with a horizontal line underneath.

M J Horsley, Director

19 July 2023

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN GAS NETWORKS FINANCE PLC

### Report on the audit of the financial statements

#### 1. Opinion

In our opinion the financial statements of Northern Gas Networks Finance plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its result 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 statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 10.

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).

#### 2. 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independent auditor's report

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"><li>• <i>Recoverability of debtors from group undertakings</i></li></ul> <p>Within this report, key audit matters are identified as follows:</p> <div><div> Newly identified</div><div> Increased level of risk</div><div> Similar level of risk</div><div> Decreased level of risk</div></div>
<b>Materiality</b>	The materiality that we used in the current year was £2.8 million which was determined on the basis of the total current assets position of the business.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	There has been no significant changes in our approach.

### 4. 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 including the raising of the £300m fixed rate bond subsequent to the year end;
- assessing the assumptions used in the forecasts, including performing sensitivity analysis and the impact of climate change on the recoverability of intragroup balances;
- 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.

### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### 5.1. Recoverability of debtors from group undertakings

<b>Key audit matter description</b>	<p>Debtors from group undertakings are stated in the balance sheet at £717 million (2022: £717 million).</p> <p>There is significant level of judgement involved in determining the recoverability of these debtors from group undertakings based on the financial position and future prospects of the group undertakings. This takes into consideration a range of factors such as the trading performance of the group undertakings, the expected revenue growth, cash flows, and the impacts of climate change on the company and its operations.</p> <p>Further details are included within the strategic report on pages [x] to [x] and the critical accounting estimates and judgements section of the statement of accounting policies and the debtors note 3 in the financial statements.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We evaluated the directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest audited financial information and our understanding of the future trading performance of the group undertakings by assessing the ability of the group undertakings to repay these amounts.</p> <p>We obtained an understanding of relevant controls related to the valuation and recoverability of debtors from group undertakings.</p> <p>We evaluated management's cash flow projections, challenging the key assumptions based on our knowledge of the business and general market conditions affecting the group undertakings including the potential impact on the cash flows for Climate change and our understanding of the future performance of the business.</p> <p>We assessed the historical accuracy of management's forecasts by comparing the actual results to forecasts.</p>
<b>Key observations</b>	<p>Based on the work performed we concluded that debtors from group undertakings are appropriately stated.</p>

### 6. Our application of materiality

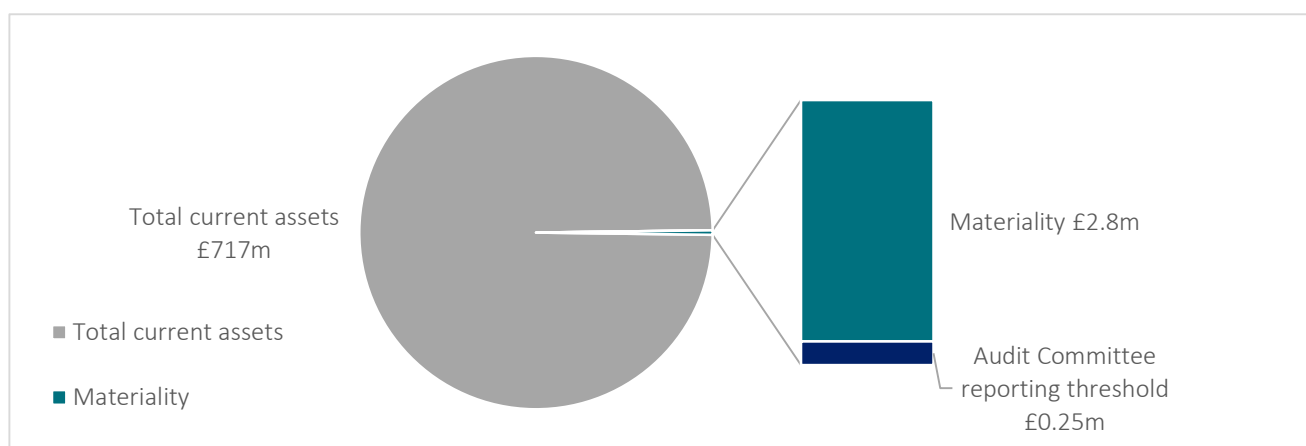
#### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

## Independent auditor's report

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£2.8 million (2022: £1.7 million)
<b>Basis for determining materiality</b>	<p>The company is a component of the consolidated financial statements of Northern Gas Networks Holdings Limited. The component materiality applied to the company was determined as £2.8 million (2022: £1.7 million), an amount lower than the materiality applied to the consolidated financial statements as a whole.</p> <p>As such, the materiality applied in the audit of the financial statements for the company was £2.8 million (2022: £1.7 million), which equates to approximately 0.4% (2022: 0.2%) of total current assets.</p>
<b>Rationale for the benchmark applied</b>	In determining materiality we considered the nature of the company as a financing vehicle for the wider group, and considered total current assets to be an appropriate benchmark for the statutory audit.



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the company's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.25 million (2022: £0.2 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## Independent auditor's report

### 7. An overview of the scope of our audit

#### 7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

#### 7.2. Our consideration of the control environment

We obtained an understanding of the overall Financial reporting control environment and tested the design and implementation of relevant controls relating to the area deemed a significant risk.

We did not plan to take a controls reliance approach in the current year and we therefore adopted a non-controls reliance approach with our testing.

#### 7.3. Our consideration of climate-related risks

We made inquiries of management to understand the processes and procedures in place to address climate change related risks and the potential impact this could have on the entity.

We considered the key climate change risk to relate to the recoverability of the intercompany debtor balance given the amounts are owed by trading company whom operations and performance in the long term will be directly impacted by climate change.

We reviewed management's cash flow projections, challenging the key assumptions based on our knowledge of the business and general market conditions affecting the long term performance including climate change and the potential impact it could have the recoverability of the debtor.

### 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

### 9. 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.

### 10. 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 11. 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.

#### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

## Independent auditor's report

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that 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 the company's operating licence and environmental regulations.

### **11.2. Audit response to risks identified**

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and OFGEM and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### **12. 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.

## Independent auditor's report

### 13. Matters on which we are required to report by exception

#### 13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

#### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

### 14. Other matters which we are required to address

#### 14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at its annual general meeting on 1 May 2005 to audit the financial statements for the year ending 31 December 2004 and subsequent financial periods. Following a tender process, we were reappointed as auditor of the company for the period ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2004 to 31 March 2023.

#### 14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### 15. 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,  
19 July 2023

## Statement of comprehensive income

For the year ended 31 March 2023

	Notes	2023 £'000	2022 £'000
<b>Operating result</b>		-	-
Finance charges (net)	1	-	-
<b>Result on activities before taxation</b>		-	-
Tax on result on activities		-	-
<b>Result for the financial year</b>		-	-
Other comprehensive result		-	-
<b>Total comprehensive result</b>		-	-

The above results arise from continuing operations.

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

The accompanying notes on pages 25 to 28 are an integral part of this statement of comprehensive income.

**Balance sheet**  
As at 31 March 2023

	Notes	2023 £'000	2022 £'000
<b>Current assets</b>			
Debtors			
– due within one year	3	13,313	13,224
– due after one year	3	704,244	704,140
		<u>717,557</u>	<u>717,364</u>
<b>Creditors:</b> Amounts falling due within one year	4	(14,412)	(14,412)
		<u>703,145</u>	<u>702,952</u>
<b>Net current assets</b>			
<b>Creditors:</b> Amounts falling due after more than one year	5	(703,095)	(702,902)
		<u>50</u>	<u>50</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Called-up share capital	6	50	50
Profit and loss account		-	-
		<u>50</u>	<u>50</u>
<b>Shareholders' funds</b>			

The accompanying notes on pages 25 to 28 are an integral part of this balance sheet.

The accounts of Northern Gas Networks Finance Plc, Registered number 05575923, were approved by the Board of Directors and authorised for issue on 19 July 2023 and signed on its behalf by:



M J Horsley, Director

19 July 2023

## Statement of changes in equity

For the year ended 31 March 2023

	Profit and loss account £'000	Called up share capital £'000	Total £'000
<b>At 1 April 2021</b>	-	50	50
Total comprehensive result	-	-	-
<b>At 31 March 2022</b>	-	50	50
Total comprehensive result	-	-	-
<b>At 31 March 2023</b>	-	50	50

The accompanying notes on pages 25 to 28 are an integral part of this statement of changes in equity.

## Statement of accounting policies

For the year ended 31 March 2023

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

### **Basis of accounting**

Northern Gas Networks Finance plc is a company incorporated in the United Kingdom under the Companies Act 2006. The company is a private company limited by shares and is registered in England and Wales. The address of the company 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 nature of operations are shown in the strategic report. The functional and presentational currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company is exempt from the requirement of FRS 102 (Section 7) to present a cash flow statement as it is a wholly owned subsidiary of NGNH, which prepares consolidated accounts which are publicly available. Disclosure exemptions have been taken in relation to financial instruments, and remuneration of key management personnel on the basis that it is a wholly owned subsidiary of NGNH which produce consolidated accounts.

### **Going concern**

The company's business activities, performance and position, together with the principal risks and uncertainties likely to affect its future development and performance, are set out on pages 1 to 6. All future interest obligations are recharged to and settled by Northern Gas Networks Limited. Inflation has no impact on the business, as the raising of new debt is not anticipated within the foreseeable future.

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. A letter of support from Northern Gas Networks Limited has been received by the directors. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts (further details are provided within the Directors' report).

### **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.

## Statement of accounting policies (continued)

### Financial instruments (continued)

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

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

- a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.
- c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

## Statement of accounting policies (continued)

### **Financial instruments (continued)**

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

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

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

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Interest receivable and payable is recognised on an accruals basis. All costs within the year are recharged so that the company makes a result of £nil within each accounting period.

### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the company 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 that detailed below within 'key sources of estimation uncertainty', that the directors have made in the process of applying company accounting policies.

### **Key sources of estimation uncertainty**

As detailed in note 3 the company has debt due from Northern Gas Networks Limited totalling £717.6m as at 31 March 2023, which in the view of the directors is fully recoverable having looked at future forecasts of that company.

## Notes to the accounts

For the year ended 31 March 2023

### 1 Finance charges (net)

	2023 £'000	2022 £'000
Interest payable on bonds	36,583	36,581
Interest receivable and similar income	(36,583)	(36,581)
	<u>-</u>	<u>-</u>

Interest receivable and similar income is all received from the immediate parent undertaking NGN. All interest payable on the bonds is recharged to the parent company through an intercompany loan under equivalent terms as the external bonds.

### 2 Directors' remuneration and auditor's fee

The directors did not receive or accrue any remuneration in relation to their services to the company during the current or prior year. The total remuneration received by the directors during the year was £1,229,000 (2022: £1,180,000) which was paid by other group companies for their services to the group. The audit fee of £12,000 (2022: £10,000) in relation to the audit of the company will be borne by Northern Gas Networks Limited. No other services were provided to the company by the auditor. There are no employees other than the directors (2022: none).

### 3 Debtors

	2023 £'000	2022 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings repayable on demand	13,313	13,224
	<u>13,313</u>	<u>13,224</u>
<b>Amounts falling due after one year:</b>		
Amounts owed by group undertakings	704,244	704,140
	<u>704,244</u>	<u>704,140</u>
	<u>717,557</u>	<u>717,364</u>

## Notes to the accounts (continued)

### 3 Debtors (continued)

The group loan notes at 31 March 2023 are repayable in four tranches, £250.0m on 30 June 2027, £255.0m on 15 November 2035, £198.0m on 23 March 2040 and £1.0m on 30 June 2031 in line with the related bond repayments (see note 5). These balances have arisen due to the loaning of raised funds to other group companies. Interest is paid annually in line with the related bond interest payment dates as set out in note 5 at a rate equivalent to that paid on the related bonds.

The amounts owed by group undertakings are not impaired and are fully recoverable as the group undertaking holding the debt has been deemed a going concern by the directors of that company, has sufficient net asset to be able to repay the debt, and is forecasting future profits.

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

	2023 £'000	2022 £'000
Accruals for interest	14,412	14,412
	<u>14,412</u>	<u>14,412</u>

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

	2023 £'000	2022 £'000
Green bond due 2031	1,000	1,000
Bond due 2040	197,401	197,248
Guaranteed bond due 2027	249,849	249,828
Guaranteed bond due 2035	254,845	254,826
	<u>703,095</u>	<u>702,902</u>

The green bond due 2031 of £1.0m matures on 30 June 2031 and will be redeemed at par. Interest is paid annually on 30 June at a rate of 1.600%. The bond due 2040 of £200.0m (£197.4m net of costs) matures on 23 March 2040 and will be redeemed at par. Interest is paid annually on 23 March at a rate of 5.625%. The guaranteed bond due 2027 of £250.0m (£249.8m net of costs) matures on 30 June 2027 and will be redeemed at par. Interest is paid annually on 30 June at a rate of 4.875%. The guaranteed bond due 2035 of £255.0m (£254.8m net of costs) matures on 15 November 2035 and will be redeemed at par. Interest is paid annually on 15 November at a rate of 4.875%.

## Notes to the accounts (continued)

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

#### Maturity analysis of bonds

	2023	2022
	£'000	£'000
Maturity analysis of interest and repayments:		
In one year or less	35,885	35,885
In more than one year but less than two years	35,885	35,885
In more than two years but less than five years	345,467	357,654
In more than five years but less than ten years	119,454	119,470
In more than ten years but less than twenty years	558,613	582,294
	<u>1,095,304</u>	<u>1,131,188</u>

Maturity is measured as actual cash flows.

### 6 Called-up share capital and reserves

<i>Share capital</i>	2023	2022
	£'000	£'000
<i>Allotted, called-up and fully paid</i>		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

The profit and loss account is the accumulative earnings retained by the company.

### 7 Financial commitments

The company has a total commitment of £4.6m (2022: £5.1m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from Financial Guaranty UK Limited (FGUK) to cover the 2027 and 2035 bonds included within long term borrowings in note 5.

The company has also entered into a Guarantee and Reimbursement Agreement with FGUK in conjunction with its parent NGN, in relation to those bonds. NGN Limited guarantees the punctual payment of any and all sums and fees due to FGUK. NGN Limited 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.

## Notes to the accounts (continued)

### **8 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.

### **9 Ultimate controlling party**

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

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

The Shareholders of NGNH are a consortium consisting of:

PG (April) Limited (47.1%)

Beta Central Profits Limited (41.3%)

SAS Trustee Corporation (11.6%)

### **10 Post balance sheet events**

The company raised £300.0m of new debt on 2nd June 2023, this being a 10 year fixed rate bond with an interest rate of 6.125%.