

Northern Gas Networks Holdings Limited

Annual Report and accounts
for the year ended 31 March 2024

Registered number: 05213525

Strategic report

For the year ended 31 March 2024

The directors present their annual report on the affairs of Northern Gas Networks Holdings Limited (“the group”), together with the accounts and auditor’s report, for the year ended 31 March 2024. The accounts are presented under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Review of the business and future business developments

The group’s purpose is to provide safe and secure gas supplies to the people and the businesses within the distribution network, being the North of England. The group’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 group. The group continues to look at how it can improve sustainability, including research and development into the use of the existing network infrastructure within the future energy needs of the region in which it operates. No fundamental business developments are expected, with two years of the existing RIIO-GD2 framework remaining.

Financial and operational review

Group operating profit for the year was £247.5m (2023 - £210.7m) with revenue increasing by £33.6m based on Ofgem allowances, and cost decreases of £3.2m. The main drivers of the cost decrease were: (1) shrinkage costs (cost of sales) have decreased by £10.8m reflective of market gas prices; and (2) exit costs (cost of sales), being the cost associated with bringing gas into the network, have decreased by £7.9m; part offset by (3) additional depreciation of £4.2m as we continue to invest in long life assets; (4) new provision for claims as detailed in note 16; and (5) general inflationary growth of the cost base, significantly labour costs.

The group has net debt at the 31 March 2024 with a book value of £1,908.1m (2023 - £1,858.2m) as shown in note 18. The group raised £300.0m of new debt on 2 June 2023, this being a 10 year fixed rate bond with an interest rate of 6.125%. Interest payable in the year on debt (and that held within the year) net of associated interest rate swaps used to hedge the debt amounted to £66.6m (2023 - £45.9m) as detailed in note 3. This change is primarily due to fair value movement and CPI swap accretion cost increases of £14.5m and due to the increase in debt. Details of the way swaps are used to manage interest exposures, and the impact this has on finance costs, are included in the ‘financial risk management and objectives’ section below.

The tax charge for the year was £42.1m (2023 - £23.2m) as detailed in note 7. The group’s resulting profit after tax was £138.9m (2023 – £141.5m).

The group generated a net cash inflow from operating activities for the year of £283.4m (2023 - £246.4m), the year on year movement being primarily due to operating profits increasing by £36.8m.

At the end of the year, the group’s undrawn borrowing facilities available for use amounted to £160.0m (2023 - £129.0m).

Strategic report (continued)

Financial and operational review (continued)

Capital additions in the year across tangible and intangible assets was £203.7m (2023 - £175.2m) principally focused on investment in network assets including replacement expenditure.

The group had net assets of £516.4m at 31 March 2024 (2023 - £483.8m) the movement being due to profits, dividend payments in the year, and valuation movements in the defined benefit pension liability and cashflow hedge (see page 47).

Key performance indicators (KPI's)

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

	2024	2023
Operating profit	£247.5m	£210.7m
Net cash from operating activities	£283.4m	£246.4m
External debt less cash / regulatory asset value (gearing ratio)*	61.5%	61.3%
Quarterly customer satisfaction survey scores	9 out of 10	9 out of 10
Carbon footprint (total annual net emissions)	338,760 t CO ₂ e	354,919 t CO ₂ e
Number of lost time injuries to employees and contractors (LTIs)	1	1
Reported injuries to members of the general public (MOPs)	1	1

* Based on debt held by NGN Ltd, this being the key covenant for lenders.

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 group has continued to perform well. The group 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.

Carbon footprint remains a pivotal measure of our commitment to sustainability (see the sustainability statement on page 25 for further details).

Strategic report (continued)

Principal risks and uncertainties

The group's principal risks and uncertainties are set out below.

Regulatory environment, revenue and costs

The gas industry is subject to legal and regulatory obligations and controls which Northern Gas Networks Limited ("NGN"), as the licensed entity, must comply with. All key commitments made within the current price control are being delivered. The application and possible changes of these laws, regulations and regulatory standards, including potential changes associated with net zero regulations imposed by Ofgem as discussed on page 58, could have an adverse effect on the operations and financial position of the group or in the case of misreporting, a fine.

Mitigation

The group 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 group has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations. From 1 April 2021 a 5 year price control period commenced (referred to as RII0-GD2). All legal and regulatory obligations required during RII0-GD2 are fully understood.

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 group, or lead to potential prosecution.

Mitigation

Health and Safety is the number one priority. The business has an Environment Health & Safety team that ensure compliance with group management safety systems and monitor performance 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 and associated adverse publicity and an unexpected increase in costs. The biggest cyber risk to NGN is the loss of control over the network leading to a ransom situation.

Mitigation

The group has a set of policies and procedures to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent. The group has comprehensive IT infrastructure governance which covers cyber risk. Additionally, mitigation plans are an integral aspect of the control environment throughout all aspects of the group including network performance and cyber security.

Employees

The success of the group depends to a significant extent on the contribution of its employees and the employees of operational contractors. Fair and effective recruitment, training and employee development are critical to the successful functioning and progression of the business.

Strategic report (continued)

Principal risks and uncertainties (continued)

Mitigation

The group's succession planning strategies mean that development of existing staff is crucial. The group, as an equal opportunities employer, ensures that no job applicant receives less favourable treatment because of his or her age, colour, disability, ethnic or national origin, gender, marital status or sexuality or is disadvantaged by conditions or requirements which are irrelevant to performance and the group's needs. The group has published its gender pay gap analysis which can be found at: <https://www.northerngasnetworks.co.uk>. The group complies with all UK human rights laws and has processes and procedures to assess risk and ensure compliance in this area.

The group also has a fraud policy statement which protects employees from bribery and corruption. No issues have been reported in the year.

Climate change, sustainability and asset life

The group is required to report in accordance with Climate-related Financial Disclosure Regulations 2022 (see pages 25 to 38). The physical and transitional risks associated with climate change have been assessed. The principal climate change risk that would impact the financial records of the group is that gas in its existing form will play a declining and ultimately obsolete role in the UK energy system in order to achieve the UK Government's 'net zero by 2050' commitment. This could lead to stranded assets and is discussed in detail on page 58 under critical accounting judgments and key sources of estimation uncertainty.

Further disclosures on climate change risks and opportunities are provided in the Sustainability Statement on page 25.

Mitigation

The NGN group, with other key industry partners, continue to invest in research and development to demonstrate the use of hydrogen as an alternative energy source to natural gas as the UK progresses with decarbonisation, whether that be for all or part of the existing domestic and commercial customer base. This would facilitate the continued use of the existing gas infrastructure.

Further to this, Ofgem have opened discussion on funding the accelerated depreciation of the network, should it be needed. While these discussions have just started and are far from conclusion, it provides assurance that any reduction in the carrying value of the asset will be covered by future revenue.

Financial risk management objectives and policies

The group's financial instruments, other than derivatives, comprise borrowings, cash, overdrafts debt and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the group's operations. The group also enters into derivative transactions, principally interest rate and index linked CPI swaps. The purpose of such transactions is to manage the interest rate and inflation risks arising from the group's sources of finance and regulatory cost of debt allowance. The main risks arising from the group's financial instruments are interest rate risk, inflation risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing these risks as summarised below.

Strategic report (continued)

Financial risk management objectives and policies (continued)

Interest rate risk

Interest rate risk is the risk that adverse movements in interest rates will result in the group experiencing:

- an unacceptable variation to interest expense / cash flows in either the current year or the current regulatory price control period, and / or
- unacceptable variations between actual interest expense / cash flows and the element of revenue linked to the regulatory cost of debt allowance.

The group's approach adopted in minimising interest rate exposures on debt is as follows:

- On an ongoing basis to take account of the average cost of all debt compared with the actual and expected level of the regulatory allowance,
- To achieve an interest cost on new debt and/or hedging that is in line with, or lower than, the regulatory allowance for that year,
- To take account of the average life (in addition to average maturity) of actual debt and its relationship with the average life of the indexed cost of debt allowance,
- To combine derivatives and bonds in the overall strategy, using derivatives only where needed to align actual debt costs with the allowance,
- To achieve an appropriate balance of fixed/floating/index-linked debt,
- To factor in the impact of an increasing regulatory asset value and hence increasing debt levels,
- To use inflation linked derivatives where appropriate to align the debt profile more closely with regulatory assumptions, and deliver cash flow, hedging and funding cost benefits,
- To incorporate an element of flexibility in hedging and funding strategy to enable the above objectives to be met, and
- To maintain a debt portfolio broadly consistent with those of comparable utilities.

In practice, most floating rate debt, in addition to debt issued at fixed rate and swapped back to floating rate for life, has its rate re-fixed with interest rate swaps on a staggered basis in order to align the rate re-fixing profile on this debt with the regulatory cost of debt allowance, which is calculated with reference to a trailing average of certain corporate bond yields. In this manner the group is achieving certainty of interest costs and future cash flows on either pure floating rate debt or an aggregate floating rate exposure represented by a fixed rate debt instrument swapped to floating rate.

Within the above strategy the group applies hedge accounting where appropriate to minimise the impact on earnings of movements in the fair value of derivatives.

Strategic report (continued)

Financial risk management objectives and policies (continued)

Inflation risk

Inflation risk is the risk that inflation increases interest costs. The group uses inflation linked derivatives where appropriate to align the debt profile more closely with regulatory assumptions, and deliver cash flow, hedging and funding cost benefits.

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, rolling credit facilities 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.

Liquidity risk

The maturities of all debt and committed debt facilities other than amortising loans, are managed such that at any one time they 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.

Cost inflation risk

Inflation does not cause the company or the NGN group a significant risk within the current price control period, because a key variable in the regulated revenue mechanism of the group is inflation (as inflation grows so does revenue).

As a transporter of gas, it is important to note that NGN do not own the gas. The group does buy gas to add to the network following escapes, and while this is a pass through cost (funded through revenue with any 'under or over forecast' being calibrated in the following regulatory year), it can have a negative impact on cash flow for 12 months when costs are above forecast.

The Board has reviewed financial forecasts which factor in the above and with reference to the headroom within banking facilities and the debt to RAV position as at the balance sheet date, do not consider the impact of inflation to influence going concern, or result in any need for asset impairment.

Strategic report (continued)

Statement of corporate governance arrangements

The Directors present a corporate governance statement on page 13 under the guidance of section 172 of the Companies Act. 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 group and how they have regard to employee interests, and the effect of that regard, including on the principal decisions taken by the group 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

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

M J Horsley, Director

23 August 2024

Directors' report

For the year ended 31 March 2024

The directors present their annual report on the affairs of the group, together with the accounts and auditor's report, for the year ended 31 March 2024. The following disclosures have been disclosed in the strategic report but are cross referenced here: principal activities, business review and future developments including KPI's, principal risks and uncertainties, and financial risk management objectives and policies. A corporate governance statement is presented on page 13 which covers how directors have engagement with suppliers, customers and others. Post balance sheet events are detail in note 23.

Directors

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

S D Beer	D N Macrae	
L S Chan	N D McGee	
A J Hunter (Chairman)	C C Tsai	
M J Horsley (Chief Executive Officer)	C T Wan	(resigned 1 July 2023)
H L Kam	J K M Yu	(appointed 1 July 2023)

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

Year ended 31 March 2023		Year ended 31 March 2024	
Date	Attendees	Date	Attendees
26 April 2022	9 out of 9	18 April 2023	9 out of 9
29 June 2022	7 out of 9	22 May 2023	4 out of 9
14 November 2022	9 out of 9	21 June 2023	6 out of 9
		24 November 2023	9 out of 9

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

Dividends

The directors do not recommend payment of a final dividend. Interim dividends of 26.16p per share were paid on 20 June 2023, and 84.97p per share were paid on 20 December 2023 making a total of 111.13p per share for the year (2023 – 103.81p). See note 8 for details. Post year end, dividends of 27.21p per share were paid on 20 June 2024. Declared dividends are in line with the expectations of the Board.

Directors' report (continued)

Directors' indemnities

The group 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. This also covers the responsibilities that the directors have for subsidiaries within the group.

Financial instruments

Financial Instruments have been disclosed within note 15 and associated risks discussed within the strategic report.

Going concern

The accounts have been prepared on a going concern basis. The group's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report and above. The group has: (1) undrawn borrowing facilities of £160m at the balance sheet date being in excess of £40m of debt due within one year; (2) has a prudent debt to RAV position at the balance sheet date; and (3) regulated revenue income until 31 March 2026. The directors have made enquiries and reviewed the forecasts to December 2028 which include assessment of covenants, and in light of the facilities available, have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. Climate change has no impact on going concern as detailed within the sustainability statement.

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 group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees. Details of employee engagement can be found within the corporate governance statement.

Energy and carbon

The group recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements and higher standards where possible. The group's environmental management systems are certified under ISO 14001: 2015. The group is committed to reducing its carbon emissions. Between 2018 and 2026 the aim is to reduce Scope 1 and Scope 2 emissions including gas shrinkage by 31%, and key* Scope 3 emissions by 19%. The group also aims to reduce Scope 1 and 2 emissions by 45% by 2031 and achieve net zero emissions by 2050. Responsibility for the emissions reduction program is assigned to the Regulation and Strategic Planning Director within the group, supported by the SMT, ESG Committee and Board as needed. Reported greenhouse gas emissions are prepared in accordance with guidance provided by the UK Government and Ofgem. The conversion factors used for emission disclosures are as published by the UK Government for the relevant reporting year. The NGN shrinkage and leakage model is used to generate the leakage assessment in accordance with Ofgem guidance. The model comprises four main leakage components; leakage from low pressure systems, medium pressure systems, above ground installations and interference damage.

Directors' report (continued)

Energy and carbon (continued)

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 calculations being a percentage of throughput. Reported data has not been externally verified, due to robust internal processes.

Reported Scope 3 emissions are measured using actual consumption data and equate to approximately 50% of total Scope 3 emissions. Details of what has been included within each reported scope is listed in the table below. The group is committed to continuously broadening the range of Scope 3 emissions measured and reported.

Business Carbon Footprint		Performance	
		2024	2023
Scope 1: gas shrinkage	tonnes of CO ₂ e	308,963	328,250
Scope 1: natural gas consumption	tonnes of CO ₂ e	319	322
Scope 1: commercial vehicles, company cars and grey fleet	tonnes of CO ₂ e	4,774	4,777
Scope 2: electricity consumption (location based)	tonnes of CO ₂ e	928	714
Scope 2: electricity consumption (market based)	tonnes of CO ₂ e	9	0.3
Scope 3: indirect emissions – purchased goods and services, capital goods, fuel and energy activity, upstream transport and distribution, waste disposal, business travel, and employee commuting and homeworking	tonnes of CO ₂ e	23,776	21,630
Total Scope 1 and 2 (location based)	tonnes of CO ₂ e	314,984	334,064
Total Scope 1, 2 (location based) and 3	tonnes of CO ₂ e	338,760	355,694
Carbon offsets	tonnes of CO ₂ e	0	(775)**
Total annual net emissions	tonnes of CO₂e	338,760	354,919
Total Scope 1 and 2 (location based)	emissions (tCO ₂ e) per £m turnover	585.35	662.20
Total Scope 1 and 2 (location based)	emissions (tCO ₂ e) per GWh of gas throughput	5.16	5.65
Total Scope 1, 2 (location based) and 3 emissions (tCO ₂ e) per £m turnover	emissions (tCO ₂ e) per £m turnover	629.53	705.07
Total Scope 1, 2 (location based) and 3	emissions (tCO ₂ e) per GWh of gas throughput	5.55	6.02
Scope 1 & 2	energy consumption (kWh)	294,754,985	308,974,659

*Scope 3 emissions that we consider key are: rail & air (including helicopter) business travel, vehicles emissions by our direct service providers, emissions from pipe manufacture and transportation, and transportation and distribution loss from bought electricity

** Purchased in September 2023 following publication of 2023 energy and carbon emissions.

All carbon and energy figures are based on actual data and are verified through our regulatory reporting process which requires robust, repeatable procedures to ensure accountability, traceability, accuracy and consistent methodologies year-on-year. Actual data is received in a number of formats including downloads from information systems, invoices and data from 3rd party providers showing transaction details (such as fuel card transactions). Each data source is filed and saved in a secure folder, with limited access. The data is then manipulated and converted in to tCO₂e or kWh using published DEFRA conversion factors for the relevant year using a third party specialist environmental reporting platform. Where market-based factors are stated for consumed electricity these are based on REGO backed green energy tariff certification as stated in the contract between NGN and our energy suppliers, or information provided by landlords at leased properties where NGN are not in control of the electricity supply. Total gross annual net emissions figure uses location based methodology.

Directors' report (continued)

Energy and carbon (continued)

Intensity metrics have been discussed via the Energy Networks Association (ENA) to ensure consistency between the gas distribution networks of Great Britain.

The company operates a rolling programme of actions to improve energy efficiency in accordance with our Environmental Action Plan, with the actions taken in 2024 being the same as completed in 2023. As shown in the table, shrinkage remains the key element of emissions and energy consumption which is being reduced through efficient gas pressure management, treatment of the gas with a chemical to swell pipe joints to minimise leakage, swift gas escape management and gas mains replacement (gas mains replacement is completed during a regulator mandated programme extending between 2002 and 2032). Activity to reduce other emissions and energy consumption include vehicle fleet upgrading (new and low emission company cars and commercial vehicles), utilising zero carbon electricity at all of our premises, vehicle route planning, driver efficiency tracking, use of carbon efficient technology in depot and office refurbishments (for example low energy lighting), efficient use of teleconferencing and reduced business travel. Annual gas shrinkage reduced by 6% between 2023 and 2024, with a similar 5% reduction in annual gross emissions. Emissions from natural gas consumption in NGN premises and NGN vehicles emissions remained stable between 2023 and 2024 a result of normalisation of working practices following the end of the COVID-19 period and despite increasing employee numbers. Reported Scope 3 emissions increased by 10% between 2023 and 2024 principally associated with increased gas mains replacement activity resulting in increased contractor vehicle emissions and polyethylene gas pipe purchases. Total emissions per £m turnover decreased in 2024 by 11% compared to 2023 due to reduced Scope 1 gas shrinkage emissions and increased business turnover between these periods. Total CO₂e emissions per Gwh of gas transported decreased by 8% between 2023 and 2024 due to reduced Scope 1 gas shrinkage emissions and a 3% increase in annual network gas throughput.

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. Approved by the Board and signed on its behalf by



M J Horsley, Director

23 August 2024

1100 Century Way, Thorpe Park Business Park, 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 judgements 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. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Corporate governance statement

For the year ended 31 March 2024

Scope of statement

NGN is not a listed entity, but as a large private group is required to prepare a corporate governance statement under section 172 of Companies Act. 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 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 Holdings Limited is comprised of nine directors as at 31 March 2024, who are appointed by the shareholders. They 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 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.

As the company is a holding company of the group, it is important to understand that the trading subsidiary, Northern Gas Networks Limited, which holds the licence to transport gas, has the same Board members plus an additional two independent directors, this being a requirement of the gas transportation licence. The various committees of the NGN group which assist the Board of this company with its duties are held under Northern Gas Networks Limited and any reference to committees within this statement refers to those committees of Northern Gas Networks Limited.

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 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 of Northern Gas Networks Limited.

Corporate governance statement (continued)

Overview of the Board (continued)

Board meetings

The Board hold at least three 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 group. 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 seven 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 ESG, risk management and compliance committees are chaired by C C Tsai and the remuneration and nominations committee are chaired by A J 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	ESG Committee	Nominations Committee
2023							
Jun 22	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a	n/a
Jul 22	n/a	n/a	n/a	n/a	n/a	n/a	4 out of 4
Sep 22	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a	n/a
Jan 23	n/a	n/a	n/a	n/a	6 out of 8	n/a	n/a
Feb 23	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	7 out of 7	n/a
2024							
Jun 23	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	7 out of 7	n/a
Sep 23	7 out of 7	8 out of 8	8 out of 8	8 out of 8	n/a	8 out of 8	n/a
Jan 24	7 out of 7	8 out of 8	8 out of 8	8 out of 8	6 out of 8	8 out of 8	n/a

Corporate governance statement (continued)

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.

Environmental, social and governance (ESG) committee

The primary function of this committee is to assist the Board in fulfilling responsibilities with respect to including, but not limited to environmental, health and safety, corporate social responsibility, sustainability, philanthropy, corporate governance, reputation, diversity, equality, climate change, community issues, lobbying and other public policy matters that are relevant.

Corporate governance statement (continued)

Overview of the committees (continued)

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

Energy futures

The Board aim to steer the group so as to reduce its carbon footprint and to be a key contributor to the UK's aspiration to achieve net zero greenhouse gas emissions by 2050. Under the guidance of the Board the SMT has been demonstrating the use of hydrogen as an alternative energy source to natural gas, which could be distributed through the existing gas infrastructure as part of the UK's multifueled future. Activity in this area on which NGN is currently working is detailed below.

East Coast Hydrogen Project

The East Coast Hydrogen Project, a collaboration between NGN, Cadent and National Grid Gas Transmission, is a program which aims to facilitate the supply of hydrogen created by several industrial sources to consumers, using existing and new network infrastructure. The consumers would be large commercial gas users, with the potential for this to extend to regional domestic customers.

Research shows that the demand for hydrogen from regional industry is high, at over 63TWh across over 150 sites, which could lead to a reduction to annual carbon emissions of over 11million tCO₂e. The project would

Corporate governance statement (continued)

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

create over 88TWh of hydrogen by 2037, and create storage capacity of over 10TWh. While production and storage would mainly be focused within the Teeside and Humber regions of the North East coast, demand comes from across NGN's region and beyond, reaching Nottingham, Derby and Leicester.

The proposal to commence the build phase from 2026 is currently being written for submission to the Government, which aligns to the formal recognition by the Government to have a core hydrogen networks as recommended by the National Infrastructure Commission. The project, if fully supported, will help the UK Government deliver twenty of its net zero policy commitments, three of which are detailed in the below table, and would also demonstrate the innovation and engineering capabilities within the region, and create tens of thousands of highly skilled green jobs.

Government Policy Commitment	East Coast Hydrogen Contribution
Switch 20TWh per year of fossil fuel to low carbon fuels in 2030	Enable a 8.9TWh fuel switch from natural gas to hydrogen by 2030
All electricity generation to be decarbonised by 2035	Switch 12% of the UK's gas fired electricity generation from natural gas to hydrogen
10GW of hydrogen production by 2030, with 50% from green hydrogen	Potential to connect over 10GW of hydrogen capacity by 2030, with 4.4GW coming from 17 green hydrogen facilities

Net Zero Pathway Project

This project will look to 'fill the exist knowledge gaps' surrounding the whole UK energy system. Its aim is to identify the most cost efficient pathway to decarbonisation in the UK looking across the entire value chain, to document the role of electricity and gas systems, and to provide input to key decision makers regarding future energy policy within the UK. It will cover all forms of energy needs, including domestic heating, industry and travel.

Minimum Viable Network (MVN) Study

In conjunction with the Net Zero Pathway Project, this study will seek to define the MVN needed to support the future requirements of the UK as it decarbonises. The study, which commenced at the end of this financial year, will consider new energy vectors, capacity requirements, economic viability, and regulatory requirements.

Corporate governance statement (continued)

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

National Energy Research Village / Domestic Heating

During the year we have completed the building of nine houses, which represent homes of different eras, the purpose of which is to enable testing and data collection on various scenarios regarding domestic future energy solutions.

In 2026 the government will make a decision regarding the potential use of hydrogen for domestic heating. NGN at the request of the Government had designed and were ready to implement the building of a Hydrogen Village trial in Redcar. The plan received much complimentary recognition, however it was decided by Government not to move to the build phase, due to the concerns around the continuity of supply of hydrogen to the trial site, and due to an existing comparable trial occurring in Fife, Scotland.

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.

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.

NGN has an inclusion and belonging policy and a suite of wellbeing support is offered to all employees including trained up wellbeing champions throughout the business who work with the central wellbeing team.

Corporate governance statement (continued)

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

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 controlled 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.

A data governance team, whose focus is ensuring assurance over the accurate capture and reporting of data to third parties, ensures 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.

An area of focus which is of growing interest to the Board is cyber security. The SMT have developed a cyber security resilience road map, which involves 34 projects across the RIIO-GD2 period. The plan, which amongst other things will be enhancing the group's operational technology security operations centre (OT SOC), will ensure the NGN group exceeds the growing legislative requirements, as set by the UK Cyber Security Council.

Maintaining a reputation for high standards of business conduct

The group are trusted by stakeholders and has a good reputation for high standards of professionalism.

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

Corporate governance statement (continued)

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

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.

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 the section, 'monitoring the impact of the company: environmental matters and community impact').

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.

Corporate governance statement (continued)

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

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

Following Board approval the SMT has embedded NGN's People and Planet Strategy, to further develop the sustainability work completed by NGN, tackling the short, mid and long term challenges facing the business, the society in which NGN operates, and the planet. Our commitments within this strategy include:

- spend responsibly and hold our suppliers to high sustainability standards;
- reflecting community diversity in our workforce and the eradication of inequality within our work force;
- improve access to opportunities and fair employment;
- supporting colleague safety and wellbeing;
- progression toward zero emissions, produce less waste and recycle all of it, manage our land to benefit the environment;
- provide access to information, funding and more affordable energy services for our communities, prioritising those with vulnerabilities; and
- enable affordable decarbonised heat, power and transport solutions.

The facilitation of tackling these challenges is aided by the establishment of the aforementioned ESG committee which reports to the Board, and a staff based sustainability working group who meet quarterly, with terms of reference that define the purpose, scope, role and responsibility of the group.

NGN have also established 'communities', a collection of colleagues who have the support of the SMT and who work to promote the interest of that community. Our communities to date are the disability community, the women's community, the ethnic minority community, the parents and carers community, and the LGBTQIA+ and Allies community.

We are also committed to ensuring our business makes decisions reflecting customer and stakeholder values and preferences. This includes all elements of our business but especially our approach to sustainability. There are a number of ways we talk with stakeholders including on the doorstep, online focus groups, workshops, forums and surveys, and telephone depending on individual preferences and needs. To make sure we are following best practice our engagement is independently assured against the internationally recognised AA1000 Stakeholder Engagement Standard.

Each year NGN publish an Environmental Report and a Sustainability Report, both of which are published on the NGN website and these reports detail our progress against set targets. These can be found at

<https://www.northerngasnetworks.co.uk/document-library/>

Some of the highlights of our performance within these areas, as at 31 March 2024, are shown below.

Corporate governance statement (continued)

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

Commitment: spend responsibly and hold our suppliers to high sustainability standards

- Ensuring our suppliers comply with our sustainability focused code of conduct, supporting compliance through the provision of training and resource as needed, including the option to adhere on a tapered transition. At 31 March 2024 we are on target to achieve our goal of 80% of our spend under the new code of conduct by 2026.

Commitment: reflecting community diversity in our workforce and the eradication of inequality within our work force

- We know that only around 8% of the energy sector are from an ethnic minority background, and around 18% of managers in our sector are female. These are figures that we would like to see change. Over the course of the year, we have progressed initiatives that help us to work towards our overarching priority of reflecting the diversity of the communities that we serve, such as the continued promotion of the forementioned communities. The foundation for progression we are working on is gathering data about our workforce and reporting it transparently.
- We have taken part in mandatory Gender Pay Gap reporting since 2017/18 and our median pay gap has varied across that period. Unfortunately, the general trend is one of a widening pay gap. This is not our intention as we recognise that closing the gender pay gap is a priority. We have a long-term target to close our Gender Pay Gap by 2050, and a medium-term target to halve it by 2030 (compared to a 2020 baseline). Closing the Gender Pay Gap is not a quick and easy fix in our traditionally male dominated industry.
- We have delivered over 600 hours of training to our colleagues about inclusion and belonging. The training introduces colleagues to the idea of inclusion and some of the ways that our behaviour can affect how inclusive a place feels.

Commitment: improve access to opportunities and fair employment

- The recent cost of living crisis has worsened pressures on many households, and the role that businesses play in supporting them is of ever increasing importance. Improving access to good employment opportunities, supporting colleagues to develop, keeping them safe and in good health is essential. Across the year we have progressed many initiatives to embed this commitment, from refreshing our recruitment strategy in order to increase accessibility of job opportunities, to providing existing colleagues with the opportunity to undertake a Foundation Skills Programme for Maths and English.
- We worked with our Young Innovators Council to refresh our careers site ensuring that information about our family friendly flexible policies is available at the first point of call. We also adopted a direct sourcing recruitment approach using our partner network to reach potential candidates who may otherwise not be

Corporate governance statement (continued)

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

seen due to their socio-economic circumstances. This includes advertising roles through the Armed Forces and Energy and Utility Jobs processes to attract a wider range of gender and ethnically diverse candidates.

Commitment: supporting colleague safety and wellbeing

- Safety will always remain our biggest priority and our record is exceptionally strong as shown within our core KPIs on page 2.
- We've spoken with colleagues to identify a number of changes we could make to our office and depots to allow for flexibility, safety and accessibility for all colleagues and visitors. As a result, we've made changes including increased lighting and safer parking facilities at our offices and depots, created quiet reflection and prayer rooms for colleagues and customers across most of our sites and improved the disabled toilet facilities at our Head Office to make facilities more fit for purpose.
- We made a commitment to review and monitor data to measure wellbeing within the workforce. We do this through a workplace wellbeing survey that we take part in every other year. Last done in 2022 this identified 3 key areas of concern, which we have since prioritised for action: (1) anxiety concerns leading to mental health training for all line managers; (2) musculoskeletal concerns leading to the provision of a free specialist physio service available to all; and (3) concerns over a lack of physical activity which has led to workplace challenges such as a step challenge.

Commitment: progression toward zero emissions; produce less waste and recycle all of it; manage our land to benefit the environment

- We attended over 99% of uncontrolled gas escapes within 1 hour, to control the escape and minimise gas leaking into our atmosphere. We are also replacing circa 500km of old metal pipes with new plastic pipes annually to reduce gas escaping from the network.
- Circa 200,000 tonnes of excavation waste (soil and aggregates) are produced by our operations each year. During 2024 we sent 100% to recycle centres and look to maintain this performance.
- Committed to remove gas holders from our network by 1 April 2026 due to the pollution risk they hold. After 3 years of the 5 year RIIO-GD2 program we are in line with the scheduled work plan.
- We quantified our single use plastic baseline, and have implemented the following improvements: use of glass milk bottles; changed bin liners to biodegradable bags; and provide recycling facilities for printing cartridges.

Corporate governance statement (continued)

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

- We still have work to do with regard to transitioning our fleet to ultra-low emission vehicles, as our operational performance requirements would be compromised if we switched to electric vehicles at this time. During 2024 NGN's sanctioned investment in 10 new electric vans for delivery during the 2025 financial year.
- Planting 40,000 trees to benefit nature in the community and creating 250 homes for nature within our region across RIIO-GD2. After year 3 of the 5 year program we are on track to deliver the set targets.
- Our overall greenhouse gas emissions are reducing as detailed on page 10.

Commitment: provide access to information, funding and more affordable energy services for our communities, prioritising those with vulnerabilities

- We have continued to focus resources, shape our initiatives and prioritise investments to meet the needs of our different customer groups, helping us be responsive and do the right thing for customers whenever we can. The Vulnerability and Carbon Monoxide Allowance (VCMA) is one of the ways in which we aim to support the customers and communities that we serve, with one of the key pillars of this activity being tackling affordability and fuel poverty.
- NGN continue to work with an organisation to support Warm Hubs in our region. A Warm Hub is a place within the local community where people can be assured of finding a safe, warm and friendly space in which to enjoy the company of others.

Commitment: enable affordable decarbonised heat, power and transport solutions

- NGN facilitate the connection of biomethane production sites to our network, with 20 sites connected as at the 31 March 2024, enabling the supply of green gas.
- Blending hydrogen with natural gas offers the potential to deliver immediate greenhouse gas emissions reductions. For 10 months in 2021/22 NGN conducted a live blending trial in a community of 650 properties (predominantly residential) in the north-east of England using our existing network. This groundbreaking project for the UK required substantial community engagement to gain stakeholder acceptance and was instrumental in achieving a positive UK Government policy decision on supporting hydrogen blending (up to 20%) in late 2023.
- We continue to push the hydrogen agenda through projects such as East Coast Hydrogen (see Energy Futures section of the Corporate Governance Statement on page 16).

Sustainability statement

31 March 2024

This disclosure is made in accordance with the requirements of the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 with disclosures provided against each of the eight specified mandatory disclosures. Note, for presentational purposes the below information combines the eight mandatory disclosures into six as detailed below.

Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 mandatory disclosure	Company report disclosure in which mandatory disclosure is contained
a). A description of the company's/LLP's governance arrangements in relation to assessing and managing climate-related risks and opportunities	A. Governance arrangements for climate-related risks and opportunities
b). A description of how the company/LLP identifies, assesses and manages climate-related risks and opportunities	B. Systems and processes for the management of climate-related risks and opportunities
c). A description of how processes for identifying, assessing and managing climate-related risks and opportunities are integrated into the company's/LLP's overall risk management process	
d). a description of	C. Principal climate-related risks and opportunities
i) the principal climate-related risks and opportunities arising in connection with the company's operation, and	
ii) the time periods by reference to which those risks and opportunities are assessed	
e). a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's/LLP's business model and strategy	
f). an analysis of the resilience of the company's/LLP's business model and strategy, taking into account consideration of different climate-related scenarios	D. Resilience assessment for different climate-related scenarios
g). a description of the targets used by the company/LLP to manage climate-related risks and to realise climate-related opportunities and of performance against those targets	E. Targets for climate-related risks and opportunities
h). the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based	F. Targets for climate-related risks and opportunities

Sustainability statement (continued)

The information presented below presents the group's approach to the identification, assessment and mitigation of climate change related issues. The statement should be read in conjunction with the Corporate governance statement which details how the Board actions its' responsibilities including those related to sustainability, and the Directors' report which details carbon emissions performance. All information provided herein is pertinent to all members of the company group.

A. Governance arrangements for climate-related risks and opportunities

The Board is responsible for oversight of climate-related risks and opportunities impacting the group.

The Board approved the group's climate-related targets and monitor the progress by review of key performance indicators as discussed further below. Significant investment decisions to support achievement of NGN's strategic climate-related targets, for example investment in vehicle fleet decarbonisation, are reviewed by the Board for compliance with NGN's strategic targets. The achievement of group climate-related strategic targets is a key metric in evaluating group performance. For example, greenhouse gas emissions performance versus target is integrated into the determination of annual bonuses for applicable colleagues including the SMT. Material regulatory and legal changes in relation to climate-related matters are communicated to the Board via the monthly paper prepared by the NGN Regulatory and Strategic Planning Director.

The Board is assisted in fulfilling its responsibilities with respect to identification, consideration and management of climate-related risks and opportunities, by the following committees:

- ESG Committee: responsible for scrutiny and detailed consideration of climate-related matters, including group performance with respect to strategic climate-related targets. Pertinent climate-related risks, opportunities and performance are brought to the attention of the ESG Committee for consideration in the Head of Environment and Sustainability's report to the Committee issued prior to each meeting (see section 'Overview of the committees' on page 14 for committee dates and attendances)..
- Risk Management Committee: responsible for reviewing the risk profile of the business and oversight of risk management processes. At each meeting of the risk management committee (see section 'Overview of the committees' on page 14 for committee dates and attendances), the group-level risk register is considered including any movement in the assessment of any group risk (including climate-related risks where relevant) or changes in measurement or relative position to each other.

The SMT is responsible for the identification, consideration and management of climate-related risks and opportunities and communication of these to the Board via the ESG Committee. To assist the SMT, NGN have a Sustainability Working Group that was established in 2022 and meets quarterly. The group is composed of senior business leaders with the objectives of identification and discussion of material sustainability (including climate-related) business aspects, issues, risks and opportunities, and monitoring and oversight of business performance against key sustainability and climate-related targets and metrics.

Sustainability statement (continued)

B. Systems and processes for the management of climate-related risks and opportunities

B1 - Integrated approach to climate-related risk management

The Board expect the SMT of the group to develop and maintain a controlled environment which protects the group's assets in the long term, including with respect to climate-related risks. The Board ensure this is achieved through a risk management framework which includes the establishment and operation of:

- a Risk Management Committee which is responsible for reviewing the risk profile of the business and oversight of risk management processes on behalf of the Board;
- a Risk Management Policy;
- an Integrated Risk Management Framework comprising risk registers and associated risk assessment methodology; and
- an Internal Audit Team which undertakes independent appraisals and provides assurance on the adequacy and effectiveness of business controls within the group on behalf of the Board.

Assessment of climate-related risks and opportunities is undertaken alongside assessment of other pertinent group risks and opportunities and as such is fully integrated into the group risk management process.

B2 - Systems and processes for the identification, assessment and management of climate-related risks and opportunities

In accordance with the NGN Integrated Risk Management Framework, detailed risk registers are prepared for each department which feed into a group level ('corporate') risk register which is reviewed at the Risk Management Committee.

As with other group risks and opportunities, climate-related risks and opportunities are identified and assessed by the SMT and in-house business subject matter experts in conjunction with the NGN Internal Audit Team and documented on pertinent departmental risk registers. All risks and opportunities are quantified and assessed on both on a financial and non-financial basis in a consistent, systematic manner in accordance with the NGN Integrated Risk Management Framework. The likelihood of each risk occurring is then scored and the control measures which already exist to mitigate the risk occurring are documented and assessed to derive the overall risk level posed to the group. A SMT owner is assigned for each climate-related risk and opportunity, and actions are assigned and documented (with completion dates) where necessary to ensure all risks are maintained at a tolerable level in accordance with the group Integrated Risk Management Framework. All departmental risk registers are reviewed and updated quarterly with material changes and updates communicated to the Board at least three times a year via the Risk Management Committee. Material changes to climate-related risks and opportunities identified during the risk register review process are also identified to the ESG Committee for further assessment and communication with the Board.

Sustainability statement (continued)

C. Principal climate-related risks and opportunities

C1 - Overview of company setting and strategy

The assessment of climate-related risks and opportunities has been undertaken in consideration of the group's business activities in the ownership, operation and maintenance of a natural gas distribution network entirely situated in the north of England. The natural gas transported is a fossil fuel and a greenhouse gas. In addition, operation and maintenance of company infrastructure results in greenhouse gas emissions from the work activities of employees and supply chain. Gas networks are vital to the UK's energy system and in order to achieve net zero greenhouse gas emissions in the UK by 2050, the UK's energy system and networks must undergo substantial policy driven changes. The group's primary climate-related objectives are to act as enabler to the achievement of net zero by conversion of our network to the transport of low carbon hydrogen, whilst continuing to provide our customers with a safe and reliable supply of energy and taking action to reduce our greenhouse emissions wherever practicable now.

Assessment time periods and financial thresholds for identification of climate-related risks and opportunities

Climate-related risks and opportunities are identified and evaluated in accordance with the group's Integrated Risk Management Framework as described above, and categorised as either:

- Physical – relating to the direct impacts of more extreme climatic conditions; or
- Transitional – relating to the transition to a net zero future.

Identified climate related risks and opportunities are evaluated according to the following timescales:

Assessment Timespan Identifier	Duration	Rationale
Very short-term	<1 year	Impacts on annual business planning and operation cycles.
Short-term	1 to 3 years	Duration of current regulatory business plan period (RIIO-GD2, 2021 to 2026). During this timeframe a UK Government policy decision on the use of hydrogen for heating is anticipated.
Medium-term	3 to 10 years	Duration of next one to two regulatory business plan periods (RIIO-GD3 and RIIO-GD4), timeframe of UK Government UK Hydrogen Strategy (2030), and completion of company iron gas mains replacement programme (2032).
Long-term	10 to 26 years	Pathway to achievement of net zero greenhouse gas emissions in UK by 2050.
Very long-term	Over 26 years	Operation in a net zero scenario extending to c.2100 as per requirements of UK Climate Change Adaptation Reporting Power 4.

Sustainability statement (continued)

C. Principal climate-related risks and opportunities (continued)

The potential total financial impact of each climate-related risk and opportunity is evaluated according to the following framework in accordance with our Integrated Risk Management Framework: Minimal (<£100k); Minor (£100k-£1m); Moderate (£1m-£10m); Major (£10m-£50m); and Very Significant (>£50m).

Each risk and opportunity is assigned a likelihood of occurrence based on the following scale: Rare (0-5% likelihood); Unlikely (6-35% likelihood); Possible (36-65% likelihood); Likely (66-95% likelihood); and Almost Certain (96-100%).

Identified transitional risks and opportunities are categorised as follows:

- Risks: policy, legal, technology, market or reputational; and
- Opportunities: resource efficiency, energy source, markets, resilience, or product/services.

C2 - Overview of principal climate-related risks and opportunities

The following principal climate change related risks are identified on the group register:

Risk/Opportunity Reference and Descriptor	Timespan	Potential Financial Impact	Likelihood	Discussion and Mitigations
<i>Transitional Risks & Opportunities</i>				
TR1: Demise of gas – UK government policy decisions and market developments do not enable a substantive role for gas networks in UK energy system (Risk type: Policy)	Short to long-term	Very Significant	Possible	<p>There are a range of scenarios that NGN's network could undergo in the long-term future ranging from full or partial decommissioning to conversion of some or all of the network to transport 100% hydrogen, all of which would require UK Government policy decisions.</p> <p>Under the guidance of the Board, NGN have been extensively promoting, testing and demonstrating the use of hydrogen (blended and 100% hydrogen) as an alternative energy source to natural gas, which could be distributed through the existing gas infrastructure and thereby provide a sustainable and affordable energy system enabler to achieve net zero by 2050. This work is aimed to stimulate a positive UK Government policy decision on the use of hydrogen for domestic heat in the UK, whilst also stimulating investment to establish a hydrogen based economy. Further details of our hydrogen work are provided in the Energy Futures section of the Corporate Governance Statement.</p>

Sustainability statement (continued)

C. Principal climate-related risks and opportunities (continued)

				<p>The group's assertion of the long-term critical role of gas networks in the UK energy system is confirmed by Future Energy Scenarios (FES) 2023 produced by the UK Energy System Operator. FES 2023 presents four different pathways for the future of the UK energy system to 2050 to build a picture of the ways in which Great Britain can achieve net zero. Each of the four FES 2023 scenarios include a role for gas networks in the distribution of natural gas and hydrogen, with a significant role in three.</p> <p>The range of potential future outcomes for gas networks in the UK brings with it a range of potential financial implications to long-term operating costs and revenues. The costs of network infrastructure decommissioning or conversion/expansion to accommodate hydrogen are anticipated to be funded by regulatory or other public funding sources thereby not materially impacting financial performance. Group revenues will change overtime reflective of the role that gas networks play in the UK energy system and the rate at which decarbonization is achieved, with FES 2023 identifying a role for gas networks to a greater or lesser extent in all scenarios in the long-term and beyond.</p>
<p>TR2: Failure to achieve company decarbonisation targets resulting in reputational damage, potential negative impact on customer service ratings, and increased financial borrowing costs</p> <p>(Risk type: Reputational)</p>	Short to medium-term	Major	Possible	<p>The group has established Scope 1, 2 and 3 greenhouse gas emissions reduction targets extending in short, medium and long-term increments to 2050, with the ultimate aim to achieve net zero total emissions by 2050. Over 90% of greenhouse gas emissions are currently attributable to natural gas leakage from network infrastructure. A strategy and action plan is in place to deliver these targets with performance reportedly publicly on annual basis by a range of reports prepared for regulators and stakeholders. Performance against regulatory gas leakage reduction targets is subject to a financial penalty/incentivisation scheme, with the group on track to gain a financial reward by the end of the current regulatory period in 2026 (short-term).</p> <p>All other regulatory environmental targets are reputational incentives and NGN are on track to achieve these targets by the end of the current regulatory period (short-term). Total greenhouse gas emissions have reduced by 5% between 2023 and 2024.</p>

Sustainability statement (continued)

C. Principal climate-related risks and opportunities (continued)

<p>TO1: Access to innovation funding for research and development projects to accelerate decarbonisation of energy network business operations and practices providing environmental and financial benefits</p> <p>(Opportunity type: Markets)</p>	<p>Short-term</p>	<p>Moderate</p>	<p>Likely</p>	<p>The group is currently provided with access to regulatory innovation funding streams for use on research and development projects which enable decarbonisation of UK energy system to support net zero. The Strategic Innovation Fund for UK gas and electricity networks provides access to £450m of innovation funding for the period 2021 to 2026 alone. Completion of such projects often identifies innovative technologies or ways of working to enable decarbonisation whilst also delivering financial savings to the group by more efficient working practices. The group were awarded over £10m in core regulatory innovation funding (Network Innovation Allowance) for the period 2021 to 2026 and continue to apply for competitive funding via the Strategic Innovation Fund.</p>
<p><i>Physical Risks and Opportunities</i></p>				
<p>PR1: Operational performance disruption due to long-term changing climatic conditions (chronic) and more frequent and severe extreme weather events (acute)</p>	<p>Long-term</p>	<p>Major</p>	<p>Possible</p>	<p>NGN assess and publicly report on exposure to physical climate change related risks and adaptation and mitigation under the Climate Change Adaptation Reporting Power (CCARP). The latest (Round 3) assessment was published in December 2021 and included assessment of risks out to 2050 for 12 chronic and acute climatic hazards based on UK Climate Projections 2018 for a worst-case high emissions scenario (RCP 8.5). The climatic hazards assessed were:</p> <ul style="list-style-type: none"> • Prolonged rainfall leading to flooding • Extreme high temperatures • Heavy rainfall/drought cycles • Sea level rise • Warm and wetter conditions, followed by heavy rainfall and/or wind • Storm surge and wave height • Warmer and wetter conditions – longer growing/nesting seasons • Snow and ice • Wildfire / Lightning / Solar storm • Diurnal temperature cycles

C. Principal climate-related risks and opportunities (continued)

				<p>Based on these climatic hazards, 34 chronic and acute climate-related physical risks to company assets and operations were identified and assessed. The most significant/material risks under current climatic conditions are identified as acute events associated with fluvial and/or tidal flooding of above ground gas asset sites resulting in physical infrastructure damage and potential for loss of supply incidents, and significant ice and snow events resulting in access difficulties to key assets, locations and operational activities. To mitigate against these risks the company:</p> <ul style="list-style-type: none"> • regularly assesses flood risk at asset site locations, sites new assets away from high risk flood zones, relocates infrastructure away from high risk flood zones as part of asset renewals and deploys flood defence mitigations as necessary during asset upgrades, such as raising mechanical equipment vent outlets above predicted flood depths; and • operates a comprehensive Severe Weather Management Procedure to ensure weather conditions and company operational performance are appropriately monitored and communicated and the necessary resources (personnel, vehicles and equipment) are available and can be deployed during acute extreme weather events to ensure continuity of core customer service performance. This procedure includes workload prioritization to enable employees and contractors to be diverted from non-essential work to essential work if necessary to ensure continuity of core customer service performance. This flexibility is enabled by modernization of employee terms of employment and contractor terms and conditions, cross-skilling training and training of reservists. NGN prepare for severe winter weather in many ways including proactively hiring 4x4 vehicles over autumn and winter and fitting all company cars with winter tyres. <p>Funding for the above mitigation measures is provided through regulatory allowances with extra funding accessible where deemed necessary subject to cost benefit analysis. Flooding of above ground gas asset sites will remain as the most significant/material risk by 2050, with increased likelihood of occurrence associated with increased likelihood of acute extreme rainfall events. NGN will continue to manage this risk into the future by continuation of the current proactive asset management procedures. Risks associated with significant ice and snow events impacting network management and operation are expected to reduce in significance by 2050 due to lower likelihood of occurrence as global temperatures generally increase. This risk will remain so the company will continue to include mitigation measures within it's Severe Weather Management Procedures to ensure it is appropriately prepared.</p>
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Sustainability statement (continued)

D. Resilience assessment for different climate-related scenarios

Analysis of the resilience of the group's business model and strategy has been completed as described below taking into account different climate-related scenarios.

D1 - Transitional Risks

Energy networks have a critical role to play in the achievement of net zero emissions in the UK and will require substantial policy driven changes, coupled with evolving consumer habits, to enable achievement of net zero by 2050, thereby introducing transitional risks to all energy networks. Uncertainty remains regarding the pathway to net zero that the UK energy system will adopt and the rate at which decarbonisation will be achieved, with a range of resultant potential outcomes which will influence the group's infrastructure and function, greenhouse gas emissions and revenues across all timeframes.

Analysis of the resilience of the group's business model and strategy under different climate-related scenarios has been completed utilising the annual independent Future Energy Scenarios (FES) produced by the UK Energy System Operator. FES demonstrates plausible potential pathways to 2050 for Great Britain's energy system to meet the net zero challenge.

FES 2023 presents four pathways ranging from a relatively slow rate of decarbonisation resulting in the UK not meeting the net zero target in 2050 ('Falling Short'), moderate decarbonisation resulting in achievement of net zero in 2050 ('Consumer Transformation' and 'System Transformation'), and fast decarbonisation leading to achievement of net zero in 2046 ('Leading the Way'). Each of the four FES 2023 scenarios include a role for gas networks in the distribution of natural gas and hydrogen, with a significant role in 'Falling Short', 'System Transformation' and 'Leading the Way' which cover a range of potential long-term future scenarios under slow to fast rates of decarbonisation in the UK. It is however noted that the FES scenarios contain a wide range in gas network energy volumes usages and development timeframes with respect to hydrogen use.

Whilst uncertainty remains regarding the pathway that the UK energy system will take to reach net zero, scenario analysis using the independent FES analysis identifies that gas networks will continue to feature, with a likely significant role, in the UK energy system into the long-term and beyond, thereby demonstrating the resilience of the group to climate-related transitional risk TR1. The rate of speed of energy system decarbonisation achieved within the UK, which is substantially driven by policy decisions, will directly influence NGN's exposure to transitional risk TR2.

The group is actively mitigating the identified transitional risks by taking action to directly reduce its greenhouse gas emissions now, whilst also researching, demonstrating and communicating the vital role that gas networks can play in the net zero transition to influence positive policy decisions (TO1).

Sustainability statement (continued)

D. Resilience assessment for different climate-related scenarios (continued)

D2 - Physical Risks

NGN operate a natural gas distribution network comprising approximately 36,000km of underground pipes is are a designated reporting authority under the Climate Change Act (2008). As a consequence, NGN assess and publicly report on our exposure to climate change-related risks and our adaptation and mitigation under the Climate Change Adaptation Reporting Power (CCARP). The latest (Round 3) assessment was published in December 2021* following previous assessments in 2015 (Round 2) and 2011 (Round 1). The Round 3 publication can be found at: <https://www.northerngasnetworks.co.uk/wp-content/uploads/2021/12/NGN-CCA-Rnd-3-Report-FINAL-DECEMBER-2021.pdf>

In preparation of the 2021 assessment the group worked with the other gas and electricity networks of Great Britain and the Met Office to undertake a bespoke review of the latest independent very long-term (up to 2080) climate projection data for the UK to understand the specific physical risks posed to energy infrastructure assets from climate change. This structured assessment reviewed 12 different climatic hazards, including temperature and rainfall extremes, for a worst-case high greenhouse gas emissions future scenario (known as RCP 8.5) consistent with a 4 C warming versus pre-industrial levels by 2100 on a very-long term timeframe. Following this, NGN completed an assessment of the current (in 2021) risks posed to its own business operations and assets, and those anticipated for 2050 based on continuation of current management procedures, mitigation activities and levels of investment.

The scenario analysis identified that for a worst-case warming pathway scenario and current levels of mitigation, there is a possible (36-65%) chance of material physical climate-related impacts to the group in 2050 (PR1). The most significant climate-related physical risks in current (2021) conditions are expected to change as follows in 2050 under the assessed worst-case scenario assuming continued current mitigation levels:

Risk	Acute/Chronic	Timescale	Impact	Mitigation
Flood damage to above ground gas infrastructure causing network issues	Acute	Long-term	Acute Increased likelihood of occurrence	Continuation of current proactive asset management programme which includes regular assessment of flood risk at asset site locations, siting of new assets outside of high risk flood zones, relocation of infrastructure away from high risk flood zones as part of asset renewals, and deploying flood defence mitigations as necessary during asset upgrades, such as raising mechanical equipment vent outlets above predicted flood depths.
Extreme cold weather events (prolonged lying snow and ice) impacting network operation	Acute	Long-term	Acute Decreased likelihood of occurrence	Continuous improvement of the existing operates a comprehensive Severe Weather Management Procedure to ensure weather conditions and company operational performance are appropriately monitored and communicated and the

Sustainability statement (continued)

				<p>necessary resources (personnel, vehicles and equipment) are available and can be deployed during acute extreme weather events to ensure continuity of core customer service performance. This procedure includes workload prioritization to enable employees and contractors to be diverted from non-essential work to essential work if necessary to ensure continuity of core customer service performance. This flexibility is enabled by modernization of employee terms of employment and contractor terms and conditions, cross-skilling training and training of reservists. NGN prepare for severe winter weather in many ways including proactively hiring 4x4 vehicles over autumn and winter and fitting all company cars with winter tyres.</p>
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The scenario analysis identified that the group has resilience in the long-term to material climate-related physical risks to network operational performance (PR1) for a worst-case warming scenario. This is due to the comprehensive asset integrity and management procedures that are in operation to ensure asset condition and performance, in addition to the inherent resilience afforded by gas infrastructure assets being a sealed, pressurised system principally located underground. This assessment assumes continuation of current level of mitigation and asset integrity protection which is currently funded through regulatory allowances for network asset management. Resilience levels to climate-related physical risks will be greater in lesser warming scenarios (such as 2 C warming) due to lower climatic extremes, however completion of detailed analysis for such scenarios has not been deemed necessary given the favourable outcomes of the worst-case assessment identified above.

Sustainability statement (continued)

E. Targets for climate-related risks and opportunities

NGN's People and Planet Strategy was launched in 2022 and includes the following commitments and supporting targets to ensure the group manages climate-related risks and realises climate-related opportunities:

Climate-related risk / opportunity	Strategic commitment	Short-term target (2026)	Medium-term target (2031)	Long-term target (2050)	Performance disclosure
TR1 / TO1	Enable affordable, decarbonised heat, power and transport solutions	<p>Complete hydrogen blending project</p> <p>Demonstrate safety case for use of 100% hydrogen and deliver Hydrogen Village Trial</p> <p>Improve customer service levels to facilitate higher levels of green gas injected into network</p>	<p>Assist UK Government to secure a positive decision regarding use of blended and 100% hydrogen in UK gas networks</p> <p>Blend up to 20% hydrogen into the gas network</p>	Network transports 100% hydrogen	The company is delivering against these commitments by means of a range of projects including East Coast Hydrogen, Net Zero Pathway, Minimum Viable Network and National Energy Research Village. Further discussion of these projects and their contribution is provided in the Energy Futures section on page 17 of this document.
TR2	<p>Eliminate emissions – net zero business by 2050</p> <p><i>2018 baseline greenhouse gas emissions:</i></p> <p><i>Scope 1 and 2: 414,720 tCO₂e</i></p> <p><i>Key Scope 3: 17,479 tCO₂e</i></p>	<p>31% reduction in Scope 1 and 2 emissions</p> <p>19% reduction in key Scope 3 emissions</p> <p>(vs 2018 baseline)</p>	<p>45% reduction in Scope 1 and 2 emissions</p> <p>(vs 2018 baseline)</p>	Net zero emissions	Between 2018 and 2024 net Scope 1 and 2 emissions (market based) have reduced by 24% and key Scope 3 emissions have reduced by 1%. Further details regarding performance and actions taken are provided in the Energy and Carbon section of this document (see page 11).

Sustainability statement (continued)

E. Targets for climate-related risks and opportunities (continued)

Each target in NGN's People and Planet Strategy is assigned a relevant owner from the SMT to assign accountability for delivery. Performance against commitments is monitored, measured and reported by NGN's dedicated in-house sustainability team and communicated to the SMT and ESG Committee. Performance is also disclosed publicly in the reports identified above.

Physical risk PR1 is captured under the group's enduring obligation to provide customers with a safe and reliable gas supply and has associated regulatory performance targets set by Ofgem for the 2021 to 2026 period to ensure high standards of customer services:

- % gas emergencies (uncontrolled) responded to within 1 hour: 97%
- % gas emergencies (controlled) responded to within 2 hours: 97%
- Unplanned gas interruption average duration: 10 hours.

Performance against the PR1 targets identified above are measured in accordance with a methodology set by Ofgem and reported below in section F.

F. Key performance indicators for climate-related risks and opportunities

The following key performance indicators (KPI) are measured and reported to ensure the group manages climate-related risks and realises climate-related opportunities:

Climate-related Risk / Opportunity	Key Performance Indicator	2023/24 Performance	2022/23 Performance	Methodology and disclosure
TR2	Greenhouse gas emissions reductions (vs 2018 baseline) – Scope 1 and 2 (net, market based) - key Scope 3 (net, market based)	-24% -1%	-20% -14%	As disclosed in this report. Methodology as described in this report above.

Sustainability statement (continued)

PR1	% gas emergencies responded to within:			Measured and reported in accordance with a methodology set by Ofgem and disclosed in the group's annual performance report
	1 Hour (uncontrolled)	99.93%	99.75%	
	2 hours (controlled)	99.81%	99.95%	
	Unplanned supply interruption average duration (hours)	5.31	5.58	

The performance data identified above demonstrates that the group is adequately managing its climate-related risks and is on track to achieve its targets.

The targets associated with transitional risks and opportunities TR1 and TO1 are project outcome related and as such not directly aligned to a quantitative KPI approach. Completion performance against key projects is tracked and monitored by the SMT and ESG Committee.

Independent auditor's report to the members of Northern Gas Networks Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Northern Gas Networks Holdings Limited and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2024 and of the group's 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 consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 23.

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 group and the parent 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 group's and parent 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;
- 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.

Independent auditor's report to the members of Northern Gas Networks Holdings Limited (continued)

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 group's and parent 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 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.

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 group's and the parent 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 group or the parent 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 group's industry and its control environment and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

Independent auditor's report to the members of Northern Gas Networks Holdings Limited (continued)

We obtained an understanding of the legal and regulatory frameworks that the group 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 group'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, pensions and 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 procedures performed to address them are described below:

- Capitalisation of costs and appropriateness of the overhead rates applied: to test the valuation and allocation of capitalised costs we have agreed a sample of capitalised costs to supporting documentation to ensure it has been appropriately classified as a capital item and also reviewed the appropriateness of the overhead rates applied. We challenged the capitalisation percentage applied to the costs within the cost centre code, obtained management's rationale. We also compared allocations between current and prior years and recalculated capitalised overheads to confirm accuracy. We obtained the rationale and calculations behind how the percentages within the responsibility code allocations were arrived at. Additionally, we obtained relevant industry benchmarks for the proportions to capitalise, using these benchmarks to challenge management as to the appropriateness of their judgement.

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 and, 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 and reviewing internal audit reports and reviewing correspondence with HMRC and the licensing authority.

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 directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their 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 to the members of Northern Gas Networks Holdings Limited (continued)

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

A handwritten signature in black ink that reads "Anthony Matthews". The signature is written in a cursive style and is underlined with a single horizontal line.

Anthony Matthews FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

23 August 2024

Consolidated profit and loss account

For the year ended 31 March 2024

	Notes	2024 £'000	2023 £'000
Turnover	1	538,112	504,479
Cost of sales		(39,611)	(58,317)
Gross profit		498,501	446,162
Operating expenses	2	(250,982)	(235,475)
Operating profit		247,519	210,687
Finance charges (net)	3	(66,557)	(45,930)
Profit before taxation	4	180,962	164,757
Tax on profit	7	(42,050)	(23,227)
Profit for the financial year		138,912	141,530

The above results arise from continuing operations.

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

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

Consolidated statement of comprehensive income

For the year ended 31 March 2024

	2024 £'000	2023 £'000
Profit for the financial year	138,912	141,530
Re-measurement of defined benefit liability (note 20)	(34,644)	(15,126)
Gains in respect of cash flow hedges	25,931	68,740
Transferred to profit or loss in respect of cash flow hedges	(26,903)	(6,200)
Tax relating to components of other comprehensive income	8,904	(11,852)
Comprehensive income relating to the year	112,200	177,092

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

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

Consolidated balance sheet

As at 31 March 2024

	Notes	2024 £'000	2023 £'000
Fixed assets			
Intangible assets	9	184,549	193,065
Tangible fixed assets	10	2,884,345	2,767,257
Investments	11	104	104
		<u>3,068,998</u>	<u>2,960,426</u>
Current assets			
Stock - raw materials		6,659	5,677
Debtors - amounts falling due within one year	12	60,675	57,325
amounts falling due after one year	12	174,725	172,228
Cash at bank and in hand		39,099	10,666
		<u>281,158</u>	<u>245,896</u>
Creditors: amounts falling due within one year	13	<u>(177,806)</u>	<u>(253,034)</u>
Net current assets / (liabilities)		<u>103,352</u>	<u>(7,138)</u>
Total assets less current liabilities		<u>3,172,350</u>	<u>2,953,288</u>
Creditors: amounts falling due after more than one year	14	(2,171,409)	(1,988,173)
Provisions for liabilities	16	(484,570)	(481,294)
		<u>516,371</u>	<u>483,821</u>
Net assets		<u>516,371</u>	<u>483,821</u>
Capital and reserves			
Called-up share capital	17	71,671	71,671
Hedging reserve	17	71,753	72,482
Profit and loss account		372,947	339,668
		<u>516,371</u>	<u>483,821</u>
Shareholders' funds		<u>516,371</u>	<u>483,821</u>

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

The accounts of Northern Gas Networks Holdings Limited, Registered number 05213525, were approved by the Board of Directors and authorised for issue on 16 August 2024 and signed on its behalf by:



M J Horsley, Director

23 August 2024

Company balance sheet

As at 31 March 2024

	Notes	2024 £'000	2023 £'000
Fixed assets			
Investments	11	574,502	574,502
Current assets			
Debtors: amounts falling due within one year	12	32,733	25,434
Cash at bank and in hand		1	1
		32,734	25,435
Creditors: amounts falling due within one year	13	(4,487)	(4,438)
Net current assets		28,247	20,997
Total assets less current liabilities		602,749	595,499
Creditors: amounts falling due after more than one year	14	(180,000)	(180,000)
Net assets		422,749	415,499
Capital and reserves			
Called-up share capital	17	71,671	71,671
Profit and loss account		351,078	343,828
Shareholders' funds		422,749	415,499

The profit for the financial year recognised with in the accounts of the parent company was £86,900,000 (2023 - £74,534,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

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

The accounts of Northern Gas Networks Holdings Limited, Registered number 05213525, were approved by the Board of Directors and authorised for issue on 16 August 2024 and signed on its behalf by:



M J Horsley, Director

23 August 2024

Consolidated statement of changes in equity

For the year ended 31 March 2024

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 31 March 2022	71,671	25,576	283,882	381,129
Profit for the financial year	-	-	141,530	141,530
Remeasurement of defined benefit liability	-	-	(15,126)	(15,126)
Tax on remeasurement of defined benefit liability	-	-	3,782	3,782
Cash flow hedges: profits arising during the year	-	62,540	-	62,540
Tax on cash flow hedges movement	-	(15,634)	-	(15,634)
Total comprehensive income	-	46,906	130,186	177,092
Dividends paid on equity shares (note 8)	-	-	(74,400)	(74,400)
At 31 March 2023	71,671	72,482	339,668	483,821
Profit for the financial year	-	-	138,912	138,912
Remeasurement of defined benefit liability	-	-	(34,644)	(34,644)
Tax on remeasurement of defined benefit liability	-	-	8,661	8,661
Cash flow hedges: losses arising during the year	-	(972)	-	(972)
Tax on cash flow hedges movement	-	243	-	243
Total comprehensive (loss) / income	-	(729)	112,929	112,200
Dividends paid on equity shares (note 8)	-	-	(79,650)	(79,650)
At 31 March 2024	71,671	71,753	372,947	516,371

Company statement of changes in equity

For the year ended 31 March 2024

	Notes	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 31 March 2022		71,671	343,694	415,365
Profit for the financial year		-	74,534	74,534
Total comprehensive income		-	74,534	74,534
Dividends paid on equity shares	8	-	(74,400)	(74,400)
At 31 March 2023		71,671	343,828	415,499
Profit for the financial year		-	86,900	86,900
Total comprehensive income		-	86,900	86,900
Dividends paid on equity shares	8	-	(79,650)	(79,650)
At 31 March 2024		71,671	351,078	422,749

Consolidated cash flow statement

For the year ended 31 March 2024

	Notes	2024 £'000	2023 £'000
Net cash inflows from operating activities	18	283,388	246,396
Cash flow from investing activities			
Interest received		3,698	425
Purchase of tangible and intangible fixed assets		(199,225)	(169,312)
Sale of tangible fixed assets		304	750
Net cash flow from investing activities		<u>(195,223)</u>	<u>(168,137)</u>
Cash flow from financing activities			
Dividends paid		(79,650)	(74,400)
Decrease of borrowings		(217,890)	(46,842)
Increase of borrowings		298,221	96,000
Interest paid		(58,338)	(49,448)
Expenses on issue of new loans		(2,075)	(183)
Net cash flow from financing activities		<u>(59,732)</u>	<u>(74,873)</u>
Net increase to cash and cash equivalents		28,433	3,386
Cash and cash equivalents at beginning of year		10,666	7,280
Cash and cash equivalents at end of year		<u>39,099</u>	<u>10,666</u>
The cash and cash equivalents balance			
		2024 £'000	2023 £'000
Cash at bank and in hand		<u>39,099</u>	<u>10,666</u>

The accompanying notes are an integral part of this consolidated cash flow statement.

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 Holdings Limited 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 group accounts consolidate the accounts of the company and its subsidiary undertakings in accordance with FRS 102. The results of subsidiaries acquired or disposed of are consolidated for the years from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. Where necessary, adjustments are made to the statements of subsidiaries to bring the accounting policies used in line with those used in the group. All intergroup transactions, balances, income and expenses are eliminated on consolidation. The parent company financial statements of the group meets the definition of a qualifying entity under FRS 102 and have therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel.

The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the group operates. The consolidated financial statements are also presented in pound sterling.

Going concern

The accounts have been prepared on a going concern basis. The group's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report. The group has: (1) undrawn borrowing facilities of £160m at the balance sheet date; (2) has a prudent debt to RAV position at the balance sheet date being in excess of £40m of debt due within one year; and (3) regulated revenue income until 31 March 2026. The directors have made enquiries and reviewed the forecasts to December 2028 which include assessment of covenants, and in light of the facilities available, have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts. Climate change has no impact on going concern as detailed within the sustainability statement.

Dividends

Dividends that are declared and paid are approved by the Board, subject to the delivery of internal targets and comply with all legal requirements.

Statement of accounting policies (continued)

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 as 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, which range from 3 to 10 years. Computer software under construction is not amortised until it is ready for use.

Software as a service arrangements and development costs are reviewed in accordance with FRS102 and recognised as an intangible asset where they meet the definition under the accounting standard. Otherwise they are expensed.

Statement of accounting policies (continued)

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. 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. Values are held on a first in first out basis.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the UK tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

Statement of accounting policies (continued)

Taxation (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the accounts. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax is measured on a non-discounted basis.

Provisions

Gas holder decommissioning 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. Under the mechanism set out in the gas licence, the group receive funds from customers as a way of being compensated for supply of last resort costs. These receipts are considered to be the collection of a levy with the group acting as an agent and as such the income and associated costs, which are equal and opposite, are netted off within the profit and loss account.

Pension costs

The group has obligations for a defined benefit scheme, which was closed to future accrual at 31 March 2022. 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 liability is presented within provisions. Assets are only recognised when the company has a legal right to cash on windup.

Statement of accounting policies (continued)

Pension costs (continued)

The group also operates defined contribution schemes. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the consolidated balance sheet.

Leases

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

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

Financial instruments

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

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction.

If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial 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.

Statement of accounting policies (continued)

Financial instruments (continued)

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
- 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).

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.

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

Statement of accounting policies (continued)

Derivative financial instruments

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

Interest rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest rates associated with the borrowing requirements of the group. The interest rate swaps are accounted for at fair value on the balance sheet with movements in fair value being recognised through either the profit and loss account or cash flow hedge reserve. Index linked swaps are entered into for the purpose of matching or eliminating risk from potential movements in inflation associated with the regulatory cost of debt allowances. The index linked swaps are accounted for at fair value on the balance sheet with movements in fair value being recognised through the profit and loss account. The group applies the recognition and measurement principles of IFRS9: 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 Group designates certain derivatives as hedging instruments in cash flow hedges and certain others as hedge 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 Group determines and documents potential causes of 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. Some derivatives have been designated cash flow hedges hedging aggregate floating rate exposures (such exposure being the aggregate of a portion of fixed rate debt and an overlaid fixed-to-floating interest rate swap. Changes in the fair value of derivatives that are designated as fair value hedges are recognised in profit and loss in the period in which the movement occurs, along with any movement in the fair value of the hedged debt instrument. Hedge accounting is discontinued when 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.

Statement of accounting policies (continued)

Interest receivable and payable

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

Impairment

Assets are assessed for indicators of impairment at each balance sheet date. For non-financial assets, if there is objective evidence of impairment, that being that the estimated recoverable value of the asset is less than the value in the balance sheet, an impairment loss is recognised in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

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 adopted and applied as recommended by the third party and assessed by management. Further details can be found within note 15.

Pension arrangements

Note 20 contains information about the principal actuarial assumptions used in the determination of defined benefit pension balance. These key assumptions include discount rates, inflation and mortality rates and have been determined following advice received from an independent qualified actuary.

Statement of accounting policies (continued)

Key sources of estimation uncertainty (continued)

Asset life

As a group NGN continue to support the planned 'net zero by 2050' ambition of the UK Government. This ambition gives uncertainty over how long natural gas will remain a source of energy within the UK. The NGN group hold network assets with long useful economic lives (UELS), meaning the current accounting policy will lead to the group holding assets with value at the end of 2050. As such, judgement is needed as to whether these network UELs remain appropriate.

The directors acknowledged that there are a range of possible outcomes regarding how the existing network is used in the future. Scenarios include: (1) no change to the purpose of the network, with hydrogen replacing natural gas; (2) a reduction to the network with the UK's heating and energy solution being multifueled and varied by location; (3) an electrification solution to all domestic heating, with gas of some form only being used for those industrial needs which cannot be supported through alternatives. It remains unclear which of these scenarios is most likely to play out, certainly until after the 2026 Government Heat Policy Decision, but what is known is that we have seen delays in net zero progression within the UK, such as the delayed date by which new petrol and diesel cars can be sold.

The directors continue to believe that the existing asset will play a key part in the UK's future energy requirement as a gas transportation infrastructure asset, and we have started to define how much of a contribution the existing network asset can make, through our Net Zero Pathway project and Minimum Viable Network study. NGN's East Coast Hydrogen project demonstrates how a localised hydrogen network can help the UK Government deliver its' net zero commitments. Further details of these projects can be found on pages 16 to 18.

With the above factors in mind, it is the view of the directors that the network UELs do remain appropriate and that no impairment is needed as at the balance sheet date. As time progresses this view will be re-assessed.

Further to this, Ofgem have recently opened discussion on funding the accelerated depreciation of the network, should a decision be made that would lead to a stranded asset. While these discussions have just started and are far from conclusion, it provides assurance that the carrying value of the existing asset will likely be covered by future revenue.

Notes to the accounts

For the year ended 31 March 2024

1 Turnover

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

2 Operating expenses

	2024 £'000	2023 £'000
Distribution costs	137,486	142,772
Administrative expenses	113,496	92,703
	<u>250,982</u>	<u>235,475</u>

3 Finance charges (net)

	2024 £'000	2023 £'000
Interest payable and similar charges	58,782	49,447
Less: investment income	(3,698)	(426)
Other finance charges / (income)	11,473	(3,091)
	<u>66,557</u>	<u>45,930</u>

	2024 £'000	2023 £'000
<i>Interest payable and similar charges</i>		
Shareholder loans	18,049	18,000
Bank loans and overdrafts, and associated SWAPs	(9,404)	(3,644)
Bonds	51,429	35,988
	<u>60,074</u>	<u>50,344</u>
Finance costs capitalised	(1,292)	(897)
	<u>58,782</u>	<u>49,447</u>

Finance costs have been capitalised based on a cost of debt capitalisation rate of 2.47% (2023 – 1.90%).

Notes to the accounts (continued)

3 Finance costs (net) (continued)

<i>Investment income</i>	2024 £'000	2023 £'000
Interest receivable and similar income	(3,698)	(426)
	<u>(3,698)</u>	<u>(426)</u>
<i>Other finance charges / (income)</i>	2024 £'000	2023 £'000
Fair value movement on financial instruments	(8,022)	(49,689)
Fair value movement on financial instruments (accretion)	20,724	47,843
Exchange rate differences	(18)	32
Unwinding of discount on provisions (see note 16)	(215)	(1,211)
Net interest on pension scheme (see note 20)	(996)	(66)
	<u>11,473</u>	<u>(3,091)</u>

Notes to the accounts (continued)

4 Profit before taxation

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

	2024 £'000	2023 £'000
Depreciation and amounts written off tangible fixed assets (see note 10)		
- owned	80,292	77,269
Amortisation of intangible fixed assets included in administrative expenses (see note 9)	14,779	13,564
(Profit) / loss on disposal of fixed assets and intangible assets	(206)	494
Operating lease rentals - vehicles	219	248
Operating lease rentals - property	882	1,251
	<hr/>	<hr/>

The analysis of auditor's remuneration is as follows:

	2024 £'000	2023 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts and consolidation	61	58
<i>Fees payable to the company's auditor and its associates for other services to the group</i>		
- The audit of the company's subsidiaries	253	242
Total audit fees	<hr/> <u>314</u>	<hr/> <u>300</u>
<i>Fees payable to the company's auditor and its associates for other services to the group</i>		
- Audit related assurance services*	86	82
Total non-audit fees	<hr/> <u>86</u>	<hr/> <u>82</u>

* Relates to regulatory agreed upon procedures and covenant compliance checking

Notes to the accounts (continued)

5 Staff costs

The average monthly number of employees, all of whom are employees of Northern Gas Networks Operations Limited (the company has no employees) including executive directors was:

	2024 Number	2023 Number
Administration	153	156
Operations	1,402	1,324
	<u>1,555</u>	<u>1,480</u>

	2024 £'000	2023 £'000
Their aggregate remuneration comprised:		
Wages and salaries	81,072	71,604
Social security costs	8,723	7,963
Pension costs	6,167	5,425
	<u>95,962</u>	<u>84,992</u>

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Emoluments	97	92	1,080	992
Amounts receivable (other than shares) under long-term incentive schemes	-	-	244	237
	<u>97</u>	<u>92</u>	<u>1,324</u>	<u>1,229</u>

The remuneration of non-executive directors as shown above relates to the independent non-executive directors of the subsidiary company Northern Gas Networks Limited, that are required by that company pursuant to its Public Gas Transportation Licence. Only one executive director is remunerated through the group, with the rest being remunerated by other companies within the ownership group (see note 22). It is not possible to allocate a share of this cost to the NGN group.

Pensions

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

Notes to the accounts (continued)

6 Directors' remuneration and transactions (continued)

Highest paid director

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

	2024 £'000	2023 £'000
Emoluments	<u>1,324</u>	<u>1,229</u>

Transactions

There have been no transactions with directors in the year (2023 - £nil) other than as set out above in respect of remuneration. Only directors are deemed to be key personnel.

7 Tax on profit

The tax charge comprises:

	2024 £'000	2023 £'000
Current tax		
UK corporation tax	37,189	33,957
Adjustments in respect of prior periods	<u>335</u>	<u>(19,080)</u>
Total current tax	<u>37,524</u>	<u>14,877</u>
Deferred tax		
Current period - origination and reversal of timing differences	7,796	12,248
Unwind of pension arrangements	-	(11,099)
Adjustments in respect of prior periods	<u>(3,270)</u>	<u>7,201</u>
Total deferred tax	<u>4,526</u>	<u>8,350</u>
Total tax on profit	<u>42,050</u>	<u>23,227</u>

Notes to the accounts (continued)

7 Tax on profit (continued)

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

	2024 £'000	2023 £'000
Group profit before tax	<u>180,962</u>	<u>164,757</u>
Tax on group profit at standard UK corporation tax rate of 25% (2023 – 19.0%)	45,240	31,304
Effects of:		
Expenses not deductible for tax purposes	511	1,159
Income not taxable in determining taxable profit	(766)	(1,337)
Interest not deductible for tax purposes	-	705
Movement on uncertain tax positions	-	1,078
Differences in tax rates	-	2,197
Adjustments in respect of prior year	(2,935)	(11,879)
Group total tax charge for the year	<u>42,050</u>	<u>23,227</u>

The group earns its profits in the UK. Therefore, the tax rate used for tax on profit is the standard rate for UK corporation tax, currently 25.0% (2023 – 19.0%).

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

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. The change of the UK corporation tax rate to 25% from 1 April 2023 was substantively enacted on 24 May 2021. Accordingly a tax rate of 25% has been applied across all group companies when calculating deferred tax assets and liabilities.

In addition to the amount charged to profit and loss, the following amounts relating to tax have been recognised in other comprehensive income: remeasurement of net defined benefit liability of £8.7m gain (2023: £3.8m gain) and fair value movement on the cashflow hedge of £0.2m gain (2023: £15.6m loss). Overall these create a total tax gain of £8.9m (2023: £11.8m loss).

Notes to the accounts (continued)

8 Dividends on equity shares

	2024 £'000	2023 £'000
Equity shares		
- interim dividend paid of 26.16p (2023 – 58.60p) per ordinary share	18,750	42,000
- interim dividend paid of 84.97p (2023 – 45.21p) per ordinary share	60,900	32,400
	<u>79,650</u>	<u>74,400</u>

9 Intangible assets

	Software £'000	Software in the course of construction £'000	Licences £'000	Goodwill £'000	Total £'000
Cost					
At 1 April 2023	89,840	3,427	161,200	65,712	320,179
Additions	1,440	4,071	-	-	5,511
Transfers	1,190	(352)	-	-	838
Disposals	(739)	-	-	-	(739)
At 31 March 2024	<u>91,731</u>	<u>7,146</u>	<u>161,200</u>	<u>65,712</u>	<u>325,789</u>
Amortisation					
At 1 April 2023	26,068	-	71,859	29,187	127,114
Charge for the year	9,104	-	4,027	1,648	14,779
Disposals	(653)	-	-	-	(653)
At 31 March 2024	<u>34,519</u>	<u>-</u>	<u>75,886</u>	<u>30,835</u>	<u>141,240</u>
Net book value					
At 31 March 2024	<u>57,212</u>	<u>7,146</u>	<u>85,314</u>	<u>34,877</u>	<u>184,549</u>
At 31 March 2023	<u>63,772</u>	<u>3,427</u>	<u>89,341</u>	<u>36,525</u>	<u>193,065</u>

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

Transfers are between tangible and intangible fixed assets, with an overall net nil position.

Notes to the accounts (continued)

10 Tangible fixed assets

Group	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 April 2023	14,984	3,493,937	20,490	76,499	43,701	3,649,611
Additions	6,704	157,759	8,413	1,431	23,926	198,233
Disposals	(2,993)	(17)	(2,275)	(5,716)	-	(11,001)
Transfers	-	6,595	262	1,331	(9,029)	(841)
At 31 March 2024	<u>18,695</u>	<u>3,658,274</u>	<u>26,890</u>	<u>73,545</u>	<u>58,598</u>	<u>3,836,002</u>
Depreciation						
At 1 April 2023	8,436	806,821	15,988	51,109	-	882,354
Charge for the period	735	71,338	2,047	6,172	-	80,292
Disposals	(2,993)	(5)	(2,275)	(5,716)	-	(10,989)
At 31 March 2024	<u>6,178</u>	<u>878,154</u>	<u>15,760</u>	<u>51,565</u>	<u>-</u>	<u>(951,657)</u>
Net book value						
At 31 March 2024	<u>12,517</u>	<u>2,780,120</u>	<u>11,130</u>	<u>21,980</u>	<u>58,598</u>	<u>2,884,345</u>
At 31 March 2023	<u>6,548</u>	<u>2,687,116</u>	<u>4,502</u>	<u>25,390</u>	<u>43,701</u>	<u>2,767,257</u>

Undepreciated freehold land equates to £1,903,000 at 31 March 2024 (2023 - £1,903,000).

Transfers are between tangible and intangible fixed assets, with an overall net nil position.

Notes to the accounts (continued)

11 Investments

	Group		Company	
	31 March 2024	31 March 2023	31 March 2024	31 March 2023
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	574,502	574,502
Other investments	104	104	-	-
	<u>104</u>	<u>104</u>	<u>574,502</u>	<u>574,502</u>

All group investments

The parent company and the group have investments in the following subsidiary undertakings which affected the profits or net assets of the group:

Subsidiary undertakings	Country of incorporation	Principal activity	Holding	%
Northern Gas Networks Limited + ("NGN")	England & Wales	Gas distribution	100 ordinary shares of £1	100
Northern Gas Networks Finance Plc ("NGNF")	England & Wales	Financing	50,000 ordinary shares of £1	100
Northern Gas Networks Operations Limited ("NGNOL")	England & Wales	Gas network operations	2 ordinary shares of £1	100
Northern Gas Networks Pensions Trustee Limited ("NGNPT")	England & Wales	Pension scheme trustee	1 ordinary share of £1	100
Northern Gas Networks General Partner Limited ("NGNGP")	Scotland	Pension Partnership	100 ordinary shares of £1	100

+ Held directly by Northern Gas Networks Holdings Limited.

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

During the year Northern Gas Networks ABC2 Pension Funding Limited Partnership and Northern Gas Networks Pension Funding Limited Partnership were dissolved as they were no longer required.

Notes to the accounts (continued)

11 Investments (continued)

The other investment represents a 10.38% holding in Xoserve Limited, which provides information, data processing, invoicing and supply point administration services to the group. Xoserve Limited is registered in England & Wales. The group also holds 1 ordinary share of £1 in Smart Energy Code Company Limited (registered in England & Wales) which represents a holding of 1.15%.

Subsidiary undertakings

	£'000
Cost and net book value	
At 31 March 2024 and 31 March 2023	<u>574,502</u>

Other investments

	£'000
Cost and net book value	
At 31 March 2024 and 31 March 2023	<u>104</u>

12 Debtors

	Group		Company	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Amounts falling due within one year:				
Trade debtors	4,332	2,739	-	-
Amounts owed by group undertakings	1	1	14,611	12,261
Other debtors	87	91	13,276	10,198
Accrued income	46,111	43,196	-	-
Prepayments	7,273	6,674	-	-
Deferred tax asset	-	-	4,846	2,975
Derivative financial assets	2,871	4,624	-	-
	<u>60,675</u>	<u>57,325</u>	<u>32,733</u>	<u>25,434</u>
Amounts falling due after more than one year:				
Derivative financial assets	174,725	169,824	-	-
Defined benefit pension scheme (note 20)	-	2,404	-	-
	<u>174,725</u>	<u>172,228</u>	<u>-</u>	<u>-</u>
	<u>235,400</u>	<u>229,553</u>	<u>32,733</u>	<u>25,434</u>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. The balances within the company arise in relation to rechargeable services provided by other group companies.

The company other debtors relates to group relief surrendered to Northern Gas Networks Limited and the deferred tax asset relates to tax losses arising, which are expected to be used as group relief within 12 months of the balance sheet date with Northern Gas Networks Limited.

Notes to the accounts (continued)

13 Creditors: amounts falling due within one year

	Group		Company	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Bank loans	40,000	130,658	-	-
Derivative financial liabilities	-	7,056	-	-
Payments received on account	17,630	17,811	-	-
Trade creditors	9,623	8,744	-	-
UK corporation tax	13,081	2,254	-	-
Other taxation and social security	12,765	12,468	-	-
Deferred income	4,288	4,053	-	-
Accruals	80,419	69,990	4,487	4,438
	<u>177,806</u>	<u>253,034</u>	<u>4,487</u>	<u>4,438</u>

The bank loan is a £40.0m loan which matures on 20 December 2024 with a fixed interest rate of 3.446%.

Group accruals includes interest accruals of £36.9m (2023 - £22.0m). Company accruals include shareholder loan interest accruals of £4.5m (2023 - £4.5m) due in December 2024, based on a shareholder loan of £180.0m with an interest rate of 10%.

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Shareholder loans	180,000	180,000	180,000	180,000
Bank loans	168,421	295,263	-	-
Bond due 2027	265,215	270,981	-	-
Bond due 2033	308,900	-	-	-
Bond due 2035	263,760	270,657	-	-
Bond due 2040	197,555	197,401	-	-
Green bond	952	1,000	-	-
USPP 2029 loan	46,703	46,666	-	-
USPP 2031 loan	136,542	137,120	-	-
USPP 2036 loan	174,617	174,586	-	-
USPP 2037 loan	64,816	64,802	-	-
USPP 2039 loan	99,762	99,747	-	-
Deferred income	160,660	157,300	-	-
Derivative financial liabilities	103,506	92,650	-	-
	<u>2,171,409</u>	<u>1,988,173</u>	<u>180,000</u>	<u>180,000</u>

Notes to the accounts (continued)

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

The maturity dates and interest rates of loans and bonds are as follows:

Debt instrument	Maturity date	Interest rate / basis	Principal amount (£m)	Fair value adjustment (£m)	Unamortised costs & discounts (£m)	Book value (£m)
Shareholder loan notes	18/12/2033	10.0% fixed	180.0	-	-	180.0
Fixed rate bond	30/06/2027	4.875% fixed	250.0	15.3	(0.1)	265.2
Fixed rate bond	02/06/2033	6.125% fixed	300.0	12.4	(3.5)	308.9
Fixed rate bond	15/11/2035	4.875% fixed	255.0	8.9	(0.1)	263.8
Fixed rate bond	23/03/2040	5.625% fixed	200.0	-	(2.4)	197.6
Green bonds	30/06/2031	1.60% fixed	1.0	-	-	1.0
US Private Placement notes	10/01/2029	2.84% fixed	50.0	(3.2)	(0.1)	46.7
US Private Placement notes	10/01/2031	2.97% fixed	150.0	(13.2)	(0.3)	136.5
US Private Placement notes	23/09/2036	2.02% fixed	175.0	-	(0.4)	174.6
US Private Placement notes	30/06/2037	2.10% fixed	65.0	-	(0.2)	64.8
US Private Placement notes	26/06/2039	2.71% fixed	100.0	-	(0.2)	99.8
European Investment Bank floating rate loan	31/03/2027	Compounded SONIA + 0.1193% CAS + 0.534%	30.0	-	-	30.0
European Investment Bank floating rate loan	28/02/2028	Compounded SONIA + 0.1193% CAS + 0.627%	30.0	-	-	30.0
European Investment Bank floating rate loan	20/12/2028	Compounded SONIA + 0.1193% CAS + 0.934%	40.0	-	-	40.0
European Investment Bank floating rate loan	29/03/2029	Compounded SONIA + 0.1193% CAS + 0.834%	50.0	-	-	50.0
European Investment Bank amortising loan	25/03/2034	Compounded SONIA + 0.1193% CAS + 0.860%	18.4	-	-	18.4

Notes to the accounts (continued)

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

	2024	2023
	£'000	£'000
Maturity analysis of bond interest and repayments: <i>(measured as actual cash flows)</i>		
In one year or less	54,260	35,885
In more than one year but less than two years	54,260	35,885
In more than two years but less than five years	388,404	345,467
In more than five years but less than ten years	492,938	119,454
In more than ten years but less than twenty years	534,931	558,613
	<u>1,524,793</u>	<u>1,095,304</u>

15 Derivatives and other financial instruments

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

	2024	2023
	£'000	£'000
Financial assets		
Measured at fair value through the profit and loss account		
- Derivative financial assets (note 12)	25,257	41,544
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets – cash flow hedges (note 12)	109,500	105,039
- Derivative financial assets – fair value hedges (note 12)	42,839	27,865
Measured at undiscounted amount receivable		
- Trade and other debtors (note 12)	4,419	2,830
- Amounts owed by parent undertaking (note 12)	1	1
- Accrued income (note 12)	46,111	43,196
Equity instruments measured at cost less impairment		
- Fixed asset investments (note 11)	104	104
	<u>228,231</u>	<u>220,579</u>

Notes to the accounts (continued)

15 Derivatives and other financial instruments (continued)

	2024 £'000	2023 £'000
Financial liabilities		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities - interest rate swaps (notes 13 & 14)	19,000	30,559
- Derivative financial liabilities - inflation linked swaps (notes 13 & 14)	62,706	54,394
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities - cash flow hedges (notes 13 & 14)	5,151	298
- Derivative financial liabilities - fair value hedges (notes 13 & 14)	16,649	14,455
Measured at amortised cost		
- Loans payable (notes 13 & 14)	890,662	1,107,692
- Fair value hedge adjustment of live bonds & USPP notes (notes 13 & 14)	8,259	4,857
- Other financial liabilities - bonds (see notes 13 & 14)	1,036,382	740,039
- Fair value hedge adjustment – bonds previously in FV hedge relationships (see note 13 & 14)	11,940	16,293
Measured at undiscounted amount payable		
- Trade and other creditors (see note 13)	9,623	8,744
- Accruals and deferred income (see notes 13 & 14)	245,367	231,343
- Corporation tax (see note 13)	14,128	2,254
- Other taxation and social security (see note 13)	12,765	12,468
	<u>2,332,632</u>	<u>2,223,396</u>

Notes to the accounts (continued)

15 Derivatives and other financial instruments (continued)

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

	2024 £'000	2023 £'000
Interest income and expense on items at amortised cost		
- Total interest payable on financial liabilities at amortised cost	98,799	80,533
- Total interest receivable on financial assets measured at amortised cost	(3,698)	(425)
	<u>95,101</u>	<u>80,108</u>
Interest income and expense on derivatives		
- Total interest receivable on financial assets measured at fair value through the P&L	(2,913)	(9,663)
- Total interest payable on financial liabilities measured at fair value through the P&L	(585)	4,693
- Total interest receivables on financial liabilities measured at fair value through the P&L	(14,113)	(14,245)
- Total interest payable / (receivable) on financial assets designated in an effective hedging relationship: Cash flow hedges	(25,564)	(6,409)
Fair value hedges	4,939	(5,879)
- Total interest payable / (receivable) on financial liabilities designated in an effective hedging relationship: Cash flow and fair value hedges	1,644	601
	<u>(36,592)</u>	<u>(30,902)</u>
Fair value gains and losses		
- On financial assets measured at fair value through the profit and loss account	18,984	84,692
- On financial liabilities measured at fair value through the profit and loss account (interest rate)	(14,481)	(77,698)
- On financial liabilities measured at fair value through the profit and loss account (index linked)	8,314	4,695
- On derivative financial assets designated in an effective hedging relationship – live fair value hedges	(3,874)	77,043
- 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 – live fair value hedges	1,764	-
- On non-derivative financial liabilities designated in an effective hedging relationship – live fair value hedges	3,402	(84,807)
- On financial liabilities formerly designated in an effective hedging relationship – amortisation of previous FV hedge adjustments	(4,892)	(6,311)
	<u>9,757</u>	<u>(1,846)</u>
Other net finance income	(1,709)	(1,430)
	<u>66,557</u>	<u>45,930</u>

Notes to the accounts (continued)

15 Derivatives and other financial instruments (continued)

Included in fair value losses on index-linked financial liabilities measured at fair value through the profit and loss account is accretion on CPI linked swaps of £20.7m (2023 - £47.8m). Accumulated accretion as at 31 March 2024 is £88.7m (2023 - £68.0m).

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 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 Group’s derivatives in hedging relationships split between less than 1 year and greater than 1 year.

	Current (less than 1 year)		Greater than 1 year	
	2024	2023	2024	2023
	£'000	£'000	£'000	£'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Cash flow hedges				
Assets	2,104	502	107,397	104,537
Liabilities	-	-	(5,151)	(298)
Fair value hedges				
Assets	-	-	42,839	27,865
Liabilities	-	-	(16,649)	(14,454)
	<u>2,104</u>	<u>502</u>	<u>128,436</u>	<u>117,650</u>

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.

Notes to the accounts (continued)

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	
	2024	2023	2024	2023	2024	2023
	%	%	£'000	£'000	£'000	£'000
Outstanding cash flow hedges of floating rate EIB loans						
Less than 1 year	2.33	2.66	70,921	52,500	1,133	502
1 to 2 years	1.63	2.29	132,500	72,763	5,874	2,246
2 to 5 years	1.22	1.49	72,500	182,500	6,533	13,091
5 years +	1.76	0.95	67,500	72,500	7,067	10,874
			343,421	380,263	20,607	26,713

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 be 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 compounded SONIA plus a credit adjustment spread, subject to a 5 business day lag. 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	
	2024	2023	2024	2023	2024	2023
	%	%	£'000	£'000	£'000	£'000
Outstanding cash flow hedges of other floating rate exposures						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	4.39	-	140,770	-	693	-
2 to 5 years	1.46	4.14	70,000	127,500	7,660	665
5 years +	2.56	1.35	346,733	302,500	75,621	77,363
			557,503	430,000	83,974	78,028

Notes to the accounts (continued)

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 SONIA compounded for 6 months plus a credit adjustment spread, subject to a 5 business day lag. 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 between 10 and 14 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 be 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 compounded SONIA plus a credit adjustment spread, subject to a 5 business day lag. 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	
	2024 %	2023 %	2024 £'000	2023 £'000	2024 £'000	2023 £'000
Outstanding fair value hedges of bonds						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	4.88	4.88	95,000	95,000	3,974	4,893
5 years plus	5.55	4.88	555,000	255,000	38,865	22,972
			650,000	350,000	42,839	27,865

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 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 compounded SONIA plus a credit adjustment spread plus a margin, subject to a 5 business day lag. Interest will be settled on a gross basis as the settlement dates for the fixed and floating rate legs do not coincide.

Notes to the accounts (continued)

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	
	2024	2023	2024	2023	2024	2023
	%	%	£'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	2.84	-	25,000	-	(3,237)	-
5 years plus	2.97	2.94	75,000	80,000	(13,412)	(14,454)
			100,000	80,000	(16,649)	(14,454)

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 2029 and 2031 USPP notes that are attributable to changes in interest rates. As the swaps have been structured on an accreting basis they also enable the effective interest rate on the underlying debt to be progressively re-fixed in line with the group's overall interest rate hedging strategy. Interest on the swaps is settled on a semi-annual basis. The floating rate on the swaps is compounded SONIA plus a credit adjustment spread plus a margin, subject to a 5 business day lag. The Group settles the difference between the fixed and floating interest rate on a net basis.

The USPP loan notes issued by the group include contractual obligations to settle cross-currency derivative financial instruments that the lender has entered into pursuant to the loan, in the event that NGN defaults or repays the USPP loans early. The resulting embedded derivatives have been valued at nil on the basis that NGN is not in default or forecast to be so, or expected to repay the USPP loan notes before the maturity date.

Notes to the accounts (continued)

16 Provisions for liabilities

	Gas holder Decommissioning £'000	Deferred tax £'000	Environmental restoration £'000	Other £'000	Total £'000
At 1 April 2023	7,821	461,019	3,300	8,553	480,693
Charged to profit and loss account	-	(645)	93	1,154	602
Debit to hedge reserve	-	(244)	-	-	(244)
Utilised in the year	(4,079)	-	(412)	(437)	(4,928)
Released in year	-	-	-	-	-
Adjustment arising from discounting	-	-	-	(215)	(215)
At 31 March 2024	3,742	460,130	2,981	9,055	475,908
Pension liability (note 20)					8,662
Total provisions					484,570

Deferred tax

Deferred tax is provided as follows:

	2024 £'000	2023 £'000
Group		
Accelerated capital allowances	139,504	135,060
Fixed asset differences	274,102	282,908
Other timing differences	46,524	43,051
	<u>460,130</u>	<u>461,019</u>

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 pension contributions spreading. A deferred tax asset of £557,000 (2023 - £557,000) in respect of Corporate Interest Restriction balance carried forward has not been recognised because in the opinion of the directors it will not be able to be reactivated in the foreseeable future.

Notes to the accounts (continued)

16 Provisions for liabilities (continued)

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 during the 5 years of RIIO-GD2 commencing 1 April 2021.

Sensitivity analysis was applied on the estimated unit cost of removal, with a 5% movement causing a £0.2m variance although this variance is deemed to be highly unlikely.

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 £1.8m 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 event. 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.

Sensitivity analysis was applied on the estimated cost, with a 5% movement causing a £0.5m variance although this variance is deemed to be highly unlikely.

Notes to the accounts (continued)

17 Called-up share capital and revenues

Share capital

	2024 £'000	2023 £'000
<i>Allotted, called-up and fully-paid</i>		
71,669,980 ordinary shares of £1 each	71,670	71,670
<i>Allotted and called-up</i>		
999 ordinary shares of £1 each	1	1
1 special share of £1	-	-
	<u>71,671</u>	<u>71,671</u>

The unpaid shares remain outstanding within debtors at the balance sheet date. The ordinary shares and the special share are separate classes of shares and carry the same rights and privileges and rank pari passu in all respects.

Profit and loss account - This is the accumulative earnings retained by the group.

Hedging reserve - This represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges.

Notes to the accounts (continued)

18 Reconciliation of operating profit to operating cash flows and net debt reconciliation

Reconciliation of operating profit	2024	2023
	£'000	£'000
Operating profit	247,519	210,687
Depreciation and amortisation	95,071	90,833
Taxation – UK corporation tax paid	(26,697)	(42,533)
(Profit) / loss on sale of tangible fixed assets	(206)	494
(Increase) in stock	(982)	(433)
(Increase) in debtors	(4,896)	(8,553)
(Decrease) / increase in creditors	(3,046)	19,638
Decrease in provisions	(3,681)	(5,916)
Payments to defined benefit pension scheme	(19,694)	(17,821)
Net cash inflow from operating activities	<u>283,388</u>	<u>246,396</u>

Net debt reconciliation

	1 April 2023 £'000	Cash flow £'000	Other non-cash changes £'000	31 March 2024 £'000
Cash at bank and in hand	10,666	28,433	-	39,099
	<u>10,666</u>	<u>28,433</u>	<u>-</u>	<u>39,099</u>
Debt due within 1 year	(130,658)	91,000	(342)	(40,000)
Debt due after more than 1 year	(1,738,223)	(169,345)	325	(1,907,243)
	<u>(1,868,881)</u>	<u>(78,345)</u>	<u>(17)</u>	<u>(1,947,243)</u>
Net debt	<u>(1,858,215)</u>	<u>(49,912)</u>	<u>(17)</u>	<u>(1,908,144)</u>

Other non-cash changes result from fair value movements on derivative financial instruments, and the amortisation of prepaid finance costs.

Notes to the accounts (continued)

19 Financial commitments

Total future commitments of the group (none within the company) under non-cancellable operating leases are as follows:

	31 March 2024		31 March 2023	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
- within one year	893	75	1,112	142
- between one and two years	380	43	1,077	47
- between two and five years	351	13	1,502	13
- after five years	683	-	709	-
	<u>2,307</u>	<u>131</u>	<u>4,400</u>	<u>202</u>

The group has a total commitment of £4.1m (2023 - £4.6m) 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 guaranteed bonds included within long term borrowings in note 14.

The group has also entered into a Guarantee and Reimbursement Agreement with FGUK in relation to the 2027 and 2035 bonds issued by Northern Gas Networks Finance Plc ("the Issuer") in November 2005 of £505.0m. The group guarantees the punctual payment of any and all sums and fees due to FGUK and undertakes to pay any amount due from the Issuer but not paid by it. The group 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)

20 Pension arrangements

The group has obligations for a defined benefit pension scheme which closed for future accrual from 1 April 2022. The last triennial valuation was done in March 2022. During the year a valuation of the pension scheme was carried out by a third party actuarial firm (Mercer). The present valuation of the obligations, the related current service cost and past service cost were measured using the projected unit credit method.

The amounts recognised in the balance sheet are as follows:

	2024 £'000	2023 £'000
Present value of funded obligations	(309,581)	(318,013)
Fair value of plan assets	298,031	320,417
(Deficit) / surplus	(11,550)	2,404
Related deferred tax asset / (liability)	2,888	(601)
Net (liability) / asset in balance sheet	<u>(8,662)</u>	<u>1,803</u>

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

	2024 £'000	2023 £'000
<i>Amount credited to net finance charges</i>		
Interest costs	15,087	11,346
Expected cost return on plan assets	(16,083)	(11,412)
Net return on pension scheme (see note 3)	(996)	(66)
Total income	<u>(996)</u>	<u>(66)</u>

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

	2024 £'000	2023 £'000
Actuarial losses	<u>(34,644)</u>	<u>(15,126)</u>

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

	2024 £'000	2023 £'000
Actuarial losses	<u>(171,670)</u>	<u>(137,026)</u>

Notes to the accounts (continued)

20 Pension arrangements (continued)

	2024 £'000	2023 £'000
Opening defined benefit obligation	318,013	426,094
Interest cost	15,087	11,346
Actuarial gains	(9,670)	(92,450)
Benefits paid	(13,849)	(26,977)
Closing defined benefit obligation	<u>309,581</u>	<u>318,013</u>

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

	2024 £'000	2023 £'000
Opening fair value of plan assets	320,417	425,739
Expected return	16,083	11,412
Actuarial losses	(44,314)	(107,576)
Employer contributions	19,694	17,819
Benefits paid	(13,849)	(26,977)
	<u>298,031</u>	<u>320,417</u>

Notes to the accounts (continued)

20 Pension arrangements (continued)

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

	31 March 2024	31 March 2023
	%	%
Deferred buy in premium	(11.1)	-
Bond securities	-	12.9
Assets held by insurance companies	103.2	75.0
Property fund	2.5	3.2
Other	5.4	8.9

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:

	2024	2023
	£'000	£'000
Actual loss on plan assets	<u>(28,231)</u>	<u>(96,163)</u>

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

	2024	2023
Discount rate	5.1%	4.9%
Inflation (CPI)	2.9%	2.9%
Inflation (RPI)	3.3%	3.3%
Life expectancy on retirement		
- member aged 65 (retiring today) male	20.8 years	21.1 years
- member aged 65 (retiring today) female	23.0 years	23.3 years
- member aged 45 (retiring in 20 years) male	22.5 years	22.4 years
- member aged 45 (retiring in 20 years) female	25.1 years	25.5 years

At the start of the year, the group were 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 were Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit pension scheme and the Northern Gas Networks General Partner Limited.

Notes to the accounts (continued)

20 Pension arrangements (continued)

In April 2023 the company funded the buy-in of the majority of the remaining pension liabilities and terminated the two asset backed contribution schemes that were in place at the start of the year. Contributions to the pension scheme of £19.7m (2023 - £17.8m) were made in the year. The group also operates defined contribution schemes for which the pension charge for the period amounted to £6.2m (2023 - £5.4m).

21 Related party transactions

There have been no transactions with directors in the year (2023 - £nil) other than remuneration as disclosed in note 6 to the accounts. During the year the group was recharged £15,000 (2023 - £63,000) in the ordinary course of business from CK Infrastructure Holdings Limited (see note 22 for relationship to the group). During the year the group was recharged £3,536,000 (2023 - £2,913,000) by xoserve, an investment of the company, for billing services provided. At the balance sheet date the company held assets of £2,282,000 and £33,000 with CK Infrastructure Holdings Limited subsidiaries and Power Assets Holdings Limited subsidiaries, respectively. During the year interest was charged on shareholder loans held by the company as detailed in note 14 and analysed below:

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

22 Ultimate controlling party

The company is wholly owned by a consortium comprising of:

<u>Shareholder</u>	<u>Ultimate parent undertaking</u>
PG (April) Limited, incorporated in England & Wales (47.1%)	CK Infrastructure Holdings Limited
Beta Central Profits Limited, incorporated in England & Wales (41.3%)	Power Assets Holdings Limited
SAS Trustee Corporation, incorporated in Australia (11.6%)	Not applicable

23 Events after the balance sheet date

Post year end, dividends of 27.21p per share were paid on 20 June 2024.

In 2023 with regard to the Virgin Media pension case, the High Court ruled that a lack of actuarial confirmation would render relevant amendments to affected contracted-out DB pension schemes' rules invalid and void. In July of 2024 the Court of Appeal rejected the appeal to this decision, meaning potential implications exist for a significant number of DB schemes, affecting the way benefits have accrued. The implications to the NGN group cannot be assessed until the case concludes.