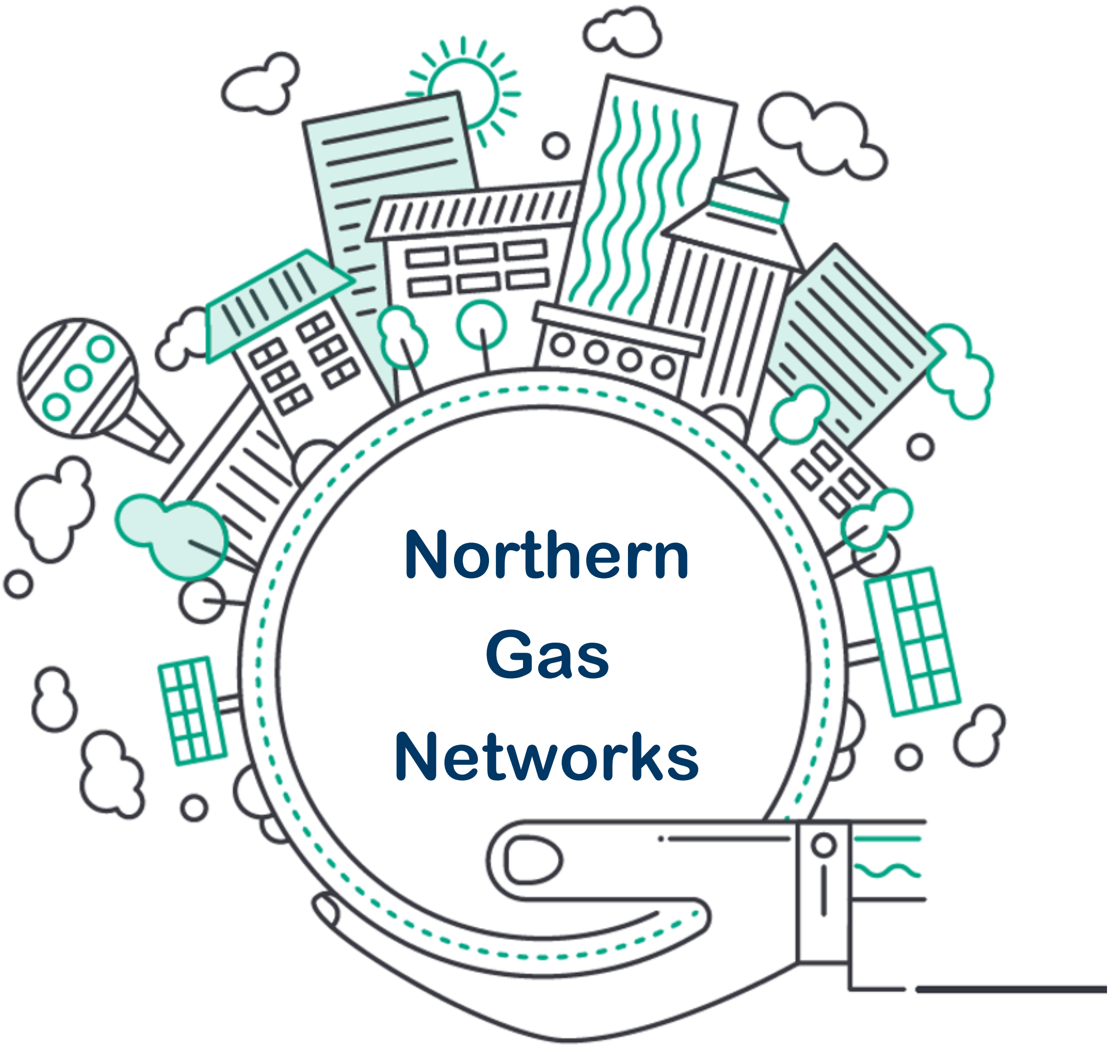

Regulatory Financial Performance Report (RFPR) - 2022/23

September 2023

Contents

1. Overview

This report sets out the details of our financial performance in 2022/23 and supports our RFPR tables submitted to Ofgem in September 2023. Further details of performance, both financial and non-financial which include how we act in a sustainable and environmentally responsible way, can be found within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

The financial highlights for the year ended 31 March 2023 are:

- We outperformed the allowances by 13.2% this year, but expect workload increases and cost pressures against a reducing allowance to lower this outperformance in future years. We expect to deliver a 3.0% outperformance over the 5 years of RIIO-2. This outperformance is a fall from what we expected 12 months ago, due to a 1.6% increase in costs and 2.1% decrease in allowances, mainly driven by a fall in Real Price Effect adjustments which lagged core inflation.

- We expect to increase our customer service performance each year, delivering an £8.2m incentive over RIIO-2. We expect to pay no penalties under the Complaints and Unplanned Interruptions performance mechanism.

- We have recovered our Shrinkage and Environmental Emissions output following the shortfall against target last year, and forecast delivering a £0.3m incentive over RIIO-2.

- We delivered more Tier 1 mains replacement work than targeted for the second year running, and will continue to do so to recover the shortfall seen during the Covid-19 pandemic.

- The Regulatory Asset Value (RAV) increased in line with expectations as we continue to invest in our assets.

Note on enduring value adjustments

Enduring value is defined as an adjustment made to a licensee's financial or operational performance to reflect true performance against regulatory targets. This could include any timing differences (past or future) on delivery when compared to the allowance, any future uncertainty mechanism claims, and any future close out mechanism adjustments. NGN do not consider it appropriate to make any enduring value adjustments as at 31 March 2023.

Data assurance

The submission process is compliant with NGN's Regulatory Reporting Policy, which requires a full secure audit trail for the submission, segregated roles and responsibilities including independent completion and detailed checking roles. Step by step processes have been documented. All tables are allocated to members of the NGN Finance Management Team, and have been reviewed through departmental internal sign off in accordance with our policies.

Much of the financial data is based on other Regulatory Submissions including those detailed under Condition A40 in our Licence and it has been reconciled to the March 2023 audited statutory accounts. As such the base data is subject to the controls inherent in those processes.

2. (R1) Return on Regulatory Equity (RORE)

Ofgem use the Return on Regulatory Equity (RORE) to measure the potential financial returns or penalties on the portion of the value of the company that is financed by equity. RORE is calculated by using the cost of equity (Allowed Equity Return) as the starting point as this amount is funded directly in revenue. The cash value of any outperformance from the incentive mechanisms is then divided by the 40% notional equity portion of the Regulatory Asset Value to calculate the additional return on equity earned.

RORE: %	21/22 actual	22/23 actual	23/24 forecast	24/25 forecast	25/26 forecast	RIIO-2 average
Operational performance	6.88	6.73	4.98	4.71	4.95	5.64

Our RORE this year is 6.73% and reduces over the price control to an average of 5.64%.

After the Allowed Equity Return, the main driver is the Totex incentive mechanism. We expect our out-performance against the Totex allowances to reduce over time, partly due to workload movements, but also due to the tightening of the allowances, which include a very stretching efficiency assumption. In addition, allowances have decreased by 2.1% relative to last year on a 2018/19 price basis, mainly driven by a fall in GDN-specific Real Price Effect adjustments relative to CPIH inflation.

Further details of performance can be found within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

3. (R2) Revenue

At the beginning of the price control Ofgem set our Base Revenue, assuming we deliver in line with the allowed costs and workload. Our Allowed Revenue is then calculated based on our actual cost and workload performance and is used to set customer bills. However, because of movements in customer numbers and levels of consumption our Collected Revenue for that year is unlikely to match the Allowed Revenue. Any under or over collection is simply adjusted for in the following years' Allowed Revenue.

In addition to our Allowed Revenue, the gas networks collect revenue to pay for the National Transmission System (NTS) Exit Capacity charges, and the Supplier of Last Resort payments. These are pass through costs – the gas networks have no control over the charges and simply collect the revenue to be passed on. However, they are a significant part of the end customer's bill.

Our statutory revenue in 2022/23 was £504.5m (nominal prices) with a reconciliation of this and Allowed Revenue provided within the RFPR table R2.

Further details of performance can be found within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

4. (R3) Totex

Summary

All data within this section is detailed in 18/19 prices unless stated otherwise.

This year we outperformed Totex allowances by £33.6m.

Totex: 18/19 prices £m	**21/22 actual**	**22/23 actual**	**23/24 forecast**	**24/25 forecast**	**25/26 forecast**	**Total forecast**
Opex (controllable)	73.9	85.7	90.9	90.1	89.4	430.0
Capex	40.3	39.4	56.1	56.6	55.8	248.3
Repex	100.7	95.8	103.0	103.7	97.0	500.2
Totex	**214.9**	**220.9**	**250.0**	**250.4**	**242.2**	**1,178.4**
Allowance	254.7	254.6	239.4	234.9	230.7	1,214.3
Variance	**(39.8)**	**(33.6)**	**10.6**	**15.4**	**11.5**	**(35.9)**

As shown in the above table, we expect costs to increase and be more in line with our business plan over the rest of RIIO-2 with outperformance over the 5 years to be £35.9m. Further details of this year's performance are provided below and a more detailed analysis is provided within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

Controllable Opex

Our Controllable Opex costs were £85.7m this year, £11.8m higher than the previous year. This brings our costs more in line with our business plan as activities and costs have normalised after the Covid-19 pandemic. We have also seen additional costs, to meet the Health and Safety Executive 12 and 16 hour working standards requirements.

The increased spend compared to prior year is detailed below.

- **Holder Demolition and Environmental Remediation costs** , which were £0.9m higher than last year, can vary materially by size, condition, and other site factors. This year we demolished 10 holders, 5 more than last year and 5 higher than planned. This is purely phasing of work and results in lower expenditure for the remainder of RIIO-2, so overall expenditure remains in line with our plan. We spent in line with our Environmental Remediation plan this year, and expect work on these complex projects to increase over the later years of RIIO-2, so that overall we expect to complete our planned work over RIIO-2 in line with our planned costs.

- Expenditure in **Emergency and Repair** has increased by £3.9m. Emergency costs increased as we recruited 17 engineers to improve resilience and to begin to meet the Health and Safety Executive 12 and 16 hour working standards requirements. PRE workload also increased in the year due to a severe weather event in the winter which resulted in a spike in PREs. However, volumes are still significantly lower than those seen before the Covid-19 pandemic. Repair costs increased as we realigned resource from other areas where customer driven workload has fallen – connections, fuel poor and service alteration work. We used this resource to carry out more repairs and reduce the number of outstanding escapes. We also saw increased reinstatement costs, linked to both volume and complexity of the repairs carried out on these escapes. This was the major driver for the increase in repairs this year. We expect repairs to trend down over time because of the Repex programme, but not necessarily every year as other factors such as weather and asset performance will influence the overall workload. We spent £0.1m less on Customer Management this year due to minor variances in net staff costs. We also continue to see fewer calls to the emergency number following the Covid-19 pandemic. We expect to spend in line with our plan for the remainder of RIIO-2, assuming a more 'normal' workload, particularly over winter.

- Expenditure in **Other Work Management** increased by £2.6m, this being linked to Emergency and Repair.

- We spent £2.3m more on **Maintenance** this year, a £3.9m increase since 2021. This is a significant increase but lower than we forecast in our business plan, where we outlined our strategy to increase maintenance in several areas. This included more work on District Governors to extend their operational life and reduce Capex, carry out in-line inspections using new technology on our 4" high pressure pipelines, and to install more Pressure Control systems which require increased maintenance. Accelerating this workload post the Covid-19 pandemic has proved more difficult than expected with long lead times for some equipment and scarcity of resource. We expect to accelerate this work over the next two years and fully catch up by the end of RIIO-2, spending just under our business plan target over the price control.

- We spent £1.0m more on **IT and Telecoms** this year as we had a contractual overlap of our geospatial data management providers as well as continuing to increase resource in our Cyber Security team. We expect to continue increasing resource in several areas to support our overall IT strategy in the next year, and expect costs overall to remain around £6.6m for the remainder of RIIO-2.

- Our **property costs** have reduced by £0.5m this year due to rebates on utility bills as well as rationalisation of our offices. Costs are expected to reduce after 2023/24 for the remainder of RIIO-2 as we purchase our Thorpe Park Head Office, reducing our rental payments and associated fees.

- We spent £0.6m more on **Audit, Finance and Regulation** this year, mainly from the costs associated with the RIIO-2 CMA appeal and increased audit fees. We expect costs to marginally increase year on year from now as we begin to ramp up towards the development of our RIIO-3 business plan.

- We spent an additional £0.7m this year on **Insurance and claims** due to employee liability payments. Claims have historically varied materially from year to year and are very difficult to predict. Our forecast remains at the long-term average.

- Our **CEO and Group** costs reduced by £0.3m this year as we restructured elements of our senior leadership team. We are behind our plan the first two years but expect to catch up next year, with costs then remaining broadly flat for the remainder of RIIO-2 as we progress our RIIO-3 plan.

- **Procurement** costs are £0.1m less this year as the team have been focused on delivery of Capex and Repex programmes. We expect costs to realign with our plan for the remainder of RIIO-2.

- We have spent an additional £0.8m on **apprentice's** as we look to secure continuity in the services we deliver.

Capex

Our Capex costs were £39.4m this year, £18.6m lower than the allowance. We expect costs and workload to increase so that we are more in line with our Business Plan over the five years of RIIO-2. The key reasons for lower than forecast performance are set out below.

- **LTS, Storage and Entry costs** were £7.7m, c£5.3m lower than forecast. The main driver for this has been delays in starting work on some of the major projects associated with the Network Rail-driven TransPennine Electrification project. This is the largest area of expenditure on our LTS assets in RIIO-2 and is expected to involve work at 4 separate locations. We have also experienced some delays with long lead items and a shortage of expert contractor resource, driven by general economic conditions. Despite this we expect costs to increase for LTS, Storage and Entry in line with our Business Plan, and to peak in 2024/25.

- **Net Connections** costs were £5.5m this year, c£0.2m higher than forecast. Workload continued to fall with a 38% reduction compared to the previous year. Costs did not reduce in line with workload as complex Non-Domestic connections and stranded overhead costs resulted in increased unit costs.

- **Mains reinforcement** costs were £4.3m this year. We delivered 15.2km of mains at a unit cost of c£280 per metre, a reduction from £488 per metre in 2021/22. This reduction in unit rates has been driven by a large multi-year project in Pocklington. During 2021/22 we carried out significant preparatory works but no recorded workload, which drove the relatively high unit rate of £488 per metre. We are now commissioning the pipe and recording all the workload which has driven the relatively low unit rate in 2022/23. In our business plan we did highlight the risk volumes could increase significantly due to improving economic conditions and increasing demand for electricity peaking plant. Much of this workload is third party driven. We are now seeing an increase in demand compared to last year, which has led to an increase in our forecast workload over the price control. We now expect this to be more in-line with our business plan.

- **Replacement governor** costs were £1.7m this year, c£1.2m above forecast, which is also reflected in the workload delivered – 78 district governor projects were completed compared to 3 in 2021/22. We have successfully increased internal and external resource in this area on the back of a new commercial framework and expect to deliver the planned Business Plan volumes over the price control.

- **Other Capex costs** were £19.7m this year, c£1m below forecast. The main drivers for this underspend were:
    - c£1.7m lower expenditure on Vehicles than planned. This is down to timing and reflects the continued impact that the worldwide semi-conductor shortages have had on increased lead times for all types of vehicles. We are reviewing how this will impact total expenditure over RIIO-2.
    - Security expenditure has increased by c£1.8m this year following our electronic lock programme to improve security across network above ground assets.
    - c£3m lower expenditure on Pipelines and Electrical and Mechanical instrumentation. We have experienced contractor resourcing issues on our overcrossings and river bed erosion projects, and delays in trialling and rolling out a Long Range Wide Area Network (LoRaWAN) communications platform.

Repex

This year we have delivered a total of 528.4km of mains abandonment.

Our Repex costs were £95.8m this year, £6.7m lower than the allowance. The main driver for this was lower than expected costs for Tier 1 Stubs, which are subject to a re-opener mechanism. Ofgem provided allowances for the first two years of RIIO-2 for Tier 1 Stubs as the HSE policy was under review at the time, and so the volume and timing of work was uncertain. It is now clear under HSE policy that many Tier 1 stubs still need replacing, and so our cost forecast takes this into account for all RIIO-2 years. This is one of the drivers for the allowance outperformance reducing in later years, as we have included costs with no associated allowance. We expect to re-open Tier 1 Stubs to review progress to date and our plans for the rest of RIIO-2 to ensure we can deliver the required work by the end of the Repex programme.

The other driver for spending less than the allowance was a marginally reduced workload across Tiers 1, 2b, 3 and Steel mains. The primary reason was a severe weather event we experienced in December 2022. We are also experiencing ongoing resource retention issues linked with competing utilities and increasing remuneration demands. Despite this we have delivered 99.2% of our targeted workload over the first two years of RIIO-2. We plan to deliver an additional 20km of mains abandonment in each of the next two years to ensure we are ahead of the required run rate by the end of the fourth year of the price control.

We now expect repex unit rates to increase marginally throughout RIIO-2. We have seen some marginal increases in the latest year because of increases in costs for materials, plant, wages, and fuel. We are still targeting to deliver efficiencies across our Repex delivery model over the remainder of RIIO-2, but we expect these to be more than offset by cost pressures as the work becomes more complex towards the end of the programme. As a result we are now forecasting to overspend against our RIIO-2 allowances by £9.7m, which is a £28m swing from last year's forecast. The Real Price Effects element of the allowance has reduced by c£14.4m, and our forecast costs have increased by c£13.6m.

5. (R4) Incentives

The adoption of an output and incentive-based framework is a key element of the RIIO regulatory contract. By defining the outputs companies need to deliver and any incentives or penalties they will receive for over or under-performance, as well as setting cost allowances, companies are incentivised to innovate and deliver the services that customers require at least cost. An outputs-based framework also provides greater transparency for customers and the networks as to what services and standards the networks need to deliver.

Outputs for RIIO-2 are grouped into three consumer-facing output categories, as set out below:

Deliver a high quality and reliable service to all network users and consumers including those in vulnerable situations

Deliver a safe and resilient network that is efficient and responsive to change

Enable the transition towards a smart, flexible, low carbon energy system for all consumers and network users

Performance summary

We expect to increase our customer service performance each year, delivering an £8.2m incentive over the RIIO-2 period. We expect to pay no penalties under the Complaints and Unplanned Interruptions. We were in penalty in the first year under the Environmental Emissions incentive, but expect to recover this over the RIIO-2 period to earn £0.3m.

Output Incentives: 18/19 prices £m	**21/22 actual**	**22/23 actual**	**23/24 forecast**	**24/25 forecast**	**25/26 forecast**	**Total forecast**
Customer service	1.4	1.6	1.7	1.8	1.8	**8.2**
Complaints	-	-	-	-	-	**-**
Unplanned interrupt	-	-	-	-	-	**-**
Shrinkage mgt	(0.3)	0.4	-	0.1	0.1	**0.3**

Further details of performance can be found within NGN's RIIO-2 Strategic Commentary 2022-2023 Report.

6. (R5 - R6) Financing and Debt

Cost of debt

In 2022/23 NGN's net interest cost on a nominal basis (per the regulatory definition) was £30.9m before the impact of accretion on index-linked swaps (2021/22 £31.2m) and £78.7m after accretion (2021/22 £51.4m).

Very high inflation in the year, coupled with c70% of NGN debt being subject to nominal interest rates, means that on a real basis (using Ofgem's methodology) NGN's net interest cost was -£117.0m (2021/22 -£39.5m) before accretion on inflation-linked swaps and -£69.2m net of accretion (2021/22 -£19.3m). That translates to £82.0m of cost of debt outperformance in the year (in 18/19 prices at notional gearing), (2021/22 £44.2m) contributing +10.1% to RoRE for the year (2021/22 +5.7%). In our view this is not a true reflection of outperformance as the methodology is based on the premise that the inflation element embedded in our debt costs is equal to the short-term inflation of the reporting year, which is not the case in reality. The outperformance indicated by the RFPR tables is a simplification based on a conceptual position (which does not distinguish between unrealised potential effects of inflation on Value as a result of RAV indexation and actual realised cash flow implications of a company's financing performance when assessed against the in-year real Cost of Debt allowance), rather than an actual position. The indicated outperformance value and contribution to RORE are not reflective of genuine equity returns in the reporting year. Taking an alternative approach, converting the nominal cost of NGN's non-index-linked debt to a real rate using the long-term inflation rate used to calculate the real allowance, we would see allowance outperformance of c£16m and c£11m in 21/22 and 22/23 respectively, rather than the corresponding figures of £44m and £82m calculated in RFPR.

As an infrequent issuer of debt NGN is not able to manage its actual debt costs against the regulatory allowance purely through the timing of debt issuance. Derivatives (interest rate swaps) are therefore used to manage the extent to which NGN's actual debt costs are sensitive to market rates in any particular year.

Net debt

Regulatory net debt increased from £1.61bn in March 2022 to £1.66bn in March 2023. The additional debt was used to fund investment in the network and supporting IT infrastructure.

NGN raised £65m of new debt in 2022/23 being an issue of 2.10% 2037 US Private Placement notes which had been priced in September 2021 on a delayed draw basis.

Credit facility drawings increased from £20.0m in March 2022 to £31.0m in March 2023. Cash increased from £7.3m to £10.7m.

A £25.0m European Investment Bank (EIB) loan was repaid in October 2022. The only other debt repaid in the year was a £1.8m amortisation payment on an EIB loan.

NGN extended the maturity of its £160m syndicated credit facility from October 2024 to October 2025. A further 12-month maturity extension option is available, subject to lender consent.

Completion of tables R5a & R6a

The finance charges / interest costs ("Income statement (P&L) charge") in table R5a are linked to tables F3-5, based on data input in table F6. There is a mismatch between the values derived from these calculations and the corresponding P&L values in NGN's accounts for 2021/22 and 2022/23. This mismatch arises from a number of sources, including, but not necessarily limited to:

- Inflation swap accretion is calculated in the RFPR with reference to CPIH. NGN's inflations swaps are based on CPI so accounting values differ.
- The interest on floating rate loans and the floating legs of interest rate swaps is based on monthly averages of SONIA in the RFPR. In reality, rates are based on average SONIA over specific periods,

some of which will straddle regulatory year-ends. Moreover, accrued interest at year-end is based on forecast SONIA for the remaining duration of each interest period and NGN's treasury system forecasts may differ from Ofgem assumptions.

- The calculations embedded in the RFPR do not take account of different day count bases for calculating interest (e.g. actual/actual, actual/365, 30/360), which is especially relevant where interest is calculated for only part of a year.
- The RFPR methodology assumes that an instrument beginning on 31 March only "counts" from 1 April, and that an instrument maturing on 31 March attracts interest on that day. Both assumptions are "incorrect" by one day.
- For 2021/22 some differences will have arisen as a result of Libor transition – in the RFPR an instrument can only have its floating rate classified as being referenced to LIBOR *or* SONIA, whereas in 2021/22 all swaps and floating rate loans will have been subject to both at different times.

In table R5a, for the purpose of reconciling interest calculated by RFPR with finance costs per NGN's income statement, we have therefore populated rows 50-57 with adjustments to correct for the mismatch described above for 2022 and 2023. The adjusted values also contribute to the total "Net Interest Per Regulatory (RIIO-2) Definition" in row 117. For the purpose of forecasting, we have assumed that the calculations embedded in the RFPR will reflect actual interest costs in all future years, except in the case of swap accretion, where we have adjusted for the difference between CPIH and CPI on a projected basis.

In table R6a we have added accretion on index-linked swaps to *Total Net Debt* to derive an appropriate value for *Total Net Debt per Regulatory Definition*, in order that gearing is correctly calculated (this feeds into table R6 at row 28.

Accumulated swap accretion is included in debt for the purpose of calculating gearing ratios in NGN's debt covenants. This is also consistent with rating agency methodology for calculating debt-related credit metrics. In NGN's financial statements, accumulated accretion, although separately disclosed, is included in swap creditors rather than as debt. Economically, however, it is a debt-like obligation, requiring full settlement at maturity (whereas interest rate swap fair values will be nil at maturity). In 2031, when the various swaps mature and accretion falls due for payment, NGN will have to arrange funding to make the payments, thereby increasing debt and gearing. This amount is currently expected to exceed £150.0m. Failing to include the ongoing amount as part of regulatory debt would bring about a cliff-edge in 2031/32 as the accretion is paid down and new debt raised.

7. (R7) RAV

The table below shows our RAV position in RIIO-2. This has been calculated using the latest Ofgem PCFM updated to include all inputs from the revenue interface tab from the Regulatory Reporting Pack. The RAV shown below includes Totex performance from 21/22, 22/23 and a forecast position thereafter.

NGN's closing RAV position at 31st March 2023 is £2.3bn in 18/19 prices as shown below:

RAV: 18/19 prices £m	21/22 actual	22/23 actual	23/24 forecast	24/25 forecast	25/26 forecast
Closing	2,262	2,290	2,317	2,340	2,355

8. (R8 – R8a) Tax

Table R8a is a new edition in the year to RFPR. The aim of this table is to reconcile the tax charge per CT600 to the regulatory tax allowance.

Another new requirement is for the board of licensee to provide assurance over the table via a Tax Reconciliation Assurance Statement that is approved, by resolution of the board of directors of the licensee by 30 September each year. There have been reports of requests amongst the licensees for a Derogation of this requirement. This has not been granted although the OFGEM team have communicated that they do not expect the Tax Reconciliation Assurance Statement for this years submission.

Table R8a tax reconciliation

We have included additional supporting documentation to evidence where the numbers included in column D of table R8 come from (the CT600) and how this reconciles to the different headings used in column A of table R8.

The CT600 values in column D of table R8 are compared to the PCFM values in column H of table R8. The key differences are explained in R8a and listed here for ease:

Description	CT600	PCFM	Difference	Explanation
Less net interest per P/L / paid (interest coupon)	-58.9	-48.9	-10.0	Interest in the stats includes FV adjustments on interest rate swaps - disregarded amounts are amended in the tax computation (row 73)
Less net interest per P/L / paid (inflation coupon	-20.2	-15.1	-5.1	Accretion on the CPI swaps split out here - as per stat accounts (note 3)
Profit/ (Loss) before taxation per accounts	73.5	159.4	-85.9	PCFM includes depreciation and amortisation (added back in tax comp rows 51 and 52)
Adjusted profit/ (loss) after regulatory adjustments	73.5	159.4	-85.9	PCFM includes depreciation and amortisation (added back in tax comp rows 51 and 52)
Pensions adjustments	-8.1	0	-8.1	PCFM includes pension adjustments within revenue tax pool additions
Depreciation	75.3	0	75.3	PCFM tax base includes depreciation (row 31) but is added back in tax comp
Amortisation	8.4	0	8.4	PCFM tax base includes depreciation (row 31) but is added back in tax comp
Penalties and fines	5.3	0	5.3	Includes £5m fine for Mirfield incident - not tax deductible
FV movement on financial instruments (disregard) (not including Accretion of CPI swaps and amortisation of costs on CPI swaps)	32.2	0	32.2	There is no adjustment for disregarded FV movements in the PCFM nor is this included in the PCFM interest calculation
Taxable profit before tax loss adjustments	120.1	108.8	11.4	The difference is a result of the above adjustments
Profits chargeable to corporation tax (i.e. after tax loss adjustments)('PCTCT')	120.1	108.8	11.4	The difference is a result of the above adjustments
Actual corporation tax liability	22.8	20.7	2.2	This does not include the "grossing up" factor that PCFM Finance and Tax sheet includes in row 206

9. (R9) Corporate Governance

Ownership structure

Northern Gas Networks Limited is a fully owned subsidiary of Northern Gas Networks Holdings Limited, a company incorporated in England and Wales, which is the ultimate parent company and the ultimate controlling party.

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

PG (April) Limited, incorporated in England & Wales	(47.1%)
Beta Central Profits Limited, incorporated in England & Wales	(41.3%)
SAS Trustee Corporation, incorporated in Australia	(11.6%)

The ultimate parent undertakings of the companies above are as follows:

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

Board of Directors

The Board of Northern Gas Networks Limited is comprised of eleven directors as at 31 March 2023, who are appointed by the shareholders and two of which are independent non-executive directors. All are independent of the day to day management of the company with the exception of the Chief Executive Officer (CEO) who is a Board member and leads the company senior management team (SMT) who in turn manage the company.

The daily operations of the business are managed by the SMT and the CEO. All significant decisions are referred to the Board of Directors (“the Board”). The decision making for the following matters is covered by either the Board (or the relevant board committee as detailed in the next section): purpose; values and strategy; and dividend policy.

The decisions in relation to Board Director nominations, evaluation and executive renumeration are made by the relevant shareholder companies as the Board Directors of are all shareholder appointed positions. For Non-Executive Directors there is a nominations committee which are responsible for identifying and nominating for approval of the Board, candidates for Independent Director vacancies.

The Board meets at least five times a year.

The Board Directors for the year ending March 2023 of Northern Gas Networks Limited were:

	Director status	Date of appointment
Simon D Beer	Executive Director – Shareholder appointed	23 December 2016
Loi S Chan	Executive Director – Shareholder appointed	13 August 2012
Andrew J Hunter	Executive Director and Chairman – Shareholder appointed	1 December 2006
Mark J Horsley	Executive Director and CEO – Shareholder appointed	4 January 2011
Hing L Kam	Executive Director – Shareholder appointed	31 May 2005
Neil D McGee	Executive Director – Shareholder appointed	4 July 2006
Duncan N Macrae	Executive Director – Shareholder appointed	21 June 2011
Charles C Tsai	Executive Director – Shareholder appointed	28 February 2014
Chi T Wan	Executive Director – Shareholder appointed	8 February 2013
John Burnham	Independent non-executive	1 April 2014
Paul Rogerson	Independent non-executive	1 April 2014

Board 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:

- Audit Committee
- Compliance Committee
- Risk Management Committee
- Treasury Committee
- Remuneration Committee
- ESG Committee
- Nominations Committee

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, the risk management and compliance committees are chaired by C Tsai and the remuneration and nominations committee are chaired by A Hunter.

More information on the Board Committees can be found in the Corporate Governance Statement of the Northern Gas Networks Limited statutory accounts for the year ended 31 March 2023.

Executive remuneration policies

There is only one Executive Director, the CEO, who is paid remuneration from Northern Gas Networks Limited. The Shareholder appointed Executive Directors are all paid by their respective Shareholder Companies and Northern Gas Networks Limited has no input into their remuneration packages as their roles encompass responsibilities for several other companies outside of the Northern Gas Networks Group.

The only Executive Director to be paid a bonus by Northern Gas Networks Limited is the CEO. This bonus is approved by the Shareholders and paid in respect of each calendar year. The bonus is in two parts, with a lump sum being payable after the calendar year end and an amount deferred under a Long Term Incentive Plan (LTIP). The LTIP is payable 5 years after the year in which the award is earned conditional on the Director remaining in office on the payment date.

The bonus targets, both short and long term are aligned to the strategic goals of the business, incorporating the values of the organisation, including efficiency, customer service, operational and environmental targets.

Whilst the pay of the CEO is set by the shareholder, Northern Gas Networks Limited continually seek to benchmark colleague pay in the market, to attract and retain a talented workforce who display the companies values. The CEO pay ratios reported in the RFPR document we feel therefore reflect the market differentials in pay.

Dividend policies

Dividends are paid to shareholders as determined by the Company by considering forecast information and actuals for the current year, assessing the financials of the Company including available profit after meeting the obligations of the Regulatory contract, including the needs of the business, bank covenants (which include a prudent Debt to RAV ratio), interest coverage and cashflows.

In assessing the level of dividends being paid the Board have knowledge of and attention to the following matters:

- NGN certifies under Special Standard condition A37 that it will have sufficient financial resources and financial facilities available to itself to enable the licensee to carry on the activities authorised by the licence held in accordance with the obligations under the Act and such licence for a period of 12 months from the date of this certificate.

- NGN also certifies under Special Standard Condition A37(4) that it will have sufficient operational resources including management, personnel, fixed and moveable assets, rights, licences, consents and facilities available to itself to enable the licensee to carry on the transportation business for a period of 12 months from the date of this certificate.

- NGN ensures financial resilience by:

    - Having a hedging strategy which seeks to match the regulatory allowances for cost of debt;

    - Following the inflation hedging policy assumed for the notional company in GD2; and

- Having an investment grade credit rating from Moody's and S&P which has over a long period been 2 notches better than required in the licence.

- NGN also seeks to treat the regulatory standards set for consumers as a minimum rather than target as represented by its treatment of GSOS payments and 1 and 2 hour standards, as examples. In addition it seeks to operate as efficiently as it can on a long term basis which is in the interests of consumers.

- Also, as evidenced in the 2022/23 RRP submission, NGN continues to meet & exceed regulatory obligations, delivering the best value for its customers: NGN fulfilled 100% of its regulatory outputs this year; NGN have recovered the previous year's shortfall in the Shrinkage and Environmental Emissions output; and have outperformed the regulatory Totex allowances to date and delivered strong customer service performance.

All dividends are approved by the Board and a regulatory certificate is provided to Ofgem prior to payment.

Dividend – nominal prices (£m)	**21/22 actual**	**22/23 actual**	**23/24 forecast**	**24/25 forecast**	**25/26 forecast**
Declared and paid	91.7	88.4	tbc	tbc	tbc

10. (R10) Pensions

The pension tables within the RFPR reflect the deficit, contributions and asset / liabilities reported to Ofgem.