Northern Gas Networks Limited
Regulatory Accounts 2016/2017
Incorporating information on charges and apportionments

Contents

Important information

The financial information contained in these statements does not constitute Statutory Accounts within the meaning of Section 434 of the Companies Act 2006. Statutory Accounts for Northern Gas Networks Limited ("NGN") (the "company") for the year ended 31 March 2017, to which this financial information partly relates, will be delivered to the Registrar of Companies. The auditors will make a report under Chapter 3 of Part 16 of the Companies Act 2006 on those Statutory Accounts. The auditor's opinion on the company's Statutory Accounts is addressed to, and for the benefit of, the members of the company and not for any other person or purpose. The auditors have clarified that the opinion on those Statutory Accounts will be prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. The auditors do not accept or assume responsibility for any other purpose or to any other person to whom their audit report on the Statutory Accounts is shown or into whose hands it may come save where expressly agreed by their prior consent in writing. The Statutory Accounts of the company can be obtained from the company Secretary, Northern Gas Networks Limited, 1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU, and will be available on our website, www.northerngasnetworks.co.uk.

The obligation to produce Regulatory Accounts

The obligation to prepare and publish Regulatory Accounts for NGN is placed on NGN by Standard Special Condition A30 of its Gas Transporter Licence (the "Licence") granted under Section 7 of the Gas Act 1986 (the "Act"). The principal requirements of Standard Special Condition A30, in respect of the year ended 31 March 2017, are that for each of the NGN Total, Transportation, Metering, De Minimis and Other activities, the Regulatory Accounts must:

- separately identify and fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, that business;
- have the same content and format as the most recent or concurrent Statutory Accounts of NGN and conform to UK Generally Accepted Accounting Practice (Financial Reporting Standard 102, "FRS 102"), in so far as reasonably practicable;
- separately show in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions which have been charged from or to any non-NGN business of the Northern Gas Networks Holdings Limited ("NGNH") group, or which have been determined by apportionment ("charges and apportionments");
- be subject to audit by NGN's statutory auditors;
- be published, except for the information on charges and apportionments, which has been removed from the public document in accordance with paragraph 24 of Standard Special Condition A30; and
- include a strategic report, corporate governance statement and a Directors' report as if the company was quoted.

The Regulatory Accounts have the same accounting period as the Statutory Accounts; there are no differences in accounting policies applied and the balance sheets at 31 March 2017 are identical. As such, no reconciliation between the Regulatory Accounts and Statutory Accounts is needed.

Businesses and price controls

These Regulatory Accounts include the following businesses of NGN:

Transportation business

The Transportation business comprises the development, administration, maintenance and operation of NGN's gas transportation system and the supply of gas transportation services.

Metering business

The Metering business comprises the provision of metering services, which includes the provision, installation and maintenance of gas metering equipment. It is subject to price control in respect of the provision of domestic metering services.

De Minimis

The De Minimis activities of NGN are not subject to price control, but must be carried on within the terms of the Licence. These terms include restrictions on the level of those activities with respect to the overall level of the regulated businesses, unless the Gas and Electricity Markets Authority (the "Regulator") has otherwise consented.

Other activities

Other activities as set out in Standard Special Condition A30 paragraph 2(e) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in accordance with sub-paragraph 3(d) of Standard Special Condition A36. These activities are specifically the service agreements entered in to with National Grid Gas plc ("NGG") on sale of the network. These activities would otherwise have been classified as De Minimis with the exception of the Network Innovation Competition (NIC) activities which are classed as Excluded Services as set out in Special Conditions 4b and 4c. All De Minimis and Other activities arise as a result of the Transportation business. These activities are not subject to price control.

Regulatory licence conditions

NGN's Licence contains special licence conditions, which include requirements on NGN:

- only to carry on certain activities;
- to ensure that it has sufficient operational and financial resources to carry out its business;
- to use reasonable endeavours to maintain an investment grade credit rating as the issuer of corporate debt; and
- to deal on an arm's length basis and on normal commercial terms with other companies in the NGNH company and not to give new guarantees for them.

If NGN is in material default of any of these conditions it can be prohibited from declaring and paying a dividend.

Strategic report

The Strategic Report has been prepared to fulfil the requirements of Standard Special Condition A30 to provide information to the Regulator and should not be relied upon by any other party or for any other purpose.

The Strategic Report contains certain forward looking statements that are made by the Directors in good faith based on the information available to them at the time of their approval of this report and these statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

The accounts are prepared under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Review of the business

The company's business strategy is to provide, develop and maintain a safe and secure gas distribution pipeline system for the provision of gas supplies to the people and the businesses within the distribution network, being the North and North East of England. The company's vision of success is to be consistently benchmarked by Ofgem and the Health and Safety Executive ("HSE") as being in the top two comparable utilities in safety management, efficiency and customer service, which in turn will generate benefit for customers, employees and the shareholders of the company.

NGN's business model used to implement this strategy includes productivity improvement whilst complying with regulatory obligations and achieving the standards of service required. This will ensure continual investment in the network and the sharing of these efficiencies with customers through the regulatory price controls, whilst maintaining acceptable financial returns to the shareholders. Specific performance objectives within our business model which will enable the company to achieve the business strategy include:

- Maintaining and developing a reliable and safe network;
- Compliance with Licence requirements and other regulatory and legal obligations;
- Meeting regulated service standards;
- Maintaining high standards of corporate governance;
- Being a responsible corporate citizen in the region;
- Maintaining a corporate culture of performance and continuous improvement;
- Maintaining strong relationships with all key stakeholders;
- A relentless customer focus;
- Maintaining a strong investment grade credit rating; and
- Maintaining acceptable financial returns to shareholders.

Financial and operational review

Financial performance

Revenue and operating profit
Operating profit for the year is £205.8m compared to the prior year of £199.7m with increased revenue of £6.4m based on Ofgem allowances, and operating cost increases of £0.2m, despite a depreciation increase of £3.7m with operating and head office costs reducing by £3.5m due to management continuing to look at ways of reducing costs.

Finance charges
The finance charge for NGN for the year ended 31 March 2017 was £46.0m (2016 - £49.9m) which principally represents interest payments for ongoing investment programmes and working capital funding requirements.

Taxation
The tax charge for the year was £8.8m (2016 - £0.1m credit) which represents an effective tax charge of 5.4% (2016 – 0.0%). The effective tax charge in each year is low: (1) 2017 due to the impact of the adjustment of the deferred tax liability to reflect the changes in UK corporation tax rates from 18% to 17% and benefits from the recognition of prior year capital allowances; (2) 2016 due to the adjustment of the deferred tax liability to reflect the change in UK corporation tax rates from 20% to 18%.

Cash flow
Net cash inflow from operating activities for the year ended 31 March 2017 was £254.0m (2016 - £262.6m).

Capital additions ("Capex")
Capital additions for the year was £150.5m (2016 - £155.1m) which mainly represents investment in network assets including replacement expenditure.

Financial position

Balance sheet
At 31 March 2017 the net assets of the company were £582.2m (2016 - £554.8m), the movement mainly driven by retained profits, offset by dividend payments and change in defined benefit pension value. At the date of signing the accounts there are no post balance sheet events which impact the balance sheet position of NGN.

Capital structure
NGN has debt before financing costs of £1,331.5m (2016 - £1,255.4m) comprising:

Capital structure continued

- Bank loans due within one year of £nil (2016 - £12.0m) which carry interest at LIBOR plus a margin of 0.4%;
- European Investment Bank ("EIB") loans of £431.3m (2016 - £343.2m) which have interest terms which vary by facility as set out in note 14; and
- Intercompany loans of £900.2m (2016 - £900.2m).

The intercompany loans comprise interest bearing loans of £900.2m of which £250.0m is repayable in 2027 and £255.0m is repayable in 2035 which both carry interest at 4.875%, £198.2m is repayable in 2019 with interest at 5.875% and £197.0m is repayable in 2040 with interest of 5.625%. A margin to cover related costs is added to all interest bearing loans. The maturity of the EIB and bank loans are set out in notes 13 and 14.

Credit ratings
NGN continues to maintain its strong investment grade credit rating with a Moody's Investor Services rating of Baa1 and a Standard & Poor's rating of BBB+.

Segmental results
The directors consider that the company has only one class of business and the Board do not use any segmental analysis of performance. The regulatory accounts are split into four business sections as detailed on page 2, however this is solely for compliance with NGN's Gas Transport Licence.

Operational performance
NGN has achieved all of its key operational Guaranteed Standards of Service and Licence Conditions for the regulatory year ended 31 March 2017.

Key performance indicators
The key financial and non-financial performance indicators used by the Board of Directors in their monitoring of the company, focus on the areas of safety management, efficiency and customer service. All of the targets for the below KPI's have been achieved:

	31 March 2017	31 March 2016
Financial performance efficiency		
Operating profit	£205.8m	£199.7m
Dividends paid	£90.3m	£80.0m
External debt less cash/regulatory asset value	65.8%	64.9%
Operational performance - customer services		
Quarterly customer satisfaction survey for repair, replacement and connections	9 out of 10	9 out of 10
Operational performance - safety		
Number of lost time injuries to employees and contractors	3	2
Reported injuries to members of the general public	1	1

Future prospects
The directors consider the future prospects of the company to be consistent with performance within shown within these regulatory accounts.

Corporate and social responsibility

Social responsibility
NGN is a socially responsible corporate citizen in the region covered by the network. The company is working to help combat fuel poverty in the region by investing in network extensions with social landlords and local authorities to further improve energy efficiency and sustainability.

NGN assist the gas industry to raise the profile of carbon monoxide poisoning, with school visits, an ongoing carbon monoxide campaign, and through supporting the Dominic Rodgers Trust.

Contractual relationships
The company has contractual relationships with many parties including directors, employees, suppliers and banking groups. However, none are considered essential in terms of their effect on the business of the company except the relationship with xoserve Limited, which provides information, data processing, invoicing and other supply point administration services to the company, which is used by the company for invoicing its regulated gas distribution charges to gas transporters.

Procurement policy
The objectives of NGN's procurement policy are to:

- minimise the end to end supply chain costs of providing goods, works and services that satisfy NGN's requirements;
- procure goods and services competitively, and efficiently in accordance with policy;
- ensure the selection of goods, works and services minimises the whole life costs of the NGN assets and maximises energy efficiency;
- minimise societal risk by ensuring that decisions consider quality, safety and environmental credentials including use of fair trade products;
- ensure early and active two way engagement with stakeholders to ensure that the procured solution is exactly what is needed; and
- establish and maintain an efficient number of suppliers trading through the appropriate commercial and contractual terms.

Employees

NGN, as an equal opportunities employer, ensures that no job applicant receives less favourable treatment because of his or her age, colour, disability, ethnic or national origin, gender, marital status or sexuality or is disadvantaged by conditions or requirements which are irrelevant to performance and the company's needs.

NGN places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through both formal and informal meetings. Employees are consulted regularly on a wide range of matters affecting their current and future interests. Some employees are eligible to receive an annual bonus related to the overall financial and operational performance of the company.

The NGN workforce at the balance sheet date is detailed below:

	Male	Female	Total
Director (excl non-exec)	1	0	1
Senior manager	9	5	14
Other employee	1,141	301	1,442
Total	1,151	306	1,457

The above figures exclude subcontractors and employees working for subsidiary companies.

Environment

The company recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements. The company is committed to the protection of the environment in the region it serves. The company's environmental management systems are certified under ISO 14001 and OHSAS 18001. This helps the Directors deal proactively with future environmental issues and legislation and assist in the development of environmentally beneficial projects.

The company is committed to reducing its carbon footprint, one of the biggest causes being gas leaking from our network, which is being addressed primarily through its continued network replacement programme. NGN are investing in biomethane innovation, the aim being to reduce the use of fossil fuels in the future. Additional details of how the company is reducing its carbon emissions can be found within the Directors' Report.

Key developments in the year

Key developments in the regulatory year include:

Efficiency

- We continue a "future ways of working" review whereby we are looking ahead to 2021 to ensure our cost base is suitable; and
- Ongoing technology refresh enabling automation.

Customer

- NGN continue to push a 90in60 process whereby 90% of customer complaints are resolved in 60 minutes.

Safety

- Use of behavioural studies to improve performance; and
- Established a new and improved contractual health and safety framework for contractors working for NGN.

Outlook

The Directors expect the general level of activity to remain stable given the certainty provided by the RIIO-GD1 price control outcome which runs to 2021.

There are a number of potential risks and uncertainties which could have a material impact on NGN's long term performance. The Risk Management Committee is responsible for reviewing the risk profile of the business and risk management processes. The Committee has a formal risk management policy and framework. For further information about the Risk Management Committee see the Corporate governance statement. The company's principal risks and uncertainties are set out below.

Regulatory environment, revenue and costs

The gas industry is subject to extensive legal and regulatory obligations and controls which NGN must comply with. The application and possible changes of these laws, regulations and regulatory standards could have an adverse affect on the operations and financial position of NGN or in the case of financial misreporting, a potential fine.

Mitigation

NGN engages with the regulatory authority extensively at all levels of seniority to understand future plans and potential impacts on the business. The business respond to all potential changes which impact on the business and seek to mitigate any adverse impacts. The business has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations.

Health and safety

There is a risk that an incident within the network leads to injury to an employee, contractor or a member of the general public. Any such incident could have an adverse effect on the reputation of NGN, or lead to potential prosecution and reduced productivity.

Mitigation
Health and Safety is our priority. The business has an Environment Health & Safety team that ensure compliance with our management safety system and monitor it on a monthly basis with key KPIs.

Network performance
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.

Mitigation
The company have a set of policies and procedures we adhere to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent.

Employees
The success of NGN depends to a significant extent on the contribution of its employees and the employees of operational contractors. Fair and effective recruitment, training and employee development are critical to the successful functioning and progression of the business. The ability to adapt in a climate of change is dependent on the appointment and retention of a high calibre, competent, flexible, quality conscious and customer focused workforce all of whom are committed to business success and are given appropriate training.

Mitigation
NGN's succession planning strategies mean that development of existing staff is crucial. Effective resourcing and selection processes also play a positive role in improving the image of the company in the community it serves.

The company, as an equal opportunities employer, ensures that no job applicant receives less favourable treatment because of his or her age, colour, disability, ethnic or national origin, gender, marital status or sexuality or is disadvantaged by conditions or requirements which are irrelevant to performance and the company's needs.

Financial risk management objectives and policies

The company's financial instruments, other than derivatives, comprise debt borrowings, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to finance the company's operations.

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

The main risks arising from the company's financial instruments are interest rate risk, currency risk and liquidity risk. The Directors have reviewed and agreed policies for managing each of these risks and these are summarised below.

Interest rate risk
The long term approach adopted in minimising interest rate exposures on debt is as follows:

- To have a balanced debt portfolio comprising a mixture of nominal and index-linked debt aiming to achieve a degree of alignment with the Regulator's broad approach to setting cost of debt allowances and so as to maintain a debt portfolio consistent with those of comparable utility companies; and
- To structure debt maturities and interest rate hedges in such a way as to provide protection against adverse movements in the indexed regulatory cost of debt allowance.

Liquidity risk
The maturities of all debt and committed debt facilities other than amortising loans, are managed such that at any one time all have a time to maturity of more than one year and that at least 50% by value have a time to maturity of more than two 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.

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

By order of the Board,

Mark Horsley

M J Horsley (Director)
26 July 2017

Directors' report

The Directors present their annual report on the affairs of the company, together with the accounts and auditor's report, for the year ended 31 March 2017. The Corporate governance statement forms part of this report. There are no significant events since the balance sheet date which impact the regulatory accounts. An indication of likely future developments in the business of the company and details of the use of financial instruments are included in the strategic report. The following disclosures have been disclosed in the strategic report but are cross referenced here: principle activities, business review including KPI's, principal risks and uncertainties, and future prospects.

Dividends

The directors do not recommend payment of a final dividend. Interim dividends of £0.70 per share were paid on 20 June 2016 and of £3.01 per share were paid on 20 December 2016 making a total of £3.71 per share for the year (2016 - £3.29 per share), which equates to £90.3m (2016 - £80.0m). See note 8 for details.

Future developments and events after the balance sheet date

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

Financial Instruments

Financial Instruments have been disclosed within note 15 and associated risks discussed within the Strategic Report.

Going Concern

The company's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the Strategic Report and above. In addition note 15 to the accounts includes further details of the company's debt position and details of its derivatives and other financial instruments. The company is able to pay its liabilities as they fall due, due to the reliability of regulated revenue under RIIO-GD1. The company has significant liquid resources and uses long term debt instruments to mitigate any liquidity risk as detailed in the Strategic Report. The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the finance facilities available, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Regulatory accounts.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees.

Capital structure

Details of the authorised and issued share capital, together with details of any movements in the company's issued share capital during the year, and the rights of each share class are shown in note 17. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights. There are no employee share schemes. No person has any special rights of control over the company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Companies Act and related legislation. NGN is not a listed entity, but is required to prepare a Corporate governance statement as if it were by the requirements of Standard Special Condition A30. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors is discussed in the Corporate governance statement on page 9.

Directors and indemnity

The Directors, who served throughout the year except as noted, were as follows:

A J Hunter	(Chairman)
M J Horsley	(Chief Executive Officer)
H L Kam	
C T Wan	
N D McGee	
S Leong	(resigned 18 November 2016)
D N Macrae	
L S Chan	
C Tsai	
S D Beer	(appointed 23 December 2016)
P Rogerson	independent non executive
J Burnham	independent non executive

Given the shareholders are companies each of which has Board representation, biographical details on the directors proposed for election or re-election are not provided. Board meeting attendance details are provided within the Corporate governance statement. The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Political contributions

No political donations were made in the current or prior year.

Substantial shareholdings

The company is owned by a consortium as detailed in note 22.

Environment and Carbon Reporting

The company is committed to reducing its carbon emissions under Regulatory Instructions and Guidance (RIGS). The overall target is a year-on-year emissions reduction of c0.5% across RIIO-GD1.

Organisational boundary, responsibility and methodology

We have reported using an operational control approach, on all material emissions which NGN are accountable for across the entire business covering all work streams and geography. Details of what has been included within each scope is listed in the table below. Unreported emissions, which would form part of scope 3, are deemed insignificant compared to shrinkage. These include employee commuting, some forms of waste generated in operations, end of life treatment of solid products and some gas emissions.

The emissions reduction program is managed by the Head of HS&E within the company, supported by the senior management team and Board as needed. Reported data has not been externally verified, as permitted by Ofgem, due to robust internal processes.

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

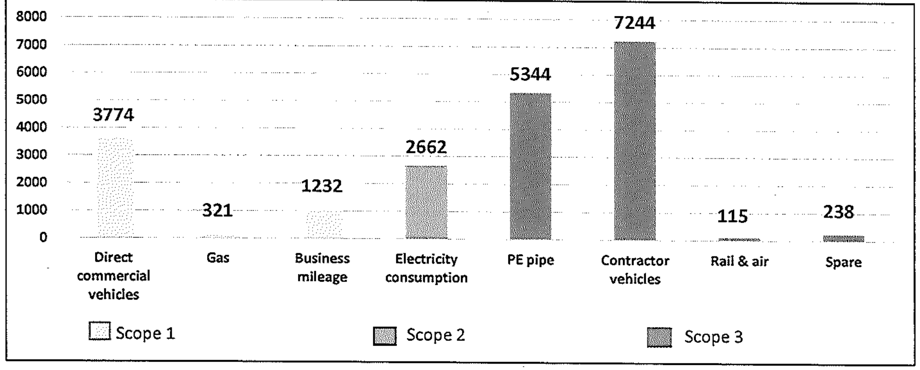
Performance and emissions reduction management

Reported figures cover the 2016/17 and prior regulatory year. We have also shown emissions as an intensity ratio against turnover, to enable comparison over time.

Business Carbon Footprint	Performance			
	tonnes of CO_2e		tonnes of CO_2e per £m turnover	
	2016/17	2015/16	2016/17	2015/16
Shrinkage	411,202	445,641	0.974	1.072
Scope 1: energy consumption (excl electricity), commercial vehicles and business miles	5,327	5,505	0.013	0.013
Scope 2: electricity consumption	2,662	2,971	0.006	0.007
Scope 3: indirect emissions – PE pipe, contractor vehicle, rail, air and ferry travel	12,942	15,287	0.031	0.037
Total	432,133	469,404	1.024	1.129

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

Further analysis of scopes 1 - 3 is shown below.



'Spare' represents car hire and transmission and distribution losses, as defined by Defra.

Auditor

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

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

The Directors will place a resolution before the annual general meeting to reappoint Deloitte LLP as auditor for the ensuing year.

By order of the Board,

Mark Horsley

M J Horsley (Director)
26 July 2017

Corporate governance statement

NGN is not a listed entity, but is required to prepare a Corporate governance statement as if it were by the requirements of Standard Special Condition A30. As an unlisted company NGN is not required to comply with the principles of corporate governance contained in The UK Corporate Governance Code which is appended to the Listing Rules of the Financial Services Authority, however best practice under Standard Special Condition A30 means that these principles are applied, or if not applied the reason for non-compliance is disclosed.

This statement has been prepared solely for the Regulator to fulfil the requirements of Standard Special Condition A30 paragraph 9(e) and should not be relied upon by any other party or for any other purpose.

Corporate governance statement
The company is committed to pursuing leading governance practices as appropriate. Corporate governance is clearly defined, with each shareholder having Board representation. The corporate governance principles of the company emphasise a quality Board, sound internal control and transparency and accountability to all shareholders.

How the Board Operates
The Board is responsible for:

- the overall corporate governance of the company including approving the strategic direction and values;
- monitoring financial and operational performance;
- monitoring corporate responsibility including health, safety and environmental matters;
- ensuring adequate systems for the identification and management of risk;
- approving dividend payments; and
- evaluating the performance and remuneration of senior management.

The Board is comprised of directors who are appointed by the shareholders, except for the two Independent Directors, and are independent of the day to day management of the company with the exception of the CEO who is a Board member and leads the company management team. Due to the nature of the Shareholder Agreement in place for NGN which entitles each shareholder to a relevant number of seats on the Board, NGN's Shareholder Appointed Board Directors are representatives from each Shareholder, and so the Shareholders are already appropriately protected as they are involved in making all the key business decisions. As such some aspects of the UK Corporate Governance Code are not applicable for NGN. The Board ensures that the company has robust corporate governance arrangements and has full access to both the internal and external auditors and to management.

The Board is also responsible to the shareholders for the performance 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. Day to day management of the business and the implementation of corporate strategy and policy initiatives are formally delegated by the Board to the CEO and senior management team as set out in the delegations of authority.

Business Model
The company generates and preserves value over the longer term by ensuring the business model as detailed within the Strategic report is adhered to. A key aspect of this is adherence to its Licence conditions as detailed on page 2.

Application of the business model within the set Licence conditions ensures appropriate shareholder returns and drives value to customers.

NGN has no material activities outside of the regulatory ring fence so the governance around this is uncomplicated with no issues for NGN's longer term financial viability.

NGN participate in the industry code governance arrangements, such as the Joint office which are approved by OFGEM to promote competition and efficient operations.

Evaluation of the Board and Senior Management Team (SMT)
Evaluation of the performance of the Board is conducted by virtue of their appointments being made and monitored by the shareholders. The Nominations Committee has responsibility for the appointment of Independent Directors. The performance of the CEO is assessed by the Board Directors 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.

Board Members
At 31 March 2017 the Board comprised eleven Directors of which two were independent non-executive. The position of the Chairman of the Board is held by A Hunter who is also an Executive Director of the ultimate controllers as set out in note 22 and has certain other directorships as set out in those companies' annual reports. The position of Chief Executive Officer ("CEO") is held by M J Horsley. These positions are separate with a view to maintaining an effective segregation of duties between management of the Board and the day to day management of the business. P Rogerson and J Burnham are independent non-executive members of the Board. NGN has a licence requirement to have two sufficiently independent Directors and their role is to bring an independent view to the Board / Committees based on their own personal knowledge and experience. All Board members are listed within the Directors' report.

All Directors make an active contribution to the affairs of the Board. The Legal Director/Company Secretary is responsible to the Board for ensuring that all Board procedures are followed and ensuring that the Board is briefed on all legislative, regulatory and corporate governance developments and that the Board has regard to them when making decisions.

Board Meetings

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

2016/17 including April 17		**2015/16**	
Date	**Attendees**	**Date**	**Attendees**
26 April 2016	8 out of 11	28 April 2015	11 out of 11
19 July 2016	10 out of 11	4 August 2015	10 out of 11
20 September 2016	9 out of 11	21 October 2015	10 out of 11
17 November 2016	11 out of 11	3 November 2015	11 out of 11
25 January 2017	10 out of 11	26 January 2016	11 out of 11
25 April 2017	6 out of 11		

Committees

The Board has six committees, as listed below, to assist in the execution of its duties and to allow a detailed consideration of complex issues. The Committees are chaired by N McGee with the exception of the Remuneration Committee and Nominations Committee which are chaired by A Hunter.

All Board Members are entitled to attend all Committees, the minimum requirement being a quorum of at least two members from different Shareholders. Within NGN, there are no specific Directors assigned to the various Sub-Committee meetings although Mr N McGee chairs the Audit, Risk, Compliance and Treasury Committees with Mr A Hunter being chairman of the Remuneration and Nominations Committees. The Terms of Reference of the Board Sub-Committees allows any Board Director to attend Sub-Committee meetings and so generally the attendance of the Committees is also largely the same as for the Board which is reported in the Regulatory Accounts. The Sub-Committee's do however have a named Chairman. The Committee structures and charters are reviewed on a bi-annual basis. The Committees support the CEO with advice on matters of governance and adequacy of controls in terms of operational and risk management.

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 executive director, the senior management team and all other employees. The activities of the Remuneration Committee are reported to the Board at least annually.

Nominations Committee

The Nominations Committee exists to consider potential changes to Independent membership and assess the performance of these Directors.

The Independent Directors were appointed on a three year basis and the Nominations Committee have considered their performance and reappointed for a further three years, with effect from April 2017.

Attendance including alternates of committees in the 2016/17 regulatory year is shown below:

Date of Committee	Audit Committee	Compliance Committee	Risk Management Committee	Treasury Committee	Remuneration Committee	Nominations Committee
19 July 2016	6	6	6	6	n/a	n/a
20 September 2016	6	6	6	6	n/a	n/a
25 January 2017	7	7	7	7	7	7

The above represents compliance with the requirement for a quorum of two members.

Internal control framework

The company has a number of internal control policies which outline management responsibilities and help safeguard the company's assets. It is designed to manage rather than eliminate risks which may be material to the achievement of the company's business objectives. Internal controls are continually reviewed as processes change and are verified by way of a rolling internal audit work programme.

Internal audit

The company has an internal audit function which undertakes independent appraisals and provides assurance on 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 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. Internal audit review for compliance with the relevant legal requirements of the company, such as the licence obligations.

Licence obligation compliance

The company ensures compliance through application of an internal control framework as noted above. NGN has a Regulation Director to ensure any changes to licence obligations are known to ensure continued compliance.

External audit tender

During the year the company completed a tender exercise with regard to the provision of external audit services, the outcome of which was Deloitte LLP being re-appointed.

Application of the Combined Code

As an unquoted company the application of the Combined Code is not a legal requirement. As a matter of good governance the company has reviewed its compliance with the provisions of the Code, which replaced the 2008 Combined Code, which was effective from June 2010 and subsequently revised in September 2014 for periods beginning on or after 1 October 2014. Throughout the year ended 31 March 2017 and the prior year ended 31 March 2016 the Company has been in compliance with the Code provisions set out in the UK Corporate Governance Code except for the following matters:

- board members are not subject to the re-election criteria as required by the Corporate Governance Code section B.7.1. The composition of the board is considered annually by the companies' shareholders, the shareholders are satisfied that the composition of the board continues to be appropriate to ensure effective leadership;

- full compliance with the accountability requirements of section C3.8 (full details of how the board discharge its responsibilities) is not considered relevant to the users of the consolidated regulatory accounts;

- the company has chosen not to apply the disclosure requirements of the Corporate Governance Code section D.1.2. in respect of the remuneration of executive directors serving as a non-executive director elsewhere. As the Company is not quoted it is not required to prepare a remuneration report, therefore this requirement of the code is not applicable; and

- as the company is not quoted it is not required to prepare a Viability Statement, therefore this requirement of the code is not applicable.

Directors' responsibilities for preparing separate Regulatory Accounts

The Directors are required by Standard Special Condition A30 to prepare Regulatory Accounts for each financial period. These Regulatory Accounts must fairly present the revenues, costs, assets, liabilities, reserves, provisions and cash flows of, or reasonably attributable to, the NGN Total business, the Transportation business, the Metering business, the De Minimis business and Other activities.

The Directors consider that, in preparing the Regulatory Accounts, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all applicable accounting standards have been followed. The Directors also consider that it is appropriate to prepare the Regulatory Accounts on the going concern basis.

The Directors have responsibility for ensuring that the company and its related undertakings keep accounting records in such a form that the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each of the businesses are separately identifiable in the accounting books and records of the company and its related undertakings from those of any other business.

The Directors have responsibility for ensuring that the Regulatory Accounts fairly present the revenues, costs, assets, liabilities, reserves and provisions of, or reasonably attributable to, each business.

The Directors have responsibility to ensure that, so far as is reasonably practicable, the Regulatory Accounts have the same content and format in respect of the businesses to which they relate as the Statutory Accounts of NGN, are consistently prepared, comply with applicable licence conditions, that they conform to best commercial accounting practices including all relevant accounting standards issued or adopted by the Accounting Standards Board currently in force and that the accounting policies used are stated.

The Directors have responsibility to ensure that the Regulatory Accounts show separately and in appropriate detail the amounts of any revenues, costs, assets, liabilities, reserves or provisions that have been charged from or to any non-NGN business of the NGNH group (the group being Northern Gas Networks Holdings Limited and its subsidiaries), or that have been determined by apportionment, where they relate to goods or services received or supplied for the purposes of the Transportation, Metering or De Minimis businesses or Other activities.

The Directors, having prepared the Regulatory Accounts, have requested the auditor to take whatever steps and to undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their Independent Auditor's report.

The Directors are responsible for ensuring that the Regulatory Accounts are published and, where they are published on the Internet, for the maintenance and integrity of the website. Uncertainty regarding legal requirements is compounded, as information published on the Internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of accounts.

Independent Auditor's Report to the Gas and Electricity Markets Authority ("the Regulator") and Northern Gas Networks Limited ("the Company")

We have audited the Regulatory Accounts of the company for the year ended 31 March 2017 which comprise the statement of accounting policies, the profit and loss accounts, the balance sheets, the statements of comprehensive income, the statement of changes in equity, the cash flow statements and the related notes numbered 1 to 23. The financial reporting framework that has been applied in their preparation is Standard Special Condition A30 of the Gas Distribution Licence (the "Regulatory Licence") and the accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the company and the Regulator in order to meet the requirements of Standard Special Condition A30 of the Regulatory Licence. Our audit work has been undertaken so that we might state to the company and the Regulator those matters that we have agreed to state to them in an independent auditor's report, in order (a) to assist the company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Regulator, the Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for preparing the Regulatory Accounts and for their proper presentation in accordance with the basis of preparation and accounting policies as set out in the notes to the Regulatory Accounts. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts', below and having regard to the guidance contained in Audit 05/03 *'Reporting to Regulators of Regulated Entities'*. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances, except as noted below, and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information, being the Strategic Report, the Directors' report, the Corporate governance statement and the Directors' responsibilities statement, in the annual report to identify material inconsistencies with the audited Regulatory Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the company where these are laid down by Standard Special Condition A30 of the Regulatory Licence. Where Standard Special Condition A30 of the Regulatory Licence does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory accounts of Northern Gas Networks Limited. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts

In our opinion the Regulatory Accounts:

- present fairly in accordance with Standard Special Condition A30 of the Regulatory Licence and the accounting policies, the financial position of the company as at 31 March 2017 and of its financial performance and cash flows for the year then ended; and

- present fairly in accordance with Standard Special Condition A30 of the Regulatory Licence and the company's accounting policies.

Independent Auditor's Report to the Gas and Electricity Markets Authority and Northern Gas Networks Limited *(continued)*

Other matters

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

Note 23 to the Regulatory Accounts include disclosures of amounts charged to or from related parties of, and other businesses of, the company. Paragraph 24 of the company's Standard Special Condition A30 permits removal of this disclosure when the accounts are made available to any party other than the Regulator. Accordingly, the Regulatory Accounts may be presented with or without these notes, whilst still complying with Standard Special Condition A30.

Our opinion on the Regulatory Accounts is separate from our opinion on the Statutory Accounts of the company, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the company (our "Statutory audit") 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 Statutory audit work is undertaken so that we might state to the company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the company and the company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Scott Bayne

Scott Bayne FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom

26 July 2017

Statement of accounting policies

Basis of accounting

Northern Gas Network Limited is a company incorporated in the United Kingdom under the companies act. The company is a private company limited by shares and is registered in England and Wales. The address of the company is 1100 Century Way, Leeds, LS8 1NF. The Regulatory Accounts for the year ended 31 March 2017 have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and Standard Special Condition A30 of the Licence. Principle activities and the nature of operations are shown in the strategic report.

The accounting policies have all been applied consistently throughout the year and the preceding year. The company is not required to prepare company accounts as it is a wholly owned subsidiary of NGNH which prepares consolidated accounts which are publicly available. The functional currency is considered to be pound sterling because this is the currency of the primary economic environment in which the company operates. The regulated accounts are presented in pound sterling.

Income, costs, assets and liabilities of the company, which are not directly attributable to specific businesses or activities, are apportioned to those businesses or activities in accordance with the activities giving rise to the income, costs, assets or liabilities. NGN has licence conditions for regulatory purposes requiring NGN to meet a number of Regulatory Conditions (set out in detail on page 2) including restrictions on fund raising, business activities, dividend payments and granting of guarantees.

Going concern

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 directors report. In addition note 16 to the accounts includes further details of the group's net debt position and details of its derivatives and other financial instruments. The group is able to pay its liabilities as they fall due, due to the reliability of regulated revenue under RIIO-GD1. The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the facilities available to the group, have a reasonable expectation that the company and group have 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.

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.

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 values are assumed. 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	
Mains and services	55 to 65 years
Storage	40 years
Plant and 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 stated at cost less 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.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the UK tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the Regulatory Accounts that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the Regulatory Accounts.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the Regulatory Accounts. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average UK tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on UK tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Decommissioning and environmental costs

Decommissioning and environmental costs, based on discounted future estimated expenditures are provided for in full and where appropriate a corresponding tangible fixed asset is also recognised. The unwinding of the discount is included within the profit and loss accounts 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

Pension costs

The company has obligations for a defined benefit scheme. The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments which are included within operating costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.
The company also operates defined contribution schemes. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leases

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

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

Financial instruments

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

Financial assets and liabilities

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

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

Financial assets and liabilities are only offset in the statement of financial position when, and only when there exists a legally enforceable right to set off the recognised amounts and the company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

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

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

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

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

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

Derivative financial instruments

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

Interest rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest rates associated with the borrowing requirements of the company. 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.

Fair value accounting

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

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

Amounts payable or receivable in respect of the interest rate swaps are recognised within net interest payable in the profit and loss account over the life of the financial instrument.

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

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

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 involving estimations (which are dealt with separately below), 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 judgements, apart from those involving estimations (which are dealt with separately below), 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.

Provisions
The valuation of provisions includes estimation of future cash outflows. The estimates and associated assumptions are based on historical experience and various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of liabilities that are not readily available. The estimates and underlying assumptions are reviewed on an ongoing basis.

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 no assumptions are applied by the company. This method generates a fair value difference of £11m compared to using a portfolio basis.

Pension arrangements
Note 21 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation and mortality rates and have been determined following advice received from an independent qualified actuary.

Profit and loss accounts

For the years ended 31 March

	Notes	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities (i) 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities (i) 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Turnover	1	**421,360**	**426**	**61**	**348**	**-**	**422,195**	**415,081**	**467**	**21**	**192**	**-**	**415,761**
Cost of sales		(11,455)	(426)	(61)	(348)	-	(12,290)	(12,716)	(467)	(21)	(192)	-	(13,396)
Gross profit		**409,905**	**-**	**-**	**-**	**-**	**409,905**	**402,365**	**-**	**-**	**-**	**-**	**402,365**
Other operating expenses	2	(204,018)	-	-	(48)	-	(204,066)	(202,700)	-	-	(7)	-	(202,707)
Operating profit (loss)		**205,887**	**-**	**-**	**(48)**	**-**	**205,839**	**199,665**	**-**	**-**	**(7)**	**-**	**199,658**
Net finance charges	3	(43,004)	-	-	-	-	(43,004)	(49,857)	-	-	-	-	(49,857)
Profit (loss) on ordinary activities before taxation	4	**162,883**	**-**	**-**	**(48)**	**-**	**162,835**	**149,808**	**-**	**-**	**(7)**	**-**	**149,801**
Tax on profit (loss) on ordinary activities	7	(8,819)	-	-	-	-	(8,819)	132	-	-	-	-	132
Profit (loss) for the year		**154,064**	**-**	**-**	**(48)**	**-**	**154,016**	**149,940**	**-**	**-**	**(7)**	**-**	**149,933**

All 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 these profit and loss accounts.

(i) 'Other activities' as set out in Standard Special Condition A30 paragraph 2(e) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in accordance with sub-paragraph 3(d) of Standard Special Condition A36. These activities are specifically the service agreements entered in to with NGG on sale of the network. These activities would otherwise have been classed as De Minimis with the exception of Network Innovation Competition (NIC) activities which are classed as Excluded Services as set out in Special Condition 4c and b. All De Minimis and Other activities arise as a result of the Transportation business.

Balance sheets
As at 31 March

	Notes	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities (i) 2017 £'000	Corporate (ii) 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities (i) 2016 £'000	Corporate (ii) 2016 £'000	Total 2016 £'000
Fixed assets													
Intangible assets	9	115,805	-	-	-	-	115,805	119,917	-	-	-	-	119,917
Tangible assets	10	2,326,021	-	-	5,777	-	2,331,798	2,244,408	-	-	5,417	-	2,249,825
Investments	11	104	-	-	-	2,105	2,209	104	-	-	-	2,105	2,209
		2,441,930	**-**	**-**	**5,777**	**2,105**	**2,449,812**	**2,364,429**	**-**	**-**	**5,417**	**2,105**	**2,371,951**
Current assets													
Debtors – due within one year	12	55,312	-	-	-	-	55,312	53,937	-	-	-	-	53,937
Debtors – due after more than one year		345,509	-	-	-	-	345,509	324,915	-	-	-	-	324,915
Cash at bank and in hand		-	-	-	1,461	6,781	8,242	-	-	-	1,247	3,761	5,008
		400,821	**-**	**-**	**1,461**	**6,781**	**409,063**	**378,852**	**-**	**-**	**1,247**	**3,761**	**383,860**
Creditors: Amounts falling due within one year	13	(67,144)			(97)	(49,660)	(116,901)	(97,903)	-	-	(5,395)	(40,329)	(143,627)
Net current (liabilities) assets		**333,677**			**1,364**	**(42,879)**	**292,162**	**280,949**	**-**	**-**	**(4,148)**	**(36,568)**	**240,233**
Total assets less current liabilities		**2,775,607**	**-**	**-**	**7,141**	**(40,774)**	**2,741,974**	**2,645,378**	**-**	**-**	**1,269**	**(34,463)**	**2,612,184**
Creditors: Amounts falling due after more than one year	14	(1,823,024)	-	-	(5,286)	-	(1,828,310)	(1,708,037)	-	-	(4,837)	-	(1,712,874)
Provisions for liabilities including pension liability	16	(331,443)	-	-	-	-	(331,443)	(344,527)	-	-	-	-	(344,527)
Net assets (liabilities) including pension liability		**621,140**	**-**	**-**	**1,855**	**(40,774)**	**582,221**	**592,814**	**-**	**-**	**(3,568)**	**(34,463)**	**554,783**
Capital and reserves													
Called-up share capital	17	-	-	-	-	24,328	24,328	-	-	-	-	24,328	24,328
Hedging reserve		-	-	-	-	(31,185)	(31,185)	-	-	-	-	(30,136)	(30,136)
Profit and loss accounts		-	-	-	-	597,480	589,078	-	-	-	-	560,591	560,591
Shareholders' funds		**-**	**-**	**-**	**-**	**590,623**	**582,221**	**-**	**-**	**-**	**-**	**554,783**	**554,783**

The accompanying notes are an integral part of these balance sheets.

(i) 'Other activities' as set out in Standard Special Condition A30 paragraph 2(e) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in accordance with sub-paragraph 3(d) of Standard Special Condition A36. These activities are specifically the service agreements entered in to with NGG on sale of the network. These activities would otherwise have been classed as De Minimis with the exception of Network Innovation Competition (NIC) activities which are classed as Excluded Services as set out in Special Condition 4c and b. All De Minimis and Other activities arise as a result of the Transportation business.

(ii) 'Corporate' comprises those assets, liabilities, capital and reserves which relate to the NGN business as a whole.

The Regulatory Accounts on pages 1 to 44 inclusive were approved by the Board of Directors and authorised for issue on 26 July 2017 and signed on its behalf on 26 July 2017 by:

M J Horsley - Director

Statements of comprehensive income

For the years ended 31 March

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Profit (loss) for the financial year	154,064	-	-	(48)	-	154,016	149,940	-	-	(7)	-	149,933
Re-measurement of defined liability (note 21)	(42,099)	-	-	-	-	(42,099)	2,900	-	-	-	-	2,900
Cash flow hedges – losses arising during the year	(754)	-	-	-	-	(754)	(4,644)	-	-	-	-	(4,644)
Tax relating to components of other comprehensive income	6,575	-	-	-	-	6,575	753	-	-	-	-	753
Comprehensive income (losses) relating to the year	**117,786**	**-**	**-**	**(48)**	**-**	**117,738**	**148,949**	**-**	**-**	**(7)**	**-**	**148,942**

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

The accompanying notes are an integral part of these statements of total recognised gains and losses.

Statements of changes in equity
For the year ended 31 March 2017

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2015	24,328	(26,482)	487,995	485,841
Profit for the financial year	-	-	149,933	149,933
Re-measurement of net defined benefit liability	-	-	2,663	2,663
Cash flow hedges: losses arising during the year	-	(4,813)	-	(4,813)
Cash flow hedges: reclassification to profit and loss	-	1,159	-	1,159
Total comprehensive income and movement in share capital	-	(3,654)	152,596	148,942
Dividends paid on equity shares (note 8)	-	-	(80,000)	(80,000)
At 31 March 2016	24,328	(30,136)	560,591	554,783
Profit for the financial year	-	-	154,016	154,016
Re-measurement of defined benefit liability	-	-	(42,099)	(42,099)
Tax on re-measurement of defined benefit liability	-	-	6,870	6,870
Cash flow hedges: losses arising during the year	-	(295)	-	(295)
Cash flow hedges: reclassification to profit and loss	-	(754)	-	(754)
Total comprehensive income	-	(1,049)	118,787	117,738
Dividends paid on equity shares (note 8)	-	-	(90,300)	(90,300)
At 31 March 2017	24,328	(31,185)	589,078	582,221

Cash flow statements

For the years ended 31 March

	Notes	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Net cash inflow from operating activities	18	252,831	-	-	1,125	-	253,956	261,498	-	-	1,078	-	262,576
Cash flow from investing activities													
Interest received		33	-	-	1	-	34	57	-	-	10	-	67
Interest paid		(45,983)	-	-	-	-	(45,983)	(45,717)	-	-	-	-	(45,717)
Taxation – UK corporation tax paid		(39,073)	-	-	-	-	(39,073)	(20,578)	-	-	-	-	(20,578)
Purchase of tangible fixed assets		(150,576)	-	-	(912)	-	(151,488)	(152,133)	-	-	(2,983)	-	(155,116)
Sale of tangible fixed assets		61	-	-	-	-	61	709	-	-	-	-	709
		(235,538)	-	-	(911)	-	(236,449)	(217,662)	-	-	(2,973)	-	(220,635)
Cash flow from financing activities													
Dividends paid		(90,300)	-	-	-	-	(90,300)	(80,000)	-	-	-	-	(80,000)
Withdrawal of borrowings		76,157	-	-	-	-	76,157	35,158	-	-	-	-	35,158
Expenses on issue of new loans		(130)	-	-	-	-	(130)	(652)	-	-	-	-	(652)
		(14,273)	-	-	-	-	(14,273)	(45,494)	-	-	-	-	(45,494)
Increase (decrease) in cash and cash equivalents		3,020	-	-	214	-	3,234	(1,658)	-	-	(1,895)	-	(3,553)
Cash and cash equivalents at beginning of year		3,761	-	-	1,247	-	5,008	5,419	-	-	3,142	-	8,561
Cash and cash equivalents at end of year		6,781	-	-	1,461	-	8,242	3,761	-	-	1,247	-	5,008

The accompanying notes are an integral part of these cash flow statements.

(i) 'Other activities' as set out in Standard Special Condition A30 paragraph 2(e) comprise those activities to which the Licence relates to which the Regulator has given its consent in writing in accordance with sub-paragraph 3(d) of Standard Special Condition A36. These activities are specifically the service agreements entered in to with NGG on sale of the network. These activities would otherwise have been classed as De Minimis with the exception of Network Innovation Competition (NIC) activities which are classed as Excluded Services as set out in Special Condition 4c and b. All De Minimis and Other activities arise as a result of the Transportation business.

Notes to the Regulatory Accounts

1. Turnover

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Transportation and Metering	421,360	426	-	-	-	421,786	415,081	467	-	-	-	415,548
Other income	-	-	61	348	-	409	-	-	21	192	-	213
	421,360	**426**	**61**	**348**	**-**	**422,195**	**415,081**	**467**	**21**	**192**	**-**	**415,761**

All turnover arises in the UK.

2. Other operating expenses

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 restated £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Distribution costs	151,512	-	-	48	-	151,560	147,289	-	-	7	-	147,296
Administrative expenses	52,506	-	-	-	-	52,506	55,411	-	-	-	-	55,411
	204,018	**-**	**-**	**48**	**-**	**204,066**	**202,700**	**-**	**-**	**7**	**-**	**202,707**

The allocation between distribution costs and administrative expenses has changed in the year due to how costs are coded within the business. The 2016 split of other operating expenses has been restated to best replicate the 2017 coding methodology.

3. Net finance charges

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Interest payable and similar charges	46,036	-	-	-	-	46,036	45,731	-	-	-	-	45,731
Investment income	(34)	-	-	-	-	(34)	(515)	-	-	-	-	(515)
Other finance (income) charges	(2,998)	-	-	-	-	(2,998)	4,641	-	-	-	-	4,641
	43,004	**-**	**-**	**-**	**-**	**43,004**	**49,857**	**-**	**-**	**-**	**-**	**49,857**

Interest payable and similar charges

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Bank loans and overdrafts	(1,027)	-	-	-	-	(1,027)	(1,519)	-	-	-	-	(1,519)
Intercompany interest payable	48,560	-	-	-	-	48,560	48,631	-	-	-	-	48,631
	47,533	**-**	**-**	**-**	**-**	**47,533**	**47,112**	**-**	**-**	**-**	**-**	**47,112**
Finance costs capitalised	(1,497)	-	-	-	-	(1,497)	(1,381)	-	-	-	-	(1,381)
	46,036	**-**	**-**	**-**	**-**	**46,036**	**45,731**	**-**	**-**	**-**	**-**	**45,731**

Finance costs have been capitalised based on a cost of debt capitalisation rate of 3.75% (2016 – 3.79%).

3. Net finance charges (continued)

Investment income

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Income from fixed asset investments	-	-	-	-	-	-	(453)	-	-	-	-	(453)
Interest receivable and similar income	(34)	-	-	-	-	(34)	(62)	-	-	-	-	(62)
	(34)	**-**	**-**	**-**	**-**	**(34)**	**(515)**	**-**	**-**	**-**	**-**	**(515)**

Other finance (income) charges

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Fair value movement on financial investments	(3,235)	-	-	-	-	(3,235)	4,076	-	-	-	-	4,076
Exchange rate differences	(11)	-	-	-	-	(11)	10	-	-	-	-	10
Unwinding of discount on provisions	199	-	-	-	-	199	158	-	-	-	-	158
Net return on pension scheme	49	-	-	-	-	49	397	-	-	-	-	397
	(2,998)	**-**	**-**	**-**	**-**	**(2,998)**	**4,641**	**-**	**-**	**-**	**-**	**4,641**

4. Profit (loss) on ordinary activities before taxation

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

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Depreciation and amounts written off tangible fixed assets												
- owned	68,290	-	-	202	-	68,492	64,759	-	-	26	-	64,785
- held under finance leases and hire purchase contracts	4	-	-	-	-	4	7	-	-	-	-	7
Amortisation of intangible assets included in administrative expenses	4,112	-	-	-	-	4,112	4,111	-	-	-	-	4,111
Profit on disposal of tangible fixed assets	(15)	-	-	-	-	(15)	(553)	-	-	-	-	(553)
Operating lease rentals – vehicles	1,151	-	-	-	-	1,151	780	-	-	-	-	780
Operating lease rentals – property	1,091	-	-	-	-	1,091	1,213	-	-	-	-	1,213

4. Profit (loss) on ordinary activities before taxation (continued)

The analysis of auditor's remuneration is as follows:

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Fees payable to the company's auditor for the audit of the Company's annual accounts	70	-	-	-	-	70	70	-	-	-	-	70
Fees payable to the company's auditor and its associates for other services to the company												
- The audit of the company's subsidiaries pursuant to legislation	34	-	-	-	-	34	34	-	-	-	-	34
Total audit fees	**104**	-	-	-	-	**104**	**104**	-	-	-	-	**104**
Fees payable to the company's auditor and its associates for other services to the company												
- Other services pursuant to legislation	57	-	-	-	-	57	57	-	-	-	-	57
- Tax services	137	-	-	-	-	137	178	-	-	-	-	178
- Other services	-	-	-	-	-	-	32	-	-	-	-	32
Total non-audit fees	**194**	-	-	-	-	**194**	**267**	-	-	-	-	**267**

5. Payroll costs and employees

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

a) Payroll costs

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Wages and salaries	53,841	-	-	-	-	53,841	60,045	-	-	-	-	60,045
Social security costs	5,835	-	-	-	-	5,835	5,915	-	-	-	-	5,915
Pension costs	7,722	-	-	-	-	7,722	17,767	-	-	-	-	17,767
	67,398	-	-	-	-	**67,398**	**83,727**	-	-	-	-	**83,727**

Other pension costs include only those included within other operating expenses. 2016 costs are above expectation due to one off restructuring provision costs incurred during that year (see note 16 for details).

b) Average number of employees

	Transportation 2017 Number	Metering 2017 Number	De Minimis 2017 Number	Other activities 2017 Number	Corporate 2017 Number	Total 2017 Number	Transportation 2016 Number	Metering 2016 Number	De Minimis 2016 Number	Other activities 2016 Number	Corporate 2016 Number	Total 2016 Number
Administration	171	-	-	-	-	171	181	-	-	-	-	181
Operations	1,281	-	-	-	-	1,281	1,332	-	-	-	-	1,332
Total	1,452	-	-	-	-	1,452	1,513	-	-	-	-	1,513

6. Directors' remuneration

The below disclosures relate to Northern Gas Networks Operations Limited, a subsidiary of the company who recharges Directors' remuneration to the company. The company itself has no Director remuneration costs.

Remuneration

The remuneration of the Directors was as follows:

	Non-Executive Directors 2017 £'000	Non-Executive Directors 2016 £'000	Executive Directors 2017 £'000	Executive Directors 2016 £'000
Emoluments	70	70	813	769
Amounts receivable (other than shares) under long term incentive schemes	-	-	213	197
	70	**70**	**1,026**	**966**

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

Pensions
No Directors were members of pension schemes (2016 - nil).

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

	2017 £'000	2016 £'000
Emoluments	1,026	966
	1,026	**966**

Transactions

There have been no transactions with Directors in the year (2016 - £nil) other than as set out above in respect of remuneration.

7. Tax on profit (loss) on ordinary activities

	Total 2017 £'000	Total 2016 £'000
Current tax		
UK corporation tax	32,352	37,519
Adjustments in respect of prior years	(9,084)	1,284
Total current tax	**23,268**	**38,803**
Deferred tax		
Current year - origination and reversal of timing differences	406	(6,816)
Effect of decrease in tax rate on opening liability	1,517	305
Adjustments in respect of prior years	(16,372)	(32,424)
Total deferred tax	**(14,449)**	**(38,953)**
Total tax on profit (loss) on ordinary activities	**8,819**	**(132)**

7. Tax on profit (loss) on ordinary activities (continued)

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

	Total 2017 £'000	Total 2016 £'000
Profit on ordinary activities before tax	162,835	149,801
Tax on profit on ordinary activities at standard UK corporation tax rate of 20% (2016 - 20%)	32,567	29,960
Effects of:		
Expenses not deductible for tax purposes	1,256	1,083
Income not taxable in determining taxable profit	(478)	(1,046)
Differences in tax rates	(16,960)	(31,718)
Adjustments in respect of prior years	(7,566)	1,589
Current tax (charge) for the year	8,819	(132)

The company earns its profits in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, being 20% (2016 – 20%).

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

The Finance Act 2015 included provisions to reduce the rate of UK corporation tax to 19% with effect from 1 April 2017. The Finance Act 2016 included provisions to further reduce the rate of UK corporation tax to 17% with effect from 1 April 2020. Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reserve based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly 17% has been applied when calculating deferred tax assets and liabilities as at 31 March 2017.

8. Dividends paid and declared on equity shares

	Total 2017 £'000	Total 2016 £'000
Equity shares:		
- interim dividend of £0.70 (2016 - £0.64) per ordinary share	17,000	15,500
- interim dividend of £3.01 (2016 - £2.65) per ordinary share	73,300	64,500
	90,300	**80,000**

The company is prohibited from declaring a dividend or other distribution unless it has certified to the Regulator that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade rating (see Regulatory licence conditions on page 2).

9. Intangible fixed assets

Transportation and Total

	Licence £'000	Goodwill £'000	Total £'000
Cost at 1 April 2016 and 31 March 2017	161,200	3,257	164,457
Amortisation at 1 April 2016	43,658	882	44,540
Charge for the year	4,031	81	4,112
Amortisation at 31 March 2017	47,689	963	48,652
Net book value at 31 March 2017	**113,511**	**2,294**	**115,805**
Net book value at 31 March 2016	**117,542**	**2,375**	**119,917**

10. Tangible fixed assets

Transportation	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 2016	4,772	2,523,049	18,171	116,544	37,150	2,699,686
Additions	245	118,186	2,330	7,747	21,345	149,953
Disposals	-	(191)	(917)	(1,947)	-	(3,055)
Transfers	1,252	19,648	1,822	3,812	(26,534)	-
Cost at 31 March 2017	6,269	2,660,792	21,406	126,156	31,961	2,846,584
Depreciation at 1 April 2016	2,634	377,265	6,504	68,875	-	455,278
Charge for the year	759	53,361	2,000	12,174	-	68,294
Disposals	-	(183)	(879)	(1,947)	-	(3,009)
Depreciation at 31 March 2017	3,393	430,443	7,625	79,102	-	520,563
Net book value at 31 March 2017	**2,876**	**2,230,349**	**13,781**	**47,054**	**31,961**	**2,326,021**
Net book value at 31 March 2016	**2,138**	**2,145,784**	**11,667**	**47,669**	**37,150**	**2,244,408**

10. Tangible fixed assets (continued)

Other Activities (Excluded Services)

	Assets in the course of construction £'000	Gas distribution assets £'000	Total £'000
Cost at 1 April 2016	3,815	1,632	5,447
Additions	562	-	562
Transfers	(2,330)	2,330	-
Cost at 31 March 2017	2,047	3,962	6,009
Depreciation at 1 April 2016	-	30	30
Charge for the year	-	202	202
Depreciation at 31 March 2017	-	232	232
Net book value at 31 March 2017	**2,047**	**3,730**	**5,777**
Net book value at 31 March 2016	**3,815**	**1,602**	**5,417**

Total

	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 2016	4,772	2,524,681	18,171	116,544	40,965	2,705,133
Additions	245	118,286	2,330	7,747	21,907	150,515
Disposals	-	(191)	(917)	(1,947)	-	(3,055)
Transfers	1,252	21,978	1,822	3,812	(28,864)	-
Cost at 31 March 2017	6,269	2,664,754	21,406	126,156	34,008	2,852,593
Depreciation at 1 April 2016	2,634	377,295	6,504	68,875	-	455,308
Charge for the year	759	53,563	2,000	12,174	-	68,496
Disposals	-	(183)	(879)	(1,947)	-	(3,009)
Depreciation at 31 March 2017	3,393	430,675	7,625	79,102	-	520,795
Net book value at 31 March 2017	**2,876**	**2,234,079**	**13,781**	**47,054**	**34,008**	**2,331,798**
Net book value at 31 March 2016	**2,138**	**2,147,386**	**11,667**	**47,669**	**40,965**	**2,249,825**

Leased assets included above:

Net book value at 31 March 2017	**175**	-	-	-	-	**175**
Net book value at 31 March 2016	**179**	-	-	-	-	**179**

Undepreciated land equates to £774,000 (2016 - £774,000). Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £10,678,000 (2016 - £9,181,000).

11. Fixed asset investments

	Total 2017 £'000	Total 2016 £'000
Subsidiary undertakings	2,105	2,105
Other investment	104	104
	2,209	**2,209**

The company has an investment in the following subsidiary undertakings:

Subsidiary undertaking	Country of incorporation	Principal activity	Holding	%
Northern Gas Networks Finance Plc	England & Wales	Financing	49,999 ordinary shares of £1	100
Northern Gas Networks Operations Limited	England & Wales	Gas Network Operations	2 ordinary shares of £1	100
Northern Gas Networks Pensions Trustee Limited	England & Wales	Pension Scheme Trustee	1 ordinary share of £1	100

All subsidiaries have a registered address of 1100 Century Way, Leeds, LS15 8TU.

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

The company also holds 1 ordinary share of £1 in Smart Energy Code Company Limited (registered in England and Wales) which represents a holding of 1.15%.

Subsidiary undertakings

	Corporate and Total £'000
Cost and net book value	
At 1 April 2016 and 31 March 2017	**2,105**

Other investment

	Transportation and Total £'000
Cost and net book value	
At 1 April 2016 and 31 March 2017	**104**

12. Debtors

	Transportation 2017	Metering 2017	De Minimis 2017	Other activities 2017	Corporate 2017	Total 2017	Transportation 2016	Metering 2016	De Minimis 2016	Other activities 2016	Corporate 2016	Total 2016
Amounts falling due within one year	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade debtors	1,248	-	-	-	-	1,248	1,335	-	-	-	-	1,335
Prepayments and accrued income	51,003	-	-	-	-	51,003	49,656	-	-	-	-	49,656
Other debtors	1	-	-	-	-	1	2	-	-	-	-	2
Derivative financial assets	3,060	-	-	-	-	3,060	2,944	-	-	-	-	2,944
	55,312	-	-	-	-	**55,312**	**53,937**	-	-	-	-	**53,937**
Amounts falling due after more than one year												
Derivative financial assets	345,509	-	-	-	-	345,509	324,915	-	-	-	-	324,915
	400,821	-	-	-	-	**400,821**	**378,852**	-	-	-	-	**378,852**

13. Creditors: Amounts falling due within one year

	Transportation 2017	Metering 2017	De Minimis 2017	Other activities 2017	Corporate 2017	Total 2017	Transportation 2016	Metering 2016	De minimis 2016	Other activities 2016	Corporate 2016	Total 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Bank loans	-	-	-	-	-	-	11,403	-	-	-	-	11,403
Payments received on account	1,645	-	-	-	-	1,645	3,065	-	-	-	-	3,065
Trade creditors	419	-	-	-	-	419	959	-	-	-	-	959
Amounts owed to group undertakings	-	-	-	-	49,660	49,660	-	-	-	-	40,329	40,329
UK corporation tax	28,840	-	-	-	-	28,840	53,028	-	-	-	-	53,028
Other taxation and social security	16,280	-	-	-	-	16,280	6,957	-	-	-	-	6,957
Accruals and deferred income	3,430	-	-	97	-	3,527	7,357	-	-	5,395	-	12,752
Derivative financial liabilities	16,530	-	-	-	-	16,530	15,134	-	-	-	-	15,134
	67,144	-	-	**97**	**49,660**	**116,901**	**97,903**	-	-	**5,395**	**40,329**	**143,627**

Amounts owed to group undertakings are interest free and repayable on demand.

14. Creditors: Amounts falling due after more than one year

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016restated £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Bank loans	431,316	-	-	-	-	431,316	343,124	-	-	-	-	343,124
Amounts owed to group undertakings	1,043,081	-	-	-	-	1,043,081	1,030,166	-	-	-	-	1,030,166
Deferred income	100,015	-	-	5,286	-	105,301	90,054	-	-	4,837	-	94,891
Derivative financial liabilities	248,612	-	-	-	-	248,612	244,693	-	-	-	-	244,693
	1,823,024	-	-	**5,286**	-	**1,828,310**	**1,708,037**	-	-	**4,837**	-	**1,712,874**

The 2016 restatement is a classification change between amounts owed to group undertakings and derivative financial liabilities (see below for further details). At 31 March 2017 bank loans and bonds include unamortised fees of £1,906,000 (2016 - £2,127,000).
The bank loans comprise ten loans as detailed below.

Principal value (£m)	Interest terms	Repayable on
25.0	3 month LIBOR + 0.36%	23 January 2023
100.0	3 month LIBOR + 0.62%	30 March 2024
25.0	3 month LIBOR + 0.55%	24 June 2024
60.0	3 month LIBOR + 0.46%	30 July 2024
40.0	Fixed rate of 3.446%	20 December 2024
30.0	3 month LIBOR + 0.53%	31 March 2027
30.0	3 month LIBOR + 0.63%	29 February 2028
50.0	3 month LIBOR + 0.834%	20 December 2028
40.0	3 month LIBOR + 0.934%	29 March 2029
31.3	3 month LIBOR + 0.86%	25 March 2034

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

The amount outstanding on the amounts owed to group undertakings at amortised cost is £900.1m (2016: £900.1m). The difference between the amount outstanding on the debt at amortised cost and the carrying value is represents the fair value adjustments on the portion of the loan from Northern Gas Networks Finance Plc that is in a Fair Value hedge relationship (the proceeds of bonds maturing in 2027 and 2035). These adjustments are substantially offset by a corresponding amount in debtors relating to the fair value of the interest rate swaps that are in the Fair Value hedge relationship with this intercompany debt.

15. Derivatives and other financial instruments

The carrying values of the company's financial assets and liabilities are summarised by category below. In estimating the fair value of an asset or a liability, the company uses market-observable data to the extent it is available, using an individual trade basis provided by an external reporting system meaning no assumptions are applied by the company. This method generates a fair value difference of £11m compared to a portfolio basis.

	31 March **2017** **£'000**	31 March **2016** **£'000**
Financial assets		
Measured at fair value through the profit and loss account		
- Derivative financial assets	228,491	210,356
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets	120,078	117,503
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 12)	1,249	1,337
Equity instruments measured at cost less impairment		
- Fixed asset investments (see note 11)	2,209	2,209
	352,027	**331,405**

15. Derivatives and other financial instruments (continued)

	31 March **2017** **£'000**	31 March **2016** **£'000**
Financial liabilities		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities	239,024	235,779
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities	26,119	24,048
- Other financial liabilities – bonds	1,043,081	130,036
Measured at amortised cost		
- Loans payable (see notes 13 and 14)	431,316	354,527
Measured at undiscounted amount payable		
- Trade and other creditors (see note 13)	2,064	4,024
- Amounts owed to group undertakings (note 13 and 14)	49,660	940,459
	1,791,264	**1,688,873**

15. Derivatives and other financial instruments (continued)

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

	Year ended 31 March **2017** **£'000**	Year ended 31 March **2016** **£'000**
Interest income and expense on items at amortised cost		
- Total interest payable on financial liabilities at amortised cost	52,687	52,778
- Total interest receivable on financial assets measured at amortised cost	(34)	(62)
Interest income and expense on derivatives		
- Total interest receivable on financial assets measured at fair value through the P&L	(33,368)	(34,184)
- Total interest payable on financial liabilities measured at fair value through the P&L	20,644	21,363
- Total interest payable on financial assets designated in an effective hedging relationship	-	-
- Total interest payable on financial liabilities designated in an effective hedging relationship	6,212	5,334
Fair value gains and losses		
- On financial assets measured at fair value through the profit and loss account	7,474	3,978
- On financial liabilities measured at fair value through the profit and loss account	(10,770)	(81)
- On derivative financial assets designated in an effective hedging relationship	159	113
- On derivative financial liabilities designated in an effective hedging relationship	(97)	66
	42,907	**49,305**

15. Derivatives and other financial instruments (continued)

The maturity of the carrying value of the company's derivatives in hedging relationships split between less than 1 year and greater than 1 year.

	Current (less than 1 year)		Greater than 1 year	
	31 March 17	31 March 16	31 March 17	31 March 16
	£'000	£'000	£'000	£'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Assets	-	-	120,078	117,503
Interest rate swaps				
Liabilities				
Interest rate swaps	(8)	-	(26,111)	(24,048)
	(8)	-	93,967	93,455

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.

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	
	2017	2016	2017	2016	2017	2016
	%	%	£'000	£'000	£'000	£'000
Outstanding receive floating pay fixed contracts						
Less than 1 year	0.41	-	20,000	-	4	-
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years +	2.21	2.51	371,316	305,000	(26,115)	(24,048)
			391,316	305,000	(26,111)	(24,048)

15. Derivatives and other financial instruments (continued)

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three month LIBOR. The Company will settle the difference between the fixed and floating interest rate on a net basis.

The receive floating pay fixed contracts 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.

The hedged cash flows are expected to occur and to affect profit or loss over the period to maturity of the interest rate swaps.

	Average contract fixed interest rate		Notional principal value as at 31 March		Fair value as at 31 March	
	2017	2016	2017	2016	2017	2016
	%	%	£'000	£'000	£'000	£'000
Outstanding pay floating receive fixed contracts						
5 years plus	4.88	4.88	420,000	490,000	120,078	117,503
			420,000	490,000	120,078	117,503

The forward-starting interest rate swaps settle on a semi-annual basis in the case of the floating rate legs and on an annual basis in the case of the fixed rate leg. The floating rate on the interest rate swaps is six month LIBOR.

Interest will be settled on a gross basis as the settlement dates for the fixed and floating rate legs do not coincide.

The swaps hedge the exposure to changes in the fair value of the underlying bonds (which are the basis of the intercompany loan) that are attributable to changes in interest rates.

16. Provisions for liabilities excluding pension liability

	Transportation and Total				
	Restructuring	Environmental restoration	Deferred tax	Other	Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2016	14,068	8,923	308,335	6,500	337,826
Charged (credited) to profit and loss account	1,000	(2,523)	(19,043)	533	(20,033)
Deferred tax in relation to pension scheme	-	-	295		295
Utilised in the year	(3,549)	(857)	-	(748)	(5,154)
Adjustments arising on discounting	-	-	-	199	199
At 31 March 2017	**11,519**	**5,543**	**289,587**	**6,484**	**313,133**

Provision for net defined benefit scheme deficit (see note 21)	18,310
	331,443

16. Provisions for liabilities excluding pension liability (continued)

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.

Deferred tax	2017 £'000	2016 £'000
Accelerated capital allowances	65,622	76,771
Other timing differences	223,965	231,564
	289,587	**308,335**

Restructuring
Estimated costs of an over 55 early retirement programme offered to employees. The restructuring provision value represents the net present value of anticipated liabilities at the balance sheet date. The timing of cash flow assumption is based on agreed retirement dates with employees and a discounted rate of 6.5% is applied. Where a date has not been formally agreed, a probability of 65% has been applied based on historical take up rates and this accounts for £1.6m of the total provision, meaning a 1.0% move from this percentage assumption would move the provision by £25,000.

Environmental restoration
Estimated environmental restoration costs are provided where the company has a legal obligation to restore sites at the balance sheet date. The provision represents the estimated net present value for statutory decontamination of old gas sites. It also reflects the obligations associated with other environmental damage. The timing of the utilisation of the environmental restoration provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. 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 expense of £22.7m but this is deemed highly unlikely based on historic trends. Sensitivity analysis has not been performed due to the number of variables in the probability calculation.

Other
Other provisions relate to the estimated net present value of future claims in relation to past public and employer's liability events. The timing of the utilisation of the other provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date.

17. Called-up share capital and reserves

Share capital	2017 Number	2017 £'000	2016 Number	2016 £'000
Allotted, called-up and fully paid				
Ordinary shares of £1 each	**24,328,476**	**24,328**	**24,328,476**	**24,328**

Profit and loss account
The profit and loss account represents 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.

18. Cash flow statements

Reconciliation of operating profit to operating cash flow

	Transportation 2017 £'000	Metering 2017 £'000	De Minimis 2017 £'000	Other activities 2017 £'000	Corporate 2017 £'000	Total 2017 £'000	Transportation 2016 £'000	Metering 2016 £'000	De Minimis 2016 £'000	Other activities 2016 £'000	Corporate 2016 £'000	Total 2016 £'000
Operating profit (loss)	206,562	-	-	(48)	-	206,514	199,665	-	-	(7)	-	199,658
Depreciation and amortisation	72,406	-	-	202	-	72,608	68,877	-	-	26	-	68,903
(Profit) loss on sale of tangible fixed assets	(15)	-	-	-	-	(15)	(553)	-	-	-	-	(553)
Decrease (increase) in debtors	(1,259)	-	-	-	-	(1,259)	(13,612)	-	-	-	-	(13,612)
Increase (decrease) in creditors	10,219	-	-	971	-	11,190	11,938	-	-	1,059	-	12,997
Decrease in provisions	(6,818)	-	-	-	-	(6,818)	3,946	-	-	-	-	3,946
Adjustment for pension funding	(28,264)	-	-	-	-	(28,264)	(8,763)	-	-	-	-	(8,763)
Net cash inflow (outflow) from operating activities	**252,831**	**-**	**-**	**1,125**	**-**	**253,956**	**261,498**	**-**	**-**	**1,078**	**-**	**262,576**

19. Related party transactions

There have been no transactions with directors in the year (2016 - £nil) other than remuneration as disclosed in note 6. During the year the company purchased services in the ordinary course of business from related parties as follows:

	2017 £'000	2016 £'000
CK Infrastructure Holdings Limited	358	235
Northumbrian Water Limited	106	121
VLS Limited	1,312	1,400

CK Infrastructure Holdings Limited is a company whose ultimate parent undertaking is CK Hutchison Holdings Limited.

Northern Gas Networks Limited and Northumbrian Water Limited are part of the same group and VLS is 50% owned by Northumbrian Water Limited. The balances within creditors with these companies at the balance sheet date was £173,000 (2016 - £175,000) VLS Limited and £nil (2016 - £1,000) with Northumbrian Water Limited. For regulatory purposes only, in accordance with Standard Condition 1, CK Infrastructure Holdings Limited and Power Assets Holdings Limited are deemed to be ultimate controllers of these companies.

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

20. Financial commitments

Future total commitments under non-cancellable operating leases are as follows:

	Land and buildings 2017 £'000	Land and buildings 2016 £'000
Expiry date:		
- within one year	1,080	12
- between one and two years	900	134
- between two and five years	1,847	492
- over five years	2,097	6,930
	5,924	**7,568**

c) Other commitments

The company has entered in to a Guarantee and Reimbursement Agreement with FGIC UK Limited ("FGIC") in conjunction with its subsidiary Northern Gas Networks Finance Plc ("the Issuer") in relation to the bonds issued by that company in November 2005 of £505.0m. The company guarantees the punctual payment of any and all sums and fees due to FGIC and undertakes to pay any amount due from the Issuer but not paid by it. The company also indemnifies FGIC against any loss or liability suffered, if any obligation guaranteed by FGIC is, or becomes, unenforceable, invalid or illegal. The amount of the loss or liability under the indemnity is equal to the amount FGIC would otherwise have been entitled to recover.

21. Pension arrangements

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

The amounts recognised in the balance sheets are as follows:

	2017 £'000	2016 £'000
Present value of funded obligations	517,084	427,139
Fair value of plan assets	(495,024)	(418,967)
Deficit	22,060	8,172
Related deferred tax asset	(3,750)	(1,471)
Net liability	18,310	6,701
Amounts in the balance sheets		
- Liabilities	18,310	6,701

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

	2017 £'000	2016 £'000
Amount charged to operating profit		
Current service costs	4,060	5,919
Past service costs	720	3,810
Total	4,780	9,729
Amount credited to net finance charges		
Interest costs	14,890	14,267
Expected return on plan assets	(14,841)	(13,870)
Net return on pension scheme	49	397
Total	4,829	10,126

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

	2017 £'000	2016 £'000
Actuarial gains (losses)	(42,099)	2,900

The cumulative amount of actuarial gains and losses recognised in the statements of total recognised gains and losses is as follows:

	2017 £'000	2016 £'000
Actuarial losses	(103,549)	(61,450)

21. Pension arrangements (continued)

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

	2017 £'000	2016 £'000
Opening defined benefit obligation	427,139	440,181
Service costs	4,060	5,919
Past service costs	720	3,810
Interest cost	14,890	14,267
Member contributions	670	465
Actuarial losses (gains)	97,660	(17,756)
Benefits paid	(28,055)	(19,730)
Expenses paid	-	(17)
Closing defined benefit obligation	517,084	427,139

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

	2017 £'000	2016 £'000
Opening fair value of plan assets	418,967	420,745
Expected return	14,841	13,870
Actuarial gains (losses)	55,561	(14,856)
Employer contributions	33,040	18,490
Member contributions	670	465
Benefits paid	(28,055)	(19,730)
Expenses paid	-	(17)
	495,024	418,967

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

	2017 %	2016 %
Equity securities	13.5	18.1
Debt securities	63.7	63.8
Property	8.1	9.3
Other	14.7	8.8

To determine the overall expected rate of return on plan assets the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the assets are invested and the expectations for future returns of each asset class in the plan. The expected return for each asset class was then weighted, based on the asset allocation in the plan to develop the assumption for the expected rate of return on plan assets.

21. Pension arrangements (continued)

The actual return on plan assets is as follows:

	2017 £'000	2016 £'000
Actual return on plan assets	70,403	(986)

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

	2017	2016
Discount rate	2.6%	3.6%
Future salary increases	3.7%	3.5%
Future pension increases	3.2%	3.0%
Inflation	3.2%	3.0%
Life expectancy - member age 65 (retiring at balance sheet date)	22.1 years	22.2 years
- member age 45 (retiring 20 years from balance sheet date)	24.2 years	24.4 years

The company also operates defined contribution schemes for which the pension charge for the year amounted to £2,416,000 (2016 - £474,000). At 31 March 2017 unpaid contributions amounted to £nil (2016 - £4,000).

22. Ultimate controlling party

The Directors regard Northern Gas Networks Holdings Limited, a company incorporated in England and Wales, as the ultimate parent company and ultimate controlling party. For regulatory purposes only, in accordance with Standard Condition 1, CK Infrastructure Holdings Limited and Power Assets Holdings Limited are also deemed to be ultimate controllers, both of which are listed on the Hang Seng Index.

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

The shareholders of Northern Gas Networks Holdings Limited are a consortium consisting of:

PG (April) Limited (47.1%)
Beta Central Profits Limited (41.3%)
SAS Trustee Corporation (11.6%).