Northern Gas Networks Holdings Limited

Annual Report and accounts
for the year ended 31 March 2018

Registered number: 05213525

The directors present their Annual Report on the affairs of Northern Gas Networks Holdings Limited ("the group"), together with the accounts and auditor's report, for the year ended 31 March 2018. The accounts are presented under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

Review of the business

The group's purpose is to provide safe and secure gas supplies to the people and the businesses within the distribution network, being the North of England. The group's vision of success is to be consistently benchmarked by the regulators, 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 value to the shareholders of the group.

Financial and operational review

Group operating profit for the year is £183.4m (2017 - £204.4m) with revenue decreasing by £11.1m based on Ofgem allowances, and cost increases of £9.9m: a depreciation increase of £2.4m and inflationary cost pressures.

The group generated a net cash inflow from operating activities for the year of £260.7m (2017 - £254.0m). At the end of the year, the group's undrawn borrowing facilities available for use amounted to £115.0m (2017 - £160.0m). The group has debt at the 31 March 2018 as follows:

- bank loans due within one year of £44.7m (2017 - £nil) which carry interest at LIBOR plus a margin of 0.4%;
- bonds of £199.7m (2017 - £199.4m) which carry interest of 5.875% and are repayable in 2019;
- bonds of £196.6m (2017 - £196.5m) which carry interest of 5.625% and are repayable in 2040;
- bonds of £623.6m (2017 - £647.4m) which carry interest of 4.875%, £281.5m of which is repayable in 2027 and £342.1m in 2035;
- loans of £389.5m (2017 - £391.3m) carrying interest at 3 month LIBOR plus a margin which varies by facility as detailed in note 14 to the accounts, £25.0m of which is repayable in 2023, £185.0m in 2024, £30.0m in 2027, £80.0m in 2028, £40.0m in 2029 and £29.5m in 2034;
- a loan of £40.0m (2017 - £40.0m) which carries interest of 3.446% and is repayable in 2024; and
- shareholder loans of £180.0m (2017 - £180.0m) which carry interest of 10.0% and are repayable in 2033.

This debt structure has given rise to net finance charges of £65.6m in the year (2017 - £64.0m).

The tax charge for the year was £25.3m (2017 - £6.5m) which represents an effective tax rate of 20.8% (2017 – 4.5%). The effective tax rate in 2017 was distorted due to: (1) the impact of the adjustment of the deferred tax liability to reflect the changes in UK corporation tax rates from 18% to 17%; and (2) benefits from the recognition of prior year capital allowance claims.

Capital additions ("Capex") for the year was £154.4m (2017 - £150.5m) principally focused on investment in network assets including replacement expenditure. The group had net assets of £515.6m at 31 March 2018 (2017 - £448.5m).

Key performance indicators (KPI's)

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

	Year ended 31 March 2018	Year ended 31 March 2017
Financial performance (efficiency)		
Operating profit	£183.4m	£204.4m
Net cash from operating activities	£260.7m	£254.0m
Dividends paid	£73.4m	£72.3m
External debt less cash / regulatory asset value	64.9%	65.8%
Customer service		
Quarterly customer satisfaction survey score for repair, replacement and connections and ranking	9 out of 10 (2nd)	9 out of 10 (2nd)
Safety management		
Number of lost time injuries to employees and contractors	0	3
Reported injuries to members of the general public	1	1

All of the targets for the above KPI's have been achieved.

Environment and Safety

The group recognises the importance of its environmental responsibilities and undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements and higher standards where possible. The group is committed to the protection of the environment in the region it serves. The group's environmental management systems are certified under ISO 14001 and OHSAS 18001.

Safety performance remains market leading with only 1 injury to members of the general public and no lost time injuries to employees and contractors. Despite this the company will always seek to improve safety performance.

Customers

Customer service is central to how the group operates and is a key consideration in all strategic decisions. As shown in the above KPIs the group continues to do well scoring 9 out of 10 with customer surveys.

Principal risks and uncertainties

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

Principal risks and uncertainties (continued)

Regulatory environment, revenue and costs

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

Mitigation

The group engages with the regulatory authority extensively at all levels of seniority to understand future plans and potential impacts on the business. The business responds 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. The implications of the next price control, RIIO-GD2, are being assessed although this does not start until 1 April 2021.

Health and safety

There is a risk that an incident within the network leads to injury to an employee, contractor or a member of the general public. Any such incident could have an adverse effect primarily for individuals concerned, but also on the reputation of the group, or lead to potential prosecution or 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 group has a set of policies and procedures that 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 the group depends to a significant extent on the contribution of its employees and the employees of operational contractors. Fair and effective recruitment, training and employee development are critical to the successful functioning and progression of the business. 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

The group's succession planning strategies mean that development of existing staff is crucial. The group, as an equal opportunities employer, ensures that no job applicant receives less favourable treatment because of his or her age, colour, disability, ethnic or national origin, gender, marital status or sexuality or is disadvantaged by conditions or requirements which are irrelevant to performance and the group's needs. The company has published its gender pay gap analysis which can be found at: https://www.northerngasnetworks.co.uk.

Financial risk management objectives and policies

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

Interest rate risk

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

- To have a balanced debt portfolio comprising a mixture of nominal and index-linked debt aiming to achieve a degree of symmetry with the Regulator's broad approach to setting cost of debt allowances and so as to maintain a debt portfolio consistent with those of comparable utility companies; and

- To structure debt maturities and interest rate hedges in such a way as to provide protection against adverse movements in the indexed regulatory cost of debt allowance.

Credit risk

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

Liquidity risk

The maturities of all debt and committed debt facilities other than amortising loans, are managed such that at any one time all have a time to maturity of more than one year and that at least 50% by value have a time to maturity of more than five years. Debt and facility maturities are staggered to avoid excessive concentrations in any twelve month period as well as the period around regulatory reset dates where possible. Note the group currently has £200m of debt with a maturity being less than 1 year, as detailed in the going concern assessment on page 7.

By order of the Board

M J Horsley, Director

19 July 2018

Directors' report

For the year ended 31 March 2018

The directors present their annual report on the affairs of the group, together with the accounts and auditor's report, for the year ended 31 March 2018. The following disclosures have been disclosed in the strategic report but are cross referenced here: principal activities, business review including KPI's, principal risks and uncertainties, and financial risk management objectives and policies.

Directors

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

A J Hunter	(Chairman)	D N Macrae
M J Horsley	(Chief Executive Officer)	L S Chan
H L Kam		C C Tsai
C T Wan		S D Beer
N D McGee		

The Board of Directors

The daily operations of the business are managed by a Senior Management Team ("SMT") and the Chief Executive Officer ("CEO"). All significant decisions are referred to the Northern Gas Networks Limited Board of Directors on behalf of the group.

The Board of Northern Gas Networks Holdings Ltd (NGNH) meets at least three times a year. The number of Board meetings held during the year and attendees (including alternates) at the Board meetings are detailed below:

Year ended 31 March 2018		Year ended 31 March 2017	
Date	**Attendees**	**Date**	**Attendees**
25 April 2017	4 out of 9	26 April 2016	6 out of 9
26 July 2017	7 out of 9	19 July 2016	8 out of 9
10 November 2017	9 out of 9	17 November 2016	9 out of 9

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

Dividends

The directors do not recommend payment of a final dividend. Interim dividends of 24.07p per share were paid on 23 June 2017 and of 78.28p per share were paid on 20 December 2017 making a total of 102.35p per share for the year (2017 – 100.88p). See note 8 for details. Declared dividend are in line with the expectations of the Board.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Future developments and events after the balance sheet date

From 1 April 2013, the current price control (RIIO-GD1) period commenced, which gives the group security over regulated revenue until 31 March 2021. The directors therefore expect the general level of activity to remain stable. There are no material post balance sheet events.

Financial instruments

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

Pension arrangements

During the year the group entered into an "asset backed contribution" arrangement with its defined benefit pension scheme whereby the NGN Pension Funding Limited Partnership was funded to acquire a £70m loan note. The partnership members are Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit pension scheme and Northern Gas Networks General Partner Limited. Contributions to the pension scheme of £58.8m were made in the year.

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 above. In addition, note 15 to the accounts includes further details of the group's 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 group has significant liquid resources and uses long term debt instruments to mitigate any liquidity risk as detailed in the strategic report. It should be noted that the group has £200m of debt falling due within July 2019, being within 1 year of the signing of these accounts, and that no replacement finance has been confirmed. The directors are satisfied that the required refinancing will be completed prior to the maturity of the £200m of debt in July 2019 due to the following factors: (1) the group have refinanced comparable amounts without issue in the past; (2) investors confidence in the group remains strong due to the reliable regulated revenue and valuable asset held (the gas network); (3) the shareholders of the company have the ability to fund the refinancing in the highly unlikely circumstance that this be needed. It was agreed by the Board that the treasury policy provision requiring long term debt to be refinanced at least 12 months before its maturity date, could be waived.

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.

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 group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees.

Employee consultation

The group 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 group. 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 group.

Supplier payment policy

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Auditor

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

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

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

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

1100 Century Way
Thorpe Park Business Park
Leeds, LS15 8TU
United Kingdom

M J Horsley
M J Horsley - Director
19 July 2018

Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;

- make judgments and accounting estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Northern Gas Networks Holdings Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and company balance sheets;
- the consolidated and company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 22.

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

Basis for opinion

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

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Scott Bayne

Scott Bayne FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
19 July 2018

Consolidated profit and loss account

For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Turnover	1	411,048	422,195
Cost of sales		(13,019)	(12,290)
Gross profit		398,029	409,905
Other operating expenses	2	(214,661)	(205,480)
Operating profit		183,368	204,425
Finance costs (net)	3	(61,761)	(61,004)
Profit on ordinary activities before taxation	4	121,607	143,421
Tax on profit on ordinary activities	7	(25,329)	(6,459)
Profit for the financial year		96,278	136,962

The above results arise from continuing operations.

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

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

Consolidated statement of comprehensive income

For the year ended 31 March 2018

	2018 £'000	2017 £'000
Profit for the financial year	96,278	136,962
Re-measurement of defined benefit asset (liability) (note 20)	39,030	(42,099)
Gains / (losses) in respect of cash flow hedges	7,304	(6,966)
Transferred to profit or loss in respect of cash flow hedges	6,905	6,212
Tax relating to components of other comprehensive income	(9,051)	6,575
Comprehensive income relating to the year	140,466	100,684

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

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

Consolidated balance sheet

As at 31 March 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	9	154,394	160,045
Tangible fixed assets	10	2,415,337	2,331,798
Investments	11	104	104
		2,569,835	2,491,947
Current assets			
Stock - raw materials		2,560	2,643
Debtors - amounts falling due within one year	12	36,799	44,282
amounts falling due after one year	12	332,432	345,509
Cash at bank and in hand		8,124	8,243
		379,915	400,677
Creditors: Amounts falling due within one year	13	(158,461)	(104,196)
Net current assets		221,454	296,481
Total assets less current liabilities		2,791,289	2,788,428
Creditors: Amounts falling due after more than one year	14	(1,957,579)	(2,008,501)
Provisions for liabilities	16	(318,110)	(331,443)
Net assets		515,600	448,484
Capital and reserves			
Called-up share capital	17	71,671	71,671
Hedging reserve		(19,392)	(31,185)
Profit and loss account		463,321	407,998
Shareholders' funds		515,600	448,484

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

The accounts of Northern Gas Networks Holdings Limited, Registered number 05213525, were approved by the Board of Directors and authorised for issue on 18 July 2018 and signed on its behalf by:

M J Horsley

Director

19 July 2018

Company balance sheet

As at 31 March 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	11	574,502	574,502
Current assets			
Debtors			
- amounts falling due within one year	12	7,355	3,895
Cash at bank and in hand		1	1
		7,356	3,896
Creditors: Amounts falling due within one year	13	(173)	(183)
Net current assets		7,183	3,713
Total assets less current liabilities		581,685	578,215
Creditors: Amounts falling due after more than one year	14	(180,000)	(180,000)
Net assets		401,685	398,215
Capital and reserves			
Called-up share capital	17	71,671	71,671
Profit and loss account		330,014	326,544
Shareholders' funds		401,685	398,215

The profit for the financial year dealt with in the accounts of the parent company was £76,820,000 (2017 - £74,678,000). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented in respect of the parent company.

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

The accounts of Northern Gas Networks Holdings Limited, Registered number 05213525, were approved by the Board of Directors and authorised for issue on 18 July 2018 and signed on its behalf by:

M J Horsley

Director

19 July 2018

Consolidated statement of changes in equity
For the year ended 31 March 2018

	Called up share capital £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 31 March 2016	71,671	(30,136)	378,565	420,100
Profit for the financial year	-	-	136,962	136,962
Remeasurement of defined benefit liability	-	-	(42,099)	(42,099)
Tax on remeasurement of defined benefit liability	-	-	6,870	6,870
Cash flow hedges:				
losses arising during the year	-	(295)	-	(295)
reclassification to profit and loss	-	(754)	-	(754)
Total comprehensive income	-	(1,049)	101,733	100,684
Dividends paid on equity shares (note 8)	-	-	(72,300)	(72,300)
At 31 March 2017	71,671	(31,185)	407,998	448,484
Profit for the financial year	-	-	96,278	96,278
Remeasurement of defined benefit liability	-	-	39,030	39,030
Tax on remeasurement of defined benefit liability	-	-	(6,635)	(6,635)
Cash flow hedges:				
gains arising during the year	-	11,793	-	11,793
Total comprehensive income	-	11,793	128,673	140,466
Dividends paid on equity shares (note 8)	-	-	(73,350)	(73,350)
At 31 March 2018	71,671	(19,392)	463,321	515,600

Company statement of changes in equity

For the year ended 31 March 2018

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 31 March 2016	71,671	324,166	395,837
Profit for the financial year	-	74,678	74,678
Total comprehensive income	-	74,678	74,678
Dividends paid on equity shares	-	(72,300)	(72,300)
At 31 March 2017	71,671	326,544	398,215
Profit for the financial year	-	76,820	76,820
Total comprehensive income	-	76,820	76,820
Dividends paid on equity shares	-	(73,350)	(73,350)
At 31 March 2018	71,671	330,014	401,685

Consolidated cash flow statement
For the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Net cash inflows from operating activities	18	260,724	253,956
Cash flow from investing activities			
Interest received		54	34
Interest paid		(64,778)	(63,983)
Taxation - UK corporation tax paid		(13,426)	(39,073)
Purchase of tangible fixed assets		(152,602)	(151,488)
Sale of tangible fixed assets		229	61
		(270,523)	(254,449)
Cash flow from financing activities			
Dividends paid		(73,350)	(72,300)
Withdrawal of borrowings		43,158	76,157
Expenses on issue of new loans		(128)	(130)
		(30,320)	3,727
Net (decrease) / increase cash and cash equivalents		(119)	3,234
Cash and cash equivalents at beginning of year		8,243	5,009
Cash and cash equivalents at end of year		8,124	8,243

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

Statement of accounting policies

For the year ended 31 March 2018

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

Basis of accounting

Northern Gas Network Holdings 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, LS15 8TU. The accounts have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. Principal activities and nature of operations are shown in the strategic report.

The group accounts consolidate the accounts of the company and its subsidiary undertakings drawn up to 31 March 2018 in accordance with FRS 102. The results of subsidiaries acquired or disposed of are consolidated for the years from or to the date on which control passed. Acquisitions are accounted for under the acquisition method. Where necessary, adjustments are made to the statements of subsidiaries to bring the accounting policies used in line with those used in the group. All intergroup transactions, balances, income and expenses are eliminated on consolidation. The parent company financial statements of the group meets the definition of a qualifying entity under FRS 102 and have therefore taken advantage of the disclosure exemptions available to it in respect of is separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key management personnel. The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the group operates. The consolidated financial statements are also presented in pound sterling.

Going concern

The group's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report and above. In addition, note 15 and the Directors' report includes further details of the group's 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 group 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 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 (as detailed in the strategic report). 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 value is estimated for assets. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows

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

Investments

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

Replacement expenditure (repex)

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

Stocks

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

Taxation

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

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

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

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

Provisions

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

Turnover

Turnover represents income receivable for the distribution of gas and provision of other services in the normal course of business, net of Value Added Tax. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end. Turnover is recognised in the month the service is provided.

Pension costs

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

Pension costs (continued)

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

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

Leases

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

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

Financial instruments

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

Financial assets and liabilities

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

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

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

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

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

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

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

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

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

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

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 instruments (continued)

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

Derivative financial instruments

The group 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 group does not hold or issue any derivative financial instruments for speculative purposes.

Interest rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest rates associated with the borrowing requirements of the group. The interest rate swaps are accounted for at fair value on the balance sheet with movements in fair value being recognised through either the profit and loss account or cash flow hedge reserve.

Fair value accounting

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

Hedge accounting

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

Derivative financial instruments (continued)

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.

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 group uses market-observable data to the extent it is available, using an individual trade basis provided by an external reporting system meaning no assumptions are applied by the group.

Pension arrangements

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

1 Turnover

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

2 Other operating expenses

	2018 £'000	2017 £'000
Distribution costs	161,943	152,974
Administrative expenses	52,718	52,506
	214,661	205,480

3 Finance costs (net)

	2018 £'000	2017 £'000
Interest payable and similar charges	65,649	64,036
Less: investment income	(54)	(34)
Other finance (income) charges	(3,834)	(2,998)
	61,761	61,004

Interest payable and similar charges	2018 £'000	2017 £'000
Shareholder loans	18,000	18,000
Bank loans and overdrafts	6,135	5,591
Bonds	42,798	41,942
	66,933	65,533
Finance costs capitalised	(1,284)	(1,497)
	65,649	64,036

Finance costs have been capitalised based on a cost of debt capitalisation rate of 3.65% (2017 – 3.75%).

3 Finance costs (net) (continued)

Investment income	2018 £'000	2017 £'000
Interest receivable and similar income	(54)	(34)
	(54)	(34)

Other finance (income) / charges	2018 £'000	2017 £'000
Fair value movement on financial instruments (see note 15)	(4,125)	(3,235)
Exchange rate differences	2	(11)
Unwinding of discount on provisions (see note 16)	(11)	199
Net interest on pension scheme (see note 20)	300	49
	(3,834)	(2,998)

4 Profit on ordinary activities before taxation

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

	2018 £'000	2017 £'000
Depreciation and amounts written off tangible fixed assets (see note 10)		
- owned	70,858	68,496
Amortisation of intangible fixed assets included in administrative expenses (see note 9)	5,651	5,651
Profit on disposal of fixed assets	(181)	(15)
Operating lease rentals - vehicles	1,103	1,151
Operating lease rentals - property	1,360	1,091

The analysis of auditor's remuneration is as follows:

	2018 £'000	2017 £'000
Fees payable to the company's auditor for the audit of the company's annual accounts and consolidation	28	22
Fees payable to the company's auditor and its associates for other services to the group		
- The audit of the company's subsidiaries	121	104
Total audit fees	149	126
Fees payable to the company's auditor and its associates for other services to the group		
- Audit related assurance services*	80	57
- Tax services (compliance)	-	25
- Tax services (advisory)	-	112
- Other services	-	-
Total non-audit fees	80	194

* Relate to the audit of regulatory accounts and procedures, and provision of guidance for new accounting standards

5 Staff costs

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

	2018 Number	2017 Number
Administration	144	171
Operations	1,326	1,281
	1,470	1,452

	2018 £'000	2017 £'000
Their aggregate remuneration comprised:		
Wages and salaries	57,558	53,841
Social security costs	6,269	5,835
Pension costs	6,962	7,722
	70,789	67,398

6 Directors' remuneration and transactions

Remuneration

The remuneration of the directors was as follows:

	Non-Executive Directors		Executive Directors	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Emoluments	70	70	845	813
Amounts receivable (other than shares) under long-term incentive schemes	-	-	227	213
	70	70	1,072	1,026

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

Pensions

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

6 Directors' remuneration and transactions (continued)

Highest paid director

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

	2018 £'000	2017 £'000
Emoluments	1,072	1,026

Transactions

There have been no transactions with directors in the year (2017 - £nil) other than as set out above in respect of remuneration. Only directors are deemed to be key personnel.

7 Tax on profit on ordinary activities

The tax charge comprises:

	2018 £'000	2017 £'000
Current tax		
UK corporation tax	22,528	28,772
Adjustments in respect of prior periods	1,508	(7,863)
Total current tax	24,036	20,909
Deferred tax		
Current period - origination and reversal of timing differences	2,185	406
Adjustments in respect of prior periods	(892)	1,517
Effects of decrease in tax rate on opening liability	-	(16,373)
Total deferred tax	1,293	(14,450)
Total tax on profit on ordinary activities	25,329	6,459

7 Tax on profit on ordinary activities (continued)

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

	2018 £'000	2017 £'000
Group profit on ordinary activities before tax	121,607	143,421
Tax on group profit on ordinary activities at standard UK corporation tax rate of 19.0% (2017 – 20.0%)	23,105	28,684
Effects of:		
Expenses not deductible for tax purposes	2,490	1,559
Income not taxable in determining taxable profit	(396)	(478)
Differences in tax rates	(486)	(16,960)
Adjustments in respect of prior year	616	(6,346)
Group total tax charge (credit) for the year	25,329	6,459

The group earns its profits in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 19.0% (2017 – 20.0%).

The group'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 period. 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 2018.

8 Dividends on equity shares

	2018 £'000	2017 £'000
Equity shares		
- interim dividend paid of 24.07 (2017 – 23.72) per ordinary share	17,250	17,000
- interim dividend paid of 78.28 (2017 – 77.16) per ordinary share	56,100	55,300
	73,350	72,300

9 Intangible assets

	Licences £'000	Goodwill £'000	Total £'000
Cost			
At 31 March 2017 and 31 March 2018	161,200	65,712	226,912
Amortisation			
At 1 April 2017	47,689	19,178	66,867
Charge for the year	4,031	1,620	5,651
At 31 March 2018	51,720	20,798	72,518
Net book value			
At 31 March 2018	109,480	44,914	154,394
At 31 March 2017	113,511	46,534	160,045

10 Tangible fixed assets

Group	Land and buildings £'000	Gas distribution assets £'000	Motor vehicles £'000	Other equipment £'000	Assets in the course of construction £'000	Total £'000
Cost						
At 1 April 2017	6,269	2,663,179	21,406	126,156	34,008	2,851,018
Additions	12	115,763	840	8,935	28,894	154,444
Disposals	-	(107)	(885)	(255)	-	(1,247)
Transfers	470	15,490	625	3,152	(19,737)	-
At 31 March 2018	6,751	2,794,325	21,986	137,988	43,165	3,004,215
Depreciation						
At 1 April 2017	3,393	429,100	7,625	79,102	-	519,220
Charge for the period	916	56,186	2,544	11,212	-	70,858
Disposals	-	(106)	(868)	(226)	-	(1,200)
At 31 March 2018	4,309	485,180	9,301	90,088	-	588,878
Net book value						
At 31 March 2018	2,442	2,309,145	12,685	47,900	43,165	2,415,337
At 31 March 2017	2,876	2,234,079	13,781	47,054	34,008	2,331,798

Undepreciated land equates to £774,000 (2017 - £774,000). Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £11,962,000 (2017 - £10,678,000).

11 Investments

	Group		Company	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£'000	£'000	£'000	£'000
Subsidiary undertakings	-	-	574,502	574,502
Other investments	104	104	-	-
	104	104	574,502	574,502

All group investments

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

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

+ Held directly by Northern Gas Networks Holdings Limited.

All subsidiaries have a registered address of 1100 Century Way, Leeds, LS15 8TU, with the exception of NGNGP and NGNPF whose registered office is 1st Floor, City Point, Haymarket Terrace, Edinburgh, EH12 5HD, Scotland.

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

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

11 Investments (continued)

Subsidiary undertakings

	£'000
Cost and net book value	
At 31 March 2017 and 31 March 2018	574,502

Other investments

Cost and net book value	£'000
At 31 March 2017 and 31 March 2018	104

12 Debtors

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	150	1,751	-	-
Amounts owed by parent undertakings	1	1	5,156	1,516
Other debtors	36	21	2,199	2,379
Prepayments and accrued income	33,783	39,449	-	-
Derivative financial assets (see note 15)	2,829	3,060	-	-
	36,799	44,282	7,355	3,895
Amounts falling due after more than one year:				
Defined benefit pension scheme (see note 20)	26,558	-	-	-
Derivative financial assets (see note 15)	305,874	345,509	-	-
	332,432	345,509	-	-
	369,231	389,791	7,355	3,895

13 Creditors: Amounts falling due within one year

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Bank loans	44,666	-	-	-
Payments received on account	1,983	1,645	-	-
Trade creditors	4,834	6,942	-	-
Other taxation and social security	5,730	5,841	-	-
Accruals and deferred income	48,152	46,777	173	183
UK corporation tax	37,071	26,461	-	-
Derivative financial liabilities	16,025	16,530	-	-
	158,461	104,196	173	183

The bank loan comprises a £25.0m loan at an interest rate of 0.91% repayable on 19 April 2018 and a £20.0m loan at an interest rate of 0.91% repayable on 30 April 2018. The facility under which the loans were drawn expires in October 2022.

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

14 Creditors: Amounts falling due after more than one year

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Shareholder loans	180,000	180,000	180,000	180,000
Bank loans	429,474	431,316	-	-
Guaranteed bond due 2027	281,487	305,763	-	-
Guaranteed bond due 2035	342,144	341,646	-	-
Bond due 2019	199,657	199,382	-	-
Bond due 2040	196,623	196,480	-	-
Deferred income	113,447	105,302	-	-
Derivative financial liabilities	214,747	248,612	-	-
	1,957,579	2,008,501	180,000	180,000

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

At 31 March 2018 bank loans and bonds include unamortised fees of £1,718,000 (2017 - £1,906,000). 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 + 0.86%	20 December 2028
40.0	3 month LIBOR + 0.834%	29 March 2029
29.5	3 month LIBOR + 0.934%	25 March 2034

Bond analysis

The guaranteed bond due 2027 of £250.0m matures on 30 June 2027 and will be redeemed at par. Interest is paid annually on 30 June at a rate of 4.875%. The guaranteed bond due 2035 of £255.0m matures on 15 November 2035 and will be redeemed at par. Interest is paid annually on 15 November at a rate of 4.875%. The bond due 2019 of £200.0m matures on 8 July 2019 and will be redeemed at par. Interest is paid annually on 8 July at a rate of 5.875%. The amount outstanding on the 2027 and 2035 bonds at amortised cost is £249.8m (2017: £249.8m) and £254.7m (2017: £254.7m) respectively.

The bond due 2040 of £200.0m matures on 23 March 2040 and will be redeemed at par. Interest is paid annually on 23 March at a rate of 5.625%.

	31 March 2018	31 March 2017
Maturity analysis of bond interest and repayments:	£'000	£'000
(measured as actual cash flows)		
In one year or less	47,619	47,619
In more than one year but less than two years	239,669	47,619
In more than two years but less than five years	107,081	319,356
In more than five years but less than ten years	167,160	179,344
In more than ten years but less than twenty years	462,814	741,568
In more than twenty years	222,502	233,750
	1,246,845	1,569,256

15 Derivatives and other financial instruments

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

	2018 £'000	2017 £'000
Financial assets		
Measured at fair value through the profit and loss account		
- Derivative financial assets (see note 12)	196,339	228,491
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial assets (see note 12)	112,364	120,078
Measured at undiscounted amount receivable		
- Trade and other debtors (see note 12)	186	1,772
- Amounts owed by parent undertaking (see note 12)	1	1
Equity instruments measured at cost less impairment		
- Fixed asset investments (see note 11)	104	104
	308,994	350,446

15 Derivatives and other financial instruments (continued)

	2018 £'000	2017 £'000
Financial liabilities		
Measured at fair value through the profit and loss account		
- Derivative financial liabilities (see notes 13 and 14)	216,330	239,024
Measured at fair value and designated in an effective hedge relationship		
- Derivative financial liabilities (see notes 13 and 14)	14,442	26,119
- Other financial liabilities – bonds (see note 14)	119,122	142,951
- Loans payable (see notes 14)	900,789	900,320
Measured at amortised cost		
- Loans payable (see notes 13 and 14)	654,140	611,316
Measured at undiscounted amount payable		
- Trade and other creditors (see note 13)	6,817	8,587
	1,911,640	1,928,317

15 Derivatives and other financial instruments (continued)

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

	2018 £'000	2017 £'000
Interest income and expense on items at amortised cost		
- Total interest payable on financial liabilities at amortised cost	72,088	70,687
- Total interest receivable on financial assets measured at amortised cost	(54)	(34)
	72,034	70,653
Interest income and expense on derivatives		
- Total interest receivable on financial assets measured at fair value through the P&L	(33,968)	(33,368)
- Total interest payable on financial liabilities measured at fair value through the P&L	21,378	20,644
- Total interest payable on financial assets designated in an effective hedging relationship	717	-
- Total interest payable on financial liabilities designated in an effective hedging relationship	6,188	6,212
	(5,685)	(6,512)
Fair value gains and losses		
- On financial assets measured at fair value through the profit and loss account	41,880	7,474
- On financial liabilities measured at fair value through the profit and loss account	(42,957)	(10,771)
- On derivative financial assets designated in an effective hedging relationship	(2,771)	159
- On derivative financial liabilities designated in an effective hedging relationship	(277)	(97)
	(4,125)	(3,235)
Other net finance costs	(461)	98
	61,761	61,004

Other net finance costs includes bank and agency fees, pension accounting adjustments and other miscellaneous interest.

15 Derivatives and other financial instruments (continued)

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

	Current (less than 1 year) 2018 £'000	Current (less than 1 year) 2017 £'000	Greater than 1 year 2018 £'000	Greater than 1 year 2017 £'000
Derivatives that are designated and effective as hedging instruments carried at fair value				
Assets	7	-	112,357	120,078
Interest rate swaps				
Liabilities				
Interest rate swaps	-	(8)	(14,442)	(26,111)
	7	(8)	97,915	93,967

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 2018 %	Average contract fixed interest rate 2017 %	Notional principal value as at 31 March 2018 £'000	Notional principal value as at 31 March 2017 £'000	Fair value as at 31 March 2018 £'000	Fair value as at 31 March 2017 £'000
Outstanding receive floating pay fixed contracts						
Less than 1 year	0.47	0.41	12,500	20,000	7	4
1 to 2 years	-	-	-	-	-	-
2 to 5 years	-	-	-	-	-	-
5 years +	2.24	2.21	376,974	371,316	(13,029)	(26,115)
			389,474	391,316	(13,022)	(26,111)

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 Group 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	
	2018	2017	2018	2017	2018	2017
	%	%	£'000	£'000	£'000	£'000
Outstanding pay floating receive fixed contracts						
5 years plus	4.88	4.88	350,000	420,000	110,944	120,078
			350,000	420,000	110,944	120,078

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 that are attributable to changes in interest rates.

At 31 March 2018 the group's undrawn borrowing facilities available for use amounted to £115.0m (2017 £160.0m).

16 Provisions for liabilities

	Gas holder Decommissioning £'000	Restructuring £'000	Deferred tax £'000	Environmental restoration £'000	Other £'000	Total £'000
Group						
At 1 April 2017	-	11,519	289,587	5,543	6,484	313,133
Prior year deferred tax asset on pension			(3,750)			(3,750)
Charged / (credited) to profit and loss	4,000	(2,237)	1,293	873	792	4,721
Charged to hedge reserve	-	-	2,415	-	-	2,415
Charge to pension reserve			6,635			6,635
Utilised in the year	(431)	(2,047)	-	(1,440)	(1,116)	(5,034)
Adjustment arising from discounting	-	-	-	-	(11)	(11)
At 31 March 2018	3,569	7,235	296,181	4,976	6,149	318,110

Deferred tax

Deferred tax is provided as follows:

	2018 £'000	2017 £'000
Group		
Accelerated capital allowances	60,348	65,622
Other timing differences	231,318	223,965
Deferred tax on pension surplus (see note 20)	4,515	(3,750)
	296,181	285,837

No provisions exist within the company, they are held within Northern Gas Networks Limited.

Provision for deferred tax

Deferred tax is only recognised in respect of timing differences where transactions or events have occurred, that result in an obligation to pay more or less tax in the future, at the balance sheet date. The other timing differences relate to transitional FRS102 adjustments, financial instruments and pensions.

Restructuring

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

Gas holder decommissioning provision

The provision represents the estimated cost of removing gas holders from the network as committed under RIIO-GD1. Sensitivity analysis was applied on the estimated unit cost of removal, with a 5% increase causing a £0.2m variance although this variance is deemed to be highly unlikely.

16 Provisions for liabilities (continued)

Environmental restoration

Estimated environmental restoration costs are provided where the group has a legal obligation to restore sites at the balance sheet date. The provision represents the estimated net present value for statutory decontamination of old gas sites. It also reflects the obligations associated with other environmental damage. The timing of the utilisation of the environmental restoration provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. The provision has been calculated using the probability of cash flows method and management have used an expert to assess the probability of a restoration event and the potential cost. The cash exposure based on a worst case scenario is an expense of £6.3m but this is deemed highly unlikely based on historic trends.

Other

Other provisions relate to the estimated net present value of future claims in relation to past public and employer's liability events. The timing of the utilisation of the other provision is inherently uncertain although the directors expect that such utilisation will occur mainly beyond one year from the balance sheet date. Sensitivity analysis shows that a movement of 0.5% on the applied discount rate would cause a £0.2m movement although this is deemed unlikely.

17 Called-up share capital and revenues

Share capital

	2018 £'000	2017 £'000
Allotted, called-up and fully-paid		
71,669,980 ordinary shares of £1 each	71,670	71,670
Allotted and called-up		
999 ordinary shares of £1 each	1	1
1 special share of £1	-	-
	71,671	71,671

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

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

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

18 Reconciliation of operating profit to operating cash flows

	2018 £'000	2017 £'000
Operating profit	183,368	204,425
Depreciation and amortisation	76,509	74,147
Profit on sale of tangible fixed assets	(181)	(15)
Decrease / (increase) in stock	83	(228)
Decrease / (increase) in debtors	6,913	(315)
Increase in creditors	5,526	10,349
Decrease in provisions	(1,606)	(6,143)
Adjustment for pension funding	(9,888)	(28,264)
Net cash inflow from operating activities	260,724	253,956

19 Financial commitments

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

	31 March 2018		31 March 2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Group				
Expiry date:				
- within one year	1,142	761	1,080	828
- between one and two years	1,285	482	900	571
- between two and five years	1,854	99	1,847	291
- after five years	2,787	-	2,097	-
	7,068	1,341	5,924	1,690

The group has a total commitment of £7.1m (2017 - £7.6m) over the term of the 2027 and 2035 bonds in relation to a financial guarantee from FGIC UK Limited ("FGIC") to cover the 2027 and 2035 guaranteed bonds included within long term borrowings in note 14.

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

20 Pension arrangements

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

The amounts recognised in the balance sheet are as follows:

	2018 £'000	2017 £'000
Present value of funded obligations	(456,393)	(517,084)
Fair value of plan assets	482,951	495,024
Surplus / (deficit)	26,558	(22,060)
Related deferred tax asset / (liability)	(4,515)	3,750
Net asset / (liability)	22,043	(18,310)
Amounts in the balance sheet		
- Asset / (liability)	22,043	(18,310)

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

	2018 £'000	2017 £'000
Amount charged to operating profit		
Current service costs	5,002	4,060
Past service costs	1,467	720
	6,469	4,780
Amount credited to net finance charges		
Interest costs	12,685	14,890
Expected cost return on plan assets	(12,385)	(14,841)
Net return on pension scheme (see note 3)	300	49
Total	6,769	4,829

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

	2018 £'000	2017 £'000
Actuarial gains / (losses)	39,030	(42,099)

20 Pension arrangements (continued)

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

	2018 £'000	2017 £'000
Actuarial losses	(64,519)	(103,549)

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

	2018 £'000	2017 £'000
Opening defined benefit obligation	517,084	427,139
Service cost	5,002	4,060
Past service cost	1,467	720
Interest cost	12,685	14,890
Member contributions	573	670
Actuarial (gains) / losses	(39,363)	97,660
Benefits paid	(41,055)	(28,055)
Closing defined benefit obligation	456,393	517,084

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

	2018 £'000	2017 £'000
Opening fair value of plan assets	495,024	418,967
Expected return	12,385	14,841
Actuarial (losses) / gains	(333)	55,561
Employer contributions	16,357	33,040
Member contributions	573	670
Benefits paid	(41,055)	(28,055)
	482,951	495,024

20 Pension arrangements (continued)

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

	31 March 2018	31 March 2017
	%	%
Equity securities	21.3	13.5
Bond securities	54.2	63.7
Property	9.0	8.1
Other	15.5	14.7

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

The actual return on plan assets is as follows:

	2018 £'000	2017 £'000
Actual return on plan assets	12,052	70,403

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

	2018	2017
Discount rate	2.7%	2.6%
Future salary increases	3.6%	3.7%
Future pension increases	3.1%	3.2%
Inflation	3.1%	3.2%
Life expectancy on retirement age 65;		
- member aged 65 (retiring today)	22.1 years	22.1 years
- member aged 45 (retiring in 20 years)	24.2 years	24.2 years

During the year the group entered into an "asset backed contribution" arrangement with its defined benefit pension scheme whereby the NGN Pension Funding Limited Partnership was funded to acquire a £70m loan note. The partnership members are Northern Gas Networks Limited, Northern Gas Networks Operations Limited, the defined benefit pension scheme and the Northern Gas Networks General Partner Limited. Contributions to the pension scheme of £58.8m were made in the year.

The group also operates defined contribution schemes for which the pension charge for the period amounted to £3,035,000 (2017 - £2,416,000). At 31 March 2018 unpaid contributions amounted to £358,000 (2017 - £nil).

21 Related party transactions

There have been no transactions with directors in the year (2017 - £nil) other than remuneration as disclosed in note 6 to the accounts.

During the year the group was recharged £255,000 (2017 - £358,000) in the ordinary course of business from CK Infrastructure Holdings Limited. During the year the group was recharged £3,986,000 (2017 - £6,438,097) by xoserve, an investment of the company, for services provided.

During the year interest was charged on shareholder loans held by the company as detailed in note 14 and analysed below:

Shareholder/Lender	Interest Charged to the Company	Value of Loan
	£'000	£'000
PG (April) Limited	8,471	84,706
Beta Central Profits Limited	7,433	74,329
SAS Trustee Corporation	2,096	20,965
	18,000	180,000

22 Ultimate controlling party

The company is wholly owned by a consortium comprising of:

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