

**Northern Gas Networks Operations Limited**

Annual Report and accounts  
for the 15 month period ended 31 March 2015

Registered number: 3528783

## Strategic report

For the period ended 31 March 2015

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report, for 15 month period ended 31 March 2015 following a change in accounting reference date to 31 March, with comparison to the year ended 31 December 2013.

The company's principal activity is the provision of operations, maintenance and capital programme services for the North of England gas distribution network.

### **Business strategy**

The company's purpose is to operate and maintain the North of England gas distribution network, so that it provides safe and secure gas supplies to the people and the businesses within the distribution network. The company's vision of success mirrors that of its immediate parent, Northern Gas Networks Limited ("NGN"), which 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 company.

### **Financial and operational review**

Operating profit for the period was £125,000 (2013 - £100,000) as all costs plus a margin are recharged to NGN. The balance sheet at 31 March 2015 shows net assets of £0.2m (2013 - £0.1m).

#### *Key performance indicators (KPIs)*

The company is managed as part of the overall group. For this reason, the company's directors believe that specific key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the group, including this company, is discussed in the Northern Gas Networks Holdings Limited Annual Report.

#### *Dividends*

The directors do not recommend payment of a dividend (2013 - £nil).

#### *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 and higher standards where possible. 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.

### **Outlook**

From 1 April 2013, a new price control period (RIIO-GD1) commenced, which gives NGN security over regulated revenue until 2021. Given this the directors expect the general level of activity to remain stable.

## Strategic report (continued)

### **Principal risks and uncertainties**

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 with which the company must comply. The application and possible changes of these laws, regulations and regulatory standards could have an adverse affect on the operations and financial position of the company or, in the case of misreporting, a potential fine.

#### *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 affect on the reputation of the company, or lead to potential prosecution or reduced productivity.

#### *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.

#### *Employees*

The success of the company 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. Appropriate 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 comprise group borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. There are no uncontrolled key risks associated with these financial instruments as their main purpose is to finance the company's operations. The company does not hold or issue any derivative financial instruments for speculative purposes.

## Strategic report (continued)

### **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 above.

The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and in light of the facilities available, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

By order of the Board

M J Horsley

4 August 2015

Director

## Directors' report

For the period ended 31 March 2015

### Directors

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

A Hunter	(Chairman)
M J Horsley	(Chief Executive Officer)
H L Kam	
C T Wan	
N McGee	
S Leong	
D Macrae	
L S Chan	
C C Tsai	(appointed 28 February 2014)
SS Yuen	(resigned 28 February 2014)

### The Board of Directors

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

The Northern Gas Networks Operations Limited Board of Directors ("the Board") meets at least twice a year. The number of Board meetings held during the period and attendees (including alternates) at the Board meetings are detailed below:

15 months ended 31 March 2015		Year ended 31 December 2013	
Date	Attendees	Date	Attendees
25 March 2014	9 out of 9	13 March	9 out of 9
23 September 2014	8 out of 9	24 September	7 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.

### 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.

## Directors' report (continued)

### Employee consultation

The company 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.

### Auditor

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

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

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

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

1100 Century Way  
Thorpe Park Business Park  
Colton  
Leeds  
LS15 8TU

By order of the Board,

M J Horsley

4 August 2015

Director

## Directors' responsibilities statement

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the accounts 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 accounts 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 Operations Limited**

We have audited the accounts of Northern Gas Networks Operations Limited for the period ended 31 March 2015 which comprise the profit and loss account, the balance sheet, the statement of accounting policies and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards ("United Kingdom Generally Accepted Accounting Practice").

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Through management, the directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

### **Scope of the audit of the accounts**

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the 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 and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited 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.

### **Opinion on accounts**

In our opinion the accounts:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



## Independent auditor's report (continued)

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and in the Directors' report for the financial year for which the accounts are prepared is consistent with the accounts.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the accounts 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.

**David Johnson BA FCA (Senior Statutory Auditor)**

**For and on behalf of Deloitte LLP**

**Chartered Accountants and Statutory Auditor**

**Leeds, England**

4 August 2015

## Profit and loss account

For the 15 month period ended 31 March 2015

	Notes	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
<b>Turnover</b>	1	241,202	159,226
Cost of sales		<u>(241,077)</u>	<u>(159,126)</u>
<b>Operating profit and profit on ordinary activities before tax</b>	2	125	100
Tax on profit on ordinary activities	5	<u>(27)</u>	<u>2</u>
<b>Profit for the financial year</b>	9	<u>98</u>	<u>102</u>

The above results arise from continuing operations.

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

There are no recognised gains or losses in the current period or prior year other than the profit or loss for the period/year.

## Balance sheet

31 March 2015

	Notes	31 March 2015 £'000	31 December 2013 £'000
<b>Current assets</b>			
Stocks - raw materials		1,973	2,242
Debtors - due within one year	6	34,411	35,166
Cash at bank and in hand		-	-
		<u>36,384</u>	<u>37,408</u>
<b>Creditors:</b> Amounts falling due within one year	7	(36,179)	(37,301)
		<u>205</u>	<u>107</u>
<b>Net current assets</b>		<u>205</u>	<u>107</u>
<b>Net assets</b>		<u>205</u>	<u>107</u>
<b>Capital and reserves</b>			
Called-up share capital	8	-	-
Profit and loss account	9	<u>205</u>	<u>107</u>
<b>Shareholders' funds</b>	10	<u>205</u>	<u>107</u>

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

The accounts of Northern Gas Networks Operations Limited, Registered number 3528783, were approved by the Board of Directors and authorised for issue on 4 August 2015 and signed on its behalf by:

M J Horsley

4 August 2015

Director

## Statement of accounting policies

31 March 2015

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

### **Basis of accounting**

The accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom ("UK") accounting standards.

The company is exempt from the requirement of FRS1 (revised) "Cash flow statements" to present a cash flow statement as it is a wholly owned subsidiary of Northern Gas Networks Holdings Limited, which prepares consolidated accounts which are publicly available.

### **Going concern**

The Strategic report includes a note stating that the directors consider the business to be a going concern at the time of the approval of the Annual Report and accounts.

### **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 company's taxable profits and its results as stated in the 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 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 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.

### **Turnover**

Turnover represents income receivable for the provision of services to NGN net of Value Added Tax.

## Statement of accounting policies (continued)

### **Pension costs**

Employees of the company participate in either the Northern Gas Networks Limited Pension Scheme, a defined benefit scheme which is now closed to new entrants, or defined contribution pension schemes operated by NGN. The amount charged to the profit and loss account in respect of pension costs 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**

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.

## Notes to the accounts

31 March 2015

### 1 Segment information

The directors consider that the company has only one class of business. The company's turnover is generated wholly from within the UK.

### 2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Operating lease rentals – other	2,066	791
Fees payable to the company's auditor for the audit of the company's annual accounts	<u>26</u>	<u>26</u>

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated accounts of the parent company disclose such fees on a consolidated basis.

### 3 Staff costs

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

	31 March 2015 Number	31 December 2013 Number
Operations	<u>1,333</u>	<u>1,214</u>

	2015 £'000	2013 £'000
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Their aggregate remuneration comprised:

Wages and salaries	60,945	42,943
Social security costs	5,957	4,859
Pension costs	11,120	7,659
	<u>78,022</u>	<u>55,461</u>

## Notes to the accounts (continued)

### 4 Directors' remuneration and transactions

The directors did not receive or accrue any remuneration in relation to their services to the company during the current or prior year. The total remuneration received by the directors during the year was £1,238,000 (2013 - 851,000) which was paid by other group companies for their services to the group. There have been no transactions with directors in the period (2013 - £nil).

### 5 Tax on profit on ordinary activities

The tax charge comprises:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
<b>Current tax</b>		
UK corporation tax	27	23
Adjustments in respect of prior year	-	(25)
<b>Total current tax</b>	<u>27</u>	<u>(2)</u>
<b>Total tax on profit on ordinary activities</b>	<u>27</u>	<u>(2)</u>

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:

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
<b>Profit on ordinary activities before tax</b>	<u>125</u>	<u>100</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 21.40% (2013 - 23.25%)	27	23
Effects of:		
Adjustments in respect of prior year	-	(25)
<b>Current tax charge (credit) for the year</b>	<u>27</u>	<u>(2)</u>

## Notes to the accounts (continued)

### 5 Tax on profit on ordinary activities (continued)

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, currently 21.40% (2013 - 23.25%).

A deferred tax asset amounting to £44,000 (2013 - £44,000) for tax losses and £73,000 (2013 - £73,000) for capital allowances have not been recognised because in the opinion of the directors the recoverability is uncertain.

### 6 Debtors – due within one year

	31 March 2015 £'000	31 December 2013 £'000
Trade debtors	633	345
Amounts owed by group undertakings	32,967	30,645
Other debtors	172	3,375
Prepayments and accrued income	639	801
	<u>34,411</u>	<u>35,166</u>

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

	31 March 2015 £'000	31 December 2013 £'000
Trade creditors	2,754	2,601
Other taxation and social security	1,599	348
Accruals and deferred income	31,826	34,352
	<u>36,179</u>	<u>37,301</u>



## Notes to the accounts (continued)

### 8 Called-up share capital

	31 March 2015 £	31 December 2013 £
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

### 9 Reserves

	Profit and loss account £'000
At 1 January 2014	107
Profit for the financial period	<u>98</u>
At 31 March 2015	<u>205</u>

### 10 Reconciliation of movements in shareholders' funds (deficit)

	15 months ended 31 March 2015 £'000	Year ended 31 December 2013 £'000
Profit for the financial period/year	<u>98</u>	<u>102</u>
Net movement in shareholders' funds	<u>98</u>	<u>102</u>
Opening shareholders' funds	<u>107</u>	<u>5</u>
Closing shareholders' funds	<u>205</u>	<u>107</u>

## Notes to the accounts (continued)

### 11 Financial commitments

The company had no capital commitments at the end of the financial period (2013 - £nil).

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2015 £'000	31 December 2013 £'000
Expiry date:		
- within one year	71	95
- between two and five years	892	465
	<u>963</u>	<u>560</u>

### 12 Ultimate controlling party

The directors regard Northern Gas Networks Holdings Limited, a company incorporated in England and Wales, as the ultimate parent company and the ultimate controlling party. Northern Gas Networks Limited is the immediate parent company.

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 accounts are available from 1100 Century Way, Thorpe Park Business Park, Colton, Leeds, LS15 8TU.

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

PG (April) Limited (47.1%)

Beta Central Profits Limited (41.3%)

SAS Trustee Corporation (11.6%)

As a subsidiary undertaking of Northern Gas Networks Holdings Limited, the company has taken advantage of the exemption in FRS 8 "Related party disclosures" from disclosing transactions with other members of the group headed by Northern Gas Networks Holdings Limited.