

Northern Gas Networks Operations Limited

Annual Report and accounts
for the year ended 31 March 2016

Registered number: 03528783

Strategic report

For the year ended 31 March 2016

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 2016 and prior period being the 15 months ended 31 March 2015.

This is the first time the accounts are presented under Financial Reporting Standard 102 (FRS102). No transitional adjustments have been required following FRS 102 adoption because FRS 102 has not had a material change to the accounting policies of the company.

Review of the business

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 year was £98,000 (2015 - £125,000) as all costs plus a margin are recharged to NGN. The reduction is due to the change in accounting period duration. The balance sheet at 31 March 2016 shows net assets of £0.3m (2015 - £0.2m).

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 (NGNH) Annual Report.

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.

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.

Mitigation

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

Health and safety

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

Mitigation

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

Network performance

If the network assets were to fail it could result in a loss in supply of gas to customers and associated adverse publicity and an unexpected increase in costs.

Mitigation

The company have a set of policies and procedures we adhere to, 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 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.

Strategic report (continued)

Mitigation

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.

Future prospects

The directors expect the future prospects of the company to be consistent with performance shown within this Annual Report and accounts.

By order of the Board

M J Horsley

Director

19 July 2016

Directors' report

For the year ended 31 March 2016

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report for the year ended 31 March 2016, and prior period being the 15 months ended 31 March 2015. The following disclosures have been disclosed in the strategic report but are cross referenced here: business review including KPI's, principles risks and uncertainties, and future prospects.

Directors

The directors, who served throughout the year 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	

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 year and attendees (including alternates) at the Board meetings are detailed below:

Year ended 31 March 2016		15 months ended 31 March 2015	
Date	Attendees	Date	Attendees
4 August 2015	8 out of 9	25 March 2014	9 out of 9
27 October 2015	7 out of 9	23 September 2014	8 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 dividend (2015 - £nil).

Going Concern

The company's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report. The company is able to pay its liabilities as they fall due, due to the reliability of regulated revenue under RIIO-GD1.

Directors' report (continued)

The directors have made enquiries and reviewed the forecasts, including sensitivity analysis, and 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.

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.

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 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.

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.

Directors' report (continued)

Approval of reduced disclosure

The company, as a qualifying entity, has taken advantage, in respect of its separate financial statements, of the disclosure exemptions in FRS 102 paragraph 1.12. The company's shareholders have been notified in writing about the intention to take advantage of the disclosure exemption and no objections have been received.

The company also intends to take advantage of these exemptions in the financial statements to be issued in the following year. Objections may be served on the company by shareholders holding in aggregate 5% or more of the allocated shares in the company. They should be served no later than 31 December 2016.

Approved by the Board and signed on its behalf by:

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

By order of the Board,

M J Horsley
Director

19 July 2016

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 year. 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 accounts; 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 year ended 31 March 2016 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of accounting policies and the related notes 1 to 11. 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") including FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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.

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 group's and the parent 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 2016 and of the company's profit for the year 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and 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 by the parent company, 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.

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

19 July 2016

Statement of comprehensive income

For the year ended 31 March 2016

	Notes	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Turnover	1	201,663	241,202
Cost of sales		<u>(201,565)</u>	<u>(241,077)</u>
Operating profit and profit on ordinary activities before tax	2	98	125
Tax on profit on ordinary activities	5	<u>(20)</u>	<u>(27)</u>
Profit for the financial year/period		<u>78</u>	<u>98</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>78</u>	<u>98</u>

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 profit and loss account.

Balance sheet
As at 31 March 2016

	Notes	31 March 2016 £'000	31 March 2015 £'000
Current assets			
Stocks - raw materials		2,415	1,973
Debtors - due within one year	6	24,679	34,411
		27,094	36,384
Creditors: Amounts falling due within one year	7	(26,811)	(36,179)
Net current assets		283	205
Net assets		283	205
Capital and reserves			
Called-up share capital	8	-	-
Profit and loss account		283	205
Shareholders' funds		283	205

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 19 July 2016 and signed on its behalf by:

M J Horsley
Director

19 July 2016

Statement of changes in equity

For the year ended 31 March 2016

	Profit and loss account £'000	Called up share capital £'000	Total £'000
At 1 January 2014	107	-	107
Total comprehensive income	98	-	98
	<hr/>	<hr/>	<hr/>
At 31 March 2015	205	-	205
Total comprehensive income	78	-	78
	<hr/>	<hr/>	<hr/>
At 31 March 2016	<u>283</u>	<u>-</u>	<u>283</u>

Statement of accounting policies

For the year ended 31 March 2016

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

Basis of accounting

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 (FRS102) issued by the Financial Reporting Council. The prior year accounts have not required restated on adoption of FRS 102 as accounting policies remain consistent.

The functional currency is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remunerations of key management personnel.

Going concern

The Directors' 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 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 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.

Statement of accounting policies (continued)

Financial instruments

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

Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

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

Turnover

Turnover represents income receivable for the provision of services to NGN net of Value Added Tax. Revenue is recognised at the end of each month for the services provided within that month.

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. At 31 March 2016 unpaid contributions to the defined contribution scheme amounted to £25,000 (2015 – 17,000).

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.

Critical accounting judgments and key sources of estimation uncertainty

The directors are not aware of any critical accounting judgments or keys sources of estimation uncertainty with these accounts.

Notes to the accounts

For the year ended 31 March 2016

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:

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Operating lease rentals – other	1,993	2,066
Fees payable to the company's auditor for the audit of the company's annual accounts	<u>27</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:

	Year ended 31 March 2016 Number	15 months ended 31 March 2015 Number
Operations	<u>1,388</u>	<u>1,333</u>

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Their aggregate remuneration comprised:		
Wages and salaries	51,230	60,945
Social security costs	5,015	5,957
Pension costs	<u>7,773</u>	<u>11,120</u>
	<u>64,018</u>	<u>78,022</u>

Pension costs include only those items included within operating costs.

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 year or prior period. The total remuneration received by the directors during the year was £966,000 (2015 - £1,238,000) which was paid by other group companies for their services to the group. There have been no transactions with directors in the year (2015 - £nil).

5 Tax on profit on ordinary activities

The tax charge comprises:

	Year ended 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Current tax		
UK corporation tax	20	27
Total current tax	<u>20</u>	<u>27</u>
Total tax on profit on ordinary activities	<u>20</u>	<u>27</u>

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:

	Year ended 31 31 March 2016 £'000	15 months ended 31 March 2015 £'000
Profit on ordinary activities before tax	<u>98</u>	<u>125</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 20.0% (2015 - 21.4%)	20	27
Total tax charge for the year/period	<u>20</u>	<u>27</u>

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 20.0% (2015 - 21.4%).

The Finance Act 2015 (No. 2), which was substantially enacted in October 2015, included provisions to reduce the rate of Corporation Tax to 18% with effect from 1 April 2020.

Notes to the accounts (continued)

5 Tax on profit on ordinary activities (continued)

A deferred tax asset amounting to £44,000 (2015 - £44,000) for tax losses and £73,000 (2015 - £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 2016 £'000	31 March 2015 £'000
Trade debtors	1,176	633
Amounts owed by group undertakings	19,936	32,967
Other debtors	2,298	172
Prepayments and accrued income	1,269	639
	<u>24,679</u>	<u>34,411</u>

7 Creditors: Amounts falling due within one year

	31 March 2016 £'000	31 March 2015 £'000
Trade creditors	4,611	2,754
Other taxation and social security	1,571	1,599
Accruals and deferred income	20,629	31,826
	<u>26,811</u>	<u>36,179</u>

8 Called-up share capital

	31 March 2016 £	31 March 2015 £
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

Notes to the accounts (continued)

9 Financial commitments

The company had no capital commitments at the end of the financial year (2015 - £nil).

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

Motor vehicle leases	31 March 2016 £'000	31 March 2015 £'000
Expiry date:		
- within one year	244	71
- between two and five years	719	1,751
	<u>963</u>	<u>1,822</u>

10 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%)

11 Related Parties

As a subsidiary undertaking of Northern Gas Networks Holdings Limited, the company has taken advantage of the exemption in FRS 102 section 33 2.2, "Related Party Disclosures", from disclosing transactions with other members of the group headed by Northern Gas Networks Holdings Limited.