

Northern Gas Networks Operations Limited

Annual Report and accounts
for the year ended 31 March 2024

Registered number: 03528783

Strategic report

For the year ended 31 March 2024

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 2024.

The accounts are presented under Financial Reporting Standard 102 (FRS102) issued by the Financial Reporting Council.

Review of the business

The company's purpose is to operate and maintain the North of England gas distribution network on behalf of its parent Northern Gas Networks Limited (NGN), so that the Northern Gas Networks group provide safe and secure gas supplies to the people and the businesses within the distribution network. NGN hold all licence obligations with Ofgem and the Health and Safety Executive (HSE) and own the network assets. The company is the operational entity with the cost of all work recharged to NGN. The company employs all employees of the NGN group. The group's vision of success is to be consistently viewed by the regulators, Ofgem and the Health and Safety Executive ("HSE") as being market leading in safety management, efficiency and customer service, which in turn will generate value to the shareholders of the group. The group continues to look at how it can improve sustainability, including research and development into the use of the existing network infrastructure within the future energy needs of the region in which it operates. No significant changes to the business model are expected.

Financial and operational review

Operating profit for the year was £100,000 (2023 - £100,000) as all costs plus a margin are recharged to NGN. The balance sheet at 31 March 2024 shows net assets of £1.0m (2023 - £0.9m) due to the profit in the year.

Key performance indicators (KPIs)

The company is managed as part of the overall group with costs recharged to NGN. 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 the company and the groups commitment to sustainability, is discussed in the Northern Gas Networks Holdings Limited (NGNH) Annual Report.

Environment and sustainability

The company recognises the importance of its environmental and sustainability responsibilities. It undertakes its operations in an environmentally sensitive manner, complying with all relevant legislative requirements and higher standards where possible. The company's environmental management systems are certified under ISO 14001. This helps the directors to deal proactively with future environmental issues and legislation and assist in the development of environmentally beneficial projects. Further details of how the NGN group recognise the importance of environmental and sustainability responsibility, including carbon footprint, can be found within the accounts of NGNH.

Strategic report (continued)

Principal risks and uncertainties

The company's principal risks and uncertainties are set out below, mirroring those of NGN.

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 effect on the operations and financial position of the company or, in the case of misreporting, a potential fine.

Mitigation

The company engages with the regulatory authority extensively at all levels of seniority, to understand future plans within the industry and potential impacts on the business. The company has in place an extensive set of policies and procedures to ensure compliance with legal and regulatory obligations. From 1 April 2021 a 5 year price control period commenced (referred to as RIIO-GD2). All legal and regulatory obligations required during RIIO-GD2 are fully understood.

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 the number one priority. The business has an Environment Health & Safety team that ensure compliance with group management safety systems and monitor performance.

Network performance (including cyber risk)

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. The biggest cyber risk to NGN is the loss of control over the network.

Mitigation

The group has a set of policies and procedures to ensure the integrity of the network and ensure that the people who work on the network are qualified and competent. The group has comprehensive IT infrastructure governance which covers cyber risk.

Strategic report (continued)

Principal risks and uncertainties (continued)

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.

Mitigation

Appropriate succession planning strategies mean that development of existing staff is crucial. 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. The company has published its gender pay gap analysis which can be found at: <https://www.northerngasnetworks.co.uk>. The company complies with all UK human rights laws and has processes and procedures to assess risk in this area, including an employee grievance procedure. The company also has a fraud policy statement which protects employees from bribery and corruption. No issues have been reported in the year.

Financial risk management objectives and policies

The company's financial instruments comprise group debtors, 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.

Liquidity risk

The company is funded through debt raised by the group. The maturities of all group 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. Group 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.

Inflation risk

Inflation does not cause the company or the NGN group a significant risk, because a key variable in the regulated revenue mechanism of the group is inflation (as inflation grows so does revenue). As a transporter of gas, it is important to note that NGN do not own the gas and so the risks to the company with regard to energy prices is no different to that of most businesses. The groups biggest 'energy expenditure' relates to the cost of replacing gas which escapes from NGN's network. This cost is funded through regulated revenue.

Strategic report (continued)

Principal risks and uncertainties (continued)

Cost inflation risk


Inflation does not cause the company a risk as all costs are recharged to NGN. The accounts of NGNH detail how this cost is mitigated at a group level.

Further risks of the NGN group, including those related to climate change, can be found within the accounts of NGNH.

Statement of corporate governance arrangements

The Directors present a corporate governance statement (see page 9) under the guidance of Accounting Regulations Section 7:26 of the Companies Act 2006. As far as the Directors are aware all legal requirements under section 172 of the Companies Act have been complied with during the period and up to the date of signing the accounts. Within the corporate governance statement reference is made as to how the Directors engage with the employees of the company and how they have regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year. The statement also details how the Directors have maintained relationships with key suppliers and customers.

Approved by the Board and signed on its behalf by

A handwritten signature in blue ink, appearing to read 'M J Horsley', with a horizontal line underneath.

M J Horsley, Director

23 August 2024

Directors' report

The directors present their Annual Report on the affairs of the company, together with the accounts and auditor's report for the year ended 31 March 2024. The following have been disclosed in the strategic report and are included in this report by way of cross reference 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:

S D Beer	
L S Chan	
M J Horsley	(Chief Executive Officer)
A J Hunter	(Chairman)
H L Kam	
D N Macrae	
N D McGee	
C C Tsai	
C T Wan	(Resigned 1 July 2023)
J K M Yu	(Appointed 1 July 2023)

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 NGN Networks Limited Board of Directors.

The Northern Gas Networks Operations Limited Board of Directors ("the Board") meets at least once 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 2024		Year ended 31 March 2023	
Date	Attendees	Date	Attendees
21 June 2023	6 out of 9	29 June 2022 28 March 2023	7 out of 9 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.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors. This was in place during the year and remains in force at the date of this report.

Directors' report (continued)

Dividends

The directors do not recommend payment of a dividend during the current year, during the prior year, and during the period up to the date of the signing of the accounts.

Going concern

The accounts have been prepared on a going concern basis. The company's business activities, performance and position, together with its principal risks and uncertainties likely to affect its future development and performance are set out in the strategic report and above.

The directors have made enquiries and reviewed the forecasts, noting that all company costs are recharged to NGN which has secured regulatory revenue under RII0-GD2 until March 2026, 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. A letter of support from Northern Gas Networks Limited has been received by the directors, who are happy that Northern Gas Networks Limited have adequate resources to provide such support. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and accounts.

Disabled employees / employee engagement

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. Details of employee engagement can be found within the corporate governance statement.

Energy and carbon

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's environmental management systems are certified under ISO 14001. The company is committed to reducing its carbon emissions under Regulatory Instructions and Guidance (RIGS). Between 2021 and 2026 the aim is to reduce gas shrinkage by 23%, Scope 1 and Scope 2 emissions excluding gas shrinkage by 47%, and key Scope 3 emissions by 11%. Details of what has been included within each reported scope and the performance of the group is detailed in the financial statements of NGNH.

Directors' report (continued)

Supplier payment policy

The company's policy is to establish terms of payment with suppliers when agreeing the initial contract terms, and then to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

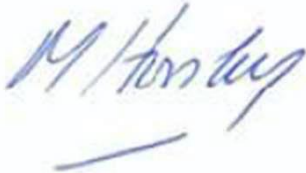
Auditor

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.

Authorised for issue by the Board

A handwritten signature in blue ink, appearing to read 'M J Horsley', with a horizontal line underneath.

M J Horsley, Director

23 August 2024

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

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. 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 financial statements may differ from legislation in other jurisdictions.

Corporate governance statement

For the year ended 31 March 2024

Scope of statement

The company is not a listed entity, but as a large private company is required to prepare a corporate governance statement under section 172 of Companies Act. This statement has been prepared with reference to the statement of Northern Gas Networks Holdings Limited, which uses the 'Wates Principles' to provide a clear message on the business model, future strategies and core values and of the Northern Gas Networks group. It describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) of Companies Act, as listed below:

- the likely consequences of any decision in the long term (approving the strategic direction and values);
- the interests of the company's employees;
- the desirability of the company maintaining a reputation for high standards of business conduct;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment; and
- the need to act fairly as between members of the company.

The company is committed to pursuing leading governance practices as appropriate.

Overview of the Board

The Board is comprised of nine directors as at 31 March 2024, who are appointed by the shareholders. All are independent of the day to day management of the company with the exception of the CEO who is a Board member and leads the company senior management team (SMT) who in turn manage the company. The Board are presented with information by the CEO and SMT to enable them to influence all the key business decisions of NGN. This arrangement ensures the shareholders are involved in making all the key business decisions through their appointed directors.

Board members

The Board members who held office during the year are listed within the Directors' report.

The position of the chairman of the Board is held by A Hunter. The position of CEO is held by M J Horsley. These positions are separate with a view to maintaining an effective segregation of duties between management of the Board and the day to day management of the business.

Corporate governance statement (continued)

Overview of the Board (continued)

Board meetings

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

Evaluation of the Board

Evaluation of the performance of the Board is conducted by virtue of their appointments being made and monitored by the shareholders. The performance of the CEO is assessed by the Board on an annual basis under the remit of the remuneration committee. The performance of each SMT member is assessed annually by the CEO as part of NGN's performance management process.

Overview of the committees

The Board does not have any committees, but its parent company does (NGN), and the Board members of the company are also Board members of NGN. NGN has six committees, as listed below, to assist in the execution of its duties and to allow a detailed consideration of complex issues. All Board members are entitled to attend all committees under the terms of reference, with the minimum requirement being a quorum of at least two members from different shareholders. The attendance of the committees is also largely the same as for the Board. The audit and treasury committees are chaired by L S Chan, the risk management, environmental social and governance (ESG) and compliance committees are chaired by C Tsai and the remuneration and nominations committee are chaired by A Hunter. Attendance including alternates of committees in the year is shown below:

Date of Committee	Audit Committee	Compliance Committee	Risk Management Committee	Treasury Committee	Remuneration Committee	ESG Committee	Nominations Committee
2024							
June 23	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	7 out of 7	n/a
Sept 23	7 out of 7	8 out of 8	8 out of 8	8 out of 8	n/a	8 out of 8	n/a
Jan 24	7 out of 7	8 out of 8	8 out of 8	8 out of 8	6 out of 8	8 out of 8	n/a
2023							
Jun 22	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a	n/a
Jul 22	n/a	n/a	n/a	n/a	n/a	n/a	4 out of 4
Sep 22	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	n/a	n/a
Jan 23	n/a	n/a	n/a	n/a	6 out of 8	n/a	n/a
Feb 23	6 out of 6	7 out of 7	7 out of 7	7 out of 7	n/a	7 out of 7	n/a

Corporate governance statement (continued)

Overview of the committees (continued)

Audit committee

The audit committee assists the Board with its responsibilities for financial reporting, maintaining an efficient system of internal control and internal and external audit processes. In addition, the committee provides an avenue for communication between internal audit, the external auditors and the Board. The activities of the committee are reported to and considered by the Board. The committee also reviews auditor independence where non-audit services are provided and the auditors confirm their independence as part of their reporting to the audit committee.

Compliance committee

The compliance committee assists the Board with its responsibilities to oversee compliance with obligations determined by statute, legislation, regulation (including licence obligations), contract or agreement. This committee considers, inter alia, reports on the application of the regulatory compliance process which covers licence and network code obligations.

Risk management committee

The risk management committee is responsible for reviewing the risk profile of the business and oversight of risk management processes. The committee provides the Board with regular reports of activities and findings. The business has a formal risk management policy. In addition, an integrated risk management framework is in place that includes a regular review of the business risk exposures. At each meeting of the risk management committee, the high level risk register is considered including any movement in the assessment of risk or changes in measurement or relative position to each other.

Treasury committee

The treasury committee assists the Board in fulfilling its oversight responsibilities with respect to compliance with its treasury policy, strategy and procedure development. The committee recommends any changes or amendments as appropriate. It also ensures that management undertakes to identify, monitor and manage treasury risks in a manner consistent with corporate strategy and objectives and its treasury policy.

Remuneration committee

The remuneration committee reviews and makes recommendations to the Board on overall remuneration policy of the company and determines the salary and bonus entitlement for the CEO, the SMT and all other company employees. The activities of the remuneration committee are reported to the Board at least annually.

Nominations committee

The nominations committee exists to consider potential changes to independent Board membership and to assess the performance of these Directors.

Corporate governance statement (continued)

Overview of the committees (continued)

Environmental, social and governance (ESG) committee

The primary function of this committee is to assist the Board in fulfilling responsibilities with respect to including, but not limited to environmental, health and safety, corporate social responsibility, sustainability, philanthropy, corporate governance, reputation, diversity, equality, climate change, community issues, lobbying and other public policy matters that are relevant.

Actions and responsibilities of the Board and its committees

The Board is responsible for and makes key decisions on the following areas, which are achieved collectively by the Northern Gas Networks group.

Approving the strategic direction and values, with consideration of the likely consequences in the long term

The Board is responsible to the shareholders for the strategic direction of the company in both the short and long term and seeks to balance the best interests of the company with the objective of enhancing shareholder value. The long term primary objectives which reflect the strategic value of the company have been established since acquisition in 2005, that being to be a top performing gas distribution network with regard to safety, customer satisfaction and efficiency of delivery. The Board ensure they are aware of how well the company is performing in these areas through the establishment of KPIs which are reported upon at Board meetings, and the Board have linked the remuneration of the SMT to achieving Board approved targets in these areas.

Each autumn the Board invites the CEO to present the performance targets of the company over the next 5 years, with reference to the strategic direction of the company. If approved the Board set these targets as the budget for the following financial year (short term objectives). The Board approved the existing corporate values of NGN: intellectually curious; trail blazing, heartfelt; empowered, happy and customer focus. To encourage the demonstration of these values, employee performance objectives include the demonstration of these values.

Energy futures

The Board aim to steer the company so to reduce its carbon footprint and to be a key contributor to the UK's aspiration to achieve net zero greenhouse gas emissions by 2050. Under the guidance of the Board, the SMT have been demonstrating the use of hydrogen as an alternative energy source to natural gas, which could be distributed through the existing gas infrastructure as part of the UK's multifueled future. Activity in this area on which NGN is currently working is detailed within the financial statements of NGNH.

Interests of the company's employees including evaluating the performance and remuneration of employees

The Board has fully encouraged the SMT to make NGN an employer of choice and supports the decisions made by the SMT with regard to employee engagement and evaluation. The Board and SMT place considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees.

Corporate governance statement (continued)

Actions and responsibilities of the Board and its committees (continued)

This is achieved through various communications including: the CEO's call which are live teleconference broad-casts and include a question and answer section, and are available to be listened to in all offices and depots; regular business chats where groups gather and discuss what is occurring in the business and have SMT representation; email and letter communication when formal communication is needed.

Some employees are eligible to receive an annual bonus related to the overall financial and operational performance of the NGN group along with individual performance against set objectives. Other employees receive monthly incentive payments based on performance against operational efficiency, safety and customer targets.

Employees are encouraged to influence their own working environment and are able to present changes in working practices, subject to meeting the desired company criteria over customer, safety and efficiency targets.

NGN has an inclusion and belonging policy and a suite of wellbeing support is offered to all employees including trained up wellbeing champions throughout the business who work with the central wellbeing team.

The overall control environment of the company, to protect the shareholders' investment and manage risk

The Board expect the SMT of the company to develop and maintain a control environment which protects the company's assets. The Board ensure this is achieved through several processes including the establishment of a risk register which is reported to the Board three times a year via the risk management committee. This register quantifies the impact of risks facing NGN, both on a financial and non-financial basis, and documents the likelihood of the risk occurring, along with the controls which exist to mitigate the risk.

The Board have established an internal audit function which undertakes independent appraisals and provides assurance on the adequacy and effectiveness of business controls. All internal audit work is carried out according to the relevant best practice standards. The schedule of work carried out by internal audit is planned and Board approved so that key or higher risk areas are reviewed on a recurring basis, and all findings are reported by internal audit to the audit committee.

A data governance team, whose focus is ensuring assurance over the accurate capture and reporting of data to third parties, ensures a further layer of control.

Some of the key controls of the company are those surrounding the financial processes of the company and the Board request a summary of all such financial controls to be documented each year in a document called the Directors Questionnaire. This document is signed by the SMT and is representation to the Board that the SMT have maintained a suitable financial control environment throughout the period, which supports the financial statements for that year. The Board also request the internal and external auditors to review the Directors Questionnaire, so to ensure the document is a true reflection of the control environment in place.

Corporate governance statement (continued)

Actions and responsibilities of the Board and its committees (continued)

An area of focus which is of growing interest to the Board is cyber security. The SMT have developed a cyber security resilience road map, which involves 34 projects across the RII0-GD2 period. The plan, which amongst other things will be enhancing the groups operational technology security operations centre (OT SOC), will ensure the NGN group exceeds the growing legislative requirements, as set by the UK Cyber Security Council.

Maintaining a reputation for high standards of business conduct

The company is trusted by stakeholders and has a good reputation for high standards of professionalism.

As part of this the Board look for a strong control environment which is managed through the SMT as detailed in the section above (see 'the overall control environment of the company, to protect the shareholders' investment and manage risk'). As noted in that section the Board review NGN's risk register which includes a quantification of non-financial risks, one of which is reputational risk, which covers the impact of changes in business standards.

The reputation of the company is maintained by the behaviour of its employees and so the Board have approved a code of conduct which is a guide to the professional standards expected of employees. Fraud policies and whistleblowing policies also exist to protect the reputation of NGN, should any detrimental employee behaviour exist. Suitable recruitment practices exist to minimise this risk.

Maintaining relationships with key suppliers, customers and other

Under the delegated authority of the Board, the SMT has established a dedicated commercial services team covering all elements of procurement and supplier relations. All contracts are signed off by members of the SMT having first been reviewed by the NGN legal department and having agreed terms with the supplier.

Within the commercial services team there is a dedicated contract management function which supports in pre-contract activity and also post-contract work including the review of variations, again to ensure a strong relationship with suppliers. NGN seek to treat all suppliers fairly. During the year the group launched an updated supplier code of conduct to promote fair and sustainable procurement.

The Board are focused on maintaining strong relationships with NGN's customers to ensure this is to the benefit of both parties. NGN's primary customers are shippers, who transport gas through the network, and the communities (both businesses and residents) in which NGN work. Shipper relationships are managed through the application of Unified Network Code, the regulations established by Ofgem, and this regulation ensures fair working practice is maintained. The impact of NGN's work on community customers is important to the Board and NGN not only monitor feedback through customer feedback scores, but also spend time engaging with communities to understand how NGN could work differently to the benefit of such communities (see next section, 'monitoring the impact of the company: environmental matters and community impact').

Corporate governance statement (continued)

Actions and responsibilities of the Board and its committees (continued)

Maintenance of the need to act fairly between members of the company

The Board is comprised of directors who are appointed by the shareholders of the group. As such each shareholder has representation and the ability to contribute to all Board meetings and so influence the decisions made by the Board.

Monitoring the impact of the company: environmental matters and community impact

Following Board approval, the SMT has embedded NGN's People and Planet Strategy, to further develop the sustainability work completed by NGN, tackling the short, mid and long term challenges facing the business, the society in which NGN operates, and the planet. Our commitments within this strategy include:

- spend responsibly and hold our suppliers to high sustainability standards;
- reflecting community diversity in our workforce and the eradication of inequality within our work force;
- improve access to opportunities and fair employment;
- supporting colleague safety and wellbeing;
- progression toward zero emissions, produce less waste and recycle all of it, manage our land to benefit the environment;
- provide access to information, funding and more affordable energy services for our communities, prioritising those with vulnerabilities; and
- enable affordable decarbonised heat, power and transport solutions.

The facilitation of tackling these challenges is aided by the establishment of the forementioned ESG committee which reports the Board, and a staff based sustainability working group who meet quarterly, with terms of reference that define the purpose, scope, role and responsibility of the group.

NGN have also established 'communities', a collection of colleagues who have the support of the SMT and who work to promote the interest of that community. Our communities to date are the disability community, the women's community, the ethnic minority community, the parents and carers community, and the LGBTQIA+ and Allies community.

We are also committed to ensuring our business makes decisions reflecting customer and stakeholder values and preferences. To make sure we are following best practice our engagement is independently assured against the internationally recognised AA1000 Stakeholder Engagement Standard.

Each year NGN publish an Environmental Report and a Sustainability Report, both of which are published on the NGN website and these reports detail our progress against set targets. These can be found at

<https://www.northerngasnetworks.co.uk/document-library/>

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Northern Gas Networks Operations Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its 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 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 12.

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 company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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 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 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions legislation, tax legislation, HSE legislation regarding construction and gas transportation, and licence conditions imposed by Ofgem; and

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

- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included HSE legislation regarding construction and gas transportation, and licence conditions imposed by Ofgem.

We discussed among the audit engagement team including relevant internal specialists such as Tax, Pension and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

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

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

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.

A handwritten signature in black ink that reads "Anthony Matthews". The signature is written in a cursive style and is underlined with a single horizontal line.

Anthony Matthews FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

23 August 2024

Statement of comprehensive income

For the year ended 31 March 2024

	Notes	2024 £'000	2023 £'000
Turnover	1	395,677	369,857
Cost of sales		<u>(395,577)</u>	<u>(369,757)</u>
Operating profit and profit before tax	2	100	100
Tax on profit	5	<u>(29)</u>	<u>(19)</u>
Profit for the financial year		<u>71</u>	<u>81</u>
Other comprehensive result		<u>-</u>	<u>-</u>
Total comprehensive income		<u>71</u>	<u>81</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 on pages 26 to 30 are an integral part of this statement of comprehensive income

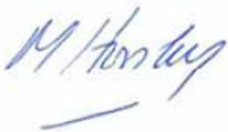
Balance sheet

As at 31 March 2024

	Notes	2024 £'000	2023 £'000
Current assets			
Stocks - raw materials		6,659	5,677
Debtors - due within one year	6	45,045	48,067
		<u>51,704</u>	<u>53,744</u>
Creditors: amounts falling due within one year	7	(50,724)	(52,835)
		<u>980</u>	<u>909</u>
Net current assets and total assets less current liabilities		<u>980</u>	<u>909</u>
Net assets		<u>980</u>	<u>909</u>
Capital and reserves			
Called-up share capital	8	-	-
Profit and loss account		980	909
		<u>980</u>	<u>909</u>
Shareholders' funds		<u>980</u>	<u>909</u>

The accompanying notes on pages 26 to 30 are an integral part of this balance sheet.

The accounts of Northern Gas Networks Operations Limited, Registered number 03528783, were approved by the Board of Directors and authorised for issue on 16 August 2024 and signed on its behalf by:



M J Horsley
Director

23 August 2024

Statement of changes in equity

For the year ended 31 March 2024

	Profit and loss account £'000	Called up share capital £'000	Total £'000
At 31 March 2022	828	-	828
Profit for the year and total comprehensive income	<u>81</u>	<u>-</u>	<u>81</u>
At 31 March 2023	909	-	909
Profit for the year and total comprehensive income	<u>71</u>	<u>-</u>	<u>71</u>
At 31 March 2024	<u>980</u>	<u>-</u>	<u>980</u>

The accompanying notes on pages 26 to 30 are an integral part of this statement of changes in equity.

Statement of accounting policies

For the year ended 31 March 2024

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

Basis of accounting

Northern Gas Network Operations Limited is a company incorporated in the United Kingdom under the Companies Act 2006. 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 functional and presentational 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. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remunerations of key management personnel.

Going concern

The accounts have been prepared on a going concern basis. 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 directors have made enquiries and reviewed the forecasts, noting that all company costs are recharged to NGN which has secured regulatory revenue under RIIO-GD2 until March 2026, 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. A letter of support from Northern Gas Networks Limited has been received by the directors, who are happy that Northern Gas Networks Limited have adequate resources to provide such support.

Stocks

Stocks are stated at the lower of cost and net realisable value. Measurement is on a moving average cost basis and provision is made for obsolete or defective items where appropriate.

Statement of accounting policies (continued)

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.

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). 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.

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

Statement of accounting policies (continued)

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 are entitled to participate in a defined contribution pension schemes operated by NGN. The amount charged to the profit and loss account, within cost of sales, 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. NGN also has a defined benefit pension scheme which was closed to future contributions from 31 March 2022. This defined benefit pension scheme and so the defined benefit asset/liability is held by NGN.

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. All costs are recognised within cost of sales.

Impairment

Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, that being that the estimated recoverable value of the asset is less than the value in the balance sheet, an impairment loss is recognised in profit or loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

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 2024

1 Segment information

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

2 Profit before taxation

Profit before taxation is stated after charging:

	2024 £'000	2023 £'000
Operating lease rentals - vehicles	219	248
Operating lease rentals - property	882	1,251
Fees payable to the company's auditor for the audit of the company's annual accounts	30	29

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:

	2024 Number	2023 Number
Administration	153	156
Operations	1,402	1,324

Notes to the accounts (continued)

3 Staff costs (continued)	2024	2023
	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	81,072	71,604
Social security costs	8,723	7,963
Pension costs	6,167	5,425
	<u>95,962</u>	<u>84,992</u>

4 Directors' remuneration and transactions

The remuneration of the directors was as follows:

	Executive Directors	
	2024	2023
	£'000	£'000
Emoluments	1,080	992
Amounts receivable (other than shares) under long-term incentive schemes	244	237
	<u>1,324</u>	<u>1,229</u>

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

	2024	2023
	£'000	£'000
Emoluments	<u>1,324</u>	<u>1,229</u>

There have been no transactions with directors in the year (2023 – £nil) other than as set out above in respect of remuneration. Only directors are deemed to be key personnel.

Notes to the accounts (continued)

5 Tax on profit

The tax charge comprises:

	2024 £'000	2023 £'000
Current tax		
UK corporation tax	18	19
Total current tax charge	<u>18</u>	<u>19</u>
Deferred tax	11	-
Total deferred tax	<u>11</u>	<u>-</u>
Total tax charge	<u>29</u>	<u>19</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:

	2024 £'000	2023 £'000
Profit before tax	<u>100</u>	<u>100</u>
Tax on profit at standard UK corporation tax rate of 25% (2023 – 19%)	25	19
Adjustments in respect of prior years	4	-
Total tax charge for the year	<u>29</u>	<u>19</u>

The company earns its profits in the UK. Therefore, the tax rate used for tax on profit is the standard rate for UK corporation tax, currently 25% (2023 – 19%).

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. Deferred taxation is measured at tax rates that are expected to apply in the periods in which temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Accordingly a tax rate of 25% has been applied across all group companies when calculating deferred tax assets and liabilities.

Notes to the accounts (continued)

6 Debtors – due within one year

	2024	2023
	£'000	£'000
Trade debtors	4,174	264
Amounts owed by group undertakings	33,699	41,177
Other debtors	87	91
Prepayments	7,067	6,505
Deferred tax	18	30
	<u>45,045</u>	<u>48,067</u>

Amounts owed by group undertakings (trading balances) are unsecured, interest free and repayable on demand. They have arisen due to the company completing rechargeable operational work on behalf of other group companies.

7 Creditors: amounts falling due within one year

	2024	2023
	£'000	£'000
Trade creditors	9,455	8,597
Corporation tax liability	75	57
Other taxation and social security	3,455	3,305
Deferred income	6,171	8,784
Accruals	31,568	32,092
	<u>50,724</u>	<u>52,835</u>

8 Called-up share capital and reserves

<i>Share capital</i>	2024	2023
	£	£
<i>Allotted, called-up and fully-paid</i>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

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

Notes to the accounts (continued)

9 Financial commitments

The company had no capital commitments at the end of the financial year (2023 - £nil).

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

Motor vehicle leases	2024 £'000	2023 £'000
- within one year	75	142
- between one and two years	43	47
- between two and five years	14	13
	<u>132</u>	<u>202</u>

10 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 wholly owned members of the group headed by Northern Gas Networks Holdings Limited.

11 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%) – incorporated in England & Wales

Beta Central Profits Limited (41.3%) – incorporated in England & Wales

SAS Trustee Corporation (11.6%) – an Australian Trustee Corporation

12 Post balance sheet events

There are no post balance sheet events to report.