SGN
Your gas. Our network.

Annual Report and Financial Statements 2020

Investment in Northern Ireland

Our Special Projects team completed the construction, testing and commissioning of 78km of high-pressure pipelines over the past 12 months. **> See page 15**

The SGN five-year plan

Our track record in GD1 shows we have always delivered for our customers, and we'll build on this success with our ambitious GD2 plan. **> See page 6**

Building our business through non-regulated growth

Growing our non-regulated businesses including SGN Place and SGN Commercial Services. **> See page 29**

SGN in numbers

Gas escapes attendance within 1 hour in 2019/20
98.6%
Consistent with 2018/19

External awards in 2019/20
5
including IGEM's Company of the Year

Cashflow after investing activities in 2019/20
£206.3m
48% increase on 2018/19

Regulatory Asset Value as at 31 March 2020
£5.9bn
4% increase on 2018/19

Fuel poor homes connected since 2013/14
28,310
8% increase since 2018/19

Gas transported in 2019/20
139.031TWh
2% increase on 2018/19

Network investment in 2019/20
£465m
5% increase on 2018/19

Turnover in 2019/20
£1,272m
3% increase on 2018/19

Contents

Encirc Glass manufactures containers for some of the world's most recognised brands, and it was one of the first major industrial facilities identified by our Gas to the West project looking to become more sustainable.

Switching to natural gas is an integral part of Encirc's strategy to boost efficiency and minimise energy consumption.

Gas to the West

Our cover picture shows the furnace area of Encirc's glass production process at its Derrylin plant which was successfully converted to natural gas within weeks of our infrastructure going live.

Chairman's introduction

COVID-19

There's no doubt the end of our year, along with every other UK company, was dominated by the challenges and difficulties presented by the world-wide COVID-19 pandemic. Both the economic and human issues faced were unprecedented, and we ensured we acted in accordance with all government advice. Our priority throughout was to ensure the safety of our people, our customers and the general public at large.

I'd like to praise our people who in very challenging conditions worked hard to ensure our customers, particularly those in vulnerable circumstances, continued to have a safe and secure supply of gas.

Business planning

Before the effects of COVID-19 kicked in, we'd been enjoying another progressive year for our Company, leading on innovation, driving the decarbonisation debate and delivering on engineering excellence. Our preparation for GD2 has been meticulous and with our Business Plan now submitted to Ofgem for consideration, does, I believe, deliver for our customers, our stakeholders, our people and the gas industry as a whole.

Wates Principles

Finally, I'm pleased to confirm the Board has unanimously agreed we should embrace all six of the Wates high level principles of corporate governance. This will ensure we meet the new legislative requirements, and allow us to proactively understand what we do well in corporate governance and continue to review the areas that we can improve upon to ensure we are fit for the future.

Gregor Alexander
Chairman

SGN overview

Our culture and values underpin everything we do

Safety first
We take responsibility for our own safety and the safety of those around us

Driving performance
Efficiency, innovation and continuous improvement will help us deliver excellence and achieve commercial success

Putting people at the heart
We always work together, talk honestly and treat people with respect

Looking after customers
By listening to our customers, understanding their needs and keeping our promises we can deliver an excellent service that people trust

Sustaining our world
We maximise our effect on local communities and minimise our impact on the world

The SGN Group owns one of the UK's largest and most innovative gas distribution networks, operating across Scotland, southern England and Northern Ireland. The Group also continues to grow in the non-regulated space by accelerating commercial opportunities.

Our vision

Our vision is to own heat and lead the way in low carbon energy delivery by making gas green.

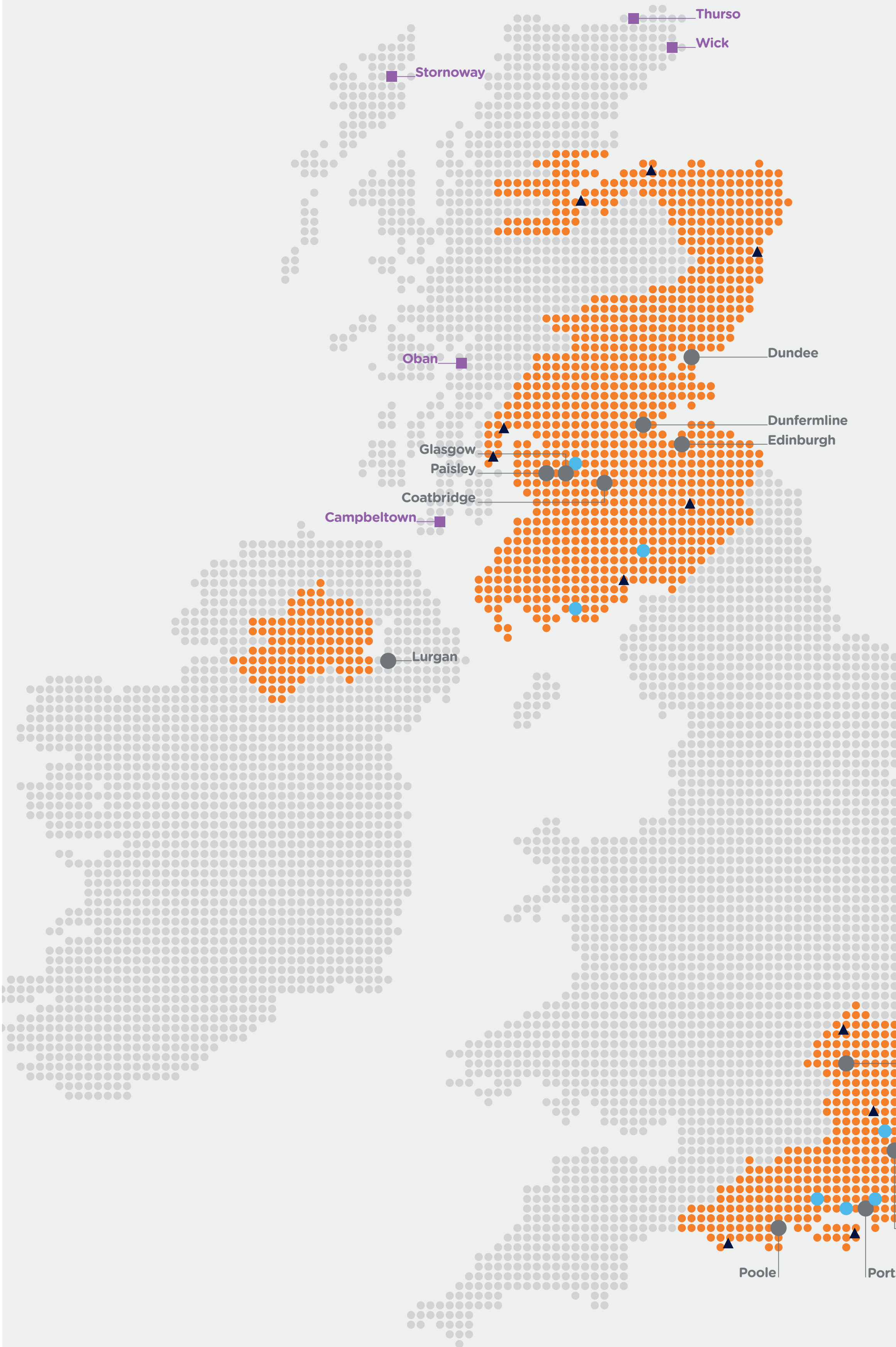
Our purpose and strategy

Our purpose is to keep everyone safe and warm. Our strategy is to deliver long-term value for existing and future customers, stakeholders and shareholders. This strategy is based on strong financial management and a governance framework, and underpinned by our detailed Business Plan and strategic priorities, summarised as follows:

1. **Safe and efficient**
   We will deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.
2. **Positive impact**
   We will make a positive impact on society, by supporting vulnerable communities and providing excellent service.
3. **Shared future**
   We will build a shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.
4. **Creating value**
   We will create value by accelerating commercial opportunities which complement the core; maximise the value from our existing asset base; invest in opportunities for the sustainability of our network and keep SGN at the forefront of the delivery of heat.

Our engagement

We engage with our employees and wider stakeholders in the right way to help foster relationships and deliver long-term value for existing and future customers, employees and stakeholders.



Operations throughout the UK

Scotland

Our Scotland network distributes gas across all of Scotland to 75% of households, including remote areas through the Scottish Independent Undertakings (SIUs) at Stornoway, Wick, Thurso, Oban and Campbeltown.

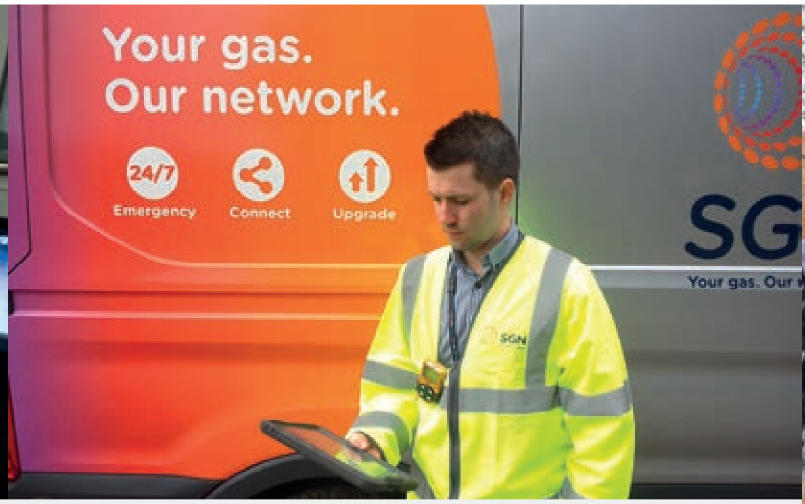
Northern Ireland

In Northern Ireland we have been granted the licence to bring natural gas to eight towns in the west, constructing high, intermediate and low pressure pipelines and mains. We are also contracted to maintain the gas transmission system and maintain the assets for the gas pipeline connection between Northern Ireland and Scotland.

Southern England

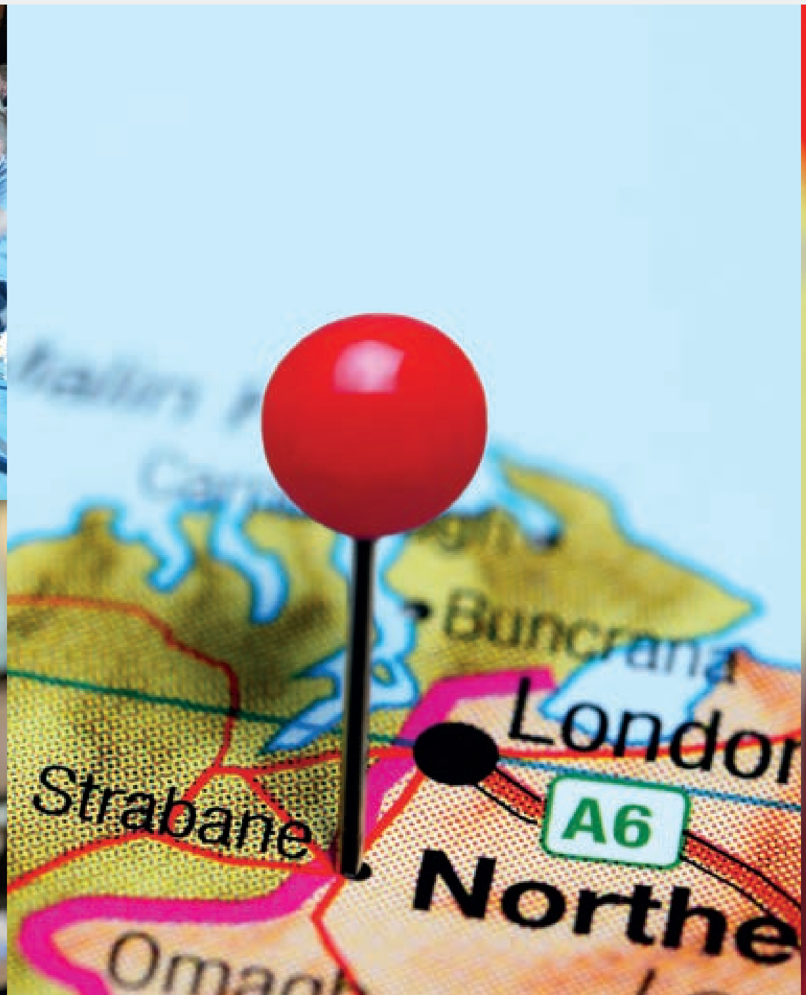
Our Southern network stretches from Milton Keynes in the north, to Dover in the east and Lyme Regis in the west, including London boroughs to the south of the River Thames, distributing gas to around 90% of households.

The SGN year



An exceptional year for our Company shown here in pictures, which saw our people rise to, and overcome the challenges of COVID-19 while at other times, always being focussed on delivering the best possible outcomes for our customers and stakeholders.

- Digital revolution communicating with field engineers.
- Community investment and support exceeding £500,000 equivalent.
- Excellence in incident handling keeping our customers safe and warm.
- Gas to the West in Northern Ireland transforming communities.
- Safety first exceeding our target with 64 safe days achieved.
- Excellence in customer service remaining top gas network for satisfaction.
- Six years of CISBOT robotics and still leading the way.



Price control

RIIO-GD2 planning process

The price control cycle
Our track record in GD1 and the earlier price control periods show how we have always delivered for our customers. Year seven out of eight of our RIIO-GD1 price control has just finished and we're performing well.

The following is a high-level summary of our performance to date:

- We have held the number one position for customer service for the last four years.
- We have been recognised as the best gas network for stakeholder engagement for the last two years.
- We have carried out the highest number of fuel poor connections of any network.
- We are one of the most efficient networks in our totex benchmarking.
- We have made a voluntary contribution of £145m to customers in GD1 demonstrating our strong sense of responsibility and public conscience.
- Our use of innovation has already saved over £125m for customers.

We have a dedicated price control team in place who have now submitted two draft business plans in July and October 2019, and a final business plan in December 2019. These plans continue to be reviewed by Ofgem in advance of its decision for the outcomes of the price control.

The business planning process
GD2 planning, preparedness and acceptance has included enhanced engagement leading to a stakeholder informed and supported Business Plan.

Customer Engagement Group (CEG)
Our CEG comprises 17 members selected by the Chair, Maxine Frerk, to provide assurance of a blend of independence, knowledge and expertise that reflects our customer base. Since it began operating in September 2018, our CEG helped us develop our thinking and refine our plan, providing assurance to Ofgem that we understand our customer and stakeholder perspectives and priorities, and that we're taking our customers' perspectives and priorities into account as we've gone through our business planning process.

RIIO-GD2 Challenge Group
The RIIO-GD2 Challenge Group were able to compare across plans to provide direct challenge to network companies following each draft business plan submission and promote consistency across plans in underlying assumptions.

Understanding what matters – customer and stakeholder priorities
Working with stakeholders across both our regions helped us understand the similarities and differences in political, business and community perspectives, which will allow us to facilitate overall improvements for both regions.

We reviewed the insight from all previous customer and stakeholder engagement and asked them what was important to them and what their expectations of us were for the future. We carried out high quality individual interactions with over 23,000 customers and stakeholders, and reached out to one million people through our targeted online campaign, and our extensive insight inventory includes reports from 104 different engagement events, research programmes and interactions that have all fed into our plan.

Our insight-led plan
Our customer and stakeholder priorities are highly visible in our three customer commitments which are a natural evolution from our current approach:

1. **To make a positive impact**
2. **To build a shared net-zero future**
3. **To deliver a safe and efficient service**

Customers, stakeholders, independent experts, the CEG and the SGN Board have reviewed and refined our GD2 plan extensively to ensure it is in the best interests of current and future customers.

In quantitative acceptability testing of our final plan, 85% of domestic customers in our Southern region and 88% in Scotland found our plan acceptable.

Our assurance process
Every aspect of our plan has been supported through four lines of rigorous assurance:

- **First line assurance.** The subject matter experts delivering our existing data assurance and governance processes maintained day-to-day responsibility, with review and approval by senior managers and executive sponsors.
- **Second line assurance.** Internal challenge provided by the price control team and through regular cross-functional workshops to provide consistency, accuracy and check for deliverability.
- **Third line assurance.** Extensive engagement with independent consultants to provide advice, challenge and feedback during the plan development and formulation.
- **Fourth line assurance.** PwC, Arup and Gartner were engaged to carry out a detailed risk-based review of the plan for the executive sponsors and the Board.

Clear and transparent plan
Our Business Plan and the supporting documents are available at www.sgnfuture.co.uk and we welcome continued engagement and discussion around the points raised.

The plan itself is supported by over 1,600 pages of further detailed analysis and explanation across 26 appendices, that are directly linked to individual chapters, and by 146 separate engineering justification papers that provide detailed assessment and cost benefit analysis of the investment plans that we are proposing to undertake in GD2.

This has provided an unparalleled level of transparency in the outputs that we will deliver for our customers and the benefits that will arise from them.

Over the winter months we meticulously formulated our GD2 plan for the next five-year gas price control, which starts in April 2021. We involved our customers and stakeholders at every stage and we're proud of the plan submitted to Ofgem on 9 December 2019.

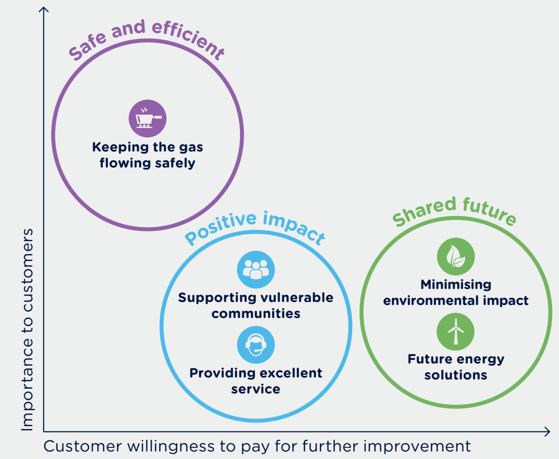
The four phases of our engagement were as follows:

Jan 2019	June 2019	August 2019	End 2020	
Phase 1: Underpin plan creation	Phase 2: Test and iterate elements of plan	Phase 3: Consult on acceptance of the full plan	Phase 4: Refinement and iteration	Delivery April 2021

Stakeholder and customer insight

Minimising environmental impact is an area customers would like us to invest more in.

There is also a desire to keep costs down so our environmental improvements must represent value for money.



GD2 investment

SGN (£m 2018/19 prices)

	GD1: 6 year actuals[1]	GD1: per annum[2]	GD2: like-for-like[3]	GD2: enhanced outputs[4]	GD2: total[5]
Opex	189	196	193	13	206
Capex	115	118	120	22	143
Repex	244	270	244	19	263
Totex (excl. Xoserve)	**548**	**584**	**557**	**54**	**612**
Xoserve	13	6	6	0	6
Totex	**561**	**590**	**563**	**54**	**618**

1. Our actual spend for the first six years of GD1 averaged out annually.
2. Our actual spend for the first six years of GD1, plus our forecast spend for the last two years of GD1, averaged out annually.
3. Our forecasted annual cost for delivering GD1 core services throughout GD2.
4. The additional annual cost for delivering stakeholder driven outputs (accelerated replacement programme, EAP etc).
5. The annual total for delivering both core services and enhanced outputs.

Chief Executive's report

Introduction

COVID-19 recovery

There's no question that the most significant event affecting every UK company in 2020, no matter what its size, was the onset of COVID-19 which put simply, had a devastating and profound effect on both the UK's population and business community. For us in SGN, I'm pleased to report, with tried and tested business continuity plans in place, we were able to start our planning process early in January. This meant when the Government announced the 'lockdown' situation on 23 March, we were able to activate all our plans immediately, pairing back to safety critical maintenance and operational activities.

But equally important, at the point we entered lockdown we also started early planning for when the recovery of our activities could safely be implemented in a controlled and considered way. At the heart of everything was our commitment to ensure the safety and wellbeing of all our people and our customers, whilst being mindful of those in vulnerable situations. As a result, we now have robust policies and processes in place meaning when delivering for our customers, we fully embrace new ways of working, while keeping everyone safe.

At the start of the UK COVID-19 outbreak, when we'd just stopped all non-essential gas connections work, we were asked to carry out an important connection at the new Harwell vaccine centre being built urgently. This involved laying 200m of 125mm medium pressure plastic pipe to supply the newly erected building with gas. This was done without delay to help bring forward the completion date of this highly important NHS infrastructure project.

How we are investing in an IT future

IT investment is how we'll take our business to new levels of efficiency, providing our workforce and customers with a range of digital solutions which will not only reduce our cost to serve, but also increase the effectiveness of our workforces and provide our customers with a greatly enhanced experience. With our engineering front-line now in possession of the latest tablets, we're developing time-saving, safety-focussed and people-centric apps and digital processes to enhance how we perform and interact with each other.

Leading the way in hydrogen off-grid communities

I'm also excited about the opportunities presented to both our Company and our industry, in tackling the challenges of achieving a net-zero economy. And here I'm confident we'll respond positively by not only reducing our own impact on the environment but also bringing cost-effective solutions for the future of heat.

I see great value in introducing hydrogen into the gas network. A key benefit being that it would significantly reduce carbon emissions and this activity could form an integral part of the UK's low carbon future. Our H100 hydrogen project is looking to construct and demonstrate the UK's first network to carry 100% hydrogen and it's progressing well. Evolving from a build-up of a series of smaller projects, it focusses on each key aspect of hydrogen research. It will develop the evidence needed to enable us to progress towards the construction and physical operation of the UK's first 100% hydrogen network.

Our commitments

We'll deliver a safe and efficient service

Our first commitment and our highest priority. > See page 12

We'll help build a shared future

Playing our part in meeting the challenge of reducing carbon emissions. > See page 16

We'll make a positive impact

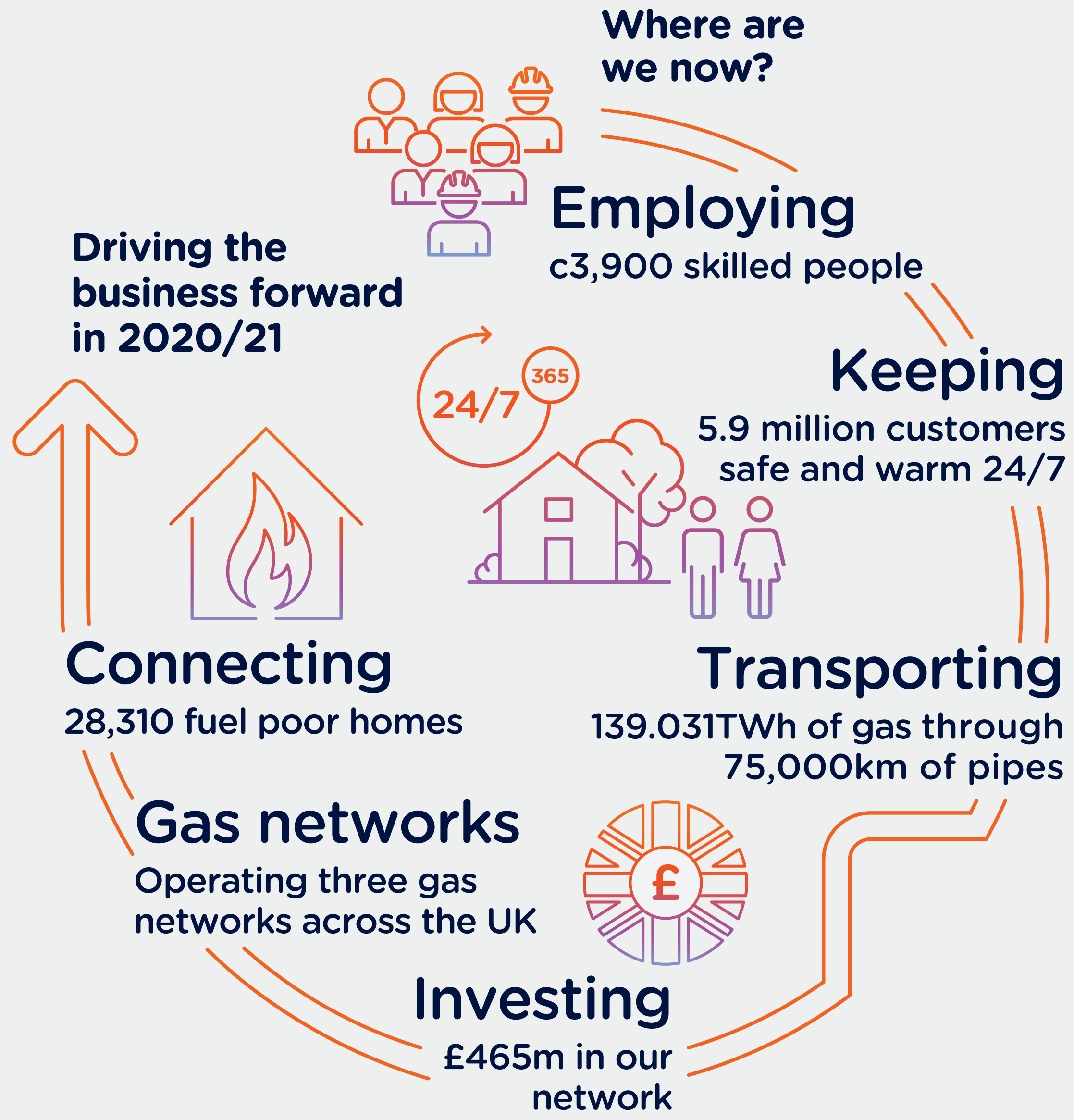
Our commitment to deliver excellent public services and support those in vulnerable circumstances. > See page 20

We'll create value by accelerating commercial opportunities

Our commitment to create value for existing and future customers, employees and stakeholders. > See page 29

The SGN effect

In keeping the gas flowing for our 5.9 million customers, our people and services touch on many aspects of people's lives as we ensure safety is at the heart of everything we do.



External awards

5

including IGEM Gas Industry Awards: Company of the Year

Constantly innovating

By bringing new ideas and technology to bear on tried and tested methods we can deliver a more efficient and resilient gas network

RAV (Regulatory Asset Value)

£5.9bn

3% increase on 2018/19

Chief Executive’s report (cont)

SGN business model

While our business model has been developing since our inception in 2005, we’ve been careful to ensure our endeavours relate to our core activities while increasingly looking to maximise the potential of our engineering assets and the experience and skills of our people.

Inputs

Financial
We make use of our shareholder capital including other forms of financial capital to run our business and deliver a safe and efficient network for our customers.

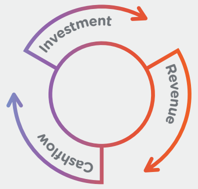
Social
We provide a public service providing gas to those who need it, keeping our 5.9 million customers safe and warm while our people play a key role in wider society looking after the communities we serve.

Physical
We keep our operational assets well maintained and in fully operational order to ensure the safety of the public. In support of our business our IT assets and infrastructure have been upgraded and are protected from external cyber attack.

Core activities

Outputs

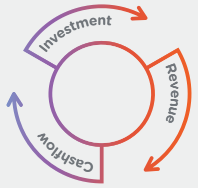
SGN and RIIO



Essential to running a safe and efficient network is understanding the regulatory requirements and delivering on the outputs set.

- Achieving a regulatory settlement to facilitate the delivery of service excellence to our customers, invest and safeguard the network and provide safety and security to all users.
- Aiming for a range of collaborative projects with other GDNs to secure a future for the gas networks.
- Looking to provide extra help to the most vulnerable in our society.

SGN Natural Gas



Completion of the Gas to the West project in Northern Ireland provided us with a third national network and a natural extension to our gas network portfolio.

- Third gas network built and operating in Northern Ireland.
- Potential for 40,000 new gas customers to receive natural gas.
- Providing a cost effective fuel and help tackle the issue of fuel poverty.

Non-regulated businesses

SGN Commercial Services
SGN Place
SGN Metering
SGN Smart
SGN Connections

Our non-regulated activities are closely aligned with our core business activities, ensuring management understanding and decision making comes from a position of knowledge and experience.

- Providing expertise in the development of biomethane plants and associated green gas production.
- SGN Lessona has invested in a new joint venture with Murphy Utility Services focusing on the adoption of gas and electricity infrastructure assets across the UK (including vehicle charging points).
- Providing new gas connections to benefit society and the wider UK economy.

We learned some invaluable lessons through carrying out mock large-scale loss of supply incidents with external resilience partners last year.

Operations

A Pandemic Working Group (PWG) has been established to focus on our COVID-19 preparedness. The group is meeting three times weekly to keep abreast of rapidly changing developments.

We had a good year across all our operations activities and in particular made excellent progress on our major engineering projects across our region. Our vision to keep our customers safe and warm at all times is epitomised through exceeding our 97% emergency response target, achieving 99.1% for controlled and 98.6% for uncontrolled (see page 31).

Our engineers and customer teams received very positive feedback and unsolicited praise from customers and stakeholders during a number of ‘no-gas’ situations. Delivering a greater choice of communication channels, particularly a strong social media presence, has improved our ability to engage meaningfully at every point of stakeholder interaction.

We invested £299.8m in delivering our Replacement policy mains, non-policy mains, Risers and other Replacement projects. The use of robotics has seen our CISBOT robot achieve 13.3km of gas mains refurbishment in Tier 2 and Tier 3 mains. In total we have delivered a replacement workload of 6,607km in the GD1 price control.

Resilience

We learned some invaluable lessons through carrying out mock large-scale loss of supply incidents with external resilience partners last year; the major one being how early engagement with these partners is critical. More of our key operational and support staff (153 to date) are now registered and linked into the Resilience Direct™ online community which has had a direct and positive impact on how we dealt with several incidents last year, most notably in Falkirk, Scotland.

More and more we’re engaging and strengthening our relationships with existing resilience partners, while working with new partners and organisations. Every year we participate in a range of different external resilience meetings and exercises, many of which involve various emergency services, voluntary organisations and local authorities. Our relationships with the local authorities covering our southern England and Scotland regions are particularly valuable, as we protect and look after our most vulnerable customers. This was demonstrated in Falkirk in December and again in Tooting, South London, in February when we worked closely with the authorities to identify and help those who needed it the most.

In Falkirk where 8,000 homes and businesses were without gas in early December, the local authority sent along people from its community care team who joined with our own customer service team on site, along with others from voluntary organisations such as International Rescue. Between them they carried out home visits to those on their vulnerability list and who were without any gas. This was to ensure they were getting the support they needed as well as the temporary electric heating and cooking appliances we were providing free of charge. In February 2020, this time in Tooting, a similar thing happened with valuable extra support coming from the local authority, the Red Cross and other voluntary organisations.

We also fully engage in a number of industry-run exercises, which are held each year. Some of these are co-ordinated through our industry trade body The Energy Networks Association and often involve scenarios including large scale losses of gas supplies to homes and businesses. We also participate in an annual national gas supply emergency exercise which models adverse effects on the UK’s energy infrastructure. All these exercises enable us to continually assess our readiness and ability to respond through our contingency plans and make improvements where we need to.

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Keeping our customers regularly updated and informed during loss of gas supplies is an absolute priority and we will use many digital channels as well as traditional face-to-face contact where appropriate.

CISBOT has transformed the way we can do things with minimal disruption to road users and the local community.

Chief Executive's report (cont)

The SGN five-year plan

Our commitment to customers: Delivering a safe and efficient service

We continue to do what is needed to keep our network safe and resilient from asset deterioration, physical and cyber threats. With an ageing asset base, investment is essential to maintain its integrity and high standards of safety and reliability.

Our priorities and progress in 2019/20

Keeping the gas flowing

- We have invested £465m in maintaining and improving our network.
- Our ambition is to work more collaboratively with third parties to reduce the emergency repair interruptions they cause by 15%.

Acting safely

- We're now using Roadworks.org to help customers gain real-time access to information about our 6,500 roadworks. Since implementation we've had 173,750 hits and seen a reduction in enquiries by 24% from last year.
- We beat our target of 63 Safe Days for incidents involving our people, contract partners and members of the public and at the year-end recorded 64 Safe Days.

Keeping costs down

- We have seen a reduction in customer bills in Scotland and Southern regions since the beginning of GD1.
- We have expanded and embedded our 'Live Chat' capability to customers who are applying for a gas connection resulting in a 28% increase in digital contacts from customers and a 4% reduction in telephone contacts.

Keeping the gas flowing

CISBOT is six

Six years ago we launched the pioneering CISBOT robotic system in the UK, and since October 2013 it has travelled through 44km of our gas pipe sealing more than 12,000 joints.

Our Head of Innovation John Richardson said: **"Using CISBOT over the past six years has really revolutionised roadworks. Robotic technology reduces the need for multiple excavations and trenches, reduces disruption on the roads and saves time and money, which is excellent news for motorists, our customers and the local community."**

CISBOT in action

Following on from our success in Brighton, we used CISBOT on an 899m project at Elm Grove, Southsea. Compared with conventional methods (working a six-day week), using CISBOT resulted in a cost saving of £302,687, 26 fewer excavations in the road and a time saving of 93 days (working a five-day week).

Project	Length	Cost reduction	Reduction in duration	Reduction in number of excavations
Elm Grove, Southsea	899m	£302,687	93 days	26
Fawcett Road, Southsea	1,049m	£699,077	131 days	29

CISBOT robotics operation in full flow on Brighton seafront, ensuring minimal disruption to customers' gas supplies, and road users and maximum benefit to our workforce and the environment.

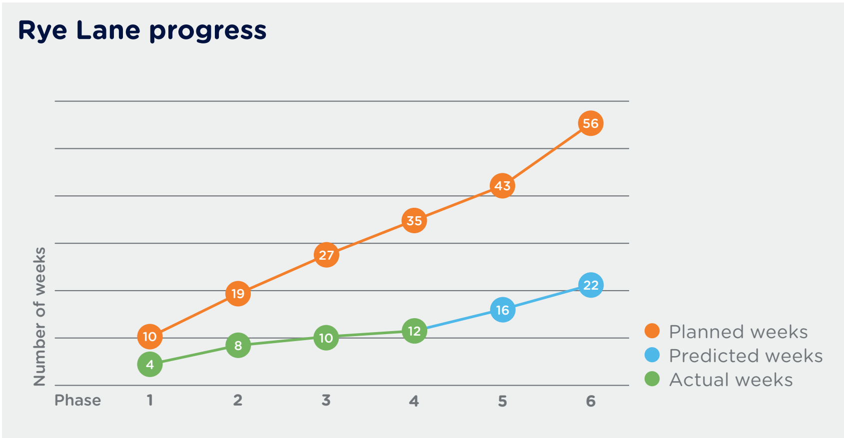
Chief Executive's report (cont)

Resilience (cont)
While the COVID-19 crisis evolved from its early beginnings in January 2020 and into the new financial year, even though the crisis was still ongoing we took the opportunity to hold a review on how prepared we were for the issues the pandemic presented and how we handled our initial response. This has already provided us with a good insight and was done at an early stage to ensure 'corporate memory' of the incident was retained. Along with the many situation reports and decision making logs completed throughout the crisis, at the appropriate time we plan to review our actions and response during the recovery phase.

Gas risers
In Scotland, our riser programme is on target with a year-end investment of some £2.7m being made during the year. In our Southern network we invested £15.0m over the same period, ensuring design and installation is of the highest standards.

We received feedback on the national Health and Safety Executive (HSE) intervention programmes and specific feedback on its recent audit of our work. This is currently being reviewed by our Riser working group which includes both Safety, Health and Environment (SHE) and Operations.

Our innovative flow-stopping technique Microstop that we rolled out this year has been used to complete several jobs in Scotland as well as on a high priority job in Winchester and on multiple risers in Salisbury in Southern. Its success has highlighted a need to refurbish and refit all our Southern kits to match the capabilities of Scotland.



Major projects
We performed well with large-scale replacement projects, consistently completing complex programmes under challenging circumstances in record time.

Rye Lane, Peckham
After seven years of planning, we invested £2.6m in a 13-month project to upgrade our gas network in Rye Lane, Peckham, London to replace the existing large diameter mains that were installed in 1894. This is a densely populated/trafficked residential and commercial area with multiple occupancy risers, dual services, and a high leakage history. 54 different bus routes per hour carrying c22,000 passengers over a 12-hour period were going to be affected. Signed diversions for buses, motorists and cyclists were needed for the duration and pedestrian access along Rye Lane had to be maintained at all times.

Based on past experience and customer feedback, we've developed a bespoke tailored project delivery process, enabling us to assess the expected impact of a project, classify it and tailor our customer/stakeholder engagement and communication accordingly. Rye Lane was assessed as Gold, which meant it had to receive our highest level of engagement and communication support.

We mapped and engaged with a wide variety of stakeholders well in advance of the 7 January 2019 start date including:

- Customers
- Individual residents
- Residents associations
- Individual businesses
- Business associations
- Chamber of Commerce
- Local authorities
- Councillors
- Resilience partners
- Community groups
- Transport groups
- Emergency services
- Schools/colleges
- Hospitals/medical facilities
- Parish/town councils
- Local radio/media

Replacing gas risers providing gas to multi-story buildings is done with extreme care and with the safety of our customers and contractors working on the replacement work being paramount.

We'd never be able to deliver this project successfully without the support of this very large community group so our Major Works operations in collaboration with our stakeholder and communications teams carried out a comprehensive programme of customer/stakeholder engagement activity over two years. Events were held by local people and organisations, and included art, music, fashion, food, wellbeing and more. We became fully embedded, and were prepared to do whatever it took to gain as much trust and support as possible.

> "Having engaged with the local community, traders and council, we're totally committed to doing all we can to ensure it's business as usual and people continue to visit Rye Lane during our work. We're pleased to be involved and working with the community steering group in creating a programme of exciting events over the coming months."
> **Drew Reynolds**, General Manager, SGN

Because our stakeholders' chief concern was the impact of disruption over such a long period we responded by re-thinking our entire plan. We employed a dedicated on-site project manager and changed our engineering approach, combining innovative techniques such as live-dead insertion, a GECO pump and a camera system called Synthocam (it detects the precise location of joints, services, connections etc) to speed up progress. This resulted in the entire project being completed in 24 weeks instead of the planned 56. We were able to reopen the road to customers, businesses and motorists well ahead of schedule on Wednesday 5 June 2019.

It also helped our carbon footprint as we saved 140 cubic metres of excavation works, no waste material was transported to recycling plant, and we avoided the use of the diesel-powered excavators and HGV lorries.

Merton High Street
Merton High Street in southwest London is a very busy transport link and thoroughfare with high public footfall. We needed to carry out some long-deferred essential replacement work, including a high risk 16" cast iron main laid in the 1940s. Merton Local Authority granted permission for the busy road to be closed in January this year so long as TfL used its specialist traffic management system Urban Traffic Control (UTC) that allows greater control of the traffic flow. 15,450 informative leaflets were hand delivered to residential and business properties, and additional communications were sent to 171 stakeholders including schools, councillors, MPs, businesses etc.

We were able to dead insert the full 80m section of 355mm PE in seven weeks rather than the proposed 12, including all the local authority drainage and carriageway repairs carried out at the same time by working collaboratively with us. The project cost £417k which included £100k for the complicated UTC facility.

Broadstairs, Kent
We found an uncharted 10" main running the entire length of the busy Albion Street in Broadstairs during excavation works at an old gasholder site close by. Further investigation revealed we'd need to replace 1.25km of 10" CI with new 180mm PE using live insertion techniques and relay/transfer 120 services in the immediate area. It was agreed with the local authority the road would have to be closed for nine weeks due to the difficult main location and the clearance width required for work to be carried out safely. This vital £372k project was fast-tracked and we were given the go ahead to start our four-phase plan in January 2020 with just three weeks' notice.

The Albion Street section of this project was inevitably going to impact local shop owners and pedestrians, and especially public transport/road users due to a lengthy diversion. We submitted weekly progress reports to all our stakeholders, and while we had significant interest from them, we only received one complaint and have subsequently received positive feedback and letters of recommendation on how our contractor conducted itself. Our commitment and detailed planning meant we were able to complete this phase one week earlier than agreed with the council.

Gas to the West
We achieved a number of significant landmarks on our Gas to the West (GttW) project in Northern Ireland over the past 12 months. Our Special Projects team completed the construction, testing and commissioning of over 78km of high-pressure pipelines and the associated seven above ground Installations.

A co-ordinated team of SGN Special Projects, Maintenance Operations, Network Gas Control Centre and SGN Natural Gas colleagues carried out the commissioning process. This major new infrastructure has now been handed over to Mutual Energy who will monitor, operate and maintain its new assets with on-going support from us through a number of new MERC contracts. It is highly likely that this will be the last large-scale new transmission pipeline project for the conveyance of natural gas in the UK.

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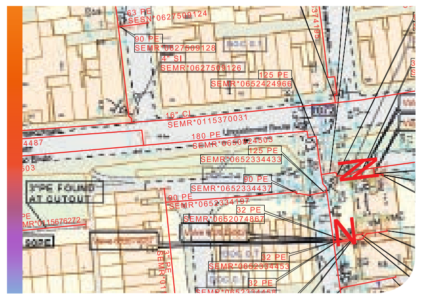


Merton High Street is a typical busy suburban thoroughfare where any form of roadworks will cause disruption to road users and affect the local community.

As well as overground congestion, our schematic plan shows how congested it also is underground, with all utilities.

Chief Executive’s report (cont)

The SGN five-year plan

Our commitment to customers: Building a shared future

Our industry is changing fast and critical decisions on future heat policy will be made within the next five-year planning period. Our cutting-edge research, development and demonstrations of greener gas will provide evidence needed to support these complex decisions and resolve uncertainty about the future of the gas networks.

Our priorities and progress in 2019/20

Delivering energy solutions for the future

- We explored servicing off-grid communities in the Highlands and Islands of Scotland by commissioning an independent customer demand assessment for gas as a heat solution. 66% of the 600 local residents in Fort William were in favour of a natural gas supply so we presented a feasibility study to the Scottish Government.
- This year we have increased the amount of greener gas in our network and have supplied the equivalent of 227,000 households with biomethane.

Minimising environmental impact

- We have completed the Carbon Trust’s Climate Change Leadership Framework assessment. This provided a performance scorecard to benchmark progress which is now part of informing and shaping our new net-zero strategy.
- We are committed to a net-zero SGN by 2045 and our new net-zero strategy shows how we support progress on the United Nations Sustainable Development Goals (SDGs). In 2019/20 we joined ‘Support the Goals’ enabling us to showcase what actions we are taking to achieve the SDGs and learn from others leading in this field.
- Our stent bag innovation is part of a High Volume Gas Escape toolkit. Its purpose is to limit the amount of gas escaping to the atmosphere which has considerable safety and environmental benefits. The stent bag is currently at prototype stage but we are hoping to roll it out further in GD2.

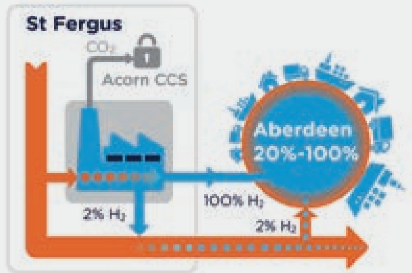
Delivering energy solutions for the future

The Aberdeen vision

We’ve been developing our case collaboratively with National Grid to construct a new 100% hydrogen pipeline between St Fergus and Aberdeen where the use of hydrogen transport is the most advanced in the UK. Initially supplying the network with a hydrogen blend of up to 20%, this would increase to 100% following a complete network conversion to hydrogen.

Knowledge sharing

Our findings are providing useful information to other on-going hydrogen projects (H21, H100 and Hynet) as well as a greater understanding of the impact of introducing hydrogen blends into the National Transmissions System and gas distribution networks.



Chief Executive's report (cont)

SGN Natural Gas
At the same time, the SGN Natural Gas team has worked in tandem to significantly extend and commission our new distribution network in line with our key stakeholders' expectations. As part of the network extension, we now have 142km of 7bar Intermediate Pressure network in Northern Ireland with gas available in all eight major towns in our new licence area. We have also constructed 155km of new medium and low-pressure distribution network meaning over 10,000 customers in the west can now connect to natural gas. So far we have 650 domestic and I&C connections on our network. Importantly, all major anchor I&C loads who were also key GttW stakeholders, were commissioned on time in line with their own plant reconfiguration plans during the summer of 2019. We continue to liaise with our key stakeholders across government and regulatory forums in Northern Ireland, and our aim is to continue expanding our network and customer base over the remainder of our GD1 price control period.

The completion of these critical project milestones was marked at a formal launch event in Dungannon in January 2020 with representatives from national and local government, regulators, industry and media present. The success of the wider GttW project continues to be viewed as a highly positive boost for all communities and industrial sectors across the west of Northern Ireland.

Safe days recorded 2019/20

Safety

Safe days
We set a target of 63 'safe days' (24 hours with zero accidents, road traffic accidents, cable strikes or injuries to members of the public across the Company) this year, a 10% increase on last year's total. Newly developed safety dashboards are tracking our safety performance and safe days and we've hit our target. This is very positive news and shows our enhanced safety culture is starting to reap rewards.

Home safe and well
Our 2019 'Home safe and well' ethos is now embedded in our culture. Our people are taking responsibility for their own and colleagues' safety by challenging unsafe acts in an open and honest way, and feeding back where they feel things can improve. We know if we are praised for safe work and/or new ideas, we're five times more likely to do it again.

By the end of February 2020, 2,154 of our industrial workforce had received 15 different online SHE refresher modules designed by an in-house team of e-learning experts in collaboration with our SHE Managers.

We'll continue driving safety improvement in 2020/21 through summer and winter campaigns and 'home safe and well' briefings.

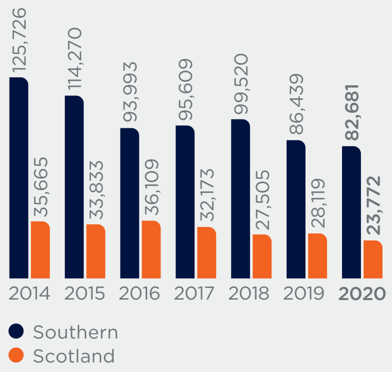
Safety road shows
Our Safety team organised a very absorbing safety conference for Directors, senior managers, safety managers, safety reps and safety champions before going on to deliver 10 additional safety road shows to 1,900 colleagues across all three networks and one for our contractor directors. The suggestions and feedback received is being tracked and actioned through our local safety forums with best practice shared as good news stories on SGNapp and DigitalHub.

Health and wellbeing
The initiative our Health and Wellbeing Project Team launched during Mental Health Awareness week in May last year is having very positive results that extend far beyond the workplace.

The new voluntary role of Mental Health Supporter (MHS) we introduced in April 2019 is open to any colleague who feels they have the natural empathy, compassion and pragmatic approach it takes to help others. We now have 93 signed up who, together with all our HR managers, have attended 'Advanced Mental Health Awareness at Work' workshops to equip them with the right emotional and practical tools they'll need to support the SGN family. We also rolled out mental health awareness training to 485 of our people managers to improve their understanding and help them recognise the signs of someone struggling. They listen and offer support or direction to find the most appropriate source of help such as our 24/7 employee care line, their GP etc. Brave individuals continue to share powerful personal experiences with colleagues through our internal SGNapp and DigitalHub.

Our safety roadshows helped inspire our people and show why safety is so important for them and their families.

Interruptions



Offering additional tangible support, such as advice from our independent financial wellbeing service provider and our discounted gym membership scheme to encourage good physical health has been key.

Much of the taboo surrounding mental health has been removed as a result, and we now have a network of effective colleague support channels in place. By December 5% of our workforce had approached our MHS, and our continuing regular awareness campaigns/blogs receive record levels of engagement.

Customers

Our Scotland network has held the No.1 GDN position for customer satisfaction for the last three years running and is currently on track to achieve this again for 2019/20. We also hold the best GDN track record for handling complaints well, and have reduced the volume year on year, achieving the lowest number of GDN complaints for the past four years running in Scotland. All this has been achieved through hard work from our people in an overall culture of praise and encouragement.

As we draw to the close of GD1, our CX transformation programme launched in 2015 has been a great success for our customers as we've:

- Reduced our impact on customers' bills by 8%.
- Reduced interruption to customer supplies by 21%.

GD2 – building on success

One of our strategic business priorities is to keep pace with the increasing customer and stakeholder expectations as technology, energy and society change.

Many of our GD1 initiatives are now complete or in flight. Building on this success, our recently published ambitious GD2 plan maps out what we'll deliver for customers over the next five years. It was created through 23,000 individual engagements and over one million online, and we are confident we can deliver what they've told us they want by:

- Driving 'a great experience that delivers value for all'
- Reducing our share of customer bills by 10% in Scotland and 6% in Southern
- Delivering a plan that focuses specifically on vulnerable customers
- Providing a better than 9 out of 10 service, maintaining our award-winning standards
- Delivering excellence through innovation and efficiency, reducing like-for-like costs by 4.5%
- Investing to maintain our high standards of safety and resilience, cyber and physical security

We'll achieve this by following a continuous, systematic loop of engagement, insight gathering and improvement based on the value to our customers and our business.

Our GD2 plan includes £54m for enhanced services specifically requested by customers and stakeholders. We invested £0.5m in technology in GD1 and will do the same in GD2 to ensure we keep pace with evolving customer expectations for ease, convenience and automation.

Helping those most vulnerable

One of our specific business objectives is offering greater support for customers living in vulnerable circumstances (defined as over 65, children under five, disability, language/communication difficulties, long-term health issues, and fuel poor). We've developed an additional strategy and four-stage plan to focus specifically on vulnerable customers with the aim of:

- Embedding in our people a strong understanding and capability to respond to their needs.
- Ensuring our approach, communication and processes are accessible to all.
- Providing extra value by connecting customers in vulnerable circumstances to energy or safety partners.
- Providing free or discounted gas connections to households eligible for the Fuel Poor Network Extension Scheme (FPNES).

Communication
We've consistently improved how we communicate with our customers using appropriate channels and technology (SMS, email or voice) and will:

- Continue to explore the use of artificial intelligence so customers can quickly self-serve.
- Offer customers easier and faster online application services.
- Invest in analytics, giving us better insight and faster routes.
- Look at using innovative technology to keep our customers informed about our work at every stage.
- Explore new customer booking systems, allowing them to plan/book convenient time slots for work.

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During the incident in Tooting our customer teams made daily calls on our most vulnerable customers.

Working with resilience partners, such as the Red Cross during incidents, provides essential help in looking after the community.

Chief Executive's report (cont)

The SGN five-year plan

Our commitment to customers: Making a positive impact

We've been empowering our people to help keep vulnerable customers (defined as over 65, children under five, disability, language/communication difficulties, long-term health issues, and fuel poor) safe by training them to respond to a range of different needs, including training in mental health and safety awareness, Dementia Friends and energy advice.

Our priorities and progress in 2019/20

Providing excellent service

- We are No.1 for the fourth year running for customer satisfaction and the fifth year running for complaint handling.
- We are exploring and investing in innovative technology to keep customers informed, analytics to give us better insight and focus, and the use of artificial intelligence so customers can quickly self-serve.
- As accredited members of the Customer Contact Association, we're learning new methods and techniques to improve customer service from over 500 well-known brands.

Supporting those who need it most in the community

- Colleagues now equipped with specialised training include: 42 customer services managers and advisors who received mental health awareness training through MIND; 700 mental health awareness webinars delivered; 13 mental health supporters; 72 safety champions; 2,335 of our staff and contractors signed-up to Dementia Friends; and 37 energy champions.
- We've engaged with research panels via SCOPE (a pan disability charity) and aim to create a triage team of experts in vulnerability in GD2 to develop a matrix of goods and services at a local level.
- We have created a Vulnerability and CO Steering Group to support future initiatives and partnerships.

Supporting those who need it most in the community

Vulnerable customers

We've been able to increase our vulnerable customer activity through working with new partners and embedding our services within our core business activities.

Referral network – additional services

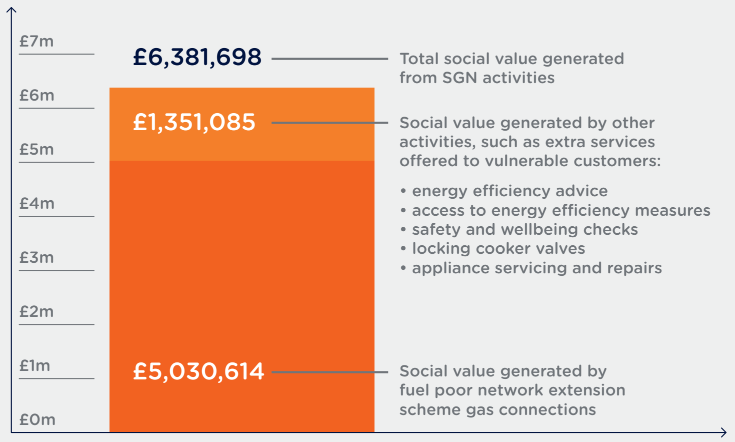
Our innovative scheme goes from strength to strength. Using the dedicated app on their tablets, our front-line engineers are offering our most vulnerable customers additional services such as our winter voucher scheme, signing up to the Priority Services Register (PSR), receiving energy advice, having a locking cooker valve fitted, and arranging a 'safe and well' visit from the local Fire and Rescue service.

	2018/19 number supported	2019/20 number supported	Increase in activity this year
Energy efficiency advice and measures	499	2,859	473%
Referrals for safe and well visits, appliance repairs and locking cooker valves	163	263	61%
Extra services	**662**	**3,122**	**372%**
Priority Services Register referrals	2,923	3,295	13%
Total services including PSR	**3,585**	**6,417**	**79%**

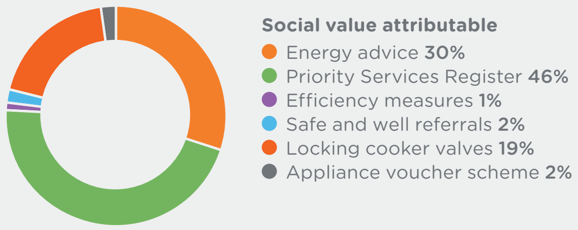
Chief Executive's report (cont)

A process for putting customers at the centre of our activities

A breakdown of social value generated from SGN activities in 2019/20



A breakdown of social value by type of service provided



Dementia friendly
We are proud to be a dementia friendly organisation and having teamed up with the Alzheimer's Society now have 2,447 of our employees, many of them front-line engineers, registered as Dementia Friends who communicate with patience and consideration.

Referral network – additional services highlights
Our front-line engineers are using our year-old Referral network more and more, offering additional services directly to our most vulnerable customers using their devices out in the field.

Referral services they can offer include our winter voucher scheme, directly signing up to the PSR, receiving energy advice, having a locking cooker valve (LCV) fitted, and offering/arranging 'safe and well' visits from the local Fire and Rescue service.

Winter voucher scheme
We offer £200 funding to all customers referred into this scheme. So far we've received 46 referrals, carried out 14 repairs and replaced six appliances. In addition, £2,348 of ECO funding was accessed for boiler replacements while we provided £6,866 of additional funding for particularly vulnerable customers.

The six boilers replaced will save our customers on average £1,173 a year, giving a total lifetime saving of £17,592 and a carbon dioxide emission reduction of 69 tonnes.

Energy advice measures
Winter voucher scheme clients are also offered a home energy advice visit, and eight clients have been referred into AgilityEco's LEAP programme (energy efficiency advice and simple improvements) so far which has saved them an average of £571 each.
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Whether it be on the phone with our customer service advisors or on the doorstep with our engineers, we are here to help.

External recognition awards

We're proud that our teams and individuals, along with dedication to their work, have been recognised by numerous third-party bodies and institutions over the last 18 months. Here is a selection of our recent awards:

The Energy Awards 2019
Energy Data Collection and Analysis
SGN's Real-Time Networks project

This award recognises the importance of monitoring and targeting, metering and measuring energy use – an essential first part of any energy management programme. Our real-time networks project demonstrates how a flexible gas network could be more efficient for our evolving energy market and meet changing customer demands. Instant network control will provide flexibility.

The ability to replicate it easily and for potential roll out throughout the country in terms of UK energy savings were also key parameters, as was innovation and staff communication and motivation.

IGEM Company of the Year 2019
Gas Company of the Year

We were able to demonstrate:

- Commitment to continuous improvement, strong business performance, leadership and entrepreneurial flair.
- We invest in our people, encouraging them to achieve and maintain the highest standards of professional excellence.
- A clear focus on safety in order to safeguard our people, customers and the general public.
- A commitment to corporate social responsibility including the decarbonisation of the gas network to reduce the environmental impact of our activities.

Highways Awards 2019
Highways Maintenance Efficiency Award
London Borough of Croydon, SGN, Thames Water, Atkins/Fluxx

The judges commented: "Collaborative working in this project over three original highway and utility schemes ensured work was completed in one phase. Sharing traffic management and improved working techniques contributed to a saving of 98 days of road disruption."

RoSPA Health and Safety Awards 2019
Gold Medal (six consecutive Golds) Fleet Safety Award and Silver Award for health and safety practices.

Paul Denniff, our Network and Safety Director said:

"We put a lot of stock on entering our achievements, people, and innovations into UK and industry-wide awards. Where we are successful it's not only good for our company but testament to the hard work and professionalism of our people."

External recognition continues to be a good indicator on our continued journey of improvement and continuous innovation.

Our Senior Independent Director Laura Sandys was presented with the 'Industry champion' award at the 2019 Utility Week awards.

Chief Executive's report (cont)

We continue to lead the way on innovation, reducing our environmental and community impact with new technologies for high-rise buildings, excavation and robotic repair technology. Sharing knowledge and helping other networks adopt these technologies to improve efficiencies and reduce disruption is now second nature to us.

SGN innovation showcase

Our innovation projects help us find solutions to challenges, understand how to integrate and roll out new technologies, practices and market-ready solutions, and develop ways of transforming our energy system for a zero carbon future.

We continue to work collaboratively with project partners, businesses and local communities, and have just finalised the joint electricity and gas Energy Network Innovation Strategy, which sets out our high-level ambitions and priorities for network innovation in the near future.

We always embrace the ideas and solutions put forward by our people, and if considered viable by the business we submit them for funding through one of Ofgem's two schemes – the Network Innovation Allowance (NIA) or its Network Innovation Competition (NIC). The extensive project portfolio we have created over the years is delivering significant safety, financial, energy security and environmental benefits to customers.

Microstop 1

Developed by Ravetti in Italy, Microstop is an innovative flow-stopping technique used successfully in Europe but never trialled in the UK until we identified it as a more efficient and safer solution for riser work. It can be used to replace the below ground section of pipework leading to a riser or for any other work such as connections, disconnections, repair or replacement on affected areas of the riser itself without the need to interrupt the supply.

Using NIA funding we started field trials in 2017 and received business approval for full roll out in July 2019.

Our customers and our business benefit from this more efficient process as we have fewer cancelled jobs and we don't need to isolate customer supplies which, particularly in winter, can impact those living in more vulnerable circumstances.

Stent bag technology 2

Time is of the essence during high volume gas escapes (HVGEs) as we need to reduce the mains pressure to make repairs safely while balancing the potential for a loss of supply downstream.

Taking an idea to stem blood flow from damaged arteries in the medical industry, we've developed stent technology that does something similar in a damaged gas main. The equipment is inserted into the main at a safe distance from the escape and once in position it expands to temporarily seal the damage, allowing gas to flow through. This quickly reduces the volume of gas escaping and maintains customer supplies while allowing a temporary or interim repair to be completed.

This new gas stent technology is revolutionising the way we deal with most HVGEs, improving supply security and safety.

Robotic Roadworks and Excavation System (RRES) 3

All utilities face an on-going challenge in safely and efficiently managing excavation activities. Following on from our flagship NIC robotics project CISBOT (see page 13) we are now revolutionising utility excavation methods through our Robotic Roadworks and Excavation System (RRES). This will fuse advanced robotic arm technology with a mobile platform, and be controlled by augmented reality using a suite of sensors and feedback controls to enable autonomous, safe and efficient mains excavation.

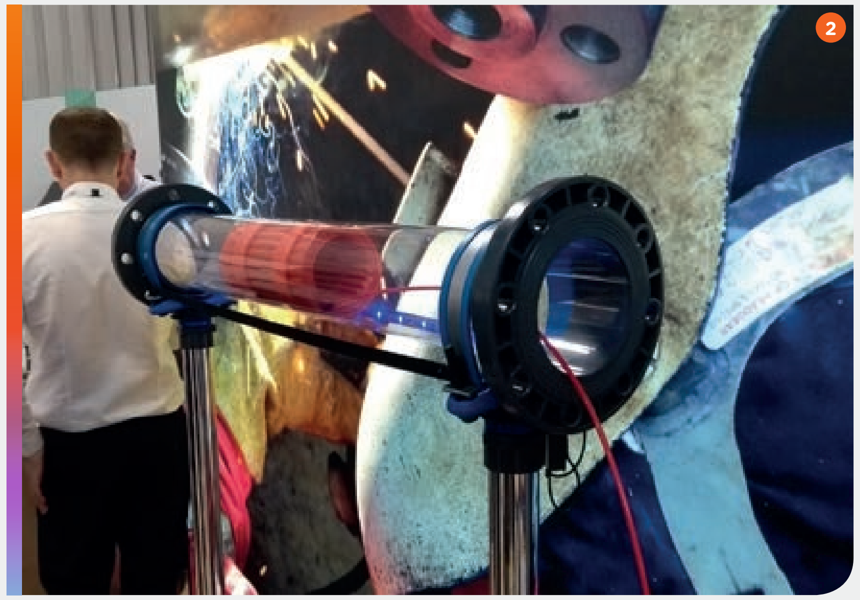
Over the past year we have progressed with the development of RRES's sensing and excavation technology. Some of the development team's major achievements include:

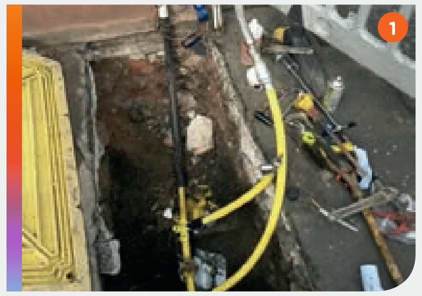
- Building a test site for evaluation of the excavator head
- Design and build of the mock roadway for testing the sensors
- Installation of the robotic arm and development of control algorithms
- Design of the electrical components and power management system for the robot

RRES will reduce disruption, provide safe and efficient access to the asset, and reduce emissions. We can use other keyhole innovations such as CISBOT, long-handled tooling and stent bag technology alongside it.

High Volume Gas Escape (HVGE) toolbox 4

HVGEs are a safety critical area for every GDN. We wanted to identify and develop a variety of ideas/concepts as internal and external responses to high volume gas escapes from pipelines operating up to 2bar (excluding those within buildings). We conceived a number of prototypes, and are now carrying out the critical engineering design and development to create the first-generation tooling, along with the associated operational methodologies. We've created a decision tree to determine which tool would be best suited for specific HVGE events, and we will embed this decision process within the HVGE risk assessment and permit system as the basis for selecting (if any) the right tool for the job.





The final stage will be to qualify the tools for field use. They will be progressed from prototype to pre-production (field-ready) tools as part of this toolbox delivery project.

Satellite information monitoring (SIM) 5

This project will determine if satellite remote sensing and data analytics can help identify ground motion and encroachment activities along transmission pipelines. It could enhance current Local Transmission and Storage monitoring practices to reduce the overall risk to our high-pressure pipeline infrastructure by:

- Using a combination of different techniques such as Synthetic Aperture Radar (SAR), Visible Near Infrared (VNIR) and Short-Wave Infrared (SWIR) satellites for remote monitoring to improve the overall detection process.
- Improving the time window between threat initiation and threat detection. Satellite sensors have significantly improved revisit rates over the last few years as have wide-area acquisition in a single overpass, the cloud-penetrating properties of SAR imaging, and sophisticated change detection algorithms and high-performance automated processing environments.

Chief Executive's report (cont)

Energy advice measures (cont)
We contributed to Energy Champions, an organisation that set up 255 energy cafés and clinics to help 1,700 customers in general, and host 1,100 one-to-one advice sessions. From these sessions, 141 switched to a cheaper energy supplier, saving them approximately £334 for each household. 196 households were entitled to the Warm Home Discount of £140, saving them over £27,000 and 28 households were referred for ECO measures. In addition, 101 households were added to the PSR. In total, our project has saved each household we engaged with around £43 a year.

Locking cooker valve
Stakeholders praise our award-winning LCV. We've fitted 501, and as a result of championing it to other GDNs, there are now 1,365 fitted across the country. This year we promoted it further on the Alzheimer's Society dementia community websites, elder.org, health trusts etc, and Scottish media celebrity Kaye Adams endorsed it to her 64,000 followers.

Help to Heat and PSR registration
We are committed to supporting households living in fuel poverty, using our mapping tool to identify them, and sharing the information with other GDNs/partners. Last year our Help to Heat scheme saved our fuel poor customers around £26.9m collectively on their energy bills.

We've been able to increase our vulnerable customer activity through working with new partners and embedding our services within our core business activities.

We're now able to measure the social value of our vulnerable customer services through working with Simetrica, the leading social impact research consultancy.

Stakeholders
Stakeholder and customer feedback continues to play a critical part in our business decision-making process. By mapping individual stakeholder priorities we're then able to tailor our comprehensive programme of engagement to their different levels of interest and knowledge.

Our Customer Engagement Group (CEG) has been operating since September 2018 and continues to add significant value as we have developed our thinking and refined our plans. They have been proactively testing our ideas against what our stakeholders think we should be doing through:

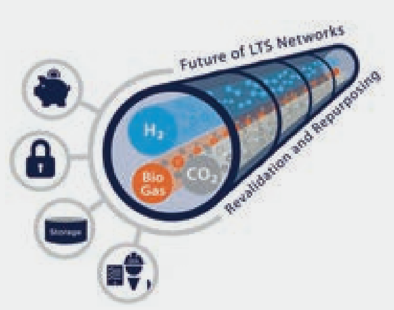
- Stakeholder satisfaction surveys incorporating electronic surveys, email and telephone interviews.
- Live face-to-face stakeholder events (Moving Forward Together) across our region.
- Partnering with Impact Utilities (market research) to deliver workshops, surveys and analysis.
- Specialist stakeholder panels across our region.

Our stakeholders have asked us to give special consideration to customers living in vulnerable circumstances so we:

- Refined possible initiatives/partnerships with stakeholders at workshops in November 2018 and February 2019, and are creating a Vulnerability and CO Steering Group to support them.
- Engaged with research panels via SCOPE (a pan disability charity) and aim to create a triage team of experts in vulnerability to develop a matrix of goods and services at a local level.

Energy Futures
Real-Time Networks
Our key strategic 'Real-Time Networks' project (a flexible gas network demand model, capable of energy modelling) has progressed well. All six sensor sites are completed and commissioned, and a full data set is now transmitting to the real-time energy model. 1,200 loggers installed on domestic and commercial customer meters in the southeast have collected gas demand data for two years. Our five weather stations are continuing to collect real-time temperature, wind speed and humidity data to correspond with the demand data.

Re-purposing the LTS Network



Real-Time Networks will conclude in 2020, at which point we will publish and disseminate the results and findings. Provisional results have shown great promise and indicate this project could have a significant impact network performance for us, and the wider industry.

Future of the LTS
We own and operate a Local Transmission System (LTS) that distributes gas at high pressure from the National Transmission System (NTS) to towns and cities. We carried out a study to assess the scientific and regulatory feasibility of repurposing the LTS for storage and transport of hydrogen, hydrogen blends and CO_2, and then shared our knowledge with representatives from other gas networks, project partners, the Department of Business, Energy and Industrial Strategy (BEIS), HSE and independent gas expert consultants. We discussed setting up a collaborative Future LTS/NTS group to identify any remaining gaps and create a roadmap to ensure it has a role in the future.

Phase two will involve developing a blue print for a service assessment of repurposing individual LTS pipelines using real life data to prioritise the gaps.

Developing an integrated energy system in Fife
We are working with Scottish Power Energy Networks to explore the development of an integrated energy system in the East Neuk of Fife in Scotland. This involves a coupling of the gas and power networks, where renewable electricity is converted into hydrogen via an electrolyser, which could then be used in a variety of sectors such as transport, heating and industry. Developing electrolyser technology will improve efficiency and drive down costs.

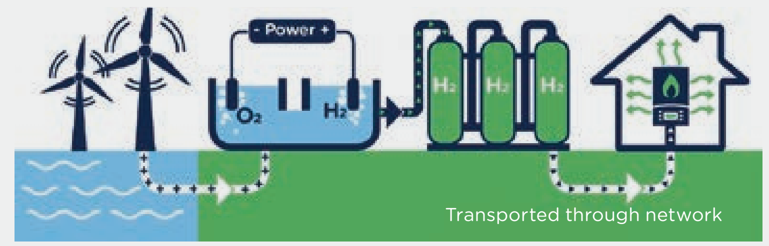
The project found that:

- Cheap, low carbon power could underpin hydrogen production in Fife.
- Dedicated renewable generation to produce hydrogen can encourage deployment and lessen the need for network upgrades.
- Access to storage will be a crucial factor for the viability of a pure hydrogen grid.

Our research findings will be used to progress whole system solutions in the area and underpin a possible demonstrator.

Green gas initiatives
Senior government and business leaders continue to highlight the pivotal role Britain's gas networks have in delivering a cleaner, smarter and more efficient energy system for the public. We fully support the UK Government in being open to the exploration of new and innovative energy solutions, and every initiative remains a complex balance between three competing needs of the energy trilemma: affordability, security of supply and decarbonisation. While this may not be what 2050 actually looks like, we recognise the energy we transport through our network to our customers has to be decarbonised to some extent in order to meet the climate change targets.

Green gas initiative – Project Methilltoune



Project Methilltoune
Last year, the UK Government BEIS announced that we, along with our partners Arup, Kiwa Gastec and the Offshore Renewable Energy (ORE) Catapult had been successful in our consortium bid into the first stage of their Hydrogen Supply Competition.

The £500,000 funding enabled us to deliver Phase 1 of Project Methilltoune – a feasibility study focusing on the bulk supply of hydrogen from offshore wind in Fife. The project is a world-first, seeking to demonstrate renewable electricity produced by offshore wind can generate a secure and reliable supply of green hydrogen, which can be used to heat homes.

We are now looking to progress with the H100 network in Fife and will use the outputs from the Phase 1 study of this project to support delivery of the hydrogen supply solution for the 100% hydrogen network.

H100 Fife project
Our H100 hydrogen project is progressing well. Following a feasibility study, we selected Levenmouth in Fife as the site for the world's first hydrogen distribution network.

The project aims to deliver an end-to-end hydrogen system to include offshore wind for primary power, electrolyser units for hydrogen production, six storage tanks and the necessary processing for hydrogen entry into the low-pressure network. The Levenmouth location is perfect as there is ready access to an existing 7MW wind turbine (owned by ORE Catapult), and a vacant plot for hydrogen production and storage immediately adjacent to domestic and industrial users.

This purpose-built new distribution network will be laid in parallel to the existing natural gas network, and will seek to supply around 300 domestic properties initially. Volunteer customers will take part in the trial and provide valuable information on the social acceptability of hydrogen.

We will deliver a development phase including a detailed design ready for Network Innovation Competition (NIC) entry in 2020, and funding drawdown for construction should we be successful in April 2021.

We consider looking after our most vulnerable customers as being part of our social obligation as a public service. We're continuously engaging with our customers and stakeholders to ask them how we can continually improve the services we offer.

Locking cooker valve.

Our H100 hydrogen project will take place in Fife and aims to demonstrate how some 300 homes can operate on 100% hydrogen gas.

Gas Goes Green is the initiative led by our trade body the ENA where all gas network companies collaborate on a number of innovative net-zero projects.

Chief Executive's report (cont)

Our aim is to be operational by mid-2022 to allow the live trial to run for a significant period ahead of any possible heat policy decisions made by government.

Excess Flow Valves

Excess Flow Valves (EFVs) are an essential safety feature within the gas network designed to close and stop gas flow if the service, meter or internal pipework suffers a catastrophic failure. They reduce the risk of fire, explosion, injury and/or property damage significantly and will be key to the safety and viability of a 100% hydrogen distribution network. We tested the Donkin Flow Limiter 310/061 for its suitability with low-pressure hydrogen distribution but it has proven unsuitable so we have partnered with HSL and Bryan Donkin Valves Limited to produce an alternative prototype EFV.

Hydrogen gas detection

Identifying a suitable hydrogen gas detection instrument for use by our operatives has been a critical element of our H100 project. GDNs cannot operate 100% hydrogen networks without one. Detecting hydrogen leaks to the same precision and accuracy as natural gas is a key requirement of the H100 safety management framework so we have partnered with GMI to further develop the GS700 instrument for hydrogen and to ensure it:

- Is ATEX certified
- Complies with INQ standards as well as BSEN 60079-29-1
- Will be able to measure hydrogen in the ranges of %LEL, %GIA and ppm

Information technology

Our IT department is near completion of our multi-year IT transformation programme 'IT Totally Transformed' and we achieved a number of significant milestones this year:

- Cloud transformation: As part of our 'all in' cloud strategy, we have now migrated the vast majority of our IT services to AWS and Microsoft cloud. This provides us with increased security, resilience and availability levels while also offering us the option to take advantage of faster, automated and highly scalable cloud services which were previously unobtainable. The few, final remaining services are due to be transitioned in May 2020.
- Service transformation: This year we completed replacing approximately 2,000 devices to our field force, and bedded in the new IT support services provided by Fujitsu and HCL.
- Cyber security: We have continued to build on our cyber security capability through a number of projects culminating in us achieving ISO27001 certification and retaining our Government sponsored Cyber Essentials Plus accreditation. We have also worked with Ofgem to help shape and define the new assessment and inspection framework being implemented in support of the EU's Network Information Systems Directive (NIS-D) which affects us as well as all essential network companies.
- Target operating model (TOM): We completed our IT TOM, resulting in a large-scale department restructure, employee consultation and the insourcing of some key technical roles within the business. We also created Centres of Excellence for some of the new technologies delivered as part of our IT transformation (eg cloud, productivity and analytics) which is offering our business value-add opportunities that were previously unavailable.

Cultural change and embedding new ways of working across the Company is something that has been, and continues to be a major focus.

We have driven new agile, cross-team working practices, and perhaps the most significant and exciting example of this in action has been the development and delivery of a new digital venture. The Fyld solution (fyld.ai) is due to formally launch in 2020 and has brought together some of our best in-house talent with external digital expertise to deliver a unique solution to drive safety and efficiency within the utilities industry.

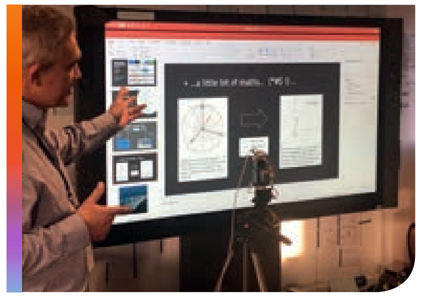
Alongside the rest of our business, we defined and created our IT and cyber plans through to 2026 in significant detail (22 separate detailed documents with supporting evidence and 18 business cases) as part of our GD2 submission to Ofgem. We also created our Company's Digitalisation Strategy in direct response to The Energy Data Task Force's guidance to the Industry 'A strategy for a Modern Digitalised Energy System', which is publicly available at www.sgnfuture.co.uk.

IT training

Our dedicated IT Training team and external partners are improving IT literacy across the Company using a blended approach to learning for every area of the business through:

- Hands on classroom training
- Remote learning
- Instructional/promotional videos (eg Geofield Mapviewer and Accounts Payable business processes for BORIS)
- Interactive e-learning
- Quick reference guides

Our own IT Trainers are delivering training for major projects as well as addressing key issues highlighted by their business customers while our Training partners are providing support for our live IT services including new starter, device and application training. This year 2,061 colleagues took part in 121 training sessions on device basics, O365, and Geofield.



We held our own Raspberry Pi internal innovation competition with seven teams competing to use new technology to solve long standing industry issues such as gas detection and asset data collection.

Non-regulated businesses

To support our main business our non-regulated businesses provide a range of energy related services, which are professionally run and which also bring in additional earnings for the Group overall.

SGN Smart

Formed in 2016, SGN Smart is a subsidiary of Scotia Gas Networks Ltd and provides management services and resources to MapleCo through a managed services agreement. As well as being responsible for its on-going operation, MapleCo funds SGN Smart through the ownership of 1.5 million smart meters and receives payment for these meters from energy suppliers. The company is looking to expand its portfolio to 4.2 million smart meters by 2023.

SGN Place

Recently formed SGN Place, is already a promising business and considered by our Board to be increasingly important to our non-regulated business. It manages our property development and disposal programme and provides corporate real estate services to the regulated business, including gas holder dismantlement, property projects, estates management and physical security. The team has particular expertise in the management of environmental risk through site investigation and ground remediation works, supporting an ambitious programme of regeneration and brownfield development to bring sites back into use for the community.

Over the next decade SGN Place plans to deliver up to 6,000 homes on existing empty sites. It also provides the opportunity for our main business interests in the future of heat by developing more sustainable and lower carbon energy solutions such as heat pumps and district heating.

SGN Commercial Services

SGN Commercial Services offer bespoke commercial services including green gas solutions to a wide range of clients throughout the UK. With safety engrained throughout, the business can deliver a wide range of services to meet an ever increasing set of business needs both for now and into the future. Our highly experienced team offer specialist and gas-related professional services and pride themselves on building strong relationships, offering new and well-established clients unrivalled technical skills and experience with deep sector-knowledge. The services offered include:

Green gas solutions

We are one of the UK's leading authorities in green gas solutions. We were a leading partner in the UK's first commercial biomethane plant at Rainbarrow Farm in Dorset. Using our expertise and experience we can develop bespoke design, procurement and build solutions, helping partners make the most of any biomethane opportunity.

Gas metering services

On behalf of energy suppliers and under gas transportation licence obligations, we provide a full range of services encompassing all aspects of the installation, exchange, removal and maintenance of gas metering assets for both domestic and industrial and commercial (I&C) customers.

Pipeline operations and asset management

We provide our clients with comprehensive operations and management services for gas pipelines and associated infrastructure. We use our skilled workforce and industry knowledge to operate, repair and maintain our clients' pipeline systems and assets.

System control services

We provide our gas networks and pipeline operator clients with a safe and reliable System Control Service. Key activities include monitoring of system performance, condition monitoring of transmission assets, co-ordinating incident control, ensuring compliance with regulatory requirements, security monitoring of strategic sites and co-ordinating with key stakeholders to ensure supplies are maintained. SGN Commercial Services offer a 24/7 system control service to pipeline owners and operators with their own private networks anywhere in the UK.

SGN Smart: An example of a new smart gas meter, being installed in homes around the country.

SGN Place: Gas holder dismantlement and associated land remediation is taking place right across our region.

Key performance indicators

We measure our success in achieving our objectives through the use of quantitative and qualitative assessments.

Our principal key performance indicators (KPIs), which are used to assess whether principal operating objectives have been achieved, are set out below.

Financial

Cashflow after investing activities

Cashflow after investing activities is the operating cashflow (excluding interest paid) of the business after investment in fixed assets, including both replacement expenditure and capital expenditure. More detail is provided in the consolidated cash flow statement.

2020 **£206.3m**

2019 **£139.2m**

2018 **£181.1m**

Net debt to Regulated Asset Value (RAV) ratio

RAV is defined by our Regulators and consists of the RAV of the regulated entities in the Group. Debt excludes shareholders' loans and liabilities arising from derivative financial instruments and is net of cash and cash equivalents. The percentages stated are as at 31 March. The definitions of consolidated MidCo group and regulated businesses can be found on page 35.

Consolidated MidCo group

2020 **80.9%**

2019 **82.0%**

Regulated businesses

2020 **71.4%**

2019 **72.5%**

2018 **72.4%**

Turnover

Group turnover includes income from the regulated business through Regulator price mechanisms and non-regulated income through our commercial activities. Further information on this year's performance can be found in the Financial Review on page 32.

2020 **£1,271.7m**

2019 **£1,235.4m**

2018 **£1,156.3m**

Capital expenditure

Additions to tangible fixed assets include new distribution mains and storage, new connections to existing mains, new governors and meters, new investment in IT, land and buildings, and vehicles and plant.

2020 **£164.8m**

2019 **£156.7m**

2018 **£138.6m**

Replacement expenditure

Replacement expenditure represents the cost of renewing sections of gas network with modern polyethylene pipes to improve future safety and reliability.

The sections replaced include mains and smaller diameter service pipes, which connect customers to mains.

2020 **£299.8m**

2019 **£286.0m**

2018 **£259.6m**

Operational

Employee lost time incidents

This is defined as the number of incidents per 100,000 hours worked that result in employees taking time off work. This is one of the key operational metrics that is monitored on a consistent basis. Safety is one of our core Company values and is monitored closely by the Board.

2020 **0.08**

2019 **0.10**

2018 **0.12**

Gas escape attendance

This represents the proportion of uncontrolled gas escapes attended within one hour (target 97%). Uncontrolled gas escapes are defined as those where the smell of gas persists and where the gas supply is still 'on' at the time the customer calls. We responded to around 125,000 uncontrolled and over 60,000 controlled gas escapes during the year ending 31 March 2020.

2020 **98.6%**

2019 **98.7%**

2018 **98.8%**

Customer satisfaction (score out of 10): planned interruptions

Results from customer satisfaction surveys (10 = very satisfied) are based on reports obtained for the nine-month period ended 31 December 2019. Planned interruptions on our replacement, capital or routine maintenance works are where timing can be predicted and the customer has been notified in advance.

2020 **8.9**

2019 **8.8**

2018 **8.8**

Customer satisfaction (score out of 10): unplanned interruptions

Results from customer satisfaction surveys (10 = very satisfied) are based on reports obtained for the nine-month period ended 31 December 2019. Unplanned interruptions arise through leakage or other emergencies.

2020 **9.5**

2019 **9.4**

2018 **9.4**

Customer complaint volume change

This represents the year-on-year increase/(decrease) in complaints expressed as a percentage. Complaint means any expression of dissatisfaction related to any areas of our operation.

2020 **21%**

2019 **(40)%**

2018 **(4)%**

Business carbon footprint % reduction

We have improved our Scope 1 and 2 emissions over which we have direct control, when compared with the baseline year of 2012/13.

2020 **27.4%**

2019 **23.7%**

2018 **25.6%**

Financial review

We accomplished a significant milestone in completing our Gas to the West project, investing over £200m in supplying gas to key towns in the west of Northern Ireland.

Mick Carmedy
Chief Financial Officer
30 June 2020

We submitted our RIIO-GD2 Business Plan for our Southern and Scotland gas networks. Our plan is rigorous, ambitious and deeply aligned to customer and stakeholder needs.

Financial overview
This year we successfully completed the construction phase of our £200m project to bring gas to the west of Northern Ireland. The new gas network will eventually offer 40,000 homes and businesses the opportunity to switch to natural gas.

The high-pressure pipeline will now be owned by Mutual Energy and significant work will continue over years to come to get as many people connected to the network as possible as SGN Natural Gas continues to operate the low-pressure pipe network.

We have continued to develop our unregulated businesses with the sale of a number of land sites that were surplus to business needs as well as investing in a joint venture with the Murphy Group in a company that will own and maintain residential and commercial connections.

In our regulated business we submitted our RIIO-GD2 Business Plan to Ofgem. Our plan will deliver totex investment of £612m a year while delivering a reduction in customer bills for both Scotland and Southern Gas Networks.

COVID-19
The impact of COVID-19 has been felt by businesses across the world and we are no exception to this. As part of our financial preparedness for the potential impact of COVID-19 we have adapted our budgets and forecasts to capture downside scenarios. We are taking a prudent approach to liquidity planning and management to ensure we have sufficient headroom to manage these downside scenarios. The steps taken by the Company from a financial perspective include the deferral of budgeted dividends in March. At the year end the Group has £124.4m in cash balances (held on current accounts of within bank deposits of money market funds) and £360m of undrawn revolving credit facilities.

Investment and safety
Our overriding objective is to ensure safety is at the heart of everything we do, one of our three customer commitments promises to deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.

Our RAV increased by 3% in the year from £5.68bn to £5.88bn. The RAV of our GB Networks is determined by Ofgem at periodic reviews and is adjusted for sharing of out/under performance against allowances and inflation indexation. Similar methods are used for the RAV of our Northern Irish Network, which is not included in the RAV calculations.

The total network investment in replacement and capital expenditure was £464.6m (2019: £443.3m). All our operational outputs required under the price control are being met as a result of this investment, and we have maintained the highest standards of safety.

Replacement expenditure, primarily of iron pipes, increased to £299.8m (2019: £286.0m) due to an increased workload in replacing large diameter pipes. During the year we replaced 885km of metallic pipe (2019: 1,000km). Other capital expenditure excluding replacement increased to £164.8m (2019: £156.7m).

This financial year our replacement work included a significant project at Rye Lane in Peckham, which required us to close the road to ensure safety of the local community. We worked hard to complete the job ahead of schedule minimising the impact of local businesses.

Treasury and financial risk management

Net debt and leverage
A key financial performance indicator for the Group is the net debt to RAV ratio, which the Group monitors at both an individual network level and at a consolidated MidCo group level. At 31 March 2020, net debt (before issue costs), excluding shareholders' loans and liabilities arising from derivative financial instruments, amounted to:

- MidCo group: £4.75bn (2019 £4.66bn)
- Southern: £2.90bn (2019 £2.86bn)
- Scotland: £1.29bn (2019 £1.26bn)

With RAV at:

- MidCo group: £5.88bn (2019 £5.68bn)
- Southern: £4.06bn (2019 £3.92bn)
- Scotland: £1.82bn (2019 £1.76bn)

The debt to RAV ratios were:

- MidCo group: 80.9% (2019 82.0%)
- Southern: 71.6% (2019 72.9%)
- Scotland: 71.1% (2019 71.6%)

Debt issuance
During the financial year we had a total of £75m of existing financing due to mature at Scotland Gas Networks plc, with no maturities at Southern Gas Networks plc. We refinanced the Scotland maturities and provided incremental funding for investment by issuing £125m via a dual tranche private placement (see below) and

Turnover
2020 **£1,271.7m**
2019 **£1,235.4m**
2018 **£1,156.3m**

Operating profit
2020 **£599.0m**
2019 **£523.4m**
2018 **£471.3m**

Replacement expenditure
2020 **£299.8m**
2019 **£286.0m**
2018 **£259.6m**

also took the opportunity to put some further funding in place for Southern to support investment plans by issuing a £100m single tranche private placement (see below):

- £75m 12yr 1.98% note due January 2032 Scotland Gas Networks plc
- £50m 13yr 2.04% note due January 2033 Scotland Gas Networks plc
- £100m 15yr 2.27% note due November 2034 Southern Gas Networks plc

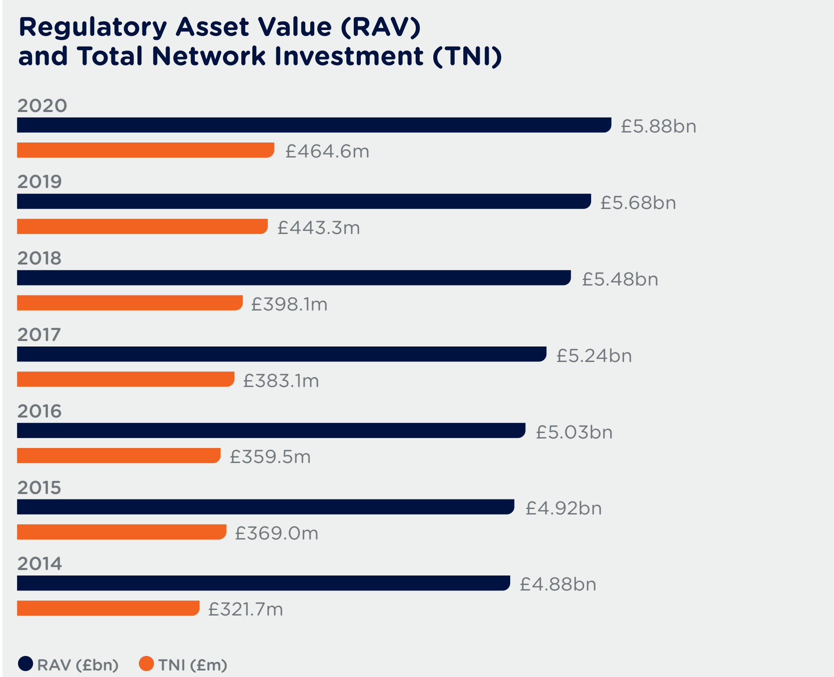
At the year end our revolving credit facilities in place for Southern and Scotland were undrawn (2019: Southern £10m; Scotland undrawn). During the financial year we continued to draw on the bank facility in place at SGN MidCo Limited to fund the construction of the network we are building in Northern Ireland as part of the Gas to the West Project, in addition we have also made a partial repayment of the facility as a result of an initial instalment on the proceeds of sale of the asset. At year end the facility drawings totalled £126.9m (2019 £125.7m).

Three of our bank facilities had extension options due during the year and we have executed all of these to extend the respective facilities:

- SGN MidCo Ltd debt service reserve liquidity facility: extended for a further year to 16 January 2021;
- Southern Gas Networks plc revolving credit facility: extended for a further year to 14 March 2025; and
- Scotland Gas Networks plc revolving credit facility: extended for a further year to 14 March 2025.

As of 31 March 2020 there is a £215m fixed rate bond due for repayment in December 2020. For a detailed list of the committed financing that we have in place see note 17.

Liquidity
As at 31 March 2020, liquidity within the Group was provided by a combination of cash and cash equivalents and committed bank facilities. The cash balances (held on current accounts or within bank deposits or money market funds)



totalled £124.4m (2019: £29.9m) across the Group and undrawn committed revolving credit facilities totalled £360m (2019: £350m).

Net finance costs
The Group had net finance costs of £191m during the financial year excluding interest on shareholder loans (2019: £195m), interest relating to the defined benefit pension scheme and interest as a result of the movement on financial derivatives. This was primarily driven by interest on external debt funding within Scotland Gas Networks plc (interest payable of £56m (2019: £58m)), Southern Gas Networks plc (interest payable of £117m (2019: £125m)) and SGN MidCo Ltd (interest payable of £16m (2019: £14m)).

The Group effective interest rate (including index-linked debt and shareholders' loans) for the year was 4.3% (2019: 4.6%).

The Group effective cash cost of interest (excluding the inflation uplift on index-linked debt) was 4.1% (2019: 4.1%).

The decreases noted above reflect new debt being issued at lower yields than the debt that has matured during the financial year (detailed previously).

Risk management
During the year the Group had £75m of fixed interest rate commitments maturing and £33m of floating interest rate commitments repaid (£10m drawing on the Southern revolving credit facility and £23m repaid on the SGN MidCo Limited bank facility). There was no maturity of index-linked commitments. To maintain a good degree of certainty of the Group's interest cost, all new debt issuance (£225m) was put in place at fixed interest rates.

As at 31 March 2020 the debt exposure to fixed interest rates (post derivatives) within the Group was:

- Group (consolidated): 69.9% (including shareholder loans) (2019 69.2%)

Financial review (cont)

Capital expenditure

2020 £164.8m

2019 **£157.3m**

2018 **£138.6m**

Cashflow after investing

2020 £206.3m

2019 **£139.2m**

2018 **£181.1m**

Regulatory asset value

2020 £5,876.2m

2019 **£5,687.4m**

2018 **£5,481.2m**

- SGN MidCo Ltd (consolidated): 67.8% (2019 67.1%)
- Scotland Gas Networks plc: 63.9% (2019 63.0%)
- Southern Gas Networks plc: 72.4% (2019 71.5%)

As at 31 March 2020 the debt exposure to inflation within the Group was:

- Group (consolidated): 20.6% (including shareholder loans) (2019 20.7%)
- SGN MidCo Ltd (consolidated): 22.0% (2019 22.2%)
- Scotland Gas Networks plc: 31.3% (2019 31.9%)
- Southern Gas Networks plc: 17.3% (2019 17.5%)

For a more detailed explanation of the Group's approach to risk management see note 18.

Credit ratings

Of the Group's financing vehicles that have external debt financing, two carry public credit ratings: Southern Gas Networks plc and Scotland Gas Networks plc. Each is rated by the same three rating agencies with the following rating (and outlook) applied to the debt raised within those entities at 31 March 2020:

- BBB+ (negative) Fitch
- Baa1 (negative) Moody's
- BBB+ (stable) Standard & Poor's

On 27 February 2020, Moody's reaffirmed its credit ratings and outlooks on Southern Gas Networks plc and Scotland Gas Networks plc.

On 19 March 2020, Fitch changed its outlook from stable to negative, while reaffirming its credit ratings on Southern Gas Networks plc and Scotland Gas Networks plc.

On 30 April 2020, S&P changed its outlook from stable to negative, while reaffirming its credit ratings on Southern Gas Networks plc and Scotland Gas Networks plc.

Distributions

Our dividend policy across the Group is to manage the level of distributions after taking into consideration the expected cash flows and investment plans across the business, the level of committed funding available across the Group as well as the gearing covenants and targets set by the Board. The inherent risk in the business and wider economy is also considered.

During the financial year Scotia Gas Networks Ltd paid £50m (2019: £205m) of dividends and distributed £28.2m (2019: £28.2m) of shareholder interest. At 31 March 2020 Scotia Gas Networks Ltd had £870.0m (2019: £573.2m) of available distributable reserves.

Turnover

Turnover increased to £1,271.7m from £1,235.4m. This is predominantly driven by inflation offset by a high level of revenue shared with customers; this remains a substantial deduction from revenue due to SGN's outperformance of the allowances set by Ofgem. There has also been an increase in revenue recognised from site sales including the sale of our sites at Kennington and Brighton.

Operating profit

Operating profit increased year on year from £523.4m to £599.0m, this is largely driven by the increase in turnover noted above. Total operating costs have remained broadly static year on year reflecting a continued drive for efficiency.

Gas to the West

The Gas to the West project was substantially completed in 2020 with assets handed over to Mutual Energy. The final outcome of this project remains uncertain due to a number of disputed claims from the main contractor. We expect the resulting margin to be finalised in the coming financial year.

SGN Place

In 2018/19, as part of our ongoing asset rationalisation, we transferred 59 sites of surplus land from our regulated businesses to the SGN Place companies. In the year to 31 March 2020, we successfully closed several deals including the sale of our site at Brighton, which contributed £5.1m to Group revenue.

Taxation

The current tax rate for the year is 19.0% (2019: 19.0%), and the effective tax rate for the year of 18.0% (2019: 19.3%) is lower than the standard rate of 19.0%. As explained in note 8 to the financial statements, the current year difference is primarily due the difference in capital allowances and depreciation.

The Group takes a prudent approach in relation to tax, recognising all tax liabilities which are expected to arise, and only recognising tax assets on uncertain tax positions once the matter has been agreed with HMRC.

Our tax strategy

We shall organise ourselves to ensure that we:

- Comply with all tax legislation requirements.
- Operate within the law.
- Maintain strong relationships with the tax authorities built on trust and co-operation.

Compliance

We are proud to pay our fair share of tax, and our primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect our fiscal obligation to government whilst, at the same time, recognising all legislative concessions and reliefs.

Operate within the law

We strive to minimise our total tax liability within the framework of legislative reliefs but do not take an aggressive stance in our interpretation of tax legislation. Our policy is to operate within the law at all times, therefore we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

Trust and co-operation

Central to our Tax Policy is the maintenance and development of a strong working relationship with HMRC and other Treasury departments based on trust and co-operation.

Tax contribution

Our tax contributions in the year amounted to £429.2m (2019: £364.4m), these consist of the following contributions:

- Corporation tax of £116.4m (2019: £65.4m) paid on our taxable profits
- VAT of £125.2m (2019: £119.0m)
- Business rates of £120.4m (2019: £116.6m) paid to local authorities
- Employment taxes of £67.2m (2019: £63.4m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

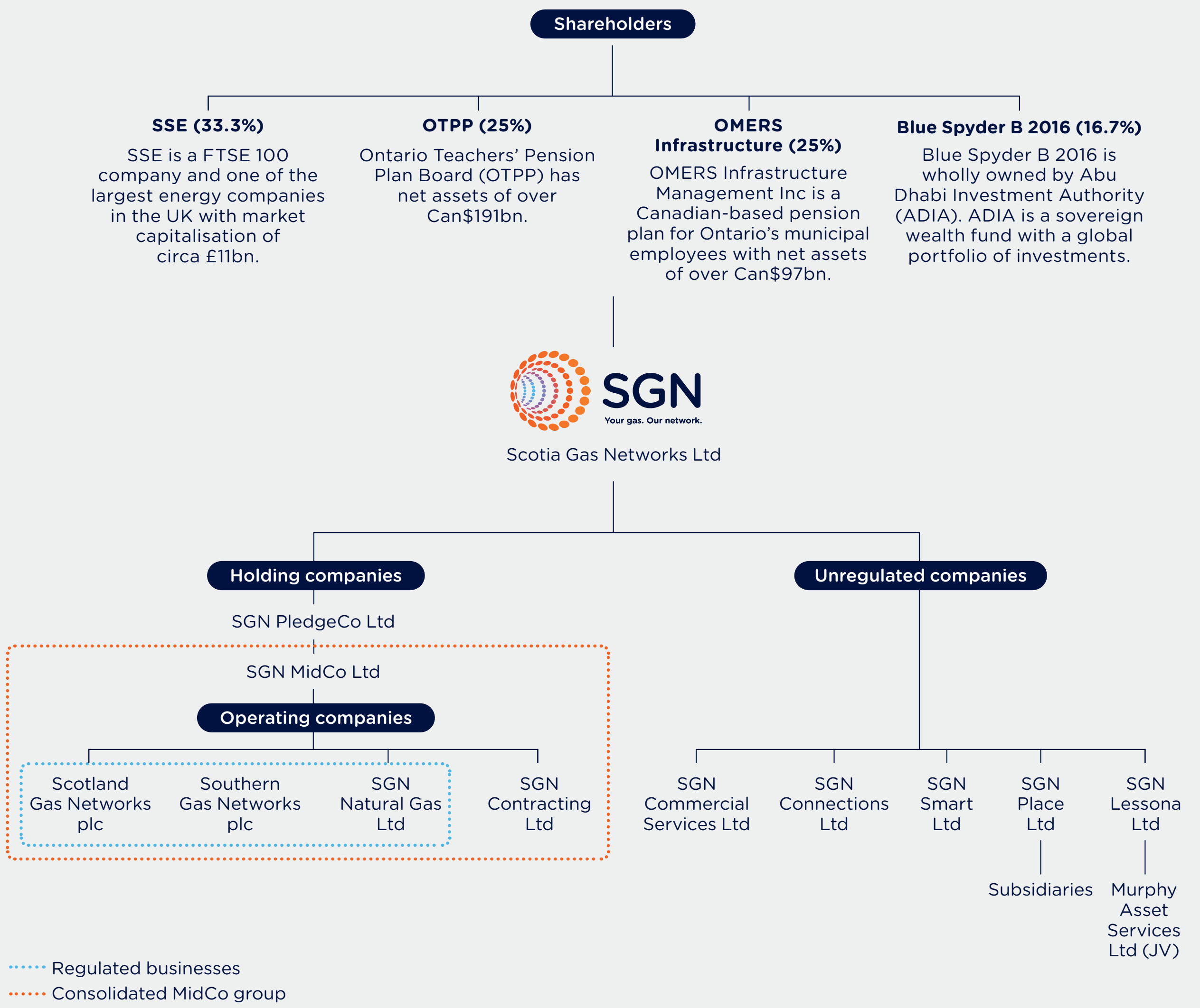
A change in UK tax payment legislation meant that all large companies moved to a payment regime of paying all corporation tax in the year in which it arises. This resulted in the Group paying an additional £41.3m of Corporation Tax in the year.

Pension commitments

A proportion of our employees are members of the Scotia Gas Networks Pension Scheme which provides final salary defined benefits for members. In accordance with FRS 102, our balance sheet accounts for any pension asset or liability. As of 31 March 2020 the pension surplus was £354.2m (2019: £199.5m), the year on year movement was largely driven by a reduction in future inflation assumptions and contributions from the Group. The Group contributed £32.8m to the scheme in the year (2019: £33.5m).

Ownership structure

SGN has four supportive shareholders in place. They oversee the three regulated operating companies in Scotland, southern England and Northern Ireland as well as the holding company and a number of unregulated operating companies.



How we manage risk

Our risk management has a key role to play in the fulfilment of our business and strategic objectives, protection of assets, and the creation of sustainable shareholder value.

COVID-19

COVID-19 created an unprecedented change and a challenge for society and businesses and its financial impact is noted in our risk statements which follow. It's our view that the pandemic will accelerate current trends and will lead to an emergence of new trends which will re-shape our business and our external operating environment. Inevitably, the post COVID-19 world will offer opportunities and threats to our current business model. To ensure we could keep ahead of the curve as events unfolded, our Board and Executive team began looking at recovery at a very early stage, and continued to assess future risks and mitigations. As a consequence to events dominating the start of 2020, we anticipate changes will inevitably happen in public policy, regulation, supply chain relationships, the need for innovation, digitisation and new working arrangements.

Our approach to risk management

Like other similar businesses we face risk and uncertainty from outside our organisation and some from within our organisation. Our Enterprise Risk Management framework gives us a reasonable assurance that we have identified and are addressing our key risks.

Our framework includes a governance and reporting structure which enables the Board and leadership to oversee and direct the management of the current and future risks. We set specific risk appetite for each major risk. We have policies and procedures, tools and training to enable our people to manage all risks.

Principal risks

Our principal risks and uncertainties could have an impact on our customer service, safety and efficiency of our network and financial stability. In other words, managing risk is essential if we are to meet our strategic objectives of promoting stakeholder interests, become more resilient in the short and long term, and maintain our licence to operate.

Our risk profile is enterprise wide covering all events, both internal and external threats. Risk events are assessed in their current state for the likelihood of occurrence based on the level of threat and vulnerability of control, together with financial and non-financial impacts should the identified events materialise.

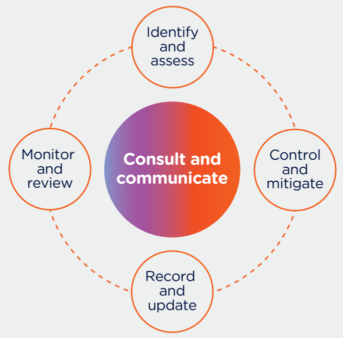
Our assessment process is aligned to external benchmarks.

How we manage risk – Enterprise Risk Management Framework

Our Enterprise Risk Management Framework helps us to maintain an adequate oversight of risk. There are various forums that focus on individual risks which are then shared and escalated to our Board, where appropriate.

During the year, we improved the way we manage risk across the organisation by reviewing our arrangements. We broadened our risk committee membership to ensure representation across our organisation. For key individual risks, we are defining specific targets consistent with the Board's general appetite. Where we are not satisfied with the current state we will develop further controls to deliver an acceptable position within a defined timescale. We continue to benchmark our practices with similar companies. We operate governance, risk and compliance as a single unit as this provides us with assurance in a more integrated and simplified way.

Assessment and management process adapted from ISO 31000:2018



Roles and responsibilities

1. Business Unit Leadership are responsible for identifying, responding to, monitoring and assuring key risks. Business Units are supported by the Risk function.
2. Our Risk Committee includes representation from all parts of the business with a mixture of the Executive team and Senior leadership. The Risk Committee supports the Executive team by overseeing the operational risk registers and making recommendations. It meets every quarter to review reported risk registers.
3. The Executive owns and oversees the enterprise risk management framework. Every three months it formally receives an update on the main risks and the overall strategic risk map. The risk function supports the Executive to ensure on-going risk management. During these unprecedented times, the Executive is now receiving frequent updates on the principal risks.
4. The Board has overall responsibility for making sure that we manage risk within acceptable limits. Our most significant risks are reported to the Board on a bi-monthly basis by our CEO. Every six months the Board will carry a detailed review of the strategic risk register. The Board is also supported by the Audit Committee, who oversees internal controls within the Company. The Board will also consider new or emerging risks, and recommend ways to tackle them.

The principal risks and uncertainties identified are as follows:

1: COVID-19

The COVID-19 pandemic was declared a public health emergency of international concern by the World Health Organisation (WHO). The pandemic and its response has seen an unprecedented impact on people's lives, their communities and on all national economies. Our key risks arise from multiple and sustained waves of infection which may endure over the longer term.

Impact

We followed all government advice and where possible our employees worked from home and we stopped non-essential works. Throughout we continued to provide a safe and reliable supply of gas and attended gas emergencies within the required time scales. We built further resilience into our gas control with three separate facilities established. Our financial resilience was bolstered by the Board's decision to defer dividends due in March 2020.

The potential key impacts of future risks can be summarised as follows:

- A lack of physical resources to keep the gas flowing and provide an emergency service.
- Insufficient liquidity to finance our operations due to significantly reduced revenues, increased bad debts or increased costs or due to difficulties in the financial markets.
- Continued social distancing could result in difficulty accessing homes and restarting our repex programme.
- Delivery of other regulatory requirements/outputs may be impacted by prolonged or multiple lockdowns.
- GD2 may be delayed or partially implemented.
- Changed societal expectations relating to flexible working, work/life balance and wellbeing will require new ways of working.
- New ways of working may introduce new threats. For example, increased cyber attacks on home devices, phishing attacks and alternative control mechanisms to cater for remote working and critical suppliers.
- Governments' focus on COVID-19 may reduce their bandwidth to address changes to energy and climate change policy frameworks. This has potential for negative impact should they choose to decarbonise heat through electrification.
- Delivery of new initiatives and change may be delayed by future lockdowns.
- Guidelines from the Westminster, Holyrood, and Stormont governments may differ during a prolonged lockdown.

Mitigation

As part of our Business Continuity Management (BCM) procedures we quickly established our Gold, Silver and Bronze command structure to allow an agile response to the developing crisis. This remains in place with resources rotated to avoid exhaustion and aid fresh perspectives.

The following mitigations are within our BCM structure:

- Non-essential work ramped down to ensure resources for emergency work. A number of contractor resources were retained to provide contingency cover. Many workers were designated as key workers, giving access to virus testing.
- To manage liquidity, increased minimum cash levels to manage any significant unforeseen shocks. We have access to a £360m revolving credit facility (RCF), evenly spread among our six relationship banks, all well-rated and geographically diverse across three countries. Regular dialogue maintained with Ofgem, Xoserve and the Joint Office regarding any issues in the supplier and shipper market.
- We're investigating repex procedures and innovations to reduce customer impact and keep our people and customers safe. We have regular dialogue with our contractors to understand the financial burden on them.
- Regular discussions with Ofgem and the HSE to inform them of our decisions which may impact regulatory requirements.
- Significant interaction on GD2 is continuing with Ofgem. Ofgem is still targeting its draft determination for July 2020. Our response will allow us to articulate longer term impacts of COVID-19 to be considered in setting GD2 targets.
- We're maintaining regular two-way communication with the Trade Unions to ensure that employees' questions and concerns are promptly addressed.
- We're minimising any cyber security or network outages while working remotely, with increased reliance on secure internet access and responding to phishing attacks.
- We're creating and maintaining new BCM solutions for our critical operations.

How we manage risk (cont)

2: Cyber security risk and IT service failure

Failure to implement appropriate cyber security risk management could result in attacks on assets and infrastructure from nation states, terrorists, hacktivists, criminal or insiders. Loss of critical IT services and ineffective crisis management could result in loss or delays in services supporting our core services.

Impact

- A cyber attack could result in disruption to our operations or loss of intellectual property leading to regulatory sanctions, fines, financial loss, and reputational loss.

Developments during the year

- A number of high-profile incidents, including cyber crime, involving companies continuing during the year.
- Continued geo political tensions with nation states with capability of targeting critical national infrastructure companies.
- On-going requirement to comply with directives, regulations, and legislation.

Risk priority in 2019/20 – increasing trend

Mitigation

- We are utilising a new cloud-based system to limit the potential impact of a cyber attack.
- We have developed a managed security service with an external partner as well as utilising a skilled in-house team of security specialists to improve defensive capability of our organisation.
- We have an information security programme which includes monitoring and logging our network, including regular penetration testing of the network with government approved partners.
- Externally we work closely with our industry peers and government agencies to shape our delivery of the security programme as well as complying with directives. Also, internally we continue raising our people's security awareness through training and exercises.
- There is on-going work to maintain and improve business continuity and disaster recovery procedures focused on protecting our assets against the consequences of geo political risks.

3: Price control RIIO-GD2

There is a risk that the regulatory settlement for the GD2 price control will expose us to greater uncertainty and potentially lower returns. The heightened factors include the current working assumptions for the allowed return on equity, the risk of appeal against unsatisfactory outcomes (as well as another party appealing against our satisfactory outcome), public debate and the agenda set by other regulators.

Impact

- More challenging economic environment due to changes in allowed revenues, changes to indexation allowances, and allowed equity return.
- Striking an equitable balance between the interests of different stakeholders to ensure a safe, secure, and affordable supply of gas is maintained throughout the UK.

Developments during the year

- Publication of water industry regulatory experience.
- Active engagement and preparation with our Customer Engagement Group, RIIO Customer Challenge Group.
- Formal Business Plan submission to Ofgem, Customer Engagement Group, and RIIO Customer Challenge Group, to be followed by open hearings and final determination.

Risk priority in 2019/20 – at a similar level

Mitigation

- Allocation of committed resource and external expertise support and timely updates to the Board.
- Regular engagement with Ofgem at senior levels and via sector working groups.
- Aligning with stakeholder/customer support for the Business Plan submission.
- Production of a business plan that can be delivered from day one of GD2 and aligning on-going projects to meet the future needs of GD2.

4: Future of gas network

There's a risk that the UK Government's scenarios for 'energy mix' will switch from gas to other heat sources such as electric.

Risk of unfavourable changes arising from 'net-zero' legislation.

Every initiative towards the energy future is a complex balance between three competing needs of the energy trilemma: affordability, security of supply and decarbonisation.

Impact

- Future of gas network is threatened if there is a reduced role for gas.
- Unable to maintain the balance between affordability and security of supply.

Developments during the year

- Working with sector based stakeholders to produce evidence based report, Collaborative Pathways Report launched in October 2019.
- Piloting projects to validate pathways and future use of gas – research and development pilots include Real Time Networks and others.
- Horizon scanning across Europe and round the world to seek out innovative solutions.
- Periodic briefings with key stakeholders on emerging trends and development.

Risk priority in 2019/20 – at a similar level

Mitigation

- Influencing government to ensure policy and regulatory decisions are lobbied by setting up a collaborative body of networks, industry, BEIS, and Ofgem.
- Building an effective Energy Networks Future Group to validate a pathway for gas.
- Utilising innovation funding and working with others to test potential decarbonisation pathways.
- Piloting projects to evidence future use.
- Future Price Control, Business Plan includes funding mechanisms for decarbonisation.

5: Political and public policy

There is a risk that adverse future intervention by the UK Government in the gas markets, or changes in governmental policy, may have an unfavourable impact on our business model.

Impact

- Potential negative outlook due to changes in pricing methodology, and increased costs.
- Persistent political pressure undermines the stable financial attraction to new investors, and difficult debt market conditions.
- In the event of renationalisation the business could be acquired below fair value.
- No deal Brexit resulting in potential changes to regulatory frameworks, availability of materials sourced from Europe, and negative outlook.

Developments during the year

- The December 2019 General Election results rules out the occurrence of public ownership in the gas industry and the associated negative outlook.
- On-going negotiations between the UK and EU to agree Brexit terms, against a background of political uncertainty in UK and Scottish Parliaments.

Risk priority in 2019/20 – decreasing trend

Mitigation

- Working with wider groups to influence public perceptions and develop evidence to show that consumer interests are best served by current ownership model.
- Continue to build capability within the Company to promote our brand and explain our role.
- Actively engage with political parties to help shape the outcome of policy development.

How we manage risk (cont)

6: Health and safety

Failures in the design or implementation of the safety and health management systems may result in unsafe behaviour and working practices.

Impact
- This could result in injuries or fatalities involving employees, contractors or members of the public, asset damage or loss, harm to the environment and prosecution under relevant legislation.

Developments during the year
- HSE continued its cycle of safety reviews, including fatigue management.
- We continue to monitor supplier failure, including ways to identify and respond to early warning signs of potential failure.
- We have planned extensively for the impact of Brexit on our supply chain.

Risk priority in 2019/20 – at a similar level

Mitigation
- To mitigate the expected negative consequences of this risk and reduce the probability of its occurrence, we have a continued focus on safety across all assets and operations.
- The Safety, Health and Environmental Advisory Committee of the Board and the Engineering Safety Committee are responsible for ensuring the safety and health and policies are developed and adhered to.
- We track a range of safety metrics very closely and have programmes in place to drive improvements.
- We review lessons learnt from major incidents in order to prevent such things from recurring.
- Compliance is supported by independent inspections and an audit programme and any issues found are reported to the appropriate management levels. Furthermore, they have ongoing safety initiatives which include rolling out behavioural based intervention focusing on employee behaviour and risk awareness.
- We run wellbeing programmes and campaigns for our people.

7: Network asset management

Failures in the design and/or implementation of our asset management policy, management and security systems and procedures, or ineffective crisis management causing reputational damage and shareholder dissatisfaction.

Failure to properly secure network assets thereby allowing third-party incursion and damage, including threat of business disruption from terrorist activity.

Impact
- Major incident or explosion leading to loss of life or major injuries.
- Total or partial loss of asset.
- Prosecution under legislation.
- Financial losses.
- Reputation damage associated with supply disruption.
- Negative impact with stakeholders.

Developments during the year
- We are particularly focussed on the asset lifecycle management to recognise and manage the risk associated with our estate.

Risk priority in 2019/20 – increasing trend

Mitigation
- Core business processes such as operational tasks, capital interventions and policy frameworks help ensure that gas supply to the customer is maintained.
- Long-term horizon scanning is in place to capture network asset changes due to customer demand, third-party activity, climate change and other factors.
- There is robust annual audit programme and site inspections to ensure compliance with our policies and procedures.
- We track a range of asset and safety related metrics very closely and have programmes in place to drive improvements.
- We review lessons learnt from major incidents in order to prevent such things from recurring.
- We apply governance to change management and relevant asset groups. For example, a cross function asset condition and damage prevention group is in place.
- We test resiliency through a number of activities such as emergency exercises and risk assessment tools.

8: Leadership, people and culture

Failure to maintain a sufficiently competent, diverse and productive workforce with effective relationships and sufficient talent. Also the failure of the leadership team to recognise the changing external, internal environment and indifference to business risks.

Impact
- Direct consequences of workforce failure include resources/workload mismatches, missed corporate and performance targets, missed regulatory requirements, and reputation damage.
- Leadership risk can lead to poor culture, loss of shareholder value, loss of competitiveness and reputation.

Developments during the year
- We have a new IT system to help capture and share information about personal development, talent management and succession planning. It is also being widely used to deploy more training remotely.
- Through various channels, we continue to work with our workforce and unions to explain our business strategy and initiatives.
- Given the challenge presented by GD2 and Future of Heat, we have a renewed focus on leadership development to equip our leaders with new skills.

Risk priority in 2019/20 – increasing trend

Mitigation
- Continuous development of our people with the right skills and knowledge to deliver business objectives.
- Training and personal development exists for all employees in addition to talent management programmes.
- We are developing change and innovative programmes to deliver better, faster, and more cost effective operations.
- We keep a close eye on and respond to regulatory, supplier, and technology developments that could have an impact on our strategic objectives.

9: Licence conditions and compliance

Failure to comply with our licence conditions and obligations.

Impact
- Loss of licence to operate.
- Potential to receive heavy penalties.
- Detrimental impact to our reputation.
- Damage to shareholder value.

Developments during the year
- No significant change to licence conditions and agreed outputs.

Risk priority in 2019/20 – at the same level

Mitigation
- We have governance and compliance frameworks in place to deal with issues and developments arising from price controls.
- Our experienced regulation, finance and legal teams manage compliance requirements and engage with all levels of Ofgem and Government.
- Delivery of regulatory outputs is measured and monitored on a regular basis.

How we manage risk (cont)

10: Legal and compliance

There is a risk that our acts or omissions cause a breach of key legislation by our employees.

Impact
- Inappropriate behaviour could result in investigation, including dawn raids by the authorities.
- That in turn could result in fines, sanctions, and enforcement orders.
- Inappropriate acts could also lead to potential reputational damage, stopped operations, associates leaving, and associated financial losses.

Developments during the year
- We have broadened our commercial services offering in order to generate revenue from our assets and expertise in this industry.

Risk priority in 2019/20 – increasing trend

Mitigation
- We have policies covering controls including conflicts of interests, gifts and hospitality, money laundering and anti-bribery.
- Our contracts include anti-corruption and bribery clauses.
- We have rules and training to guide and support our people to protect the personal data they handle.
- We are progressing programmes to strengthen our compliance framework, supported by relevant training for those in high risk roles.

11: Business change/delivery in next price control

Strategic projects to meet our GD2 objectives will require significant business change to deliver GD2 requirements. Large scale or multiple change initiatives can be disruptive if not effectively implemented and co-ordinated.

Impact
- There is a risk that anticipated benefits may not be realised or current performance may be compromised.

Developments during the year
- We have developed a plan to promote cost efficient services for the next price control.

Risk priority in 2019/20 – new risk

Mitigation
- Change management governance by Executive management.
- Co-ordination of multiple projects by Business Change Forum and supported by Project Management.
- Qualified Change Managers have been developed to support the strategic change programmes.
- Appointment of an experienced and dedicated Programme Director.

12: Environment and climate change adaption

As we move to a zero carbon economy there is a risk of failing to assess and manage changes as a result of weather, climate, zero carbon legislation and technological change.

Impact
- Changes in our social licence to operate.
- Harm to our people and the environment.
- Prosecution under primary and secondary legislation.
- Damage to assets and property.
- Financial losses.

Developments during the year
- Fast changing landscape with heightened social awareness and changes to public policy.
- Acceleration of sustainable finance regulation.

Risk priority in 2019/20 – increasing trend

Mitigation
- Delivering the Environmental Action Plan by decarbonising the network and operations.
- Engaging with the supply chain.
- Delivering regular interaction with stakeholders and customers.
- Full implementation of behavioural and cultural improvement.

Corporate responsibility

SGN in the community

We strive to be a good neighbour, care for our customers and people, and minimise our impact on the environment.

Corporate responsibility and sustainability is inherent in every aspect of our operations and how we go about our business.

Introduction

We aspire to a culture where our people can be themselves, feeling valued and included for their individuality and skills and above all feel part of the SGN family. By bringing a diversity of thinking and positivity to our work we can, and do make a real difference to the communities in which we live and work.

Social investment

In 2019/20, we achieved an overall community investment of £476,460 which equates to approximately £125 for each of our employees. 734 of our colleagues spent roughly 5,505 hours of Company time carrying out voluntary work, while our employee mentors directly helped 1,924 children build confidence, independence, and new skills through our close partnerships with The Outward Bound Trust, Solutions for the Planet, and local schools. We also sponsored several of these partners.

This was yet another year of consistent fund raising for charities and work done for charity and community projects with the year ending with yet another excellent effort from all our people. Of the total amount, two thirds represented cash donated and the other third the equivalent in time.

Social impact

Fuel poverty

We have a key role to play in helping combat the issue of fuel poverty and are committed to supporting low-income and vulnerable households in our network. Playing our part in alleviating fuel poverty continues to be an important priority for our stakeholders and us.

We have responded to this challenge with a significant increase in focus and resource. The £20m central heating grant (CHG) fund we established three years ago to provide funding for gas central heating systems plus use as seed funding to enable eligible households to benefit from existing schemes has been put to good use throughout 2019 and we continue to drive our additional initiatives forward.

Help to Heat

Our Help to Heat scheme helps to tackle fuel poverty by providing free or assisted gas connections.

In Scotland, we are currently exceeding our 2021 target with 20,021 connections. In our Southern network, when the rules are more challenging in getting support for central heating measures, we have so far connected 8,289 homes.

To help in the south, we're continuing to provide extra funding through our CHG fund. With gas central heating providing an average annual saving of £1,090 for each household, in 2019/20 our scheme has enabled our fuel poor customers to make significant savings on their energy bills.

Improved targeting data-mapping

The predictive data model we launched in October 2018 is serving us well. Developed in partnership with the Energy Saving Trust, this tool uses a range of data sources (EPC ratings, off-gas properties mapped to OS co-ordinates, listed buildings, property type/tenure, energy efficiency characteristics, income data, health deprivation and disability scores, proficiency in English and eligibility for the Government's ECO scheme) to forecast the likelihood an off-gas property in our network area as being in fuel poverty.

We've continued to share our heat maps and supporting data with other GDNs and interested local authorities together with their referral partners to enable more effective results and household energy bill reduction.

Partnership working

We're working on collaborative projects to tackle fuel poverty across our Southern network including six housing associations, 20 local authorities, three commercial partners, one charity and one utility infrastructure provider on 19 projects. We've committed £7.7m from our £20m CHG fund to support these projects. In total, eight projects have been successful in securing Warm Homes Funding. This year 121 central heating systems have been installed with 200 in progress and a further 255 planned.

Our new key referral partner, AgilityEco, allows us to provide comprehensive end-to-end support. All clients of our Referral network – additional services scheme received a quality assurance call following the intervention of our engineer, which included the offer of a home energy advice visit to all clients. Eight of our clients have been referred into AgilityEco's LEAP programme.

These visits included the provision of energy efficiency advice and the installation of simple energy efficiency improvements. This support saved the residents an average of £571 each.

In Scotland, we are now working with Home Energy Scotland to offer the best possible outcome for customers.

Fuel poor network extension scheme

	Scotland		Southern	
	GD1 to end 2019/20	GD1 eight-year target	GD1 to end 2019/20	GD1 eight-year target
Number of connections	20,021	17,130	8,289	10,367

Corporate responsibility (cont)

In the six months to the end of the year, 394 individual applicants have been offered support, regardless of eligibility for an assisted connection.

SGN alert

We provide targeted local information on gas supply issues and general safety advice for local community leaders and members of the public through the Neighbourhood Alert communication service, branded SGN Alert. We are delighted two electricity networks have now adopted this initiative as best practice. We also use it during severe weather events. In January for example, we targeted areas of our Southern network during an amber snow alert, giving our customers information on how to stay safe and warm. This had a reach of 50,979 registered users receiving a rating of 5/6 for our message. In addition, we helped Scottish Water last summer in the unusually warm weather, using the channel to extend the reach of its 'Save water' messaging to all 54,000 users in Scotland.

Social partnerships

CAP

Now in its eleventh year, our Community Action Programme (CAP) encourages all our people to spend a working day out, volunteering for local community or charitable causes. As well as benefiting the local communities involved, we have found it's a very successful way to engender a strong team spirit while enhancing the understanding among everyone involved of the benefits volunteering can bring through raising awareness of community issues.

In 2019 our people completed a total of 63 different CAP projects which involved 689 members of our workforce. These included some very challenging projects being undertaken but always with enthusiasm and often a personal connection. They included working with animal charities, schools, clubs and community centres.

Into Action

Our long-running Into Action scheme continues in popularity providing our employees who are raising cash for UK-based charities and good causes, the opportunity to match-funding the funds they raise. Another feature is it provides cash for the charities for our employees' time-equivalent when offering their services for volunteering. Last year there were 108 applications resulting in a total contribution of £39,987.

Kit for Kids

Through our popular Kit for Kids scheme, our employees can apply for sports equipment for local youth teams they either coach or support. A total of 33 applications were made and fulfilled to supply kit for various sporting teams benefiting over 500 young people in the process.

Outward Bound Trust

We sponsored 144 students from six schools in 2019 and our 12 employee ambassadors joined the young people on their courses to ensure it was a positive experience and to be visible role models within our community. Our ambassadors participated in the outdoor activities and continue to support the young people's personal development through a series of teambuilding games, CV writing workshops and mock interviews in schools after the week-long courses.

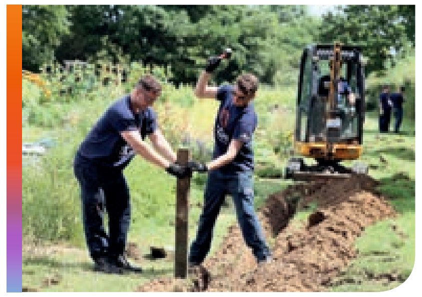
Solutions for the Planet

S4TP is a student sustainability programme that we support which encourages young people to identify key issues and solutions to challenges affecting local communities and beyond. The programme focuses on students working with its business partner mentors and provides young people the chance to explore opportunities within science, technology, engineering and mathematics.

Our mentors work with student teams to create innovative solutions as part of a national competition that concludes each year at the Palace of Westminster. Mentors support students to develop their ideas, and accompanying presentations and business plans, to amaze the judging panels. In 2019, an SGN-mentored team from Mayfield School in Portsmouth won the national competition with their ingenious idea to have a commercial bus powered only by renewable energy.

"Our partnership with S4TP and the local community is as beneficial to us as it is to the students we work with. Our involvement creates a connection between our business and the communities we serve, while shaping and developing the skillset of potential future employees."
Pamela Goee, Head of Community, SGN

"The Big Ideas programme has given over 3,900 young people opportunities to imagine and innovate entrepreneurial solutions to challenging sustainability issues with the help of their business mentors. The confidence that the young people have developed and their belief and passion in their ideas is inspirational, and it's largely down to their dedication and commitment, and that of their teachers and business mentors from SGN, and our other partner organisations."
Jen Baughan, CEO of S4TP

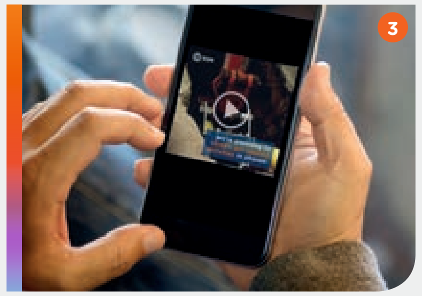


Our Aldershot depot team on their CAP day working hard installing a new water main for a charity-run allotment club.

SGN-mentored Renewabus have progressed to the National Final after impressing judges, including our General Manager Stephen Mills (back right), at the University of Portsmouth.

COVID-19 community response

We're proud of how our people have reacted through the COVID-19 crisis and grateful for the way our customers have responded to their efforts to keep the gas network working safely and efficiently throughout.



Messages of support 1

We've been sent many messages of positivity and it's clear to see the public are really appreciating our efforts.

More scrubs 2

SGN Natural Gas has provided its support to a community fundraising effort to help make extra scrubs for care homes, GP surgeries, testing centres and some health trusts tackling COVID-19 in Northern Ireland.

Mini-film 3

The coronavirus mini-film we used across our social channels has so far been seen by more than 8,000 people on Facebook, viewed more than 2,500 times on Twitter and seen almost 3,000 times on LinkedIn.

Colonel Sir Tom Moore 4

Team manager, Lee Castle from Kent drew this fantastic picture of Colonel Sir Tom Moore, the second world war veteran and now modern day hero who raised nearly £33m for the NHS. Lee has raised £800 for NHS Charities Together by auctioning his drawing and receiving funding from our Into Action scheme.

Foodbank support 5

Our emergency response engineer Dave Kaminski and his Paisley and Kilmarnock satellite depot colleagues have been busy raising funds and collecting essential food items for Ayrshire East Foodbank – a charity they've been supporting for many years.

Harwell vaccine centre 6

We made an urgent gas connection to the new vaccine centre within a day of receiving the request.

Thank you, NHS 7

Additional signs are on our vehicles to explain our work and also thank the NHS.

Corporate responsibility (cont)

Our people

Our highly dedicated and professional workforce is committed to our industry and our people are undoubtedly the life blood of our Company. We're extremely proud of the way they embrace their public duties, protecting life and property along the way.

Skills development

Our Talent and Development team has maintained its accreditation with the Learning and Performance Institute and has a close association with a valuable organisation called Energy & Utility Skills (EUS). All our development programmes, which lead to a professional engineering registration, have been re-accredited by the Institution of Gas Engineers & Managers (IGEM) and also by the Institute of Engineering and Technology (IET).

Three years ago we invited the Institute of Performance and Learning to audit our Talent and Development function for the first time, and our November 2019 audit gave us a top 15 ranking.

Trainee Team Manager (TTM) programme

As part of our succession planning we need to keep our talent pipeline flowing.

This year 32 men and women from outside and within our business joined our two-year Trainee Team/ Project Manager programme. Their induction included a Gas SHEA course and previous TTM graduates sharing how to get the most out of the programme.

Manager Essentials

Our Manager Essentials framework of Direct, Engage and Support is our guide to people management within the business. Each of these essentials requires a range of skills and behaviours that people managers need to focus on and make a firm commitment towards every day to ensure teams and individuals achieve their full potential. We've put several learning tools in place to help managers do this including these two three-day residential development programmes:

1. Stepping into Management
2. People Manager Skills Programme

25 residential programmes have been delivered over the past 18 months and feedback from delegates has been excellent. We've maintained an 86% satisfaction rating – considered to be world class.

We've also published short 'how to' guides and 20-minute e-learning packages covering a range of management topics such as:

- Personal development plans
- Setting clear expectations (objectives)
- Feedback skills
- Managing difficult performance conversations
- Coaching skills
- Effective meetings

In April 2020 our focus shifted to Leader Essentials; an evolution of our mid-level Manager Essentials framework but with the inclusion of a new essential called 'Lead'. The overall aim of this new framework is to help our leaders understand their role and the impact leadership has on their people, our business, individual performance, and of course the future of our Company.

"So many tools and techniques to take back and implement."

"I would like all project/team managers in my team to attend this course and it would work at General Manager level too."

"This was my first management course in seven years so everything covered will help me immensely."

"It was good to have actual issues from other managers as well as my own discussed and debriefed."

Gender pay gap report

The changes to our gender pay gap numbers are subtle this year due to a variety of changes we made to our headcount and the number of employees falling into the reporting requirements, however our pay gap still scores favourably in comparison to our competitors.

Our Group mean gender pay gap for 2019 is 9.1% in favour of males and the median is 14.1% both of which has increased slightly on last year, however it still falls below the national mean gender pay gap of 13.1% and median pay gap of 17.3%.

While we are making progress with how we manage diversity and inclusion, the predominance of male employees (83% vs 17% female) within our organisation is driving the gender pay gap, particularly at the middle and upper levels. The good news is we're starting to see a ratio improvement of males to females in most quartiles.

The mean bonus pay gap (the gap between bonuses paid to men and that paid to women) has increased slightly (51% of men and 58% of women), due to more males than females in senior roles.

Proportion of employees across the pay quartiles

Year	2017		2018		2019	
Quartile	Males	Females	Males	Females	Males	Females
Upper	85%	15%	86%	14%	85%	15%
Upper middle	92%	8%	89%	11%	90%	10%
Lower middle	91%	9%	88%	12%	88%	12%
Lower	74%	26%	73%	27%	71%	29%

Figures are taken from the latest gender pay gap report which can be found on our website.

Proud to be

Diversity and Inclusion (D&I)

As a business we recognise the value that a variety of background, skill and perspective delivers, and we're building a workforce that reflects our customers and communities where everyone, regardless of difference, is valued, respected and encouraged to do their best. We've launched several initiatives to meet this objective.

D&I Partners programme

The objective of this 12-month programme is to give our network of partners a common understanding of D&I, the role they can play in shaping and re-enforcing it and supporting local delivery.

"I'm delighted to be a D&I Partner for my business area and encouraged that SGN is taking a business-driven approach to furthering its D&I efforts. Having been in similar roles in other companies, I hope I can add valuable insight and knowledge."
Shuchi Nagar, Head of Architecture and Analytics

Recruitment improvements

We're now providing greater support for managers with best practice interview techniques and by asking them to challenge hiring decisions to create a more diverse shortlist of candidates. This initiative will also be supported by the introduction of candidate experience surveys. This will give us greater insight into the recruitment experience and how we can improve it.

International Women's Day

We celebrated International Women's Day in March, when the theme was 'each for equal' – if each of us takes small steps to ensure gender equality, the collective impact will be a gender-equal world. We're committed to creating a more gender-equal company by looking at ways we can level the playing field for women interested in joining and progressing with us. We've introduced a couple of women's development programmes to try to achieve this.

Operational Insights programme

We're introducing our new Operational Insights development programme for women, which we'll pilot in 2020 with eight colleagues in our Edinburgh, Glasgow, Aldershot and Solent depots. The programme will give female colleagues interested in an Operations career the opportunity to understand the work involved in upgrading, repairing and maintaining our network by spending time with our Ops teams.

RISE programme

RISE (Resilient – Influential – Strong – Empowered) is a five-day blended approach development programme designed specifically for women. It focuses on developing core skills such as improving confidence, managing conflict, networking and developing an individual leadership style.

Following a successful pilot programme with 14 female colleagues in 2019, we're running two further intakes throughout 2020/21.

"Since joining SGN in 2017 I've been really impressed with the investment in my personal and professional development. Recently, I was invited to take part in the RISE programme which gave me the opportunity to develop my confidence, leadership skills and build a network of valuable business contacts."
Louisa Fisher, Project Manager

WORK180

We have a new partnership with WORK180, a global jobs platform for women, which focuses on both quality female candidates, as well as employers that are genuinely committed to diversifying their workforce.

Our Environment Manager Faye Tester has been listed by edie's 30 Under 30 Class of 2020 – a community of 30 talented sustainability and energy professionals who have already achieved great things or are showing fantastic promise.

The RISE programme is inspiring people from across the Company.

Corporate responsibility (cont)

SGN and the environment

The year of 2019 was generally warmer, wetter and sunnier than average. Records were broken globally, and here in the UK the highest temperature ever recorded was measured in Cambridge on 25 July.

The past decade has been characterised by precedented rising temperatures and extreme weather events including heat waves, flooding and wildfires, in the UK and globally. This has led to increased awareness of the impacts of the changing climate.

Coupled with this is pressure put on governments and business leaders through climate activism and demand for action by our future generations, including through Fridays for Future and Greta Thunberg. The UK Government responded by declaring an Environment and Climate Emergency in May 2019. In June 2019 the UK Government became the first major economy in the world to pass laws to end its contribution to global warming by 2050. The target will require the UK to reduce all greenhouse gas emissions to net-zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels. This followed recommendations in a report from the Climate Change Committee (CCC). The Scottish Government followed suit and has set a more challenging target for Scotland of net-zero by 2045.

At SGN we strongly welcome the Government's decision to make net-zero law. To support this, during the year we carried out 10 engagement activities with stakeholders and customers, and from these the shift in awareness and demand for action is clear. Minimising our environmental impact is reported as one of the areas where our stakeholders believe we need to invest more and focus our efforts. This message is particularly strong from our future customers.

In addition, research on willingness to pay with our customers clearly indicates that actions where we reduce our impact on the environment (eg shifting to an electric vehicle fleet and using renewable sources of electricity to power our offices and depots) are the areas where customers are willing to pay the most.

SGN's biggest impact on the environment is our carbon footprint which is shown below.

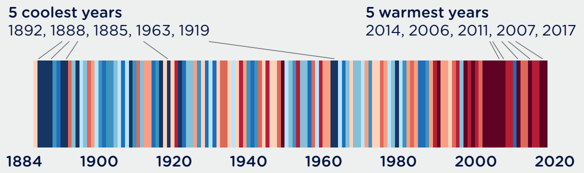
Leakage of natural gas from our network contributes the most towards our carbon footprint, due to the global warming potential of methane[1]. This coupled with theft of gas and own use of gas makes up 95% of our footprint (collectively referred to as 'shrinkage'). The remaining 5% is as a result of emissions from our fleet, electricity usage and indirect emissions from our supply chain.

We have provided our carbon footprint data and other data as required by the UK Governments Streamlined Energy and Carbon Reporting (SECR) in the table opposite.

1 The Global Warming Potential (GWP) for methane is 28, meaning methane is 28 times more potent than carbon dioxide over a period of 100 years. This is in line with the IPCC Fifth Assessment Report (2014). In natural gas there is a mix of greenhouse gases, and methane (CH4) is only one of them. When we calculate our greenhouse gas savings due to reduction of leakage we have applied an 84% share of methane in natural gas, resulting in 25GWP for leakage, which will provide us with a saving of carbon dioxide equivalents (CO_2e).

UK annual temperature

This image shows that the five warmest years have all occurred since 2006. Cooler years are blue, while warmer years are red.

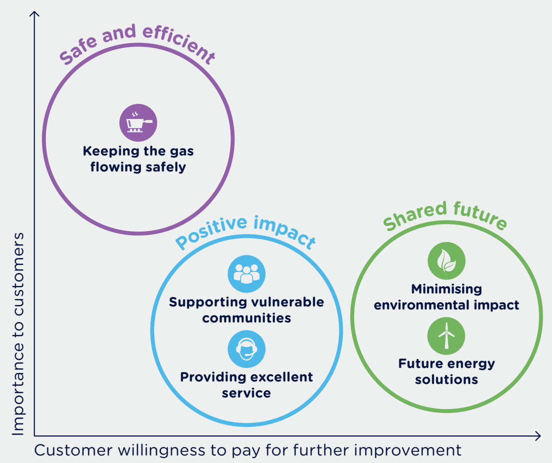


Source: www.metoffice.gov.uk/weather/climate-change/what-is-climate-change

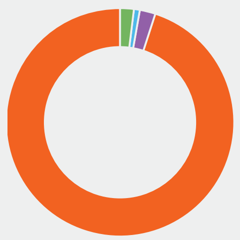
Stakeholder and customer insight

Minimising environmental impact is an area customers would like us to invest more in.

There is also a desire to keep costs down – environmental improvements must represent value for money.



Reducing carbon emissions



GHG emissions and energy use data for period 1 April 2019 to 31 March 2020

Scope 1 and 2 (Direct emissions)	Current reporting year 2019-2020	Comparison reporting year 2018-2019
Gas usage from our occupied/operational sites/tCO_2e – Scope 1	864	920
Natural gas shrinkage (leakage + theft of gas + own use of gas)/tCO_2e – Scope 1	765,284	796,780
Fuel usage from commercial vehicles, Company cars and grey fleet/tCO_2e – Scope 1	12,630	16,293
Purchased electricity for own use (location based)/tCO_2e – Scope 2	3,245	3,435
Total Scope 1 and 2/tCO_2e	782,023	817,428
Scope 1 and 2 energy consumption/kWh – As above	732,416,002	771,694,715
Intensity metric: Total scope 1 and 2 tCO_2e per £m turnover	615	662
Intensity metric: Total scope 1 and 2 tCO_2e per km of our gas network	10.88	11.39
Intensity metric: Total scope 1 and 2 tCO_2e per GWh throughput	5.61	5.96
Purchased electricity (market based)/tCO_2e – Scope 2	3,434	3,752

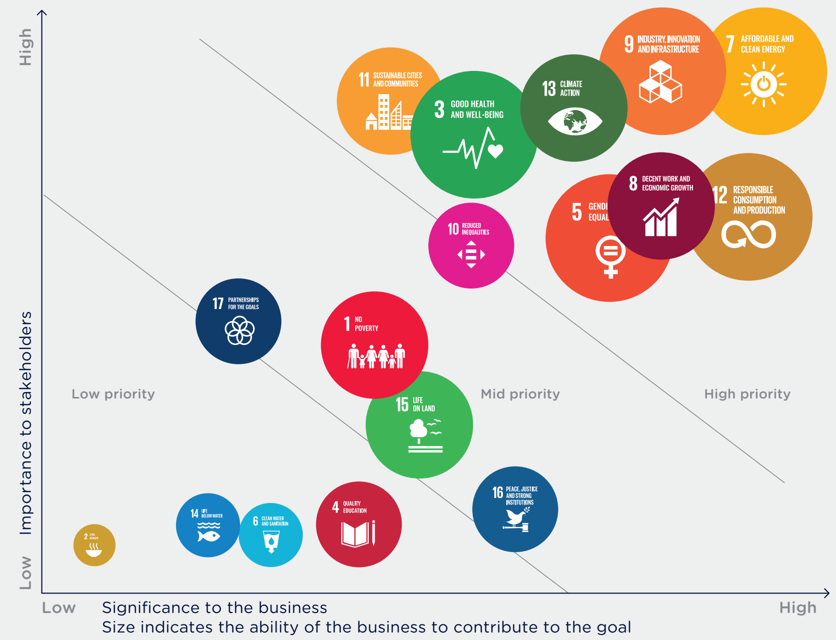
Scope 3 (Indirect emissions)	Current reporting year 2019-2020	Comparison reporting year 2018-2019
Business travel/tCO_2e – rail, air, ferry, car hire	787	1,001
Transmission and distribution losses from purchased electricity/tCO_2e	259	293
Emissions from production and delivery of purchased PE pipe/tCO_2e	9,794	9,060
Contractor vehicles/tCO_2e – mains replacement contractor fuel use, LNG tanker fuel use and helicopter pipeline survey fuel use	7,750	7,327
Total Scope 3 emissions/tCO_2e – As above	18,590	17,681
Total annual net emissions/tCO_2e	800,613	835,109
Intensity metric: Total emissions/tCO_2e per km of network	11.14	11.64
Intensity metric: Total emissions/tCO_2e per £m turnover	630	676
Intensity metric: Total emissions/tCO_2e per GWh throughput	5.74	6.09

Methodology: Data provided here is in line with annual business carbon footprint reporting to Ofgem using Defra conversion factors. Conversion factors are updated annually. Additional lines such as contractor vehicles have been added here for full disclosure and in line with annual returns to Ofgem. Where market-based factors are stated these are provided annually by our electricity suppliers. Total annual net emissions figure uses location based methodology. Intensity metrics have been discussed via the Energy Networks Association (ENA).

Climate change impacts our business in the long and short to medium term through physical risks and transition risks. Physical risks are those that arise as a direct result of the changes in weather and climate, for example the risk of flooding and erosion and the impact this has on our assets. Transition risks arise due to changes in legislation, market forces, or technological changes as we move towards a zero carbon economy, eg the implementation of Ultra Low Emission Zones (ULEZs) in cities across the country.

Our purpose is to provide safe and affordable heating for our customers. To keep doing this well into the future we need to provide an adaptive business model and strategy able to respond to the risks and opportunities we are facing. We have set a target to achieve net-zero greenhouse gas emissions by 2045. Our net-zero strategy, which is aligned to the Sustainable Development Goals (SDGs), explains what we will do to achieve this.

Our materiality analysis of the Sustainable Development Goals (SDGs)



Corporate responsibility (cont)

Our new net-zero strategy will show how we support the Sustainable Development Goals. Here we share our most exciting progress to date and what some of our next steps will be.

Progress towards our targets

We support the SDGs* 1

In December 2019 we joined 'Support the Goals' showing our public commitment to the SDGs and how we have developed our net-zero strategy using the Goals as a framework. You can read one of our SDG stories at supportthegoals.org/how-can-gas-be-transported-sustainably.

Powering our operations with renewables 2

In March 2020 we switched to 100% Renewable Energy Guarantees Origin (REGO) certified renewable electricity for the majority of our offices and depots. This has reduced our electricity (scope 2) carbon footprint with 190 tonnes CO_2e and we will see an even bigger impact next year.

Supporting SDG 9 – Innovation 3

Through innovation we are able to further reduce our environmental impact with increased energy efficiency, lower carbon footprint, reduced resource use and wastage. This is also likely to have improvements in operational efficiency and safety.

* The Sustainable Development Goals are a collection of 17 Goals initiated by the UN in 2015 to be achieved by 2030.

Energy efficiency

As part of our overall strategy and requirements under SECR (Streamlined Energy Carbon Reporting) and ESOS (Energy Savings Opportunity Scheme) we have highlighted a number of actions we need to take to improve our energy efficiency and reduce our carbon footprint.

These actions are a mix of business as usual improvement measures and some longer-term measures in GD2:

Leakage
- Continuing our repex programme
- Trialling smart network control and management systems
- Reduced off peak/set point system pressures

Fleet
- Enhanced monitoring of telematics data and introduction of efficiency targets
- Small vans and vehicles to be replaced with EVs where possible
- Further reduce the tailpipe emissions cap on all vehicles

Property
- Review possibility for renewable energy sources on our sites
- Improve efficiency of sites heating and ventilation (HVAC) systems and lighting

Transitioning the energy system using bio gas 4

We have provided an additional 36,244 equivalent of households with green gas over the year and carbon capture has been installed on five of the sites we have connected.

Affordable energy for all 5

We support SDG 7, by helping people out of fuel poverty. Up to March 2019 we have made 26,094 Help to Heat connections to our network.

Supporting climate action

We contribute to SDG 13 – Climate Action by reducing the amount of natural gas that escapes to the atmosphere by repairing and replacing leaking pipes and maintaining our networks. We aim to reduce our business carbon footprint, particularly from our fleet and buildings whilst providing our customers with more green gas by enabling biomethane connections to our networks. We recognise the importance of adapting to climate change.

Innovations which reduce natural gas emissions 6

GECO pump is one of newer innovations which will help reduce our natural gas emissions and related carbon footprint. It is used to capture the gas which would normally be vented to atmosphere when decommissioning or abandoning our gas pipes. The GECO pump is currently being used in our Scottish network with further training planned to be rolled out wider.

Supporting sustainable consumption

We have many ways we can contribute towards SDG 12 – Sustainable Consumption and Production from reducing our energy consumption, using less virgin materials, working to embed circular economy processes, reducing waste and working with our supply chain.

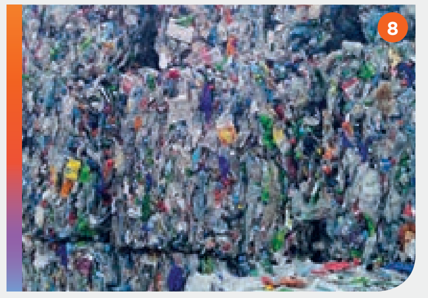
1

6

2

7

3



8

4

9

5

10

Supporting a thriving wildlife 7

We have a fantastic opportunity to improve and protect wildlife and local ecosystems on land that we own. It is an area which we have proposed an ambitious programme in GD2.

Zero waste to landfill journey 8

This year we have achieved close to zero non-hazardous waste, 0.2%, to landfill across all our offices and depots. To further reduce waste, improve efficiency and support a circular economy, we are reviewing recycle rates in other parts of the business including Major Projects and Land remediation.

Creating habitat for bees 9

We have been working with Kathy Friend a local beekeeper who works on a number of community and school projects to promote education in Science and the Arts. We now have seven hives at our Holder Station in Glasgow and are looking to plant a wild meadow on the same site to support the bees further. Following successful implementation of this, we will assess opportunities to extend the project onto other sites over the coming years.

We are the first GDN to join the Supply Chain Sustainability School 10

We have recently signed up to the Supply Chain Sustainability School in order to better engage our supply chain. We recognise this is an area where we need to do more. The school offers tools for suppliers to report their carbon footprint, e-learning modules and classroom training and a 10-point action plan for suppliers and contractors. We will work with our suppliers to drive responsible consumption and lower emissions throughout our supply chain.

Corporate responsibility (cont)

Our pathway towards net-zero 2045

2019

2019/20

800,801 Total carbon footprint (TCF)
35,517 Business carbon footprint (BCF)

Our total carbon footprint has reduced by 4% compared to our baseline year 2018/19.

late 2020

We will set science based targets

We are developing science based targets consistent with achieving net-zero 2045 across all our networks.

late 2022

We will use 100% certified and renewable energy

All electricity and gas used by SGN will be 100% certified and renewable. Additionally SGN will contribute to this by installing its own green electricity eg solar panels on office roofs.

2025

2025/26

Target at the end of GD2
609,146 tCO_2e TCF; 13,276 tCO_2e BCF

2028

We will have paperless offices and depots

All procedures re safety/risk etc will become electronic – apps and tablets will be used across the business and finance and procurement/tendering will all be electronic.

2030

Sustainable Development Goals version 2.0

SGN don't know what will follow after the existing Sustainable Development Goals expire but it will keep supporting the achievement of any new UN Global Goals that are set at this time.

2030/31

Target at the end of GD3
445,452 tCO_2e TCF; 12,794 tCO_2e BCF

2040

100%

We will have a 100% ultra-low emissions car fleet

SGN Company cars and as much of our commercial fleet as possible will be electric or ultra-low emission.

2045

SGN net-zero

By 2045 we are aiming to have net-zero emissions from across our networks. Emissions we can not eliminate will be offset.

The interim targets towards net-zero 2045 are indicative and will be refined when our work with science based targets is completed. Timing of some actions are dependent on approval and funding from Ofgem.

Engaging with SGN stakeholders

We are a business which truly listens to our stakeholders, taking steps to ensure everyone has an opportunity to share with us their views about what matters to them.

Stakeholder led business strategies
We've used the valuable insight gathered from our customers and stakeholders to shape our business, and now structure our activities to align with the customer and stakeholder-driven commitments:

1. We will make a **positive impact** on society, by supporting vulnerable communities and providing excellent service.
2. We will deliver a **safe and efficient** service by acting safely, keeping the gas flowing and keeping costs down.
3. We will build a **shared future** by accelerating decarbonised energy solutions and minimising our environmental impact.
4. We will **create value** by accelerating commercial opportunities which complement the core; maximise the value from our existing asset base; invest in opportunities for the sustainability of our network and keep SGN at the forefront of the delivery of heat.

This year we've adopted a revised governance structure which preserves our much-valued external Stakeholder Advisory Panel (SAP) and introduces a new Board committee with effect from 1 April 2020. These groups ensure we set high ambitions for our future stakeholder engagement and scrutinise how we use insights to make better decisions.

Stakeholder Advisory Panel (SAP)
An independent group working collaboratively with the Company to provide advice, support and challenge on a range of issues which may be of interest to all stakeholders including customers and facilitate best practice in stakeholder engagement to help deliver better business and stakeholder outcomes.

Stakeholder, Environment and Customer Board Committee
The principle responsibility of the new Board Committee will be to ensure we have due regard to customer and stakeholder interests, meeting our commitments to work collaboratively to foster relationships that take account of our impact on the broader community and the environment.

Continuous improvement
We strive for continuous improvement in our approach to stakeholder engagement. This year, working with our SAP we have refined our six principles of stakeholder engagement, and included a statement affirming our commitment to the AA1000 Stakeholder Engagement Standard. These longstanding six principles guide our approach to stakeholder engagement and are detailed below.

1. Delivering measurable benefits
We will engage directly with customers and stakeholders to embed their interests in our decision-making and deliver valued, measurable benefits.

2. Focusing on material issues
Customers and stakeholders should have a say in relevant issues they care about and that will have the most impact on them, both now and in the future.

3. Driving inclusivity and diversity
Engagement with customers and stakeholders should be broad and inclusive; we will seek out the diverse perspectives of challenging and hard to reach groups and ensure complex issues are communicated in a way that is easily accessible and understandable to all.

4. Providing ongoing opportunities for challenge and collaboration
Engagement will be tailored to the needs of stakeholders to ensure genuine opportunities for ongoing dialogue, mutual education, challenge, review and collaboration are created.

5. Being responsive and transparent
We will be responsive and transparent, explaining how the views and priorities of stakeholders have influenced decision-making and how we have balanced the needs of different stakeholders.

6. Continually improving
We will continuously improve and develop our engagement with customers and stakeholders, finding new and more innovative approaches to respond to their changing needs.

Our six-stage engagement cycle
Our engagement strategy details the six, iterative stages of our engagement cycle we use to embed the above principles of stakeholder engagement across our organisation. These are as follows:

1. For each of our key business priorities and processes we identify the stakeholders impacted by or interested in our activities.
2. We tailor our methods of engagement with our stakeholders depending on their preferences and their levels of knowledge and interest.
3. We engage with a purpose and listen to our stakeholders.
4. We respond to the views of stakeholders across our business.
5. We measure the benefits of our engagement and its effectiveness.
6. We review and refine our strategy and engagement plans.

Identifying and mapping our stakeholders
Our digital Stakeholder Relationship Management (SRM) tool allows us to capture and analyse our engagement activities with a diverse range of stakeholders across our business. We use SRM to maintain records of which topics each stakeholder has told us are priorities or of interest to them, the geographical areas in which they operate and their communication preferences.

This year we have worked with our SAP to adapt our stakeholder mapping, categorising all our stakeholders into one of the groups outlined below.

A copy of our Stakeholder Engagement submission can be found at sgn.co.uk.

Engaging with SGN stakeholders (cont)

The board welcomes the new reporting requirement as an opportunity to explain how dialogue with stakeholders has informed and helped to shape its decisions.

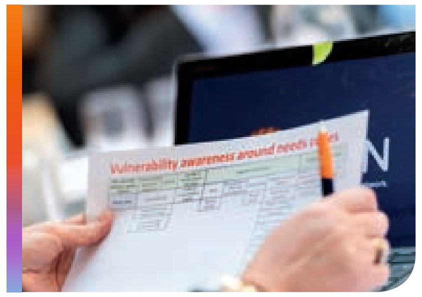
Section 172 Statement
This report sets out how the Directors comply with the requirements of Section 172 Companies Act 2006 and how these requirements have impacted the Board's decision making throughout the year.

Proactive engagement remains a central focus for the Board, which ensures the Directors have regard to the matters set out in S.172(1) (a) to (f) of the Company Act. Directors receive regular stakeholder insights and feedback, which enable them to place stakeholder considerations at the very heart of the Board's decisions. Examples of where the views of stakeholders have been gathered in Board papers and provided in feedback more broadly to inform the decisions made in Board meetings are provided below and on pages 55 and 56.

How the Board complied with its Section 172 duty
It is the Board's priority to ensure that the Directors have acted both individually and collectively in the way that they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs in S.172(1) (a) to (f) of the Company Act (although at times some factors may have been more relevant than others). The Board acknowledges that not every decision made will necessarily result in a positive outcome for all of our stakeholders. However, by giving consideration to key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, the Board aims to act fairly, transparently and in the best interests of the Company over the long term.

A full list of the activities undertaken by the Board is provided on pages 67 to 71. Examples of how the Directors have had regard to the matters set out in S.172(1)(a)–(f) when discharging their Section 172 duty can be found in the table below.

Section 172 factor	Key examples	Where to find more information (page(s))
a) The likely consequence of any decision in the long term	RIIO-GD2 Business Plan Non regulated businesses	6 to 7, 12 to 22 29
b) The interest of the Company's employees	Our people Employee engagement People and Reward Committee	46 and 47 60, 66 and 73 70
c) The need to foster the Company's business relationships with suppliers, customers and others	Stakeholder engagement	53 to 56
d) The impact of the Company's operations on the community and environment	Innovation SGN in the community SGN and the environment	24 to 28 43 to 45 48 to 52
e) The desirability of the Company maintaining a reputation for high standards of business conduct	SGN and corporate governance	57 to 74
f) The need to act fairly as between members of the Company	Company corporate governance statement (shareholders)	65



Engaging with a representative group of stakeholders, and in person, provides us an opportunity to understand their views, ideas and suggestions as to how we can improve.

Looking after our most vulnerable customers is not only something all our people take very seriously, but is also the right thing to do. Many of our people go the extra mile day-in day-out for those most disadvantaged in society.

The Board had regard to the interests of all stakeholder groups during the shaping of the five-year Business Plan.

Internal stakeholders

SGN employs around 4,000 people across its workforce and has four shareholders

Includes:
- Employees/workforce
- Trade unions
- Shareholders

2019/20 Board decision impact areas:
- Employee engagement and action plan
- Remuneration
- Talent and succession
- Diversity and inclusion

Customers

SGN provides gas distribution and related services to millions of customers

Includes:
- Domestic and industrial customers
- Small and medium enterprises
- Future of gas customers

2019/20 Board decision impact areas:
- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- Safety performance

Regulatory bodies

SGN works constructively with regulatory bodies

Includes:
- Ofgem
- HSE
- Environment Agency
- SEPA
- UREG

2019/20 Board decision impact areas:
- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- Safety performance

UK, Scotland and Northern Ireland central and local governments

SGN works constructively with central and the Scottish and Northern Ireland governments

Includes:
- Scottish Government
- Government departments
- Local Authorities
- Politicians
- Local Energy Plan Partners

2019/20 Board decision impact areas:
- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- UN Sustainable Development Goals

Energy partners and industry peers

SGN works in collaboration with third-party energy partner providers and industry peers

Includes:
- GDNs/DNOs
- Shippers/suppliers
- Industry groups
- IGTS/UIPs
- Other utilities (water, telecom etc)

2019/20 Board decision impact areas:
- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- UN Sustainable Development Goals

Supply chain

SGN works closely with its supply chain

Includes:
- Appliance manufacturers
- Construction and engineering companies
- Services providers

2019/20 Board decision impact areas:
- Approval of Modern Slavery Statement
- Large project performance
- Contract approvals

Engaging with SGN stakeholders (cont)

The Board also had due regard to all stakeholder groups when considering COVID-19 impact and response plans and strategic risks.

Local interests

SGN works in partnership with many third-party organisations to support local interest

Includes:

- Community groups
- Energy and health services
- Public transport providers
- Housing providers

2019/20 Board decision impact areas:

- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- UN Sustainable Development Goals

Environmental experts and advisory groups

SGN works closely with its environmental groups to ensure it minimises its environmental impact

Includes:

- NGOs
- Environmental charities
- Sustainability specialists

2019/20 Board decision impact areas:

- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- UN Sustainable Development Goals

Consumer welfare agency groups/providers

SGN works closely with its consumer welfare groups to support vulnerable communities

Includes:

- Consumer groups (CA, CAS etc)
- Charities
- Registered Scotland landlord
- Private and community interest groups

2019/20 Board decision impact areas:

- Sustainability – pathway to the decarbonisation of heat
- Environmental Action Plan
- UN Sustainable Development Goals

A process for putting stakeholders at the centre of our activities

Chairman's introduction to governance

We are building a more inclusive and diverse group of individuals within our Company, who will be much better equipped in dealing with the changing and challenging nature of our world and environment.

Gregor Alexander
Chairman
30 June 2020

The Board and COVID-19
As a Board we have been considering the impact of COVID-19 on our business and overseeing our overall response. We have moved all meetings to virtual boards and will continue to meet this way for the foreseeable future. The immediate priorities for the Board will be to test our business model and risk management approach to ensure it is robust and we have sufficiency of resources. We expect that COVID-19 will remain a standing agenda item until business and life return to normal, and we are confident we have systems, the right people and strong financial management in place to respond accordingly.

Board appointments
The Board's succession planning has always been focused on planning for transition over time.

This year we've seen the formal take-up of alternate Director roles, providing us consistency and stability as well as gaining a new Non-Executive Director in Michael McNicholas.

RIIO-GD2
We've had dedicated teams working with the Regulator and external groups to help ensure the next regulatory price control, which runs from April 2021 to March 2026, provides the best possible outcome for our customers, investors and workforce. Although it's still 10 months before the new price control takes effect, our Customer Engagement Group has been establishing what our customers want from us and has worked closely with Ofgem's own Customer Challenge Group to ensure we fed this valuable insight into our business planning process. Our full and final RIIO-GD2 Business Plan was submitted to Ofgem on 9 December 2019, and we'll hear the outcome in late 2020.

Engagement
Successful delivery of our strategy depends on effective engagement with our workforce and stakeholders. Throughout the year we regularly invited employees to share their views at Board dinners and through site and office visits. The Chair of the Consumer Engagement Group was also a regular attendee at our GD2 Board where direct feedback was provided and acted upon.

Strategic risk
We monitor our red risks at each Board meeting and agree actions as appropriate. Specifically this year we have closely considered our cyber risk.

The UK's National Crime Agency (NCA) remains highly concerned about the threat of cyber attack to all industries and businesses. Were such an attack successful it could mean significant disruption to our customers and potentially put their safety at risk. This is why we remain vigilant and are continually reviewing and evolving our capabilities and taking additional steps to strengthen our resilience.

Adapting to change
The world we inhabit is changing and SGN has to change with it. Society's concern for climate change has grown much stronger and with social media playing an increasingly enabling role, we are seeing a new global impetus being applied to the issues of sustainability, decarbonisation and good citizenship. In this evolving world we are committed to being open, transparent and accountable for our actions and most importantly, in the treatment of our people more than ever. Within the business we're building a more inclusive and diverse group of individuals who will be much better equipped to deal with the changing and challenging nature of our world and environment.

SGN and corporate governance

The SGN Group has always endeavoured to apply the highest standards of corporate governance and has a goal of continuous improvement in governance processes.

Corporate governance requirements
The Board has considered the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations'). For accounting years beginning on or after 1 January 2019, companies that meet certain thresholds are required to report under four corporate governance reporting regimes:

1. Employee Engagement – A statement on how Directors have engaged with employees and how Directors have had regard to employee interests (see pages 60, 66 and Directors' Report page 73).
2. Stakeholder Engagement – A statement on how Directors have engaged with stakeholders and how Directors have had regard to stakeholder interests (see Directors' Report, page 73 and also pages 53 to 56).
3. Section 172 – A statement on how Directors have had regard to their Section 172 duty to promote the success of the Company, as set out in the Companies Act 2006 (see page 54).
4. Corporate Governance – A statement on the Company's Corporate Governance Arrangements and how these have been applied (see Directors' Report, pages 59 to 60).

The SGN Group has adopted all four of these reporting regimes (Corporate Governance Requirements). In readiness, the Company has established a governance programme to ensure Directors both at Group Board and subsidiary Board level are able to comply with these Corporate Governance Requirements. This has involved:

Training
Training and awareness provided on induction to the Board and Executive Committee on the Corporate Governance Requirements, with ongoing updates in the context of wider duties and responsibilities.

Information
Updated Board reporting templates to ensure that information needed to consider each Corporate Governance Requirement is presented and considered at Board level.

Policies and process
Decision making policies and processes updated to support Directors and Executive Committee and ensure due regard to Corporate Governance Requirements.

Engagement
Employee and stakeholder engagement strategy developed to ensure that employee and wider stakeholder interests are considered by the Board.

Purpose and leadership
Purpose, Vision and Strategic Priorities developed further to reflect employee and wider stakeholder interests, and promote the long-term sustainable success of the Company.

Within this report, it is set out how Directors have engaged with these Corporate Governance Requirements during the year.

Internal controls in relation to the Company's financial reporting process
The Board of Directors is ultimately responsible for the Group's internal control systems and risk management. The Group's system of internal control and embedded risk management, which have been in place throughout the year, help to safeguard the assets and are designed to manage, rather than eliminate, material risks to the achievement of the business objectives. The Board recognises that these systems can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Accordingly, the Directors have regard to what controls, in their judgement, are appropriate to the business, to the materiality of the risks inherent in the business and to relative costs and benefits of implementing specific controls. Internal control is maintained through an organisation structure with clearly defined responsibilities, authority levels and lines of reporting, the appointment of suitably qualified staff in specialised business areas and continuing investment in high-quality information systems. These methods of control are subject to periodic review as to their implementation and continued suitability.

There were no changes in the Company's internal controls over financial reporting during the year covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Internal audit
The Board of Directors has established the scope of the internal audit function which is responsible for reviewing the effectiveness of the Group's systems of internal control and reports to the Audit Committee of the Board. The Head of Internal Audit reports to the Audit Committee on the audit programme, progress against the programme and appropriate follow-up actions at each Audit Committee meeting.

SGN and the Wates Principles for large privately owned companies

1. Purpose and leadership
An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

2. Board composition
Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.

3. Director responsibilities
The Board and individual directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.

4. Opportunity and risk
A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks.

5. Remuneration
A Board should promote executive remuneration structures aligned to the long-term sustainable success of a company, considering pay and conditions elsewhere in the company.

6. Stakeholder relationships and engagement
Directors should foster effective stakeholder relationships aligned to the company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Corporate Governance
During the year ended 31 March 2020, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (Wates Principles) as part of its wider Corporate Governance Requirements. The Wates Principles are published by the Financial Reporting Council (FRC) and available on the FRC website.

In this Directors' Report, we describe how we have applied the Wates Principles in line with its 'comply or explain' model and confirm full compliance with its principles for the reporting year ended 31 March 2020.

Principle 1
Purpose and leadership
The focus for the Board and Executive Committee during the financial year 2019/20 has been the development of the five-year Business Plan. This has given the Board the opportunity to refine and revalidate the Company purpose, vision and strategy with stakeholders through extensive engagement and consultation.

Our company vision is to own heat and lead the way in low carbon energy delivery by making gas green. Our purpose is to keep everyone safe and warm and our strategy is to deliver long-term value for our existing and future customers, stakeholders and shareholders. This strategy is based on strong financial management and a robust governance framework, both underpinned by our detailed Business Plan which covers the period 2021-26 (a copy of this Business Plan can be viewed at www.sgnfuture.co.uk). Our Group-wide strategic priorities consist of our three customer commitments made in our GD2 Business Plan in addition to our priority to continue to create value through commercial growth, summarised as follows:

1. **Safe and efficient** – We will deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.
2. **Positive impact** – We will make a positive impact on society, by supporting vulnerable communities and providing excellent service.
3. **Shared future** – We will build a shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.
4. **Creating value** – We will create value by accelerating commercial opportunities which complement the core; maximise the value from our existing asset base; invest in opportunities for the sustainability of our network; and keep SGN at the forefront of the delivery of heat.

This purpose, vision and strategy consistently applies across the Group to ensure 'one' SGN and provide clear leadership and focus. It is through this 'one' SGN approach we guide the organisation's strategy, decisions, processes and culture.

We have communicated to our workforce through the annual leadership conference, a series of 'get fit for the future' roadshows and workshops where employees have been encouraged to contribute ideas as to how the Group can practically deliver our Business Plan.

Principle 2
Board composition
The Board comprises eight Non-Executive Directors, including a separate Chairman to the Chief Executive, to ensure that the balance of responsibilities, accountabilities and decision making across the Group are effectively maintained. The Chief Executive, Chief Financial Officer and the Group Company Secretary attend each Board meeting. Two Independent Non-Executive Directors also sit on the subsidiary Boards of Scotland and Southern Gas Networks plc.

The size and composition of the Board is appropriate to meet the strategic needs and challenges of the Group whilst still enabling effective decision making.

SGN and corporate governance (cont)

Directors update their skills, knowledge and familiarity with the Group by meeting with senior management, visiting operations (such as visits to operational sites, depots and offices) and by attending appropriate seminars and training courses. There is an induction programme for all new Directors that is tailored to their specific experience and knowledge and which provides access to all parts of the business.

We consider that there is an appropriate combination of skills, backgrounds, experience and knowledge that promotes accountability. We acknowledge that further improvements can be made to the diversity of our Board. The Board is committed to developing a more diverse and inclusive workforce including the most senior levels and Board level appointments.

Further details of the Board composition and experience can be found on pages 61 to 64.

The Board previously undertook a formal effectiveness review in 2018 and has scheduled the next review for 2020.

Principle 3
Director responsibilities

The Board's role is to promote the long-term success of the Group through the setting of a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders.

Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 64 to 66.

Principle 4
Opportunity and risk

Opportunities are identified through several sources including the Executive Committee and through employee and stakeholder engagement. During the development of the Business Plan and a Board strategy session held during the year, the Board approved the strategic priorities which now underpin the Company's strategy to deliver long-term value for its existing and future customers, stakeholders and shareholders.

A Board priority setting exercise was also completed during the year to forward plan the Board programme ensuring a balance of steering and supervisory items to help review, amongst other things, opportunities and risk to preserve value for the long-term sustainable success of the Group.

The Company's risk management framework and key strategic risks and mitigations are outlined in the Strategic Report on pages 36 to 42. The Board also considers all major investments as defined by their value.

Principle 5
Remuneration

The primary objective is to set remuneration at a level that will enhance the Company's resources by securing and retaining quality people who can deliver the Group's strategic priorities and long-term value for its existing and future customers, stakeholder and shareholders.

The People and Reward Committee (PARCO) has clearly defined terms of reference and is responsible for independently reviewing and constructively challenging remuneration, talent and succession at an Executive Committee level, while also having oversight of the wider group remuneration strategy to ensure consistency in approach.

The Board retains overall accountability for determining remuneration policies.

In 2019, the Board (following a recommendation from PARCO) agreed changes to the long-term incentive plan to align these against the strategic priorities to ensure a better alignment to support delivering what matters to stakeholders.

PARCO acts on behalf of all subsidiaries within the Group.

Details of the gender pay gap report can be found on page 46.

Principle 6
Stakeholder relationships and engagement

The Board is committed to social responsibility, community engagement and environmental sustainability as underpinned by our strategic priorities.

During the year the Company has developed these priorities. Throughout this process, the Board listened extensively to customers and stakeholders to create the GD2 Business Plan; with 23,000 high quality individual engagements and more than one million people reached online.

The Business Plan is built on this feedback which includes consideration of how the Group's activities may impact both current and future stakeholders and is brought to life by our strategic priorities that run throughout our plan and underpin all our proposals.

In 2019 we carried out an employee engagement survey and in early 2020 did a second survey, this time specifically related to COVID-19 asking among other things how our people were coping through the crisis. The Board considers the results of all employee engagement surveys a good barometer of the workforce's confidence in the Group's strategic direction, optimism in the future and career opportunities.

We also maintain strong relationships with our trade unions and have a regular dialogue to ensure engagement more widely across our workforce.

Board of Directors

as at 31 March 2020

	Chairman	Non-Executive Directors	
			
	Gregor Alexander	**Robert McDonald**	**Natalie Flageul**
Board and committee membership and attendance	● 12/12 ● 3/3 ● 3/3 ● 6/6 ● 10/10	● 12/12 ● 10/10	● 11/12 ● 4/4 ● 8/10
Date of appointment	Non-Executive Director since 27 August 2004. Re-appointed Chair in 2018.	Non-Executive Director since 21 July 2006.	Non-Executive Director since 27 September 2011.
Biography	Gregor joined the Board at its inception and was appointed the Chairman of SGN in July 2011. He is Finance Director of SSE plc and previously worked with the accountancy firm Arthur Andersen.	Rob joined the Board in July 2006. He is Managing Director SSEN Transmission and has previously worked with the industry's regulatory body.	Natalie joined the Board in September 2011. She is Director of Customer Experience at SSE plc and previously oversaw the transformation to nationwide coverage in preparation for Smart Meter deployment.
Key external appointments and changes during the period	• Finance Director of SSE plc • Non-Executive Director of Stagecoach Group plc	• Director of Scottish and Southern Energy Power Distribution Limited • Director of Scottish Hydro Electric Power Distribution PLC	• Director of Customer Experience of SSE plc

	Non-Executive Directors		
			
	Charlotte Brunning	**Nick Salmon**	**Michael McNicholas**
Board and committee membership and attendance	● 12/12 ● 3/3 ● 6/6 ● 10/10	● 12/12 ● 3/3 ● 4/4 ● 10/10	● 9/9 ● 3/3 ● 4/6 ● 10/10
Date of appointment	Non-Executive Director since 2 May 2018.	Non-Executive Director since 14 March 2019.	Non-Executive Director since 28 June 2019.
Biography	Charlotte joined the Board in May 2018. She is a member of the EMEA Infrastructure and Natural Resources team and had been with Ontario Teachers' since 2015. She has been involved in a number of direct investments, including London City Airport and SGN Smart. Charlotte holds a BSc from the London School of Economics and an MBA from the London Business School.	Nick joined the Board in March 2019 as a Teachers' nominee. He is also currently Chairman of South East Water Ltd. Previously he was the Senior Independent Director at both United Utilities plc and Elementis plc, a non-executive Director at Interserve plc and CEO of Cookson Group plc and Babcock International Group plc.	Michael joined the Board in June 2019. He is Managing Director, Asset Management in OMERS Infrastructure and responsible for the active management of investments, with a focus on Europe. Prior to joining OMERS, Michael was CEO of Ervia Group with responsibility for Ireland's Gas Networks and the national Water Utility. Michael also served as Group CEO of NTR a sustainable infrastructure company investing in renewables, and recycling in Europe and the USA.
Key external appointments and changes during the period	• Chair of Maple TopCo Limited and Group companies • Senior Principal, OTPP	• Chair of South East Water Limited	• Director of Thames Water Utility Holdings Limited • Director of Kemble Water Finance Limited • Managing Director, OMERS

Board of Directors (cont)

as at 31 March 2020

Non-Executive Directors

	John McManus	Guy Lambert
Board and committee membership and attendance	● 8/12 ● 3/3 ● 3/4 ● 7/10	● 9/12 ● 2/3 ● 2/4 ● 2/6 ● 8/10
Date of appointment	Non-Executive Director since 27 March 2012.	Non-Executive Director since 26 October 2016.
Biography	John joined the Board in March 2012. He is Senior Advisor to OMERS Infrastructure in asset management, assessment of investment opportunities, relationship development and mentorship.	Guy joined the Board in October 2016. He joined the Abu Dhabi Investment Authority (ADIA) in 2008 and currently serves as the Head of Utilities. He is responsible for sourcing and executing new investments in the utilities sector and overseeing the existing utilities portfolio.
Key external appointments and changes during the period	• Director of LifeLabs Incorporated	• Director of Blue Spyder B Limited 2016 • Director of Kemble Water Eurobond PLC

Statutory Independent Non-Executive Directors

	Paul Jeffery	Laura Sandys
Board and committee membership and attendance	● 12/12 ● 3/3 ● 6/6 ● 10/10	● 12/12 ● 4/4 ● 10/10
Date of appointment	Independent Director since 28 January 2014.	Independent Director since 1 October 2018.
Biography	Paul joined the Board in January 2014. Previously he ran the European Power, Utility and Infrastructure Investment Banking Sector team for Barclays. Paul is also a non-executive Director of UK Power Networks.	Laura joined the Board in October 2018. She was a member of the Energy and Climate Change Select Committee and co-founder of POWERful Women which promotes the role of women in the energy sector. She has been appointed a member of the Government's CCUS Council and is a Member of Imperial College's Centre for Carbon Capture and Storage Advisory Group.
Key external appointments and changes during the period	• Non-executive director of London Power Networks Ltd, South-Eastern Power Networks Ltd, Eastern Power Networks Ltd and UK Power Networks (IDNO) Ltd all forming part of the UK Power Networks group • Director and Shareholder for P&G Property Limited	• Chair for the Energy Data Taskforce (the 'Taskforce') established by BEIS, Ofgem and Innovate UK • Co-ordinator for the Reshaping Regulation Programme with Imperial College and Energy Systems Catapult • Non-Executive Director of Energy System Catapult Limited

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RH6 9HJ

Auditor
KPMG LLP
Statutory Auditor
London

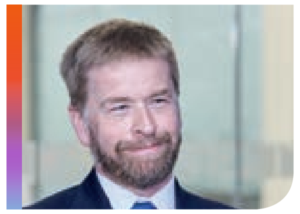
Registered number
04958135

● Board attendance
● Audit Committee
● Safety, Health and Environmental Advisory Committee
● People and Reward Committee
● Finance Committee
● GD2 Board

Alternate Directors

	Peter McCosker	Ines Grund	Charles Thomazi
Date of appointment	Alternate Director since 8 June 2019.	Alternate Director since 18 July 2018.	Alternate Director since 26 October 2017.
Biography	Peter joined the SGN Board in 2019. Peter is a Portfolio Manager in the Infrastructure Division of the Abu Dhabi Investment Authority which he joined in 2014. In this role, Peter is responsible for portfolio company asset management and transaction execution. He has significant utilities experience in the United Kingdom, Australia and the United States.	Ines joined the Board in July 2018 and is a Director at OMERS Infrastructure, responsible for the active management of infrastructure investments. She attends Board meetings as a substitute to Michael McNicholas.	Charles joined the Board in October 2017 and leads the EMEA Infrastructure team in Teachers' Infrastructure Group. He attends Board meetings as a substitute to Charlotte Brunning.
Key external appointments and changes during the period	• Alternate Director of Kemble Water Holdings Limited	• Non-Executive Director of Maple TopCo Limited and Group companies • Alternate Director of Caruna	• Managing Director of Ontario Teachers' Pension Plan (OTPP) • Director of Western Topco Limited (Westerleigh Group)

Senior Management Team



	John Morea Chief Executive Officer	Michael Carmedy Chief Financial Officer	Nicola Graham-Shand Director of Legal Services (Group Company Secretary)
Date of appointment	Chief Executive Officer since May 2005.	Chief Financial Officer since January 2018.	Company Secretary since July 2011.
Biography	John joined the Company in May 2005 from SSE plc. He has over 30 years' experience in the energy industry. John is a companion of the Institute of Gas Engineers and Managers, a member of the Institute of Engineering and Technology and holds an MBA.	Mick joined the Company in January 2018. Mick was CFO of Southern Water, the regulated water business, for five years prior to joining. Mick has also worked at United Utilities and Thames Water in a wide variety of roles.	Nicola joined the Board as Company Secretary in July 2011. Nicola is Director of Legal Services and is responsible to the Board for compliance with Board procedures and for advising and keeping the Board up-to-date on all corporate governance developments.
Key external appointments and changes during the period	• Director of Thames Water Utilities Limited • Director of the Energy Networks Association Limited		• Company Secretary for Maple TopCo Limited and its group companies • Non-Executive Director, FYLD Limited

Board attendance

- During the year there were 12 Board meetings, of which six were scheduled meetings and six were Board calls.
- There were also 10 GD2 Board focussed sessions, six GD2 Board subcommittee meetings and nine GD2 Bi-weekly update calls. The GD2 Board subcommittee was folded into the GD2 Board focused meetings in July 2019. For the purposes of the attendance table, we have only included attendance at the GD2 Board focussed sessions.
- All absences were due to Directors having unavoidable diary conflicts. If Directors could not attend, their Alternative would attend in their absence.
- Attendance is expressed as the number of meetings attended out of the number eligible to be attended.
- As a result of the COVID-19 social distancing measures all Board and committee meetings are now virtual and will continue to be this way for the foreseeable future.

Board and Committee changes

The below changes to Board and Committee membership have taken place since 1 April 2018:

- Michael McNicholas was officially appointed to the Board on 28 June 2019.
- Michael McNicholas joined the People and Reward Committee as Chair on 6 June 2019, replacing Alejandro Lopez Delgado.
- Michael McNicholas joined the Finance Committee as a member on 6 June 2019, replacing Alejandro Lopez Delgado.
- Nick Salmon joined the Audit Committee as a member on 6 June 2019, replacing Charlotte Brunning.
- Nick Salmon joined the Safety, Health and Environmental Advisory Committee as a member on 16 July 2020.
- Alejandro Lopez Delgado stepped down from the Board on 28 June 2019.

Corporate governance statement

Governance overview

The Board's role is to promote the long-term success of the Group through the setting of a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders.

Governance framework

The successful execution of this strategy and oversight of its delivery are supported by clear Board protocols and governance framework that defines relevant decision making authorities and responsibilities. Formally, these authorities and responsibilities are documented within: SGN's Articles of Association; Shareholder Agreement; the schedule of Matters Reserved for the Board; the terms of reference for the Committees; and the financial approval framework.

Board of Directors

The Board of Directors is comprised entirely of Non-Executive Directors and is the principal decision making forum for the Company. Directors are nominated to the Board in accordance with the terms of the Shareholders' and Governance Agreement.

The Board is collectively responsible for the long-term success of the Group and for setting of a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders. It provides the leadership necessary for the Group to meet its business objectives while ensuring a sound system of internal control and risk management is in place. The powers and the duties of the Directors are determined by legislation and by the Company's Articles of Association. The Board has also adopted a formal schedule of matters detailing key aspects of the Company's affairs reserved to it for decision.

Board constitution and appointments

The Board of Directors comprises eight Non-Executive Directors. This consists of a Non-Executive Chairman and seven Non-Executive Directors. The Board of Directors is the same for the Company and each subsidiary company within the Group, except for:

- Scotland Gas Networks plc and Southern Gas Networks plc, which consist of two additional independent Non-Executive Directors; and
- Subsidiary companies of SGN Place Limited and SGN Lessona Limited, which have their own independent Board of Directors.

The Non-Executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Group financial information; and ensure systems of internal control and risk management are appropriate and effective.

Biographical details for each of the Directors are set out on pages 61 to 63.

Chairman

Gregor Alexander was re-appointed as Chairman on 18 July 2018.

Board Committees

During the year the Board was directly assisted in the discharge of its duties by four Board Committees and dedicated GD2 Board meetings, whose remit, authority and composition are monitored to ensure continued and appropriate Board support. From 1 April 2020 onwards, a new Committee was established for the purposes of ensuring the Company has due regard to stakeholder, environment and customer interests (Stakeholder, Environment and Customer Committee).

Each of the Board Committees provides dedicated focus to a defined area of responsibility. Board Committees act as an advisory body, with the Board retaining oversight and final decision making, except where otherwise delegated by the Board in which case the Committee will act within their agreed authority.

Board Committee membership is determined by the Board. Prior to determining membership, the Board will consider the subject matter of the Committee's work to ensure that the membership addresses its specific needs. Membership will assess technical skills, knowledge and experience whilst recognising the benefits associated with diversity. Each Board Committee is chaired by a Non-Executive Director.

Board Committees hierarchy

Further information on the Board committees are set on pages 68 to 71.

Chief Executive Officer and Chief Financial Officer

Below the Board, executive responsibility rests with John Morea, Chief Executive Officer (CEO) and Mick Carmedy, Chief Financial Officer (CFO). The CEO and CFO are each employed by the Group and are not Directors of the Company although attend each Board meeting. They are supported by an Executive Committee.

Biographical details for the CEO and CFO are set out on page 63.

Executive Committee

Day-to-day management of the Company is delegated to the Executive Committee which meets monthly and is chaired by the Chief Executive and whose membership includes the Chief Financial Officer and leaders of each business unit. The Executive Committee is in turn supported by its own operational and assurance framework, with defined roles and responsibilities including relevant delegated authorities.

Board and executive reporting

To ensure that all decision making is well-informed, transparent and balanced, careful consideration is given to information provision and flows within the governance framework. During the year the Group Company Secretary worked with Board Intelligence Limited to review the end to end Board and Executive Committee reporting cycle and implemented changes to further support the timely provision of high-quality information and promote effective decision making. This exercise involved developing best practice templates to guide authors and help the Board focus on what matters (including a check against Section 172 duties); online training to equip authors to write high quality papers; and a Company dashboard to display key performance data and rapid insights on the overall health of the Group. Board information is distributed digitally, instantly and securely via the Board Intelligence platform once available.

The Group Company Secretary is responsible to the Board for the timeliness and quality of information. All Directors have access to the advice and services of the Group Company Secretary. Biographical details for the Group Company Secretary are set out on page 63.

Conflicts of interest

With effect from 1 October 2008, the Companies Act 2006 has introduced a statutory duty on Directors to avoid conflicts of interest. During the year, the Group Company Secretary formally reviewed all the Directors' reported actual and potential conflicts of interest. The Board then considered and recorded each Director's reported actual and potential conflicts of interest.

In addition, conflicts of interest and governance are included as standing agenda items for every Board Meeting. The Group Company Secretary periodically reviews the Board protocols and governance framework to confirm that they remain fit for purpose and considers any initiatives which could strengthen the governance of the Company and decision making.

Shareholders

SGN has four supportive shareholders. They oversee the three regulated operating companies in Scotland, southern England and Northern Ireland as well as the holding company and a number of unregulated operating companies.

The Board interfaces with the shareholder members on a regular basis and always acts fairly as between members of the Company.

Board meetings

There were six scheduled meetings of the Board in 2019/20 in line with the agreed plan of business for the year, and details of Director attendance can be found within the individual biographies on pages 61 to 63.

In the months between full Board meetings, a Board update call provides the opportunity to discuss key business developments, and emerging issues and opportunities, with arrangements also in place should a Board decision or approval be required outside of the above times. In total there were 12 Board meetings and calls during the year.

Scheduled meetings of the Board follow an agreed format, with agendas being developed from the Board's annual plan of business and tailored to reflect the current status of projects, strategic workstreams and the overarching operating context. Finalisation of meeting content is a collaborative process involving the Chair, Chief Executive, Chief Financial Officer and the Group Company Secretary, who ensure adequate time is allocated to support effective and constructive discussion.

Board engagement out of the Boardroom

The Board also ensures it spends time out of the Boardroom with stakeholders. During the year, the Board attended offices, depots and undertook various site safety visits to meet with our workforce to understand their views and also met with key stakeholders at Ofgem and in government.

Board and Executive reporting cycle

Corporate governance statement (cont)

Employee engagement
The Board has adopted a robust employee listening strategy, capturing feedback, insight and suggestions from colleagues using a range of different methods and channels. The feedback is subject to rigorous analysis to identify emerging themes and trends. During the year the following Board engagement actions were taken:

- Inform – Employee communication this year has been further supported by the Company-wide roll out of office 365 and Microsoft Teams in line with the technology strategy approved by the Board. This has enabled real time information to be provided on matters of interest to our employees.
- Consult – In September 2019, employees were invited to take part in our employee opinion survey which provided a 58% response rate with three key indices: Inclusion index 68%; Sustainable engagement index 79%; and Leadership score 59%. The Board has reviewed the feedback and agreed an action plan based on this.
- Participation – Employees are invited to get involved in helping drive performance at a Company and local level. Safety champions represent all departments to advocate safe working practices and support with safety related campaigns and initiatives. Safety champions have an opportunity to meet directly with the Board during office and sight visits to provide this feedback.

Employee engagement is invaluable as it provides Directors with valuable insight to help inform decision making.

Board activity
The Board splits its time between steering the organisation and supervising it across strategy, performance, and governance short, medium and long term which is discussed at every Board meeting. With Board input, the Group Company Secretary has developed a focused set of priorities for the Board for the year. The aim of developing priorities is to ensure the right items come to the Board at the right frequency to help focus on the issues that matter most to the Group and ensure meeting time is used effectively. The supporting Board papers for each agenda item focus on answering the key questions on the Board's mind.

In line with the Board's responsibility for the overall strategic direction of the Group, strategy related issues are discussed at every Board meeting.

During the year the Board spent a significant time considering its strategy over the next five years as part of the ongoing RIIO-GD2 Business Plan process. Throughout this process, the Board listened extensively to customers and stakeholders; with 23,000 high quality individual engagements and more than one million people reached online.

The Business Plan is built on this feedback, which includes consideration of how a company's activities may impact both current and future stakeholders ensuring that the expectations of stakeholders in respect of SGN's economic, social and environmental impacts are integrated within, and consistent with, strategic priorities and matters relating to the employment, retention and development of the skilled and talented people on which the successful execution of SGN's strategy depends. An overview RIIO-GD2 Business Plan is set out on pages 6 and 7.

As part of this, the Board has overseen a number of other strategy-related analyses, including, but not limited to: a review of SGN's pathway to the decarbonisation of heat, covering relevant trends in policy, technology, customer and stakeholder expectations; SGN's long-term financial outlook; assessment and prioritisation of growth opportunities; and a review of SGN's key risks.

Further details of the areas which have shaped the Board and committee agendas during 2019/20 are set out on the following pages, together with an overview of how these link to our strategic priorities, Group risks, Wates Principles and Section 172.

The role of steering and supervising in Board assessments

What the Board has done this year

Key activity	Link to strategic priorities	Link to strategic risk	Link to Wates	Link to S172
Steering: Making decisions, shaping, guiding				
Five-year Business Plan – consideration of Purpose, Vision and Strategy (further details on pages 6 and 7).	All	Risk 3 and 11	Principle 1	All
Financial – review of long-term financial outlook and performance including consideration of dividend proposals, sufficient resources and approval of annual budget.	All	Risk 3	Principle 4	Section A
Non-Regulated Growth – consideration of new investments in property, assets, technology and opportunities which complement the core.	4	–	Principle 4	Section A
Sustainability – approved strategy of pathway to the decarbonisation of heat.	3	Risk 4 and 12	Principle 1 and 4	Section A and D
Technology – review of digital technology to support operations and working smarter.	1	Risk 2	Principle 4	Section A
Stakeholders – review of engagement with policy holders and consideration of Brexit and nationalisations implications.	All	Risk 5	Principle 4 and 6	Section A
People and Culture – review of employee engagement feedback to understand employee views and approval of action plans, including talent and succession.	All	Risk 8	Principle 1 and 6	Section B
Corporate Responsibility – approving Environmental Action Plan, adaptation of UN sustainability goals and Modern Slavery Statement.	3	Risk 3, 10 and 12	Principle 3 and 6	Section D and E
Contract approvals – various contracts considered pursuant to the Board schedule of reserved matters.	1	–	Principle 3	Section A
Supervising: Monitoring, seeking assurance				
Business Plan Assurance – extensive business plan assurance completed by the Board. A copy of the Board Assurance business plan statement can be found at www.sgnfuture.co.uk.	All	Risk 3 and 9	Principle 3	–
COVID-19 Impact and Response Plans – extensive consideration of COVID-19 impact areas and response plans to ensure corporate objectives are met (further details on page 37).	All	Risk 1	Principle 1 and 4	–
Strategic Risks – consideration of strategic risks (further details on pages 37 to 42) and implementing appropriate governance, monitoring compliance and ongoing risk management.	All	All	Principle 4	–
Regulatory Performance – continued Board focus and review of regulatory performance and initiatives.	–	Risk 9	Principle 4	–
Safety Performance – continued Board focus and review of safety performance and initiatives, including Board site visits.	1	Risk 6	Principle 4 and 6	–
Large Project Performance – review of progress against significant projects, including, Erskine Bridge and cloud migration.	1	Risk 7	Principle 4	–
Governance – review of Board committee membership, reporting, priorities and planning and compliance with the new Corporate Governance requirements.	–	Risk 10	Principle 3	–
Cyber – focussing review and assurance.	1	Risk 2	Principle 4	–

What the GD2 Board has done this year

Key activity	Link to strategic priorities	Link to strategic risk	Link to Wates	Link to S172
Steering: Making decisions, shaping, guiding				
Development of GD2 Business Plan – extensive review and feedback of GD2 Business Plan (further details on pages 6 and 7).	All	Risk 3 and 11	Principle 1	All
Supervising: Monitoring, seeking assurance				
Business Plan Assurance – extensive business plan assurance completed by the Board. A copy of the Board Assurance business plan statement can be found at www.sgnfuture.co.uk.	All	Risk 3 and 9	Principle 3	–

Corporate governance statement (cont)

Audit Committee

John McManus
Audit Committee Chair

Current members
The current members of the Audit Committee are John McManus (Committee Chair), Gregor Alexander, Nick Salmon, Paul Jeffery and Guy Lambert.

Principal responsibilities
The principal responsibilities of the Audit Committee are as follows:

- Ensuring the Company's financial reports represent an accurate, clear and balanced assessment of the Company's position and prospects;
- Ensuring the economy, efficiency and effectiveness of the Company's operations and internal controls, the reliability and integrity of information and accounting systems and the implementation of established policies and procedures;
- Monitoring and reviewing the Company's internal audit function; and
- Maintaining a close relationship with the Company's external auditor and reviewing the effectiveness of the external audit process.

As part of its activities, the Audit Committee also reviews and approves key regulatory filings prior to their issue to Ofgem.

What the Committee has done this year

Key activity	Link to strategic priorities	Link to strategic risk	Link to Wates	Link to S172
Steering: Making decisions, shaping, guiding				
Financial Reporting – reviewed and considered the key accounting judgements and the interim and final financial results and recommended the same for approval by the Board of Directors for the Half Year and Annual Report, Statutory and Regulatory accounts.	All	–	Principle 3	Section A
External Auditor • Reviewed the effectiveness of the external audit process and market impacts. • Reviewed the independence of the External Auditor. • Monitored the level of non-audit fees and approved any new non-audit engagements. • Overview of the selection process for the incoming auditor, EY, and approval of its appointment.	All	–	Principle 3	Section E
Annual Goodwill Impairment – reviewed and approved the annual goodwill impairment and carry value judgements.	All	–	Principle 3	Section A
Supervising: Monitoring, seeking assurance				
Internal Audit Report – approved annual audit plan and received regular updates on the delivery of the plan.	All	All	Principle 4	–
External Audit – considered the accounting, financial control and audit issues from the External Auditor's report.	All	–	Principle 4	–
Internal Compliance Report – approved annual compliance plan and reviewed regular updates on the delivery of the plan. Also reviewed outcomes of all internal compliance investigations, including incidents raised via raising concerns channel to help assess risks, trends and culture across the Group.	All	Risk 10	Principle 4	–
External Compliance Officer Report – received external compliance report on compliance with standard licence condition A27 concerning business separation and approved submission to Ofgem.	All	Risk 10	Principle 4	–
Compliance Certificates – received and approved the compliance certificates and monitored the performance against the schedule of key dates.	All	Risk 9	Principle 3	–
Regulatory Reports – received and recommended for approval by the Board the regulatory reports to Ofgem.	All	Risk 9	Principle 3	–

Safety, Health and Environmental Advisory Committee

Natalie Flageul
Safety, Health and Environmental Advisory Committee Chair

Current members
The current members of the Safety, Health and Environmental Advisory Committee are Natalie Flageul (Committee Chair), John McManus, Nick Salmon, Guy Lambert and Laura Sandys.

Principal responsibilities
The principal responsibilities of the Safety, Health and Environmental Advisory Committee are as follows:

- Ensuring the health and safety policy statement and environmental policy statement remain fit for purpose and are being adhered to;
- Reviewing and monitoring the safety, health and environmental strategy and action plan, which shall be designed to eliminate, reduce or otherwise control personal and process related data;
- Reviewing and monitoring the safety, health and environmental compliance and assurance plan (and liaising with the internal auditor in relation thereto);
- Setting health and safety and environmental targets to improve the Group's performance;
- Monitoring health and safety and environmental performance against planned targets and identified key improvement areas by means of appropriate leading and lagging key performance indicators; and
- Encouraging greater awareness of the importance of health, safety and the environment and higher achievement in performance in these areas.

What the Committee has done this year

Key activity	Link to strategic priorities	Link to strategic risk	Link to Wates	Link to S172
Steering: Making decisions, shaping, guiding				
SHE Targets – reviewed and provided feedback on the development of the SHE targets for the year and recommended to the Board for approval of the same.	1	Risk 6	Principle 3	Section B and D
Environmental Action Plan – reviewed and provided feedback on the development of the Environmental Action Plan forming part of the GD2 submission and recommended to the Board for approval of the same.	1 and 3	Risk 12	Principle 4	Section D
Fatigue – reviewed future risk and plans to manage this.	1	Risk 6	Principle 4 and 6	Section B
Safety Case – reviewed and provided feedback on updates to the safety case and recommended to the Board for approval of the same.	1	Risk 6	Principle 3	Section C
Winter Planning – reviewed and provided feedback on winter planning.	1	Risk 6	Principle 4	Section D
Commercial Safety Management Arrangements – reviewed and provided feedback on commercial safety management framework and recommended to the Board for approval of the same.	1 and 4	Risk 6	Principle 4	Section D
Supervising: Monitoring, seeking assurance				
SHE Performance – reviewed performance to ensure continued focus and improvement.	1	Risk 6	Principle 3 and 4	–
HSE Intervention and Inspection Plan – reviewed HSE engagements.	1	Risk 6	Principle 3 and 4	–
Compliance and Assurance Plan – received and considered safety compliance and assurance plans and received regular updates on the delivery of the plan.	1	Risk 6	Principle 3 and 4	–
Safety Culture – reviewed progress against the safety culture programme.	1	Risk 6 and 8	Principle 1 and 6	–

Corporate governance statement (cont)

People and Reward Committee

Michael McNicholas
People and Reward Committee Chair

Current members
The current members of the People and Reward Committee are Michael McNicholas (Committee Chair), Gregor Alexander and Charlotte Brunning.

Principal responsibilities
The principal responsibilities of the People and Reward Committee are as follows:

- To determine and agree with the Board of Directors the Group's framework for executive and senior management remuneration;
- The Committee has delegated authority for setting the remuneration of the CEO, CFO and their direct reports;
- To review the ongoing appropriateness and relevance of the remuneration policy; and
- To keep under review executive succession planning, leadership and management development.

What the Committee has done this year

Key activity	Link to strategic priorities	Link to strategic risk	Link to Wates	Link to S172
Steering: Making decisions, shaping, guiding				
Remuneration – continued to review and where appropriate recommended changes to Board on the remuneration strategies across the Group. In 2019, the Board agreed changes to the long-term incentive plan to align these against the strategic priorities to ensure a better alignment to support delivering what matters to stakeholders.	1	Risk 8	Principle 5	Section B
Objectives – considered short-term and long-term objectives to drive the right behaviours and help provide a framework of Remuneration.	All	Risk 8	Principle 5	Section B
Talent and Succession – continued to focus on talent and the ability to attract, retain and progress individuals to improve the overall capability of the Company.	1	Risk 8	Principle 6	Section B
Employee Engagement – supported the completion of an employee engagement survey and listened to employee feedback providing a recommendation to the Board on an action plan.	1	Risk 8	Principle 6	Section B
Supervising: Monitoring, seeking assurance				
Company and Executive Performance – reviewed and assessed Company and executive performance against agreed short-term and long-term objectives.	1	Risk 8	Principle 6	–
Diversity and Inclusion Plan – received key performance indicators on diversity and inclusion and discussed opportunities to improve.	1	Risk 8	Principle 1, 4 and 6	–

Finance Committee

Charlotte Brunning
Finance Committee Chair

Current members
The current members of the Finance Committee are Charlotte Brunning (Committee Chair), Gregor Alexander, Michael McNicholas, Guy Lambert and Paul Jeffery.

Principal responsibilities
The principal responsibilities of the Finance Committee are to authorise specific transactions of the Group, where it has been provided delegated authority by the Board of Directors to do so.

In addition the Finance Committee will support the Board as follows:

- To consider and provide recommendations on financial risk management and credit rating strategy.

What the Committee has done this year

Key activity	Link to strategic priorities	Link to strategic risk	Link to Wates	Link to S172
Steering: Making decisions, shaping, guiding				
Funding and Risk Management Strategy – reviewed Treasury operations, including the funding plan, liquidity and going concern.	All	Risk 4	Principle 3 and 4	Section A
Pension – reviewed pension arrangements.	All	–	Principle 5	Section B
Supervising: Monitoring, seeking assurance				
Treasury and Bank Mandates – reviewed and approved changes to the treasury and bank mandates.	1	–	Principle 3	–
Credit Ratings Review – reviewed credit rating analysis.	1	–	Principle 1, 4 and 6	–

Statement of Directors' responsibilities

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 Group and parent financial statements for each financial year. Under that law they are required to prepare the Group and parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the Board of Directors of Scotia Gas Networks Limited:

Gregor Alexander
Chairman

30 June 2020

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2020.

The financial statements consolidate the financial statements of the Company and its subsidiary undertakings (together the 'Group'). This report must be read in conjunction with the Strategic Report found on pages 8 to 56.

Principal activities

The Company is a holding company which does not trade. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 13 to the financial statements. The Group's principal activity is the development, administration, maintenance and safe operation of the Gas Distribution Networks in Scotland, southern England and Northern Ireland and the supply of associated transportation, connection and metering services. It will continue these activities for the foreseeable future.

Directors

The Directors of the Company who served during the year ended 31 March 2020 and up to the date of signing can be found on pages 61 to 63.

Directors' insurance and indemnities

The Directors of the Company have the benefit of the indemnity provisions in the Company's Articles of Association. The Directors have been granted a qualifying third-party indemnity provision which was in force throughout the year. In addition, the Company has purchased and maintained throughout the year Directors' and officers' liability insurance in respect of itself, the Group, the Directors and other senior executives of the Group.

Principal risks

The review of business for the year, including an analysis using key performance indicators and an indication of likely future developments in the business, together with a description of the principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 36 to 42.

Employee engagement

The Group places considerable value on the involvement of its employees. It has continued to keep them informed on matters affecting them and on the various factors affecting the Group. Participation by employees generally is encouraged through team meetings, briefings, a digital app and an intranet site. The CEO and other senior executives regularly communicate with employees through these channels and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. 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 employer within the Group continues to make sure that appropriate training and development is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. Further detail on Employee Engagement is set out on pages 54, 60 and 66.

Stakeholder engagement

During the year the Company has developed its Business Plan. Throughout this process, the Group listened extensively to customers and stakeholders to create the Business Plan; with 23,000 high quality individual engagements and more than one million people reached online. The plan is built on this feedback which includes consideration of how a company's activities may impact both current and future stakeholders and is brought to life by our strategic priorities that run throughout our plan and underpin all our proposals. Further detail on Stakeholder Engagement is set out in the Strategic Report on pages 53 to 56.

Corporate Responsibility

Corporate responsibility continues to remain an integral part of the Group's business. The Group's approach, priorities and objectives in the corporate responsibility arena, specific to the environment and communities in which we work, are published, communicated and embedded within the business as part of the Group's overarching strategic priorities. Further detail on Corporate Responsibility is set out in the Strategic Report on pages 43 to 52.

Research and Development

The Group is dedicated to innovation of methods and techniques, focusing on areas such as enhanced safety delivery, the development and integration of new materials and working techniques, energy efficiency and information modelling. Further detail on Innovation is set out in the Strategic Report on pages 24 to 25.

Results and dividends

The consolidated profit and loss account is set out on page 78 and is reviewed on pages 32 to 35. The Group paid interim dividends of £50.0m (2019: £205.0m). The Directors do not recommend the payment of any final dividend for the year (2019: £nil). There are no subsequent events to report.

Financial risk management

The Group's funding, liquidity and exposure to interest rates, foreign exchange and credit risks are managed within a framework of policies and guidelines which are authorised by the Board of Directors.

Directors' report (cont)

Interest rate risk
The Group has interest bearing liabilities and as a matter of policy, a minimum of 75% of debt, excluding shareholder loans, is maintained at either fixed rates of interest or index-linked. The Group uses interest rate swaps, where necessary, in order to achieve the desired profile.

Liquidity risk
The Group maintains a mixture of long-term funding and short-term liquid funds in order to ensure there are sufficient funds available for the Group's current and planned operations.

Foreign exchange risk
The Group's borrowings are currently denominated in Pound Sterling, so there is no foreign exchange risk. However, in accordance with its policy, should the Group decide to raise finance in currency other than Pound Sterling, cross-currency swaps would be used to fully hedge the borrowings into Pound Sterling.

Credit risk
The Company transacts with banks for the provision of interest rate and currency hedging transactions. The Company takes reasonable steps to maintain a minimum credit rating requirement as set out in its hedging policy; however, it recognises that at times the market conditions for banks can be unusually tight. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria. Trade receivables predominantly relate to transportation income from gas shippers. Credit risk arising from the Group's regulated business is managed in accordance with industry standards as set out by the Unified Network Code.

Pricing risk
The Group's gas transportation charges are subject to price control formulae set within the regulatory regime. The Group's maximum allowed revenue in a given price period is dependent upon a number of factors that are not known in advance and, therefore, the maximum allowed annual revenue is not known until the end of the relevant period. However, transportation tariffs are set on a prospective basis, so actual revenue received or receivable in any one year may differ from the maximum allowed revenue. Where revenues received or receivable differ from the maximum allowed annual revenue, adjustments are made to future prices to reflect this over or under recovery.

Going concern
The Group's financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the Group's principal risks and uncertainties are set out in the Strategic Report on pages 36 to 42. The Group's financial risk management objectives and risk exposures are set out above.

As stated in the Strategic Report the Group operates the regulated gas distribution networks in the south of England, Scotland and Northern Ireland. The revenue of the Group is regulated by Ofgem (for the south of England and Scotland) and UREGNI (for Northern Ireland) through established price control mechanisms based on the distribution network capacity. The Group has considerable financial resources together with committed financing facilities as discussed in note 18 to finance the current and future operations.

The outbreak of COVID-19 has impacted the global economy and, in light of this, the Group has performed additional analysis of its going concern of the Group as a whole. This additional analysis has included multiple scenarios such as:

- a reduction in unregulated income (including metering and property income);
- delays to cash received relating to regulatory income;
- increased staff costs; and
- reductions to shareholder distributions.

This analysis concluded in no dividend payment being made in March 2020 (as previously forecast) to provide increased support to the Group's liquidity and working capital. These forecasts show the Group should be able to operate within the level of its current facilities.

As a consequence, the Directors believe the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

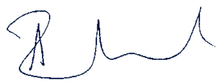
Disclosure of Information to Auditors
Each of the Directors at the date of this report confirms:

1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2) the Director has taken all the steps they ought to have taken as a Director, to make themselves aware of any relevant audit information and to establish 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.

A selection process has been completed by Senior Management and the Audit Committee on behalf of the Board and EY have been selected by the Board as the new Statutory Auditors in respect of the year ending 31 March 2021. KPMG intend to resign as Statutory Auditors upon conclusion of the 2020 statutory audit.

By Order of the Board.



Nicola Graham-Shand
Company Secretary
30 June 2020

Report of the Independent Auditor
to the members of Scotia Gas Networks Limited

1. Our opinion is unmodified

We have audited the financial statements of Scotia Gas Networks Limited ("the Company") for the year ended 31 March 2020 which comprise the Consolidated profit and loss account, Consolidated statement of comprehensive income, Balance sheets, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

	The risk	Our response
Valuation of Defined Benefit Obligation (£783.9m; (2019: £913.0m)) Refer to page 87 (accounting policy) and page 107 to 109 (financial disclosures) Risk vs 2019: unchanged	The Group operates a defined benefit pension scheme. Significant estimates are made in valuing the Group's pension obligation. Small changes in the assumptions and estimates used to value the Group's pension obligation (before deducting scheme assets), including in particular the discount rate, the inflation assumptions, the cash commutation assumptions and mortality assumptions, would have a significant effect on the financial position of the Group.	Our procedures included: • **Control design and implementation:** Evaluating the design and implementation of controls around the valuation assumptions for the pension liability; • **Benchmarking assumptions:** With the assistance of our own actuarial specialists, challenging key assumptions applied, including the discount rate and inflation rate, and performing a comparison of key assumptions against market data; • **Actuaries credentials:** Assessing the competence, independence and integrity of the Group's actuarial expert; • **Test of detail on underlying data:** Vouching the completeness, existence and accuracy of the membership data sent to the actuaries by reconciling a sample to payroll records and vouching the benefits paid to bank statements; and • **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the defined benefit obligation to key assumptions.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited (cont)

	The risk	Our response
Parent Company Only - Recoverability of parent company's investment in subsidiaries (£2,028.4m (2019: £2,028.4m)) Refer to page 85 (accounting policy) and page 95 (financial disclosures). Risk vs 2019: unchanged	The carrying amount of the parent company's investments in subsidiaries represents a significant proportion of the company's total assets. The recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: • **Test of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making; and • **Assessing subsidiary audits:** Considering the work performed by the audit team on all of those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets.

We continue to perform procedures over the cost classification between capex, repex and opex. However, as our prior and current year audit procedures identified no material issues with the classification of costs between capex, repex and opex and confirmed that there is little judgement required in the allocation of costs between capital, replacement and operating expenditure, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £15m (2019: £15m), determined with reference to a benchmark of Group profit before tax of £383m (2019: £301.2m), of which it represents 3.9% (2019: 5%). Materiality for the parent Company financial statements as a whole was set at £12m (2019: £14m), determined with reference to a benchmark of parent Company total assets of £2,084.6m, of which it represents 0.6% (2019: 0.7%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.75m (2019: £0.75m) for the Group and £0.6m (2019: £0.713m) for the parent Company respectively, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The audit was performed using the materiality levels set out above, covering 100% of the profit before taxation and total assets held.

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease its operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model, including the impact of COVID-19 and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the Group and Company's use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report and Financial Statements

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report
Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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 parent 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 these respects.

7. Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 72, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

30 June 2020

Consolidated profit and loss account

for the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Turnover	3, 4	**1,271.7**	1,235.4
Net operating costs	4	**(672.7)**	(712.0)
Operating profit	4	**599.0**	523.4
Interest receivable and similar income	7	**5.9**	9.1
Interest payable and similar expenses	8	**(221.3)**	(231.3)
Share of (loss) of investments in jointly controlled entities		**(0.6)**	–
Profit before taxation	5	**383.0**	301.2
Tax charge on profit	9	**(147.1)**	(58.2)
Profit for the financial year	22	**235.9**	243.0

The above results relate to continuing operations in both the current and previous year.

The accompanying notes form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Profit for the financial year	22	**235.9**	243.0
Cash flow hedges:			
– Losses arising on cash flow hedges	22	**(16.0)**	(3.1)
Remeasurement on net pension asset	25	**137.1**	(14.6)
Deferred tax movement relating to components of other comprehensive income:			
– Cashflow hedges	22	**4.5**	0.8
– Pension asset		**(26.2)**	2.5
Other comprehensive (loss)/income for the year		**99.4**	(14.4)
Total comprehensive income		**335.3**	228.6

The accompanying notes form part of these financial statements.

Balance sheets
as at 31 March 2020

	Notes	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Fixed assets					
Intangible assets	12	**379.5**	397.1	**-**	-
Tangible assets	13	**6,695.3**	6,418.3	**-**	-
Investments	14	**2.5**	0.2	**2,028.4**	2,028.4
		7,077.3	6,815.6	**2,028.4**	2,028.4
Current assets					
Inventories	15	**50.9**	68.3	**-**	-
Debtors	16	**283.1**	244.7	**55.5**	62.6
Short term deposits		**115.5**	19.7	**-**	-
Cash at bank and in hand		**8.9**	10.2	**0.7**	-
		458.4	342.9	**56.2**	62.6
Creditors: amounts falling due within one year	17	**(646.9)**	(535.7)	**(9.4)**	(9.3)
Net current assets/(liabilities)		**(188.5)**	(192.8)	**46.8**	53.3
Total assets less current liabilities		**6,888.8**	6,622.8	**2,075.2**	2,081.7
Creditors: amounts falling due after more than one year	18	**(4,917.9)**	(4,878.4)	**(327.6)**	(327.6)
Provisions for liabilities	20	**(905.9)**	(829.9)	**-**	-
Deferred income	13	**(415.2)**	(395.3)	**-**	-
Net assets excluding pension asset		**649.8**	519.2	**1,747.6**	1,754.1
Defined benefit pension asset	25	**354.2**	199.5	**-**	-
Net assets including pension asset		**1,004.0**	718.7	**1,747.6**	1,754.1
Capital and reserves					
Called up share capital	21	**200.0**	200.0	**200.0**	200.0
Hedging reserve	22	**(66.0)**	(54.5)	**-**	-
Profit and loss account	22	**870.0**	573.2	**1,547.6**	1,554.1
Shareholders' funds	22	**1,004.0**	718.7	**1,747.6**	1,754.1

The accompanying notes form part of these financial statements.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. The Company's profit for the year amounted to £43.5m (2019: £146.5m).

The financial statements of Scotia Gas Networks Limited, registered number 04958135, were approved by the Board of Directors and authorised for issue on 30 June 2020.

Signed on behalf of the Board of Directors

Gregor Alexander
Director

Consolidated statement of changes in equity
for the year ended 31 March 2020

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	Total £m
Group:					
At 1 April 2018		200.0	(52.2)	548.6	**696.4**
Profit for the financial year	10	–	–	243.0	**243.0**
Cash flow hedges		–	(3.1)	–	**(3.1)**
Remeasurement of net defined benefit pension asset		–	–	(14.6)	**(14.6)**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	0.8	–	**0.8**
– Pension asset		–	–	1.2	**1.2**
Total comprehensive income		–	(2.3)	229.6	**228.6**
Transactions with owners, recognised directly in equity					
Dividends paid	11	–	–	(205.0)	**(205.0)**
At 31 March 2019		200.0	(54.5)	573.2	**718.7**
Profit for the financial year	10	–	–	235.9	**235.9**
Cash flow hedges		–	(16.0)	–	**(16.0)**
Remeasurement of net defined benefit pension asset		–	–	137.1	**137.1**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	4.5	–	**4.5**
– Pension asset		–	–	(26.2)	**(26.2)**
Total comprehensive income		–	(11.5)	346.8	**335.3**
Transactions with owners, recognised directly in equity					
Dividends paid	11	–	–	(50.0)	**(50.0)**
At 31 March 2020		200.0	(66.0)	870.0	**1,004.0**

The accompanying notes form part of these financial statements.

Company statement of changes in equity

for the year ended 31 March 2020

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	Total £m
Company:					
At 1 April 2018		200.0	–	1,612.6	**1,812.6**
Profit for the financial year	10	–	–	146.5	**146.5**
Total comprehensive income		–	–	146.5	**146.5**
Transactions with owners, recognised directly in equity					
Dividends paid	11	–	–	(205.0)	**(205.0)**
At 31 March 2019		200.0	–	1,554.1	**1,754.1**
Profit for the financial year	10	–	–	43.5	**43.5**
Total comprehensive income		–	–	43.5	**43.5**
Transactions with owners, recognised directly in equity					
Dividends paid	11	–	–	(50.0)	**(50.0)**
At 31 March 2020		200.0	–	1,547.6	**1,747.6**

The accompanying notes form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2020

	Notes	2020 £m	2019* £m
Cash flows from operating activities			
Operating profit	4	**599.0**	523.4
Depreciation and software amortisation	12, 13	**185.7**	178.0
Goodwill amortisation	12	**9.5**	9.6
Amortisation of deferred income	13	**(9.7)**	(8.8)
(Profit)/loss on disposal of fixed assets		**5.3**	(0.2)
(Increase)/decrease in inventories	15	**16.8**	(55.0)
(Increase) in debtors	16	**(38.5)**	(73.8)
Increase/(decrease) in creditors and employee benefits	17, 18	**8.6**	(24.0)
Increase/(decrease) in provisions	20	**(19.2)**	42.5
Cash generated by operations		**757.5**	591.7
Interest paid		**(159.0)**	(158.6)
Tax paid		**(116.4)**	(65.4)
Net cash inflow from operating activities		**482.1**	367.7
Cash flows from investing activities			
Interest received		**0.4**	1.3
Purchase of tangible fixed assets		**(467.4)**	(429.0)
Sale of tangible fixed assets		**4.7**	(2.8)
Customer contributions received	13	**29.8**	43.4
Subsidiary additions		**(2.3)**	–
Net cash outflow from investing activities		**(434.8)**	(387.1)
Cash flows from financing activities			
Shareholder loan interest paid		**(28.1)**	(28.1)
Issue of debt		**227.1**	378.4
Dividend paid	11	**(50.0)**	(205.0)
Repayment of borrowings		**(75.0)**	(475.0)
Payments in respect of financial instruments		**(16.8)**	(12.3)
Net cash inflow/(outflow) from financing activities		**57.2**	(342.0)
Net increase/(decrease) in cash and cash equivalents		**104.5**	(361.4)
Cash and cash equivalents at beginning of the year		**19.9**	381.3
Cash and cash equivalents at the end of the year		**124.4**	19.9

Analysis of changes in net debt	2019 £m	Cashflow £m	Other non-cash movements £m	2020 £m
Net cash and cash equivalents				
Cash at bank	10.2	(1.3)	–	**8.9**
Overdrafts	(10.0)	10.0	–	**–**
Short term deposits	19.7	95.8	–	**115.5**
	19.9	104.5	–	**124.4**
Borrowings				
Debt due within one year	(203.3)	74.5	(214.8)	**(343.6)**
Debt due after one year	(4,878.4)	(225.0)	185.5	**(4,917.9)**
	(5,081.7)	(150.5)	(29.3)	**(5,261.5)**
Total	(5,061.8)	(46.0)	(29.3)	**(5,137.1)**

The accompanying notes form part of these financial statements.

* See notes 8 and 19.

Notes to the financial statements

for the year ended 31 March 2020

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

The financial statements of the Group present the results for the year ended 31 March 2020. The comparative period presented is the year ended 31 March 2019.

A summary of the more significant Group accounting policies, which have been applied consistently in both years is as follows.

General information and basis of preparation
Scotia Gas Networks Limited is a private limited company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is St. Lawrence House, Station Approach, Horley, Surrey RH6 9HJ. The registered number is 04958135. The Company and its subsidiary undertakings together form the 'Group' for which consolidated financial statements are drawn up. The Group's principal activity is the development, administration, maintenance and operation of the Southern and Scotland gas distribution systems, the supply of gas transportation services and other gas related services.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102) issued by the Financial Reporting Council. There were no material departures from that standard. Amounts are expressed in millions of pounds, except where noted otherwise.

The functional currency of Scotia Gas Networks Limited and its subsidiary undertakings is considered to be Pound Sterling because that is the currency of the primary economic environment in which the Company and its subsidiary undertakings operate. Amounts are expressed in millions of pounds, except where noted otherwise.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

Basis of consolidation
The financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March each year. Subsidiaries are those entities controlled by the Group or the Company.

Subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases, using the acquisition method of accounting.

Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Going concern
Notwithstanding net current liabilities of £188.5m as at 31 March 2020 the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

After reviewing the Group's forecasts and projections, with specific consideration to the current Coronavirus pandemic in the UK, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months from the date of approval of these financial statements.

The considerations made by the Directors include severe but plausible downside scenarios that the pandemic can have on the business. These downside scenarios include, most notably, the impact on liquidity of an increased number of shipper failures and, therefore, a reduction in cash received in the short term from revenue (this is recovered in the longer term through existing regulatory charging mechanisms) as well as increased operating costs as a result of the pandemic.

In these downside scenarios, which include the debt repayments noted below, the business has sufficient headroom on its existing banking facilities to maintain sufficient liquidity in the short and long term.

The Group has a fixed rate loan note of £215m due for repayment in December 2020. The Group also has £126m drawn on a capital expenditure facility used to fund the Gas to the West project, which is forecast to be repaid when funds are received from Mutual Energy. See note 19 for further details.

The Group has access to a £360m revolving credit facility, which at the balance sheet date was undrawn. This, together with the cash flows forecast to be generated, even in a severe and plausible downside, is expected to be sufficient to repay £215m of debt repayments due in December 2020. The Directors expect to raise new finance in 2020 to be used to repay this debt. However, the cash flow forecasts are not dependent upon the Group successfully raising new finance.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and consequently have prepared the financial statements on a going concern basis.

Intangible assets – goodwill
Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is estimated to be 50 years. Provision is made for any impairment, and it is tested on an annual basis at each balance sheet date.

Intangible assets – software
Software assets are included at cost, net of depreciation and any provision for impairment. Amortisation is provided in equal annual instalments over a period of 3 to 10 years, which is their estimated useful economic life.

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. In accordance with Ofgem guidance for gas transportation licensees, costs include an element of capitalised overheads which are, as far as reasonably practicable, allocated in accordance with the activities which lead to the generation of the assets. These costs are directly attributable to the associated assets. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings:	Up to 50 years
Leasehold land and buildings:	Over the shorter of lease term and 50 years
Plant and machinery:	
– Mains and services:	55 to 65 years
– Regulating equipment:	30 to 50 years
– Gas storage:	40 years
– Motor vehicles and office equipment:	3 to 10 years

Site remediation costs are depreciated over the life of the asset.

Replacement expenditure is capitalised and useful life is based on the range within mains and services above.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Interest receivable and Interest payable
Interest payable and similar expenses include interest payable and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Fixed asset investments
Fixed asset investments are stated at cost less a provision for any impairment in value. Costs of the investments include all costs directly related to the acquisition of the investments.

The Group's joint ventures are accounted for using the equity method of accounting where the joint venture investments are carried at historical cost plus the Group's share of post-acquisition results, less any impairment in value. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

Construction contracts
Included within debtors are amounts receivable from construction contracts. These amounts represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit (when profit can be reliably measured) recognised to date less a provision for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the entity's contract activities based on normal operating capacity.

Notes to the financial statements (cont)

for the year ended 31 March 2020

1. Principal accounting policies (continued)

Inventories
Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Included within inventories is land in the course of remediation, sale or development. It is measured at the lower of cost and net realisable value and also includes provisions for the expected future cost to demolish any gas holders and remediate land to a statutory level.

Impairment of non-financial assets
Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the business. Any impairment loss is allocated first to the goodwill, and then to other assets on a pro-rata basis. The Company considers there to be two separate CGUs for the purpose of goodwill impairment: Southern and Scotland Gas Networks Limited.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs, the reversal is applied to the assets (other than goodwill) on a pro-rata basis. Goodwill impairment is not reversed.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the 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 financial statements that arises from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, 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.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Turnover
Turnover is stated net of value added tax and is attributable to the continuing activity of transportation of natural gas and the provision of related services. Turnover is recognised to the extent that there is a right to consideration and is recorded at the value of the consideration due. Turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenues received or receivable differ from the amount permitted by regulatory agreements, adjustments will be made to future prices to reflect this over or under recovery.

Turnover also includes income from sales of surplus land through the Group's property companies. Turnover is recognised at the point of completion and is stated net of value added tax.

Employee benefits
Defined benefit pension scheme
The Group operates a Group-wide defined benefit pension plan. The Company is the entity legally responsible for the Group-wide defined benefit pension plan. The net defined benefit cost of the plan is charged to participating entities based on the proportionate number of members relating to each company. The contributions payable by the participating entities are determined on the same basis as the charging policy detailed above.

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the year and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

A surplus was recognised due to change in actuarial assumptions. It is probable that the surplus recognised will result in reduced amount of future contributions to the scheme or in the form of refund from the scheme. Since the amount recognised is within the cap allowed under regulation, management deem the recognition of surplus appropriate.

Defined contribution pension scheme
For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Other exchange differences are recognised in profit or loss in the year in which they arise except for exchange differences on transactions entered into to hedge certain foreign currency risks and exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

Leases
Finance leases
Assets held under finance leases, hire purchase contracts and other similar arrangements, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets at the fair value of the leased asset (or, if lower, the present value of the minimum lease payments as determined at the inception of the lease) and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating 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.

Borrowing costs capitalised
Borrowing costs which are directly attributable to the construction of qualifying tangible fixed assets are capitalised as part of the cost of those assets. Qualifying tangible fixed assets are considered to be those of significant size or complexity, which typically are under construction for in excess of one year and/or where project costs exceed a pre-determined threshold. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Borrowing costs are not capitalised in respect of construction projects which do not meet the defined thresholds or relate to replacement expenditure.

Notes to the financial statements (cont)

for the year ended 31 March 2020

1. Principal accounting policies (continued)

Grants and contributions
Customer contributions for connections to the network and for replacement expenditure diversions are capital grants. National Insurance Contributions (NIC) grants are considered revenue grants.

Capital grants in respect of additions to fixed assets are treated as deferred income and released to the profit and loss account over the estimated useful lives of the related assets.

Revenue grants and contributions are credited to the profit and loss account in the year to which they relate.

Deferred income in respect of both revenue grants and contributions is included separately on the face of the balance sheet due to their materiality. Other deferred income items which are not considered as material are shown separately in note 12.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact of discounting the expected future cash flows is material.

Financial instruments
FRS 102 sections 11 and 12 give an accounting policy choice for financial instruments. The Group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

Financial assets and financial liabilities are recognised when the Group 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 Group after deducting all of its liabilities.

The Group's funding, liquidity and exposure to interest rate risks are managed within a framework of policies and guidelines authorised by the Board of Directors. In accordance with these policies financial derivative instruments are used to manage interest rate and currency exposure.

Where appropriate these instruments are recorded at fair value and accounted for as described below.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets designated as at 'fair value through profit or loss' (FVTPL).

Financial assets
Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL, which are initially measured at fair value.

Financial assets at the balance sheet date are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Impairment of financial assets
For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Trade debtors
Trade debtors are initially recognised at fair value. The carrying amount is reduced through the use of provision. Appropriate provision for estimated irrecoverable amounts are recognised where the estimated cash flows are less than the carrying amount. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in profit or loss.

Cash
Cash comprises cash on hand and demand deposits, which are those deposits, which are repayable on demand and available within 24 hours (one day) without penalty.

Short term deposits
Short term deposits comprise of cash deposits that are available with notice of more than 24 hours (one day).

Financial liabilities
Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of disposal in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedge accounting
The Group uses interest rate swaps and foreign exchange forward contracts to hedge interest rate and foreign currency risk arising on debt instruments. On inception of the hedge relationship the Group documents the relationships between the hedged item and the hedging instrument along with the risk management objectives and its strategy for undertaking various transactions. Furthermore, at inception of the hedge and on an ongoing basis the Group documents whether the hedging relationship is highly effective.

Notes to the financial statements (cont)

for the year ended 31 March 2020

1. Principal accounting policies (continued)

Changes in fair value of derivatives that are designated and are effective as hedges of future cash flows are recognised directly in equity within the hedge reserve. The ineffective portion of the hedge is recognised through the profit and loss account.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise. Hedge accounting is discontinued when the hedge instrument expires or is terminated. Financial assets and financial liabilities are offset where they are settled net as a matter of practice and there is legal right to offset.

Change in accounting policy
Deferred tax
In the year ended 31 March 2020 the company has recognised a deferred tax asset for disallowed interest brought forward that has been previously disallowed under the Corporate Interest Restriction rules.

This deferred tax asset it recognised at a group level only as it relates to a tax restrictions place upon the group as a whole. The deferred tax asset is recognised to the extent which deferred tax liabilities exist at a group level. Further details can be found in notes 8 and 20.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting judgements

a. Cost classification – the allocation of overhead costs to capital investment projects is subject to accounting judgement, particularly around the amount of time spent on different activities. Guidelines have been established, and a Cost Allocation Model is used as part of a process to determine the split of attributable overheads between capital expenditure and operating expenditure.

b. Componentisation of replacement expenditure – as set out in note 1e, capitalised replacement expenditure is allocated to mains and services components with a range of useful economic lives between 55 and 65 years. On transition to FRS 102, all replacement expenditure incurred since 2005 has been assessed and allocated on an appropriate and relevant basis where replacement projects have involved multiple activities, judgement has been exercised to determine the appropriate accounts.

Key source of estimation uncertainty

a. Useful lives of assets and residual value – in assessing the estimate of economic useful lives and residual value, consideration is given to the economic life of the gas industry. The depreciation policy is set out in note 1.

b. Retirement benefit schemes – the assumptions used in accounting for the defined benefit pension scheme are based on estimates and are subject to uncertainties. These assumptions are set out in note 25 and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Group takes advice from independent actuaries on the appropriateness of these assumptions.

c. Valuation of financial instruments – where financial instruments are recognised at fair value there are uncertainties in forward yield curves used in discounted cash flow calculations.

d. Environmental and demolition provision – in assessing the degree of contamination at the various sites estimation is required where elements of the contamination are underground. Additional uncertainty exists for the costs to demolish the gas holders. In these cases, it is difficult to assess with any certainty the extent of the contamination and demolition required. The discount rate is also a source of estimation. See note 20.

e. Revenue recognition – turnover includes an assessment of transportation services supplied to customers between the date of the last meter reading and the year end. Where revenues received or receivable differ from the amount permitted by regulatory agreements, adjustments will be made to future prices to reflect this over or under recovery.

3. Segmental reporting

Turnover arises entirely in the United Kingdom and is attributable to the continuing activity of transportation of natural gas and the provision of related services, which the Directors consider a single class of business.

The non-regulated businesses are not sufficiently material to be disclosed separately.

4. Operating profit and net operating costs

	2020 £m	2019 £m
Turnover	1,271.7	1,235.4
Distribution costs	(677.1)	(721.0)
Gain/(loss) on disposal of fixed assets	(5.3)	0.2
Other operating income	9.7	8.8
Total net operating costs	(672.7)	(712.0)
Operating profit	599.0	523.4

Contract revenue relating to Gas to the West recognised in the year amounted to £28.6m (2019: £70.0m). Revenue is recognised with reference to stage of completion based on costs incurred as a proportion of total forecasted expenditure.

Distribution costs include the costs of operating the distribution network together with depreciation and goodwill amortisation.

5. Profit before taxation

Group profit before taxation is stated after charging/(crediting):

	2020 £m	2019 £m
Auditor's remuneration	0.5	0.4
Amortisation of goodwill	9.5	9.6
Amortisation of intangible assets	13.7	14.7
Depreciation of tangible fixed assets	172.0	164.3
Amortisation of customer contributions	(9.7)	(8.8)
Loss on disposal of fixed assets	5.3	0.2
Rental under operating leases – other assets	5.4	6.0

Auditor's remuneration for the Group comprises:

- Audit of these financial statements £20,400 (2019: £14,000)
- Audit of financial statements of subsidiaries of the company £357,600 (2019: £210,000)
- Audit-related assurance services £91,000 (2019: £104,000)
- Other assurance services £20,600 (2019: £49,000)

6. Employee information and Directors' emoluments

The Group had 3,954 full time equivalent employees as of 31 March 2020 (2019: 3,897). The average monthly number of full time equivalent employees during the year was 3,966 (2019: 3,867).

The Independent Directors received aggregate remuneration of £97,850 (2019: £86,789) for their services to the Group during the year. There are 8 Directors who did not receive any remuneration in respect of services to the company during the current or preceding financial year. These Directors are employed by the company's shareholders and do not specifically receive any remuneration in respect of the company.

Staff costs for the Group during the year are as follows:

	2020 £m	2019 £m
Staff costs		
Wages and salaries	168.2	167.6
Social security costs	18.9	17.7
Pension costs (see note 25)	34.2	26.4
	221.3	211.7

The Company had 5 employees as of 31 March 2020 (2019: 5).

	2020	2019
Field based staff	2,132	2,144
Office and other administrative staff	1,822	1,793
Total	3,954	3,897

Notes to the financial statements (cont)

for the year ended 31 March 2020

7. Interest receivable and similar income

	2020 £m	2019 £m
Interest receivable on short-term deposits	-	0.5
Net defined benefit pension income (see note 25)	5.0	5.5
Other interest receivable	0.9	3.1
	5.9	9.1

8. Interest payable and similar expenses(1)

	2020 £m	2019 £m
Index-linked bond interest	46.2	52.4
Other interest payable on bonds	137.3	140.7
Shareholders' loan interest (see note 26)	28.1	28.1
Other interest payable	4.1	1.7
Unwind of discounts	4.8	2.5
Movement on financial derivatives	0.8	5.9
	221.3	231.3

No borrowing costs have been capitalised during the year. Included within Index-linked bond interest is £26.0m of accretion (2019: £33.0m).

(1) We have reviewed the presentation of the cash flow and reclassified certain interest paid from 'Net cash inflow/(outflow) from financing activities' to 'Net cash inflow from operating activities'. The prior year cash flows have been adjusted to reflect this.

9. Tax charge/(credit) on profit

a) Analysis of the tax charge/(credit) on profit

	2020 £m	2019 £m
Current tax		
UK corporation tax on profits for the year	81.4	69.3
Adjustment in respect of previous years	(3.6)	(4.8)
Total current tax charge	77.8	64.5
Deferred tax		
Origination and reversal of timing differences	(15.5)	(7.9)
Adjustments in respect of previous years	(1.2)	1.6
Effect of change in tax rate	86.0	–
Total deferred tax charge/(credit)	69.3	(6.3)
Total tax charge on profit	147.1	58.2

b) Factors affecting the total tax charge/(credit) for the year

	2020 £m	2019 £m
Profit before tax	384.1	301.2
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	73.0	57.2
Effects of:		
Expenses not deductible for tax purposes	0.9	0.9
Non deductible goodwill	1.8	1.8
Depreciation of non qualifying assets	0.6	0.4
Corporate interest restriction	(1.4)	3.4
Adjustment in respect of prior years	(4.8)	(3.2)
Utilisation of tax losses	(0.9)	(1.3)
(Loss) on disposal of assets	-	(1.0)
Research & Development (tax credit) taxed in prior year	(0.1)	–
Effect of change in tax rate	86.0	–
Deferred tax asset arising from disallowed interest	(8.0)	–
Total tax charge on profit	147.1	58.2

The standard rate of tax applied to reported profit on ordinary activities is 19% (2019: 19%). Finance Bill 2016 reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. Finance Bill 2020 has amended the main rate of corporation tax to remain at 19% from 1 April 2020 and 1 April 2021. As these changes have been substantively enacted at the balance sheet date deferred tax has been calculated accordingly and this has had the effect of increasing the group's deferred tax liability at 31 March 2020 by £86.0m (2019: £0). There is no expiry date on timing differences, unused tax losses or tax credits.

10. Profit of the Company for the financial year

The Company's profit for the year amounted to £43.5m (2019: £146.5m. The intercompany interest receivable during the year ended 31 March 2020 amounted to £0.8m (2019: £1.0m) in the Company. In accordance with the exemption available under section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

11. Dividends

	2020 £m	2019 £m
Equity shares		
Interim dividends paid of 10.6372p (2019: 43.6124p)	50.0	205.0

The dividends paid in the current year of £50m were paid in November 2019.

12. Intangible fixed assets

	Goodwill £m	Software £m	Total £m
Group			
Cost			
At 1 April 2019	477.6	180.9	658.5
Additions	–	5.6	5.6
Disposals	–	–	–
At 31 March 2020	477.6	186.5	664.1
Amortisation			
At 1 April 2019	132.5	128.9	261.4
Charge for the year	9.5	13.7	23.2
Eliminated on disposal	–	–	–
At 31 March 2020	142.0	142.6	284.6
Net book value			
At 31 March 2020	335.6	43.9	379.5
At 31 March 2019	345.1	52.0	397.1

The goodwill, which arose on the acquisitions of Scotland Gas Networks plc and Southern Gas Networks plc, is being amortised on a straight-line basis over 50 years, with 35 years remaining. 50 years is the expected life of the network and is consistent with the long-term outlook of the Regulator.

Goodwill is monitored by management for three operating units as follows:

	2020 £m	2019 £m
Southern Gas Networks plc	202.1	207.8
Scotland Gas Networks plc	100.5	103.5
SGN Group	33.0	33.8
	335.6	345.1

A review for impairment of goodwill is carried out at the end of each financial year. Impairment testing is performed by comparing the carrying value of fixed assets at the balance sheet date with the recoverable amount. The recoverable amount is the higher of the value if sold or its value in use.

The value in use methodology has also been used in this review because of the increase in visibility of potential GD2 scenarios. This calculation includes discounting the future operational cashflows at 3.1% over the expected life of the network, based on growth rates in line with anticipated regulatory outcomes for GD1 and GD2.

The amortisation charge is recognised in operating costs in the profit and loss account and no impairment loss has been recorded in either the current or the prior year.

Notes to the financial statements (cont)

for the year ended 31 March 2020

13. Tangible fixed assets

Group	Short leasehold properties £m	Freehold properties £m	Plant and machinery £m	Motor vehicles and office equipment £m	Total £m
Cost					
At 1 April 2019	0.7	121.2	7,674.7	121.6	7,918.2
Additions	–	9.2	441.1	8.7	459.0
Disposals	–	–	(16.0)	(1.6)	(17.6)
At 31 March 2020	**0.7**	**130.4**	**8,099.8**	**128.7**	**8,359.6**
Depreciation					
At 1 April 2019	0.2	36.2	1,391.3	72.2	1,499.9
Charge for the year	–	5.0	154.7	12.3	172.0
Disposals	–	–	(6.0)	(1.6)	(7.6)
At 31 March 2020	**0.2**	**41.2**	**1,540.0**	**82.9**	**1,664.3**
Net book value					
At 31 March 2020	**0.5**	**89.2**	**6,559.8**	**45.8**	**6,695.3**
At 31 March 2019	0.5	85.0	6,283.4	49.4	6,418.3

There is no security held against the fixed assets.

The Company had no tangible fixed assets in either year.

The Group has received customer contributions relating to plant and machinery. In accordance with the Group's accounting policy the assets are capitalised within fixed assets and the contributions are recognised as deferred income in the balance sheet. The connections contributions are from customers being connected to the network and replacement contributions are related to the diversion of gas mains. The deferred income is released to the profit and loss account over the estimated lives of the related assets. The amount deferred under this policy was as follows:

Group	Connections £m	Replacement £m	Total 2020 £m	Total 2019 £m
Deferred income				
Customer contributions brought forward	247.7	147.6	**395.3**	360.6
Customer contributions received in year	15.7	14.0	**29.7**	43.5
Amortisation in year	(6.9)	(2.9)	**(9.8)**	(8.8)
	256.5	158.7	**415.2**	395.3

The Company has no deferred income.

14. Fixed asset investments

Cost or valuation and net book value	Group 2020 £m	Group 2019 £m	Company 2020 £m	Company 2019 £m
Shares in Group undertakings				
At 1 April 2019 and at 31 March 2020	**–**	–	**2,028.4**	2,028.4
Other investments				
At 1 April	**0.2**	0.2	**–**	–
Additions	**2.9**	–	**–**	–
Share of losses in Joint Venture	**(0.6)**	–	**–**	–
At 31 March	**2.5**	0.2	**2,028.4**	2,028.4

Other fixed asset investments

Other fixed asset investments relate to the Group's investments in Xoserve Limited, which provides transportation transactional services on behalf of all the major gas network transportation companies. The Group holds 23.02% (2019: 23.02%) of the ordinary shares of Xoserve Limited. The company also has a 50% holding in Murphy Asset Services Limited with a carrying value of £2.9m.

Interests in Group undertakings

Details of the subsidiary undertakings at the end of the year, which are directly wholly-owned by the Company, are as follows:

Name of subsidiary	Description of shares held	Country of registration	Principal activities
SGN PledgeCo Limited	2,517,000,001 ordinary shares of £0.01	England & Wales	Holding company
SGN Place Limited	1 ordinary share of £1	England & Wales	Holding company
SGN Connections Limited	1 ordinary share of £1	England & Wales	Supply of gas connections services
SGN Commercial Services Limited	1 ordinary share of £1	England & Wales	Meter asset manager and supply of commercial services
SGN Smart Limited	1 ordinary share of £1	England & Wales	Supply of managed services
SGN Lessona Limited	100 ordinary shares of £0.01	England & Wales	Holding company

The registered address of Scotland Gas Networks plc is Axis House, 5 Lonehead Drive, Newbridge, Edinburgh, EH28 8TG. The registered address of all other subsidiaries above is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ.

Details of the subsidiary undertakings at the end of the year, which are indirectly wholly-owned by the Company, are as follows:

- Southern Gas Networks plc
- Scotland Gas Networks plc
- SGN Contracting Limited
- SGN Natural Gas Limited
- SGN MidCo Limited
- SGN Property Holdings Limited
- SGN Property Services Limited
- SGN Belvedere Limited
- SGN Brighton Limited
- SGN Southampton Limited
- SGN Epsom Limited
- SGN Greenwich Limited
- SGN Motspur Park Limited
- SGN Old Kent Road Limited
- SGN Rotherhithe Limited
- SGN Wandsworth Limited
- SGN Kennington Limited
- SGN Lessona Limited

The Company also has holdings in the following entities:

- Murphy Asset Services Limited – 50%

Notes to the financial statements (cont)

for the year ended 31 March 2020

15. Inventories

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Work in progress	**50.3**	67.3	**–**	–
Finished goods	**0.6**	1.0	**–**	–
	50.9	68.3	**–**	–

Included within work in progress is £44.8m (2019: £69.1m) of surplus land that was transferred from Southern Gas Networks and Scotland Gas Networks to the SGN Place subsidiaries in 2019/20. The remainder predominantly relates historical transfers of surplus land to Commercial Services Limited. These assets were transferred from fixed assets. The SGN Place subsidiaries will sell or develop and sell these surplus sites.

The amount of inventory recognised as an expense in the year amounted to £1.9m (2019: £2.3m).

16. Debtors

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Trade debtors	**150.0**	104.4	**–**	–
Prepayments and accrued income	**131.4**	139.9	**–**	–
Derivative financial instruments (see note 19)	**–**	0.4	**–**	–
Amounts owed by Group undertakings	**–**	–	**55.5**	62.6
Other debtors	**1.7**	–	**–**	–
	283.1	244.7	**55.5**	62.6

Included in prepayments and other debtors is accrued income on the Gas to the West project of £126.6m (2019: £126.6m), which is due for payment in April 2021.

17. Creditors: amounts falling due within one year

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
£25m 3.634% fixed rate loan due 2020	**–**	25.0	**–**	–
£50m 3.765% fixed rate loan due 2020	**–**	50.0	**–**	–
£215m 4.875% fixed rate loan due 2020	**214.8**	–	**–**	–
Bank overdrafts	**–**	10.0	**–**	–
Bank facility	**126.2**	125.7	**–**	–
Trade creditors	**52.3**	44.7	**–**	–
Other taxation and social security	**31.8**	52.5	**–**	–
Other creditors	**17.1**	15.3	**–**	–
Accrued interest	**57.0**	57.0	**9.4**	9.3
Other accruals	**110.3**	121.3	**–**	–
Deferred income	**34.8**	31.6	**–**	–
Derivative financial instruments (see note 19)	**2.6**	2.6	**–**	–
	646.9	535.7	**9.4**	9.3

The total revolving credit facility is £360.0m and expires in March 2025. The facility was undrawn at 31 March 2020.

18. Creditors: amounts falling due after more than one year

	Group		Company	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Borrowings:				
Fixed rate				
£215m 4.875% fixed rate note due 2020	**–**	214.8	**–**	–
£300m 4.875% fixed rate note due 2023	**299.1**	298.7	**–**	–
£350m 2.5% fixed rate note due 2025	**348.0**	347.5	**–**	–
£35m 2.407% fixed rate loan due 2025	**35.0**	35.0	**–**	–
£250m 3.25% fixed rate note due 2027	**248.0**	247.7	**–**	–
£375m 4.875% fixed rate note due 2029	**374.1**	374.0	**–**	–
£100m 2.9% fixed rate note due 2030	**98.6**	99.2	**–**	–
£75m 2.74% fixed rate note due 2030	**74.8**	74.7	**–**	–
£75m 2.74% fixed rate note due 2030	**74.8**	74.7	**–**	–
£75m 1.980% fixed rate note due 2032	**74.7**	–	**–**	–
£50m 2.04% fixed rate note due 2033	**49.8**	–	**–**	–
£185m 3.02% fixed rate note due 2033	**182.5**	183.6	**–**	–
£75m 2.87% fixed rate note due 2033	**74.7**	74.7	**–**	–
£75m 2.87% fixed rate note due 2033	**74.7**	74.7	**–**	–
£100m 2.27% fixed rate note due 2034	**99.6**	–	**–**	–
£225m 4.875% fixed rate note due 2034	**224.6**	224.5	**–**	–
£400m 3.1% fixed rate note due 2036	**397.5**	397.2	**–**	–
£15m 3.11% fixed rate note due 2038	**14.7**	14.9	**–**	–
£225m 6.375% fixed rate note due 2040	**223.9**	223.8	**–**	–
	2,969.1	2,959.7	**–**	–
Index-linked:				
£165m 2.127% index-linked note due 2022	**253.0**	246.4	**–**	–
£150m 2.066% index-linked note due 2025	**230.0**	224.0	**–**	–
£83.3m 2.013% index-linked note due 2025	**127.7**	124.3	**–**	–
£15m 2.580% index-linked loan due 2028	**20.7**	20.0	**–**	–
£37.5m 0.11% index-linked note due 2033	**39.0**	38.7	**–**	–
£83.3m 2.013% index-linked note due 2035	**127.7**	124.3	**–**	–
£87.5m 0.28% index-linked note due 2038	**91.2**	90.2	**–**	–
£125m 2.317% index-linked note due 2039	**169.6**	165.4	**–**	–
	1,058.9	1,033.3	**–**	–
Floating rates:				
£125m floating rate loan due 2025	**125.0**	125.0	**–**	–
£80m floating rate loan due 2026	**80.0**	80.0	**–**	–
£60m floating rate loan due 2026	**60.0**	60.0	**–**	–
£30m floating rate loan due 2026	**30.0**	30.0	**–**	–
£35m floating rate loan due 2026	**35.0**	35.0	**–**	–
£35m floating rate loan due 2026	**35.0**	35.0	**–**	–
£80m floating rate note due 2043	**79.7**	79.7	**–**	–
	444.7	444.7	**–**	–
Total borrowings	**4,472.7**	4,437.7		
Shareholders' loans (see note 26)	**327.6**	327.6	**327.6**	327.6
Derivative financial liabilities – Mirror swaps (see note 19)	**36.1**	48.3	**–**	–
Derivative financial instruments (see note 19)	**81.5**	64.8	**–**	–
	4,917.9	4,878.4	**327.6**	327.6

The shareholder loans, which are subordinated, are redeemable at par on 9 April 2043 and carry a fixed interest rate of 8.6%. The Company may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to shareholders.

Notes to the financial statements (cont)

for the year ended 31 March 2020

18. Creditors: amounts falling due after more than one year (continued)

Maturity of borrowings

	Group	
	2020 £m	2019 £m
Due within one year	**341.0**	210.7
Between one and five years	**935.3**	760.4
After five years	**3,865.0**	4,008.2
	5,141.3	4,979.3

The Company's borrowings all fall due by 9 April 2043.

The above borrowings are unsecured and are stated after the deduction of unamortised issue costs of £18.0m (2019: £15.2m). These costs together with the interest expense are allocated to the profit and loss account over the term of the borrowings. Interest is calculated using the effective interest rate method.

Certain interest costs in respect of index-linked bonds are not payable until the principal amount of the bond is repaid and are included within the carrying value of the borrowings stated above. The amount included in the carrying value of the borrowings at 31 March 2020 is £315.5m (2019: £289.5m).

19. Financial instruments and risk management

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them.

The Group operates a centralised treasury function which is responsible for the management of financial risks of the Group as a whole and each of the regulated entities on a standalone basis. Financial risks comprise exposures to funding and liquidity, counterparty credit risk, interest rate, credit spread and foreign exchange. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Finance Committee, which meets on a periodic basis throughout the financial year. The Finance Committee is comprised of four directors (one from each of the Group's shareholders) plus one statutory independent non-executive director. The Group's Treasurer reports on a regular basis to the Finance Committee.

The Board reviews and approves all major treasury decisions.

Liquidity risk

Liquidity risk represents the risk of having insufficient funds to meet its financing in any particular subsidiary when needed.

To manage this risk the Group has a policy of actively maintaining a mixture of medium-term and long-term debt alongside committed facilities and short-term cash investments to ensure that the Group has sufficient available funds to meet forecast requirements over the short-term to medium-term. As part of their regulatory license Scotland Gas Networks plc and Southern Gas Networks plc are required to submit an annual certificate to their regulator to confirm sufficiency of resources (liquidity looking forward 12 months). The same principles are also applied across the wider Group.

To prevent over-reliance on individual sources of liquidity, funding is accessed across a range of instruments including: fixed rate bonds, floating rate bonds, index-linked bonds, bank loan facilities (RCF), private placements and EIB loans.

The Group currently raises external financing across four of the Group's subsidiaries:

- Scotia Gas Networks Limited: £327.6m shareholder loans;
- SGN MidCo Limited: £132.2m index-linked private placements; £300.0m fixed private placements; and £127.0m bank loan facilities;
- Scotland Gas Networks plc: £475.0m fixed rate bonds; £80.0m floating rate bonds; £423.4m index-linked bonds; £275.0m fixed rate private placements; £100.0m EIB loans; and £20m (undrawn) bank RCF; and
- Southern Gas Networks plc: £1,865.0m fixed rate bonds; £506.6m index-linked bonds; £250.0m fixed rate private placements; and £300.0m EIB loans; and £340.0m (undrawn) bank RCF.

Group subsidiaries are also funded through a combination of share capital, retained earnings and intercompany loans. Cash pooling structures are used to centralise surplus cash balances held by subsidiaries where possible to minimise external borrowings and interest costs. The treasury function seeks to minimise cash balances by conducting a detailed cash flow forecast process and timing funding issuance appropriately, however where surplus cash balances do arise these are invested in bank deposits and money market funds.

As part of these processes the Group ensures that there is appropriate segregation between cash flows generated within the regulated businesses and those generated by other Group subsidiaries.

The contractual maturity of the Group's financial assets and liabilities are shown in the following tables. The amounts shown are gross cash inflows/(outflows) with the exception of financial derivatives settled on a net basis where the amounts represent undiscounted net cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to relevant conditions existing at the reporting date.

2020

	0-6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	> 5 years £m	Contractual cash flows £m	Interest/ discounting £m	Carrying value £m
Financial liabilities loans and borrowings								
Shareholder loans	(14.1)	(14.1)	(28.2)	(84.6)	(341.6)	(482.6)	155.0	(327.6)
Bank facility	(126.2)	–	–	–	–	(126.2)	–	(126.2)
Bonds	(51.1)	(321.2)	(137.3)	(1,334.6)	(4,670.3)	(6,514.5)	1,827.0	(4,687.5)
	(191.4)	(335.3)	(165.5)	(1,419.2)	(5,011.9)	(7,123.3)	1,982.0	(5,141.3)
Derivative financial liabilities								
Hedging interest rate swaps	(1.9)	(1.9)	(3.7)	(11.3)	(67.5)	(86.3)	2.1	(84.2)
Onerous contract swaps	(6.5)	(3.1)	(6.3)	(18.9)	(3.1)	(37.9)	1.7	(36.2)
	(8.4)	(5.0)	(10.0)	(30.2)	(70.6)	(124.2)	3.8	(120.4)
Other financial liabilities								
Trade and other creditors	(52.3)	–	–	–	–	(52.3)	–	(52.3)
Total financial liabilities	(252.1)	(340.3)	(175.5)	(1,449.4)	(5,082.5)	(7,299.8)	1,985.8	(5,314.0)

The Group expects to meet its obligations from cash balances, operating cash flows and refinancing. The maturity date of the bank facility is December 2021, but is classified as short term as the facility requires extending at the end of each applicable interest period.

The corresponding amounts for 2019 were as follows:

2019

	0-6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	> 5 years £m	Contractual cash flows £m	Interest/ discounting £m	Carrying value £m
Financial liabilities loans and borrowings								
Shareholder loans	(14.1)	(14.1)	(28.2)	(84.5)	(369.8)	(510.7)	183.1	(327.6)
Bank facility	(125.7)	–	–	–	–	(125.7)	–	(125.7)
Bonds	(35.8)	(155.3)	(328.3)	(608.4)	(4,915.8)	(6,043.6)	1,527.7	(4,515.9)
	(175.6)	(169.4)	(356.5)	(692.9)	(5,285.6)	(6,680.0)	1,710.8	(4,969.2)
Derivative financial liabilities								
Hedging interest rate swaps	(1.9)	(1.9)	(3.7)	(11.2)	(71.3)	(90.0)	22.6	(67.4)
Onerous contract swaps	(6.4)	(6.4)	(9.7)	(18.9)	(9.4)	(50.8)	2.5	(48.3)
	(8.3)	(8.3)	(13.4)	(30.1)	(80.7)	(140.8)	25.1	(115.7)
Other financial liabilities								
Trade and other creditors	(44.7)	–	–	–	–	(44.7)	–	(44.7)
Total financial liabilities	(228.6)	(177.7)	(369.9)	(723.0)	(5,366.3)	(6,865.5)	1,735.9	(5,129.6)

Notes to the financial statements (cont)

for the year ended 31 March 2020

19. Financial instruments and risk management (continued)

Credit risk

Credit risk represents the risk that a counterparty does not settle an obligation for full value when that amount becomes due.

The Group is primarily exposed to credit risk arising from the extension of credit to its customers, cash deposits, derivatives and amounts due from external financing counterparties arising on other financial instruments.

The maximum exposure to credit risk is the carrying value of financial assets as follows:

	2020 £m	2019 £m
Net trade receivables	150.0	104.4
Financial derivative assets	1.7	0.4
Short term deposits	115.5	19.7
Cash	8.9	10.2
	276.1	134.7

Trade and other receivables:

Our principal debtor exposure is governed by the credit rules within the Uniform Network Code. This sets out the level of credit relative to the RAV for each credit rating. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed daily. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary.

Trade debtors predominantly relate to transportation income from gas shippers. Credit risk arising from the Group's regulated business is managed in accordance with industry standards as set out by the Unified Network Code. The Group contracts with shippers having investment grade ratings only, or where suitable collateral or cash prepayments are made. The Group currently holds £26.4m of security in respect of its trade counterparties (2019: £10.3m).

Trade debtors from non-transportation income relates to consumers and businesses in relation to works for alterations, diversions, meters or damage repairs. In the year ending 31 March 2020 non-transportation debtors (£63.9m) were 42.6% (2019: 18.6%) of net trade debtors (£150.0m). An impairment allowance has been set aside according to the Group's impairment policy.

The largest transportation debtor is £22.4m (2019: £20.3m). There is no material credit exposure to any one customer.

The ageing of trade debtors net of impairment allowance is:

	2020 £m	2019 £m
Not past due	142.1	104.4
Past due 0-30 days	1.4	–
Past due 31-90 days	0.8	–
Past due over 90 days	5.7	–
	150.0	104.4

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtors mentioned above.

At the end of each reporting year a review of the provision for bad and doubtful debts is performed taking into account the age, status and risk of recovery for each debtor.

Financial instruments:

The Group seeks to minimise its exposure to counterparties under financial instruments by agreeing individual exposure limits with the Finance Committee for financial instruments (based on counterparty credit ratings) and by diversifying exposure across a range of counterparties. Counterparty credit ratings are monitored by the treasury function on a regular basis and ISDA agreements are in place to permit net settlement of assets and liabilities across certain financial instruments.

Counterparty credit risks arising from financial derivatives are managed through the maintenance of financial limits, subject to a minimum credit rating of 'A' or equivalent allocated by a recognised major ratings group. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria.

The Group conducted a review of counterparty credit risk and its own credit risk, and concluded that an adjustment was required to reflect the net credit risk in arriving at the fair value of financial instruments stated in the balance sheet. The net credit risk adjustment reduced liabilities by £5.6m (2019: £5.1m). £1.3m (2019: £1.2m) was charged to the profit and loss account. £4.3m (2019: £3.9m) was charged to other comprehensive income. A discounted cash flow method was used. At 31 March 2020 the Group was holding collateral with a fair value of £nil (2019: £nil).

Market risk

Market risk represents the risk of losses or other adverse effects resulting from adverse changes in market prices or from unfavourable market conditions.

The Group is primarily exposed to market risk on UK interest rate; UK inflation rates and credit spreads in general.

Interest rate risk:

The Group's interest rate risk arises as a result of two primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses; and
- Borrowings net of cash and cash equivalents,

with the primary exposures arising from fluctuations in Sterling interest rates.

Certain of the group's financing arrangements carry requirements to maintain exposure to fixed interest rates or index-linked above a certain level/within a range.

The Group manages its exposure to interest rate risk by targeting issuance in the most efficient markets available to achieve desired size and duration and using derivative financial instruments to manage the ultimate exposure to fixed/floating interest rates if required. In addition, the Group maintains a smooth maturity profile across all debt instrument to ensure that there is no significant concentration of interest rate exposure when refinancing maturing debt.

The following table represents the annualised impact (net of deferred tax) of 100 basis point change in short-term interest rates at the reporting date in relation to equity and profit and loss account. The analysis assumes that all other variables remain constant.

	2020 £m	2019 £m
Impact on profit and loss account		
Floating rate instruments	(4.5)	(5.7)
Fixed to floating swaps	–	(1.6)
	(4.5)	(7.3)
Impact on equity		
Floating to fixed swaps	0.8	0.8

Inflation risk:

The Group's inflation risk arises as a result of three primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses;
- Impact on controllable and non-controllable costs; and
- Borrowings net of cash and cash equivalents,

with the primary exposures arising from fluctuations in Sterling RPI.

Certain of the group's financing arrangements carry requirements to maintain exposure to fixed interest rates or index-linked above a certain level/within a range.

The Group manages its exposure to inflation rate risk by targeting issuance in the most efficient markets available to achieve desired size and duration and using derivative financial instruments to manage the ultimate exposure to inflation if required.

The Group does not currently have any inflation linked derivatives in place.

The Group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK Retail Price Index ('RPI'). This form of liability is a good match to the Group's regulatory asset value which is also index-linked to RPI due to the pricing mechanism imposed by the Regulator. The turnover capacity charges are also linked to RPI.

Notes to the financial statements (cont)

for the year ended 31 March 2020

19. Financial instruments and risk management (continued)

By matching liabilities and assets, index-linked debt hedges the exposure to changes in RPI and delivers cash flow benefit. The compensation for the inflation risk is recorded as payable on the balance sheet with the principal, as opposed to a cash payment.

The following table shows the illustrative effect on the profit and loss account that would result from a 1% movement in RPI before the effects of tax.

	2020 £m	2019 £m
Impact on profit and loss		
Index-linked bonds accretion	**9.3**	8.4
Transportation income	**(11.2)**	(11.1)
Total	**(1.9)**	(2.7)

Credit spread risk:
The Group's credit spread risk arises as a result of the capital structure that is maintained, currently with external committed debt and facilities totalling £5,193m (including undrawn bank facilities but excluding shareholder loans). Lenders and investors assess the credit quality of the borrowing entity and charge a spread above benchmark rates to determine the overall return they require (and as a result the interest rate that the borrowing entity pays). Credit spreads can be impacted by both the specific credit risk of the borrower and macro events as well as general investor appetite for debt investments.

The Group manages its exposure to credit spreads by maintaining access to a diversified range of debt markets so that there is less exposure to a single group of investors/lender. The Group also maintains credit ratings with Fitch; Moody's and S&P at the operating company level, with regular meetings and dialogue to support their appraisal, which ensures that a clear independent indication of the Group's credit risk is available to investors. In addition, the Group maintains a smooth maturity profile across all debt instrument to ensure that there is no significant concentration of credit spread exposure when refinancing maturing debt.

Foreign exchange risk – transaction:
The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions, however the volume of foreign denominated payments and receivables is not considered material and no active hedging of foreign exchange transactions is undertaken.

Foreign exchange risk – translation:
The Group seeks to match the currency of borrowings to the currency of its underlying investments. As the Group's assets are materially denominated in Sterling the Group and its subsidiaries seek to source Sterling debt. Debt is sourced from the most appropriate market or markets available at the time of raising new finance (including foreign currency markets) and appropriate derivative financial instruments transacted to manage the proceeds into the appropriate currency. The Group does not currently have any debt instruments denominated in any currencies other than Sterling, however it has issued private placement notes in the US that are denominated in Sterling where the underlying exposure is USD. On these transactions the investor has transacted a derivative financial instrument to hedge the USD exposure into Sterling on the Group's behalf and as a result the Group does not carry a material exposure to USD under the transactions.

Cash flow hedges
Cash flow hedges comprise floating to fixed interest rate swaps of future interest payments relating to existing bonds. Receipts and payments for the swaps and the underlying bonds are exactly matched and in accordance with IAS 39 any gain or loss that is deferred to equity is recognised in profit or loss over the period that the floating rate interest payments impact on profit.

In September 2012 the Company issued a £300m 12 year fixed rate bond. Prior to the bond issue, from July to August 2012 the Company entered into six floating to fixed rate 10 year swaps of £25m each, to hedge the fixed interest rates prevalent in the market. After the issue of fixed rate bonds, the floating to fixed rate swaps were cancelled and a loss of £8.2m was recognised.

The swaps were entered into to hedge future interest outflows on the bond and therefore were effective hedging instruments. In accordance with the requirements of IAS 39 the loss arising on settlement of the swaps has been recorded in equity. The loss will be recycled to profit and loss account over 10 years. As at 31 March 2020 the unamortised hedge loss balance in equity was £1.2m.

The movement before deferred tax taken to equity in respect of cash flow hedges in the year was a £17.3m loss (2019: £2.9m loss). The hedge reserve movement is expected to unwind in profit or loss over the life of the swaps.

The notional principal amount of the outstanding cashflow hedges at 31 March 2020 was £80.0m (2019: £80.0m).

At 31 March 2020 the fixed interest rate is 6.57% and floating rate 0.53%, three month Libor plus 100bp.

Movement in derivatives included in profit and loss account
The net movement included within interest in the profit and loss account for financial derivatives is as follows:

	2020 £m	2019 £m
Net fair value (loss)	**(0.7)**	(5.9)
Net amounts (paid)/received	**(3.8)**	0.7
Net movement in financial derivatives	**(4.5)**	(5.2)

In addition the movement on mirror swaps in the year was a loss of £0.8m (2019: loss of £0.1m) included in interest payable.

Categories of financial instruments
The categories of financial assets and liabilities held by the Group were as follows:

	Book value	
	2020 £m	2019 £m
Financial assets held at amortised cost		
Trade debtors[1]	**150.0**	104.4
Short term deposits[1, 2]	**115.5**	19.7
Other debtors	**1.7**	–
Cash	**8.9**	10.2
	276.1	134.3
Financial assets at fair value		
Derivative financial instruments through the profit and loss account	**–**	0.4
Available for sale financial assets[1]	**–**	–
Total financial assets	**276.1**	134.7

(1) The carrying amount of financial assets approximates to their fair value.

(2) We have reviewed the presentation of the cash flow and determined that short term deposits are more appropriately designated as cash and cash equivalents. The prior year cash flows have been adjusted to reflect this.

	Book value	
	2020 £m	2019 £m
Financial liabilities held at amortised cost		
Trade creditors	**52.3**	44.7
Accrued interest	**57.0**	57.0
Other accruals	**110.3**	121.3
Bank loans and overdrafts	**126.2**	135.6
Borrowings	**4,687.5**	4,515.9
Shareholder loans	**327.6**	327.6
	5,360.9	5,202.1
Financial liabilities at fair value		
Derivative financial instruments in designated hedging relationships	**84.1**	69.0
Financial derivatives – mirror swaps	**36.1**	48.7
	120.2	117.7
Total financial liabilities	**5,481.1**	5,319.8

The carrying amount of financial liabilities approximates to their fair value except for bonds and shareholder loans, the fair value of which is disclosed on the next page.

Notes to the financial statements (cont)

for the year ended 31 March 2020

19. Financial instruments and risk management (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Valued using unadjusted quoted prices in active markets for identified financial instruments;
- Level 2: Valued using techniques based significantly on observable market data. Instruments in this category are valued using valuation techniques where all of the inputs that have a significant impact on the valuation are directly or indirectly based on observable market data;
- Level 3: Instruments in this category have been valued using a valuation technique where at least one input (which has a significant input on the financial instruments' valuation) is not based on observable market data. Where inputs can be observed from market data with not undue cost and effort, the observed input is used. Otherwise management determines a reasonable estimate for the input.

An analysis of financial assets and liabilities that are recorded at fair value at 31 March 2020 is as follows:

	2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– other financial assets (derivatives)	–	–	–	–
	–	–	–	–
Financial liabilities				
At fair value through profit and loss				
– other financial liabilities (onerous contract swaps)	–	36.1	–	36.1
Derivatives used for hedging	–	84.1	–	84.1
	–	120.2	–	120.2

	2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– other financial assets (derivatives)	–	0.4	–	0.4
	–	0.4	–	0.4
Financial liabilities				
At fair value through profit and loss				
– other financial liabilities (onerous contract swaps)	–	48.7	–	48.7
Derivatives used for hedging	–	69.0	–	69.0
	–	117.7	–	117.7

Mirror swaps

In 2005 the Group entered into interest rate swap contracts to fix the Group's interest cost relating to (floating rate) bridging loans which were in place at the time. In October 2005, permanent long-term capital markets debt was issued to replace floating rate bridging loans. At that point these swaps became obsolete and consequently matching swaps were transacted (under which the Group received fixed rate interest) to close out the position. The crystallised loss was recognised in the profit and loss and a discounted balance equal to the market value of the matched swaps was established within creditors. At 31 March 2020 the mirror swap loss was £36.1m (2019: £48.7m).

Fair values

The Group's financial instruments recorded at amortised cost are shown below together with their fair values:

	31 March 2020		31 March 2019	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	4,687.5	5,869.0	4,516.0	5,596.7
Bank facility	126.2	127.1	125.6	125.8
Shareholder loans	327.6	601.1	327.6	601.1
	5,481.1	6,597.2	4,969.2	6,323.6

Fair values of bonds and shareholder loans have been determined by reference to closing quoted market values where available or otherwise by discounting future cash flows at their market interest rate.

The carrying value of all other financial assets and liabilities approximates to their book value.

20. Provisions for liabilities

	Environmental and demolition £m	Deferred tax £m	Other provisions £m	Total £m
Group				
At 1 April 2019	89.9	732.3	7.7	829.9
Arising during the year	(15.9)	–	2.6	(13.3)
Utilised during the year	(5.5)	–	(0.6)	(6.1)
Net movement in deferred tax	–	91.2	–	91.2
Amortisation of discount	4.0	–	0.2	4.2
At 31 March 2020	**72.5**	**823.5**	**9.9**	**905.9**

Environmental and demolition

The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Group has a legal obligation to restore sites at the balance sheet date. The provision has been discounted and is stated at the present value of the estimated expenditure to settle the obligation. The provision is expected to be utilised over the next six years in line with anticipated regulatory outputs requirements for land remediation.

The demolition provision is an obligation to demolish the gas holders on sites held in inventories. The provision is based on third party valuations that have been discounted to the present value of the estimated expenditure to settle the obligation. They are expected to be utilised over the next six years.

Deferred tax

The net movement on the deferred tax provision has arisen mainly as a result of the movement on cash flow hedges during the year, offset by other movements in the year of which £(77.3)m (2019: £6.3m) is recorded as a debit (2019: credit) to the profit and loss account and £23.2m (2019: £3.3m) is recorded as an income (2019: income) to the statement of comprehensive income.

The Company has no provisions in either year.

Deferred tax recognised in the financial statements is as follows:

	Group		Company	
	2020 £m	2019 £m	2020 £m	2019 £m
Accelerated capital allowances	(792.2)	(719.4)	-	–
Deferred tax on cash flow hedges	16.0	11.5	-	–
Other timing differences	19.9	9.5	-	–
Retirement benefit obligations	(67.2)	(33.9)	-	–
	(823.5)	(732.3)	-	–

Notes to the financial statements (cont)

for the year ended 31 March 2020

20. Provisions for liabilities (continued)

The movement in provision for deferred tax is as follows:

	Group	
	2020 £m	2019 £m
At 1 April	(732.3)	(741.9)
Credited to profit and loss account	(69.2)	7.6
Credited/(charged) to other comprehensive income	(22.0)	2.0
At 31 March	(823.5)	(732.3)

The Group has unrecognised deferred tax assets in respect of unutilised tax losses of £235.4m (2019: £239.9m). Deferred tax assets have been recognised in respect of tax losses to the extent that it is considered probable that these assets will be recovered. The Company has not recognised deferred tax on £235.4m (2019: £239.9m) of unutilised tax losses. Deferred tax has been measured based upon corporation tax rates substantively enacted at the balance sheet date (information regarding rates of corporation tax can be found in note 9 to the financial statements).

Other provisions
Other provisions includes asbestos related liabilities. The provision has been discounted and is stated at the present value of the estimated expenditure to settle the obligation. The provision is expected to be utilised over the next 30 years.

21. Share capital

	31 March 2020		31 March 2019	
	Number	Value £m	Number	Value £m
Allotted, called up and fully paid shares				
'A' ordinary shares of 42.55p (2019: 42.55p) each	235,025,002	100.0	235,025,002	100.0
'B' ordinary shares of 42.55p (2019: 42.55p) each	117,512,501	50.0	117,512,501	50.0
'C' ordinary shares of 42.55p (2019: 42.55p) each	117,512,501	50.0	117,512,501	50.0
Total	470,050,004	200.0	470,050,004	200.0

The 'A', 'B' and 'C' ordinary shares rank pari passu in all respects.

22. Reconciliation of movements in Group shareholders' funds

	2020 £m	2019 £m
Profit for the financial year	235.9	243.0
Dividend paid on equity shares (see note 11)	(50.0)	(205.0)
Cash flow hedges (net of deferred tax)	(11.5)	(2.3)
Actuarial (loss)/gain on defined benefit pension scheme (net of related tax)	110.8	(13.4)
Movement in shareholders' funds	285.3	22.3
Opening shareholders' funds	718.7	696.4
Closing shareholders' funds	1,004.0	718.7

23. Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Other		Land and buildings	
	2020 £m	2019 £m	2020 £m	2019 £m
Within one year	3.9	2.4	1.1	0.9
Within two to five years	4.1	3.2	1.9	1.7
After five years	–	–	12.5	12.8
	8.0	5.6	15.5	15.4

The Company has no operating lease commitments in either year.

24. Capital commitments

Capital projects contracted for by the Group but not provided in the financial statements amounted to £39.1m at 31 March 2020 (2019: £46.0m). The Company has no capital commitments at 31 March 2020 (2019: £nil).

25. Pension commitments

A significant proportion of the Group's employees are members of the Scotia Gas Networks Pension Scheme ('the Scheme'). Under the Scheme, the employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). The Scheme is open to future accrual of benefits and closed to new members. The Scheme provides final salary defined benefits for employees who joined the Lattice Group Scheme prior to 31 March 2002. A defined contribution section was added to the Lattice Group Scheme from 1 April 2002 for employees joining the Lattice Group Scheme from that date. Employees of the Group who were previously members of the Lattice Group Scheme transferred to the Scotia Gas Networks Pension Scheme on 1 December 2005.

a) Defined benefit scheme
The Scheme is operated by the Group and is funded with assets held in separate trustee administered funds. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary determines the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The most recent triennial valuation of the Scheme was carried out at 31 March 2018. The Company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the Company to measure the Scheme's liabilities on the financial statements, as well as adjusting for benefit accrual and benefits paid by the Scheme. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. In accordance with FRS 102, a limited actuarial review has been carried out by PwC at 31 March 2020 using the projected unit method.

The following financial assumptions have been used:

	2020	2019	2018	2017
As at 31 March				
Discount rate	2.3%	2.3%	2.7%	2.7%
Retail price inflation	2.8%	3.4%	3.2%	3.3%
Consumer price inflation	1.8%	2.4%	2.2%	2.3%
Rate of increase of salaries	2.6%	3.2%	3.0%	3.1%
Rate of increase of pensions payment	2.8%	3.4%	3.2%	3.3%

The discount rate is based on the return of high quality corporate bonds.

The assumptions relating to longevity underlying the pension liabilities reflect the characteristics of the Scheme membership ('VitaCurves') for base mortality with an allowance for further improvements in life expectancy in line with the medium cohort adjustments subject to a 1.5% p.a. underpin in the longevity assumption. The assumed life expectancy in years for a member once they reach age 65 is as follows:

	2020		2019		2018	
	Male	Female	Male	Female	Male	Female
As at 31 March						
Members currently aged 65	23.7	24.2	22.4	23.9	22.3	23.8
Members currently aged 45	24.3	26.4	24.2	26.5	24.1	26.4

Notes to the financial statements (cont)

for the year ended 31 March 2020

25. Pension commitments (continued)

The approximate effects of movements in the main assumptions on the defined benefit obligation are shown in the table below:

	Sensitivity	Approximate change in DBO £000
Discount rate	– 0.1% p.a.	16,039
	+ 0.1% p.a.	(15,608)
Price inflation (RPI measure)*	– 0.1% p.a.	(14,902)
	+ 0.1% p.a.	15,268
Life expectancy	– 1 year	(26,236)
	+ 1 year	26,420

* These movements have been calculated assuming that changes in the inflation assumption have a knock-on effect on the pension increase and salary growth assumptions (i.e. the 'real' increase rates are maintained). Note that the sensitivities do not allow for the movement in the insured pensioner asset, therefore the net balance sheet movement is smaller.

The fair value of the assets in the scheme and the present value of the liabilities in the scheme were:

As at 31 March

	2020			2019		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities	**111.0**	**–**	**111.0**	205.6	–	205.6
Government bonds [2]	**619.9**	**–**	**619.9**	475.3	–	475.3
Corporate bonds	**183.8**	**134.2**	**318.0**	253.2	83.6	336.8
Property	**1.0**	**–**	**1.0**	1.8	–	1.8
Cash	**9.3**	**–**	**9.3**	7.0	–	7.0
Insurance contracts	**–**	**78.9**	**78.9**	–	86.0	86.0
Total market value of assets	**925.0**	**213.1**	**1,138.1**	942.9	169.6	1,112.5
Actuarial value of liabilities			**(783.9)**			(913.0)
Surplus/(deficit) in scheme			**354.2**			199.5

The fair value of scheme assets at 31 March 2020 are based on the bid price where available. The fair value of property is based on the mid price and the value of the single unit price funds is based on the single unit price.

To reduce the risk of volatility in the Scheme's funding level, a liability driven investment (LDI) strategy forms part of the assets employed within the investment strategy of the Scheme. The LDI strategy provides 95.0% interest rate protection and 95.0% inflation protection as at 31 March 2020 with respect to the pension scheme liabilities of £1.2bn (valued using a UK government bond yield curve). The Scheme assets which provide this interest rate and inflation protection are managed by BlackRock and Goldman Sachs and include a variety of instruments e.g. UK government bonds (gilts), interest rate swaps, inflation swaps, gilt repos and corporate bonds. The Scheme has implemented a pensioner buy in which also contributes to the total interest rate and protection ratios referred to above.

(2) Including LDI repurchase agreement liabilities.

Movement in fair value of scheme assets

	2020 £m	2019 £m
At 1 April	**1,112.5**	1,034.3
Interest income	**25.5**	27.1
Contributions from the Group	**32.8**	33.5
Remeasurement of scheme assets	**7.7**	79.2
Benefits paid	**(39.3)**	(60.6)
Administration costs	**(1.1)**	(1.0)
As at 31 March	**1,138.1**	1,112.5

Movement in fair value of scheme liabilities

	2020 £m	2019 £m
At 1 April	**(913.0)**	(840.3)
Current service cost	**(19.1)**	(17.2)
Past service cost	**-**	(0.8)
Interest cost	**(20.5)**	(21.5)
Actuarial (losses)/gains	**129.4**	(93.8)
Benefits paid	**39.3**	60.6
At 31 March	**(783.9)**	(913.0)

Employer contributions for the period ending 31 March 2020 were 37.3% of monthly salary roll, before allowing for any salary sacrifice contributions. Deficit contributions are also payable at the rate of £23.5m p.a. less 2.7% of salary roll (with the annual salary roll calculated in March each year and used for the following 12 months beginning 1 April) until 31 March 2020 and £12.5m p.a. from 1 April 2020 to 31 March 2027.

The actual gain on scheme assets was £33.2m (2019: £106.3m).

The cumulative amount of actuarial gains/losses recognised in the statement of comprehensive income since adoption is £166.6m (2019: £22.4m).

Analysis of the amounts recognised in the profit and loss account

	2020 £m	2019 £m
Amount charged to operating profit:		
Current service cost	**(19.1)**	(17.2)
Administration cost	**(1.1)**	(1.0)
Past service cost	**-**	(0.8)
Analysis of the amount credited/(charged) to finance income/expense:		
Interest income on pension scheme assets	**25.5**	27.1
Interest cost on pension scheme liabilities	**(20.5)**	(21.5)
Net finance income	**5.0**	5.6
Net charge to the profit and loss account	**(15.2)**	(13.4)

Analysis of the amount recognised in other comprehensive income

	2020 £m	2019 £m
Actual gains on scheme assets	**7.7**	79.2
Actuarial gains/(losses) on obligations	**129.4**	(93.8)
Gain/(loss) recognised in other comprehensive income	**137.1**	(14.6)

The spread of COVID-19 has led to market fluctuations and a fall in stock markets and bond yields. Equities are particularly volatile as are high yield bond and some debt markets. However, government bonds have seen strong performance, pushing yields lower. Inflation has also reduced, which has decreased the pension liability, partially offsetting this is a reduction in assets due to a fall in underlying equities.

b) Defined contribution schemes

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

	2020 £m	2019 £m
Amount charged in respect of defined contribution schemes	**15.1**	7.5

26. Related parties

The Company is owned by a consortium consisting of SSE plc (33.3%), OTPPB Investments (UK) Limited (25.0%), which is owned by 2465817 Ontario Limited, Borealis Infrastructure Europe (UK) Limited (25.0%), which is indirectly wholly-owned by OMERS Administration Corporation, and Blue Spyder B 2016 Limited (16.7%), which is owned by Abu Dhabi Investment Authority. It is the opinion of the Directors that the Group and Company have no single controlling party as the Company is controlled jointly by the consortium.

Transactions with key management personnel

Total compensation of key management personnel in the year amounted to £5.0m (2019: £4.2m). Management have reassessed their definition of key management personnel since the prior year. Directors are also deemed to be key management personnel and their remuneration is disclosed in note 5.

Notes to the financial statements (cont)

for the year ended 31 March 2020

26. Related parties (continued)

Transactions with shareholders

Amounts owed to shareholders and loans from shareholders are set out below:

	Group	
	2020 £m	2019 £m
Shareholders' loans:		
SSE plc	**109.2**	109.2
Borealis SGN Holdings BV(1)	**81.9**	81.9
2465817 Ontario Limited(2)	**81.9**	81.9
Blue Atlas ZA 2014 Limited Partnership	**54.6**	54.6
	327.6	327.6
Interest owed to shareholders:		
SSE plc	**3.1**	3.1
Borealis SGN Holdings BV(1)	**2.4**	2.4
2465817 Ontario Limited(2)	**2.4**	2.4
Blue Atlas ZA 2014 Limited Partnership(3)	**1.5**	1.5
	9.4	9.4
Other amounts owed to shareholders:		
SSE plc	**15.0**	13.2

(1) Borealis SGN Holdings BV is an affiliate of Borealis Infrastructure Europe (UK) Limited.

(2) 2465817 Ontario Limited is wholly owned by OTPPB.

(3) Blue Atlas ZA 2014 Limited Partnership is owned by Abu Dhabi Investment Authority.

The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £28.1m (2019: £28.1m). Interest accrues on the shareholders' loans at a fixed rate of 8.6% per annum and is payable semi-annually in arrears on 30 November and 31 May each year. The Company may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to its shareholders.

Other than interest charges relating to shareholder loans, the following transactions took place during the year between the Group and the SSE plc group of companies (SSE).

	2020 £m	2019 £m
Sales of goods and services	**107.9**	151.0
Purchase of goods and services	**(39.5)**	(44.9)

Sales of goods and services to SSE primarily represent gas transportation services. At 31 March 2020 an amount of £nil (2019: £0.6m) was owed by SSE in relation to these services and is included within trade debtors.

SSE provides services to the Group in the form of a management services agreement for corporate services. The Group also purchases certain items such as consumables stock, shrinkage gas and public liability insurance from SSE. Included within purchases of goods and services are direct costs in relation to tangible fixed asset and acquisitions projects incurred by SSE which have been recharged to the Group and capitalised.

Transactions with other related parties

During the year, SGN Smart Limited, a wholly owned subsidiary of Scotia Gas Networks Limited, sold goods and services amounting to £3.7m (2019: £2.8m) to MapleCo1 Limited. These goods and services were purchased on an arm's length basis. At 31 March 2020 an amount of £0.3m (2019: £0.2m) was receivable from MapleCo1 Limited and is included within trade debtors.

In the year the Group also invested £2.9m in a Joint Venture, Murphys Asset Services Limited. The Group also accounted for a share of the loss to the year ended 31 March 2020 of £0.6m.

The company contributed £32.8m (2019: £33.5m) to Scotia Gas Networks Pension Scheme during the year.

27. Subsequent events

There are no subsequent events to report.

Glossary

ADIA - Abu Dhabi Investment Authority
AFS - Available-for-Sale
AWS - Amazon Web Services
BCF - Business Carbon Footprint
BEIS - Department for Business, Energy and Industrial Strategy
CA - Citizens Advice
CAP - Community Action Programme
CAS - Citizens Advice Scotland
CCC - Climate Change Committee
CEG - Customer Engagement Group
CEO - Chief Executive Officer
CFO - Chief Financial Officer
CHG - Central Heating Grant
CI - Cast Iron
CISBOT - A cast iron pipe-repair robot that seals joints in natural gas pipelines from the inside
CO - Carbon Monoxide
Consolidated MidCo group - Consists of SGN MidCo Ltd, Scotland Gas Networks plc, Southern Gas Networks plc, SGN Natural Gas Ltd, and SGN Contracting Ltd
D&I - Diversity and Inclusion
DNO - Distribution Network Operator
EFV - Excess Flow Valve
EMEA - Europe, the Middle East and Africa
ENA - Energy Networks Association
EPC - Energy Performance Certificate
ESOS - Energy Savings Opportunity Scheme
EUS - Energy & Utility Skills
FIFO - First-in, First-out
FPNES - Fuel Poor Network Extension Scheme
FRC - Financial Reporting Council
FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland
FVTPL - Fair Value Through Profit or Loss
GB - Great Britain
GCC - Gas Control Centre
GDN - Gas Distribution Network
GDPR - General Data Protection Regulations
GSMR - Gas Safety Management Regulations
GttW - Gas to the West
GWP - Global Warming Potential
HGV - Heavy Goods Vehicle
HMRC - Her Majesty's Revenue and Customs
HR - Human Resources
HSE - Health and Safety Executive
HVAC - Heating, Ventilation and Air Conditioning
HVGE - High Volume Gas Escape
I&C - Industrial and Commercial
IET - Institute of Engineering and Technology
IGEM - Institution of Gas Engineers & Managers
IGTS - Independent Gas Transporters
IT - Information Technology
JV - Joint Venture
KPI - Key Performance Indicator
LCV - Locking Cooker Valve
LDI - Liability Driven Investment
LEL - Lower Explosive Limit
LTS - Local Transmission System
MERC - Maintenance Emergency Response Contract
MHS - Mental Health Supporter
NCA - National Crime Agency
NGO - Non-government Organisation
NIA - Network Innovation Allowance
NIC - Network Innovation Competition
NIS - Networks and Information System
NTS - National Transmission System
Ofgem - Office of Gas and Electricity Markets Ofgem is responsible for regulating the gas and electricity markets in the UK to ensure customers' interests are protected
OMERS - Ontario Municipal Employees' Retirement System
ORE - Offshore Renewable Energy
OTPPB - Ontario Teachers' Pension Plan Board
PARCO - People and Reward Committee
PAYE - Pay As You Earn
PE - Polyethylene
PSR - Priority Services Register
PWG - Pandemic Working Group
RAV - Regulated Asset Value
RCF - Revolving Credit Facility
REGO - Renewable Energy Guarantees Origin
Regulated businesses - Consists of Scotland Gas Networks plc, Southern Gas Networks plc, and SGN Natural Gas Ltd
RIIO-GD1 - The price control period that will run from 1 April 2015 to 31 March 2023; the first gas distribution price control that will use the RIIO framework for setting allowances
RIIO-GD2 - The next price controls for the network companies running the gas and electricity transmission and distribution networks
RISE - Resilient, Influential, Strong, Empowered
RPI - Retail Price Index
RRES - Robotic Roadworks and Excavation System
SAP - Stakeholder Advisory Panel
SAR - Synthetic Aperture Radar
SDG - Sustainable Development Goal
SEPA - Scottish Environment Protection Agency
SHE - Safety, Health and Environment
SIM - Satellite Information Monitoring
SIUs - Scottish Independent Undertakings
SRM - Stakeholder Relationship Management
STEM - Science, Technology, Engineering, and Mathematics
SWIR - Short-Wave Infrared
TCP - Total Carbon Footprint
TfL - Transport for London
The Group - The Company and its subsidiary undertakings (together the Group)
TNI - Total Network Investment
TOM - Target Operating Model
TTM - Trainee Team Manager
UIP - Utility Infrastructure Provider
ULEZ - Ultra Low Emission Zone
UN - United Nations
UREGNI - Utility Regulator for Northern Ireland
UTC - Urban Traffic Control
VNIR - Visible Near Infrared
WHO - World Health Organisation

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If you smell gas or are worried about gas safety you can call the National Gas Emergency Number on **0800 111 999**

Carbon monoxide (CO) can kill. For more information: **co-bealarmed.co.uk**