

REGISTERED NUMBER: 05167021

Southern Gas Networks Plc

Strategic Report, Directors' Report and

Financial Statements for the Year Ended 31 March 2020

Southern Gas Networks Plc (Registered number: 05167021)

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for the Year Ended 31 March 2020

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Southern Gas Networks Plc

Company Information
for the Year Ended 31 March 2020

DIRECTORS:

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Charlotte Brunning
Natalie Flageul
Paul Jeffery
Guy Lambert
Robert McDonald
John McManus
Charles Thomazi (Alternate)
Ines Grund (Alternate)
Nicholas Robin Salmon
Laura Sandys
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Michael McNicholas

SECRETARY:

Nicola Shand

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REGISTERED NUMBER:

05167021

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15 Canada Square
London
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Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2020

This strategic report sets out the main trends and factors underlying the development and performance of Southern Gas Networks Plc ("the Company") during the year ended 31 March 2020 as well as those matters which are likely to affect our future development and performance.

THE BUSINESS, ITS OBJECTIVES AND STRATEGY

The Company operates the regulated gas transportation business for the South and South East of England gas distribution network, one of eight regional gas distribution networks in Great Britain. Its gas distribution network comprises approximately 49,000 kilometres of gas mains delivering natural gas to approximately 4.0 million domestic, commercial and industrial customers. The 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.

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited ("**SGN**"), which is registered at St. Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ. SGN is owned by a consortium made up of SSE plc, Borealis Infrastructure Europe (UK) Limited, which is indirectly wholly owned by OMERS Administration Corporation, OTPPB Investments (U.K.) Limited, which is owned by Ontario Teachers' Pension Plan Board and Blue Spyder B 2016 Limited, which is owned by Abu Dhabi Investment Authority. References to the "**Group**" throughout this Report mean SGN and its subsidiaries (including the Company).

The Company's business is regulated by the Office of Gas and Electricity Markets ("Ofgem").

Objectives and Strategy

The Company's principal objectives are to deliver natural gas safely, reliably and efficiently across the gas distribution network and to provide the highest standard of service to our stakeholders, whilst delivering value to our shareholders. Its strategy therefore places the highest emphasis on ensuring activities are carried out safely and that the networks operate in a reliable and efficient manner, so that benchmarks and regulatory targets can be exceeded to the benefit of all its stakeholders.

The Company's overall financial objective is to focus on operational efficiency and the efficient delivery of capital and replacement expenditure programmes. Therefore, financial objectives are set to ensure the regulatory targets are achieved or outperformed.

The Company's financing objective is to ensure an efficient capital structure that mitigates interest rate risk through maintaining a minimum of 75% of debt at either fixed rates of interest or index linked.

External and regulatory environment

The management and operation of the Company's gas transportation assets are subject to a series of legislative requirements to ensure that assets are managed and operated in a safe and reliable manner. The Company must also ensure that arrangements are in place to respond to emergency situations and to ensure hazardous work is carried out safely and with minimum disruption.

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The primary legislation controlling the Company's activities as a gas transporter is the Gas Act 1986 (as amended). Under the Gas Act, the Company holds a licence that allows it to operate the gas distribution network it owns. The Company is regulated by Ofgem, which has established price control mechanisms that govern the amount of revenue that can be earned by regulated businesses. Ofgem assesses the revenue and investment plans of the Company to determine an efficient level of expenditure and the quality of service requirements for the network are also taken into account. A cost of capital for the required investment in the networks is also determined.

The Company is also subject to safety legislation which is enforced by the Health and Safety Executive ("HSE") in the UK. The Group's processes and procedures are covered in a safety case which has been accepted by the HSE.

Factors affecting the business

The Company's principal activity is the operation of a highly complex gas infrastructure network. As a consequence, there are a number of factors that may influence the development and performance of the Company and the financial returns that can be achieved. The principal factors that influence the Company are as follows:

- Regulatory price controls

As outlined above, the prices that can be charged for the use of the Company's networks are determined in accordance with regulator approved price controls. The outcome of the eight-year review baselined the revenues that will be obtained over the price control period. In addition, targeted incentive schemes were introduced by the regulator whereby the Company can earn additional revenues by outperforming the targets, or alternatively penalised if the Company does not meet them.

Additionally, the regulatory price controls include an allowed rate of return for the investment the Company makes in the network. The level of the allowed rate of return determines the extent to which investment to increase the quality and capacity of the network is economically viable.

- Safety and reliability of the networks

The Company's ability to operate the networks safely and reliably is of the highest importance. Its performance in these areas affects the costs it incurs and the overall financial performance.

- Efficiency

The Company's objective is to ensure that gas is delivered as efficiently as possible through its network. This allows the Company to limit price increases and improve its own financial performance.

- Interest rates

The costs of financing our operations are affected by changes in interest rates as some of the Company's borrowings are held at floating rates. Exposure to changes in interest rates are hedged by holding both fixed rate and index linked borrowings and by holding derivative financial instruments (interest rate swaps) where necessary to achieve the desired profile of interest rate risk.

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As well as the opportunities the Company has to grow and develop its business, certain risks and uncertainties are faced in achieving its objectives. The principal risks and uncertainties identified are as follows:

Description and Impact of Risk	Mitigation
<p>1. COVID-19: The COVID-19 pandemic was declared a public health emergency of international concern by the 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.</p>	<p>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:</p> <p>Non-essential work ramped down to ensure resources for emergency work. A number of contractor resource were retained to provide contingency cover. Many workers were designated as key workers, giving access to virus testing.</p> <p>To manage liquidity, increased minimum cash levels to manage any significant unforeseen shocks. We have access to a group £360m revolving credit facility (RCF) split between Southern Gas Networks and Scotland Gas Networks, evenly spread among our six relationship banks, all well-rated and geographically diverse across three countries.</p> <p>Regular dialogue maintained with Ofgem, Xoserve and the Joint Office regarding any issues in the supplier and shipper market.</p> <p>We're investigating Repex procedures and innovations to reduce customer impact and keep our people and customer safe. We are having regular dialogue with our contractors to understand the financial burden on them.</p> <p>Regular discussions with Ofgem and the HSE to inform them of our decisions which may impact regulatory requirements.</p> <p>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.</p> <p>We're maintaining regular two-way communication with the Trade Unions to ensure that employees' questions and concerns are promptly addressed.</p>

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COVID-19 (continued)

We're minimising any 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.

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.

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, 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.

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 1 of GD2 and aligning on-going projects to meet the future needs of GD2.

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4. Future of gas network: There is risk that the outcome of the UK Government energy mix scenarios rules switching from gas to other heat sources such as electric. There is also a 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.

Influencing government to ensure policy and regulatory decisions are lobbied by setting up of 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. The ongoing risk of Brexit and a potential no deal resulting in political changes to the regulatory framework and our supply chain

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

We have planned extensively for the impact of Brexit in particular for the potential impact on our supply chain.

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.

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, the Issuers have ongoing safety initiatives which include rolling out behavioural based intervention focusing on employee behaviour and risk awareness.

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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.

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.

Continuous development of our people with 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.

We have governance and compliance frameworks in place to deal with issues and developments arising price controls.

Our experienced regulation, finance, and legal teams which manage compliance requirements and engage with all levels of Ofgem and Government.

Delivery of regulatory outputs is measured and monitored on a regular basis.

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10. Legal and compliance: There is a risk that our acts or omissions cause a breach of key legislation by our employees.

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 coordinated.

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.

Delivering the Environmental Action Plan by decarbonising the network and operations.

Engaging with the supply chain.

Deliver regular interaction with stakeholders and customers.

Full implementation of behavioural and cultural improvement.

The Board reviews the principal risks and uncertainties facing the business and considers the risk management processes in place, which are designed to safeguard assets and to manage, rather than eliminate, material risks to the achievement of business objectives. These reviews recognise that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. Further details of the processes the Board has in place are also set out in the Corporate Governance Statement, in the Directors' Report.

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Stakeholders

The Company has a range of external stakeholders including gas consumers, employees, suppliers and contractors, its regulator Ofgem, the HSE and local governments and communities. The Company adopts an open and constructive approach, both in terms of the way it operates, the services it provides and the impact that its activities have on each of its stakeholders. The Company encourages and enables its employees to be active citizens in the communities in which they live and work, through schemes which support staff who are either raising money for, or giving their time to, UK charities, local community or youth sports groups. The Company matches eligible fund raising by individual members of staff.

Southern Gas Networks Plc (Registered number: 05167021)Strategic Report
for the Year Ended 31 March 2020**SECTION 172(1) STATEMENT**

The Companies (Miscellaneous Reporting) Regulations 2018 require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) (A) to (F) of the Companies Act 2006 ('S172') when performing their duty to promote the success of the Company under S172. In particular, how they have considered the long-term success of the company whilst balancing the interests of a wide range of stakeholders.

Confirmation of Director's duties

The Company's Directors strive to ensure that they act in good faith, in promoting the future success of the Company, and in doing so having regard (among other matters) to:

S172(1) (A) "The likely consequences of any decision in the long-term"

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

The Board have provided continued focus on the long-term success of the Company through setting its' vision, purpose and strategic priorities now, through the next price control, and beyond. These are all outlined further in the points below and throughout the Strategic and Directors' Report.

S172(1) (B) "The interests of the company's employees"

The Directors place 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 Company. Throughout the year the Directors have regularly invited employees to share their views at board dinners and through site and office visits. This culture continues with senior management and the CEO and other senior executives regularly communicating with employees through these channels and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Several of the Board's sub-committees have a high degree of focus on employee's interest, for example the Safety, Health and Environmental Advisory Committee which recognises that the health and safety of the Company's staff (as well as the other key stakeholders) are of critical importance. The People and Reward Committee also considers the appropriateness and relevance of the remuneration policy.

The Directors recognise that our pensioners, though no longer employees, also remain important stakeholders.

S172(1) (C) "The need to foster the company's business relationships with suppliers, customers and others"

The Directors' have taken steps to ensure everyone has an opportunity to share their views about what matters to them with the Company. The Company has 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:

- We will make a positive impact on society, by supporting vulnerable communities and providing excellent service.
- We will deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.
- We will build a shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.
- 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 the Company at the forefront of the delivery of heat.

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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 will ensure we set high ambitions for our future stakeholder engagement and scrutinize how we use insights 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 principal 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.

S172(1) (D) "The impact of the company's operations on the community and the environment"

The community and environment underpin our key priorities and provided invaluable feedback into the company's Business Plan submission for the next price control, which has been approved by the Board of Directors. This Business Plan outlines three key strategic priorities that underpin the entire submission:

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.

S172(1) (E) "The desirability of the company maintaining a reputation for high standards of business conduct"

The Directors' aim to ensure that the Company maintains high standards of business conduct through the support of the Company's culture and values which underpin decision making at a Board and management level.

- **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 trust 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

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S172(1) (F) "The need to act fairly as between members of the company"

The Directors' recognise the responsibility to act fairly as between members of the company. This is outlined by the Company's vision, purpose, and engagement which is supported by the Board of Directors.

- **Our 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 strategy is to deliver long-term value for existing and future customers, stakeholders and shareholders. A strategy based on strong financial management and governance framework.
- **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.

The Director's Report outlines further examples of how each of the sub-committees of the Board have applied these principles in key decision-making activities.

ENGAGEMENT WITH EMPLOYEES

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 have 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.

Southern Gas Networks Plc (Registered number: 05167021)Strategic Report
for the Year Ended 31 March 2020**ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS**

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. 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:

- We will make a **positive impact** on society, by supporting vulnerable communities and providing excellent service.
- We will deliver a **safe and efficient** service by acting safely, keeping the gas flowing and keeping costs down.
- We will build a **shared future** by accelerating decarbonised energy solutions and minimising our environmental impact.
- 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 the Company at the forefront of the delivery of heat.

This year we have adopted a revised governance structure as outlined in the S.172 statement, this includes the SAP and Stakeholder, Environment and Customer Board Committee which will help the group to meet its stakeholder engagement ambitions.

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. The enhancements to these principles that we've introduced this year are identified in bold.

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:

The Company 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:

The Company will continuously improve and develop its engagement with customers and stakeholders, finding new and **more innovative approaches** to respond to their changing needs.

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for the Year Ended 31 March 2020**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 businesses 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 key 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 twelve main groups as outlined below.

Supporting Section 172

A critical aspect of working constructively with the Company's key stakeholder groups is the engagement which takes place to understand material issues of interest and set out below are details of the engagement mechanisms that exist within the Group, which ultimately support the Board's understanding of relevant stakeholder views. This approach ensures that all decision-making is adequately informed and is supportive of a Director's duty under Section 172 of the Companies Act 2006.

The Board had regard to the interests of all stakeholder groups were considered during the shaping of the 5-year business plan

Stakeholder type	Key stakeholders	2019/20 Board impact areas
Internal Stakeholders SGN employs around 4,000 people across its workforce and has four shareholders.	Employees/workforce, trade unions, shareholders	Employee engagement and action plan, remuneration, talent and succession, diversity and inclusion.
Customers SGN provides gas distribution and related services to millions of customers.	Domestic and industrial customers, small and medium enterprises, future of gas customers	Sustainability - pathway to the decarbonisation of heat, environmental action plan, safety performance
Regulatory bodies SGN works constructively with regulatory bodies	Ofgem, HSE, Environment Agency, SEPA	Stakeholder engagement strategy, sustainability - pathway to the decarbonisation of heat, environmental action plan, safety performance

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Local government SGN works constructively with central and local government	Government departments, local authorities, politicians, local energy plan partners	Stakeholder engagement strategy, sustainability - pathway to the decarbonisation of heat, environmental action plan, UN sustainability development goals
Energy partners and industry peers SGN works in collaboration with third party energy partner providers and industry peers	GDNs/DNOs, shippers/suppliers, industry groups, IGTs/UIPs, other utilities (water, telecom, etc.)	Sustainability - pathway to the decarbonisation of heat, environmental action plan, UN sustainable development goals
Supply Chain SGN works closely with its supply chain	Appliance manufacturers, construction and engineering companies, services providers	Approval of Modern Slavery Statement, technology - digital development, large project performance, contract approvals
Local interests SGN works in partnership with many third-party organisations to support local interest	Community groups, energy and health services, public transport providers, housing providers	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	NGOs, environmental charities, sustainability specialists	Sustainability - pathway to the decarbonisation of heat, environmental action plan, UN sustainability development goals
Consumer welfare agency groups/providers SGN works closely with its consumer welfare groups to support vulnerable communities	Consumer groups, charities, private and community interest groups	Sustainability - pathway to the decarbonisation of heat, environmental action plan, UN sustainability development goals

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for the Year Ended 31 March 2020**Key performance indicators**

The Company measures the achievement of its objectives through the use of quantitative assessments and, where quantitative measures are less relevant, through the use of qualitative assessments. The principal key performance indicators ("KPIs") which are used to assess whether principal operating objectives have been achieved are set out below:

Key performance indicator	Description	Year ended 31 March 2020	Year ended 31 March 2019
Revenue	Income relating to the transportation of natural gas and provision of related services	£817m	£797m
Operating profit	Profit before financing costs and taxation	£373m	£366m
Capital expenditure	Additions to fixed assets	£92m	£76m
Replacement expenditure	Replacement expenditure is capitalised under FRS 102. It represents the cost of renewing sections of gas network with polyethylene pipes.	£224m	£215m
Net Debt to RAV ratio [1]	The Company's debt to RAV ratio	71.6%	72.9%
Employee lost time incidents	Incidents resulting in employees taking time off work (per 100,000 hours worked)	0.08 [4]	0.10 [4]
Customer satisfaction - planned interruptions	Results from customer satisfaction surveys (10 = very satisfied)	8.8 [2]	8.8 [2]
Customer satisfaction - unplanned interruptions	Results from customer satisfaction surveys (10 = very satisfied)	9.4 [3]	9.4 [3]
Escapes attendance	Proportion of uncontrolled escapes attended in one hour - percentage (target 97%)	98.5% [4]	98.7% [4]
Customer complaint volume reduction	This represents the year on year reduction in complaints expressed as a percentage. Complaint means any expression of dissatisfaction related to any areas of our operation.	(20)% [4]	40% [4]

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- [1] "RAV" is defined as Ofgem Regulatory Asset Value plus adjustments relating to the sharing of out/under performance against allowances. Net debt for the purposes of the Debt to RAV ratio includes unrestricted cash, short term deposits and intercompany loans but excludes liabilities arising from derivative financial instruments. The percentages stated are as at 31 March.
- [2] Based on customer satisfaction survey reports obtained for the nine-month period ended 31 December 2019 and 2018 for the Group.
- [3] Based on customer satisfaction survey reports obtained for the nine-month period ended 31 December 2019 and 2018 for the Group.
- [4] This KPI is measured for the Group, and accordingly the data presented is that for the Group.

Resources

The Company's principal resources are its assets and its people.

The Company's distribution network comprises approximately 49,000 kilometres of gas mains, together with associated services, plant and machinery and storage facilities.

The Company had 504 full time equivalent employees at 31 March 2020 (2019: 556). It places considerable value on the involvement of employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company during the year. It continues to invest in the development and training of its people in order to ensure both individual developmental needs and business skill requirements are met.

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2020

FINANCIAL REVIEW

The Company sets out below its financial review for the year ended 31 March 2020. The comparative figures presented are for the year ended 31 March 2019, as reported in the audited financial statements, unless otherwise stated.

Turnover for the year ended 31 March 2020 was £817m (2019: £797m) and has increased predominantly as a result of inflation and is offset by a substantial reduction from revenue due to outperformance of the allowances set by Ofgem. The majority of turnover was earned from charges made for the provision of gas transportation capacity as well as revenue based upon gas volumes transported in the year.

Profit for the year before taxation amounted to £259m (2019: £242m) and profit for the year after taxation amounted to £148m (2019: £198m), the current year was impacted by an increase in tax charge of £61m due to the change in future rates from 17% to 19%, see note 7 for more detail.

Operating profit increased to £373m (2019: £366m) driven by the above-mentioned increase in turnover.

The Company paid dividends of £53m (2019: £68m) during the year.

Capital expenditure (excluding replacement expenditure) during the year amounted to £92m (2019: £76m). Capital expenditure is incurred to ensure that the networks continue to operate at minimum agreed pressures and that sufficient storage capacity is available to meet instances of peak demand, as well as when new connections or increased capacity are added to the networks.

Treasury policies and capital structure

The Company's operations are financed by a combination of equity and retained profits, bank borrowings and long-term bonds. The Company's funding and liquidity are managed within a framework of policies and guidelines authorised by the Board of Directors. Further details are set out in the Directors' Report.

As a matter of policy, a minimum of 75% of debt is maintained at either fixed rates of interest or index linked. This policy is kept under review from time to time. Interest rate swaps are used, where necessary, in order to achieve this desired profile.

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report for the Year Ended 31 March 2020

As at 31 March 2020, the Company's total senior debt (before issue costs) amounted to £2,905m (2019: £2,818m) and the debt to RAV ratio was 71.6% (2019: 72.9%). Of the total long-term borrowings at 31 March 2020, after taking into account the effect of interest rate swaps, 89.7% were at either fixed rates of interest or were index linked (2019: 89.0%).

Pension commitments

A large proportion of the Company's employees are members of the Scotia Gas Networks Pension Scheme which provides final salary defined benefits for members.

The Company accounts for any pension asset or liability in accordance with FRS 102. The net pension asset as at 31 March 2020 was £213m (2019: £120m). Following the actuarial valuation carried out by the scheme's actuary as at 31 March 2015, annual special pension contributions remain at a similar level for the Group at £23m (Company's share: £14m). These additional contributions will be paid annually until 31 March 2027 to repair the actuarial deficit in the defined benefit pension scheme. The Company's normal contributions remain at 37.3%. The Company's actuary undertook a triennial review during 2018/19 to update the actuarial deficit for recent changes in external and market conditions.

Liquidity risk

Liquidity is maintained through a mixture of long term borrowings and short-term liquid funds in order that there are sufficient funds available for the Company's current and planned operations. Committed facilities are in place in order to provide funding for future capital and replacement expenditure as well as to provide sufficient available facilities to meet the seasonal working capital requirements of the Company. The revolving credit facility totalled £360m for the Group and is in place until March 2025; as at 31 March 2020 £360m is undrawn. At 31 March 2020 the Company's committed undrawn revolving credit facility amounted to £340m (2019: £230m).

Counterparty 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. At the year end the Company had £26m payable relating to financial instruments with bank counterparties.

Dividend policy

The Company's policy 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 as well as the gearing covenants and targets set by the Board.

Accounting policies

The Company's accounting policies are set out in note 1 to the financial statements. These accounting policies have been applied consistently during the year and in the preceding year.

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2020

OPERATIONAL REVIEW

Safety

Injury performance

The Company's overriding goal is to distribute gas safely and reliably and to ensure a safe workplace for its workforce with everyone striving towards eliminating injuries. This year the lost time injury performance rate decreased to 0.08 injuries per 100,000 hours (2019: 0.10).

Board responsibility

The Board has a Safety, Health and Environmental Advisory Committee that is responsible for monitoring health and safety performance and ensuring the health and safety policy statement is adhered to. The Committee provides the Board with reports on any key areas identified and further details on the Committee are set out in the Corporate Governance Statement, in the Directors' Report.

Gas mains replacement programme

The Company replaces the iron pipes with modern polyethylene pipes to improve the safety of the existing network. Replacement expenditure, primarily of iron pipes, reduced to £224m (2019: £215m).

Gas escapes standards of service

The Company's engineers respond to reports of suspected gas leaks 24 hours a day, 365 days a year, regardless of from whom people buy their gas. Its engineers aim to attend all uncontrolled gas escapes within one hour and all controlled gas escapes within two hours. A controlled gas escape is one where the person reporting it has confirmed that the gas emergency control valve serving the premises has been turned off and the smell of gas has gone. An uncontrolled gas escape covers all others. The Company's engineers exceeded Ofgem targets by attending over 98% of uncontrolled gas escapes within one hour.

Gas networks' regulation

Gas network companies are subject to economic regulation through Price Control Reviews set by industry regulator Ofgem. The current eight-year price control (RIIO) commenced in April 2013 and runs through until March 2021.

Revenues are earned through charges levied on network users, to cover costs and earn a return on the network company's regulated assets. Ofgem also has incentives in the price control to encourage greater efficiency, innovation and delivery of an enhanced standard of service for customers.

With seven years of RIIO complete the Company has performed well on outputs set by the regulator, including those for innovation, customer satisfaction and stakeholder engagement.


Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2020

Further details

Further details on the long-term development plans of the Company can be found in the long-term development statement (published in accordance with Special Condition D3 of the Gas Transporter Licences) and available on the Company's website - www.sgn.co.uk. The long-term development plans set out the forecast gas demand over the ten-year period and outlines the capital investment plan that is required to ensure the continued operation of the network in accordance with the Company's licence conditions.

APPROVED BY THE BOARD AND SIGNED ON ITS BEHALF BY:

DocuSigned by:

.....
Gregor Alexander (Chairman) - Director

Date: 30 June 2020

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

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

PRINCIPAL ACTIVITY

The Company's principal activity is the development, administration, maintenance and operation of the South and South East of England gas distribution system and the supply of gas transportation services. It will continue in this activity for the foreseeable future.

DIVIDENDS

The Company paid an interim dividend of £53m (2019: £68m). The Directors do not recommend the payment of any final dividend for the year (2019: £nil).

FUTURE DEVELOPMENTS

Details of future developments can be found in the strategic report.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in the notes to the financial statements.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2019 to the date of this report.

Gregor Alexander (Chairman)
Charlotte Brunning
Natalie Flageul
Paul Jeffery
Guy Lambert
Robert McDonald
John McManus
Charles Thomazi (Alternate)
Ines Grund (Alternate)
Nicholas Robin Salmon
Laura Sandys

Other changes in directors holding office are as follows:

Alejandro Lopez Delgado - resigned 28 June 2019
Mariana Popa (Alternate) - resigned 7 June 2019
Peter Mccosker (Alternate) - appointed 7 June 2019
Michael McNicholas - appointed 28 June 2019

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, SGN 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.

REVIEW OF BUSINESS

The review of business for the year, including an analysis using key performance indicators, together with a description of the principal risks and uncertainties facing the Company are set out in the strategic report.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

FINANCIAL RISK MANAGEMENT

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

Interest rate risk

The Company has interest bearing liabilities, and as a matter of policy a minimum of 75% of debt is maintained at either fixed rates of interest or index linked. This policy is kept under review from time to time. The Company uses interest rate swaps, where necessary, in order to achieve this desired profile.

Foreign exchange risk

All of the Company'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.

Liquidity risk

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

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. Credit risk on amounts receivable from other Group companies is considered minimal.

Pricing risk

The Company's gas transportation charges are subject to price control formulae set within the regulatory regime. The Company'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 based upon expected transportation volumes, 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.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

EMPLOYEES

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the Company. 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 members of staff becoming disabled, every effort is made to ensure their employment within the Company continues and that appropriate training and development is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

GOING CONCERN

The Company's financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the principal risks and uncertainties are set out in the strategic report. The financial risk management objectives and risk exposures are set out above.

As stated in the strategic report the Company operates the regulated gas distribution networks in the South and South East of England. The revenue of the Company is regulated by Ofgem through established price control mechanisms based on the distribution network capacity. The Company has considerable financial resources together with committed financing facilities 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 their Going concern of the group as a whole. This additional analysis has included multiple downside scenarios showing potential delays to cash receipts from regulatory income and increased operating costs as a result of the pandemic. These forecasts and projections, including performing scenario testing and sensitivity analysis, show the Company should be able to operate within the level of its current facilities.

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

ENVIRONMENT AND SUSTAINABILITY

A major project for the year was the development and submission on the Environment Action Plan (EAP). This was a significant part of the RIIO-GD2 Business Plan, submitted to Ofgem in December 2019. In conjunction with this, we continued to work to reduce our carbon footprint whilst continuing the good work on zero waste to landfill from our offices and depots. In September 2019 we carried out our ISO 14001 audit, which resulted in an action plan to correct three minor non-conformities and two observations.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**Progress on targets**

We are currently working with a "keep up the good work" approach, monitoring and reporting our carbon footprint, waste and the impact the business has on the environment.

Natural gas shrinkage is made up of leakage of natural gas (which contains the greenhouse gas methane) from the network, own use of gas and theft of gas. This is the biggest part of the Group's carbon footprint accounting for 95.6%. Reducing shrinkage therefore has the largest effect on reducing our carbon footprint. Over the year the Group have achieved a 4.0% reduction in natural gas shrinkage which equates to 31,492 tonnes of CO₂ equivalent. The reductions are largely achieved through our Iron mains replacement programme, optimising and driving down operating pressures in the network, gas conditioning and investment and innovation.

In 2019/20 the Group have increased the use of Microsoft Teams and Skype for video conferencing and meetings. This has led to an overall reduction in business travel from rail, air, ferry, car hire and business mileage (including grey fleet mileage). This reduction saving is 214 tonnes of CO₂e compared to 18/19 which is 21% lower than the previous year.

We have managed to keep our very low rates of non-hazardous waste to landfill at 0.04% at our offices and depots. In March we switched waste management provider which we hope will lead to improvements across our waste returns including further opportunities for reuse.

From March 2020 we are procuring 100% renewable and certified (Renewable Energy Guarantees Origin, REGO) electricity for the majority (90%) of our occupied sites (this excludes electricity required for cathodic protection). When the remaining sites are switched to green tariffs, we will be able to report zero Scope 2 emissions under the market based approach.

The overall Carbon Footprint (compliant with Streamlined Energy and Carbon Reporting, SECR) for the Company is shown in the Table below:

	2019/20		2018/19		Annual Movement	
	Tonnes of CO ₂ e	Tonnes of CO ₂ e per £1m turnover	Tonnes of CO ₂ e	Tonnes of CO ₂ e per £1m turnover	Decrease/ (increase) Tonnes of CO ₂ e	(increase) Tonnes of CO ₂ e per £1m turnover
Scope 1						
Energy consumption (excluding electricity)	182	0.22	192	0.24	10	0.02
Transport (direct commercial vehicles and business miles)	7,727	9.45	9,765	12.27	2,038	2.82
Scope 2						
Electricity consumption	2,123	2.60	2,557	3.21	434	0.61
Scope 3						
Rail, air and ferry travel	13,229	16.18	12,531	15.74	(698)	(0.44)
Total (excluding shrinkage)	23,261	28.45	25,045	31.46	1,784	3.01
Shrinkage	562,275	687.60	586,085	736.29	23,810	48.69
Total carbon emissions	585,536	716.05	611,130	767.75	25,594	51.70

Data has not been independently verified

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

CORPORATE GOVERNANCE STATEMENT

Board of Directors

The Board of Directors is comprised entirely of non-executive Directors, including two independent 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 Company 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 Company 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 non-executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Company financial information; and ensure systems of internal control and risk management are appropriate and effective.

Chairman

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

Board Committees

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

The Committees operate at a Group level and support all companies within the Group, relevant matters for subsidiaries will be considered by the Board Committees before being raised at the Company, and where appropriate the Group, Board.

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.

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 the Executive Committee.

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.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

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 Company. 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.

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 and 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 a 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 the year in line with the agreed plan of business for the year, and details of Director attendance can be found within their individual biographies.

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 six of 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.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

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 Company and ensure meeting time is used effectively. The supporting board papers for each agenda item focusing on answering the key questions on the Board's mind.

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

During the year the Board spent a considerable time considering its strategy over 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 the Company'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 the Company's strategy depends.

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

Further details of the areas which have shaped the Board agendas during 2019/20 are set out below, together with an overview of how these link to our strategic priorities, Company risks, Wates principles and stakeholder groups.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
Steering: Making decisions, shaping, guiding				
5 Year Business Plan - Consideration of Purpose, Vision & Strategy	All	Risk 3	Principle 1	Section C
Financial - review of long-term financial outlook and performance including consideration of dividend proposals, sufficient of resources and approval of annual budget	All	Risk 3	Principle 4	Section C
Sustainability - Approved strategy of pathway to the decarbonisation of heat	3	Risk 4	Principle 1 and 4	Section A and D
Technology - Review of digital technology to support operations and working smarter	1	Risk 11	Principle 4	-
Stakeholders - Review of engagement with policy holders and consideration of Brexit and nationalisations implications	All	Risk 5	Principle 4 and 6	Section C
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 C

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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 on www.sgnfuture.co.uk	All	Risk 3 and 9	Principle 3	-
COVID Impact and Response Plans - extensive consideration of COVID impact areas and response plans to ensure corporate objectives are met.	All	Risk 1	Principle 1 and 4	-
Strategic Risks - consideration of strategic risks 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	-
Contract approvals - various contracts considered pursuant to the Board schedule of reserved Matters.	All	-	Principle 3	Section A

Board Committees

In order to provide effective and focused leadership, the Board has established five standing committees with specific responsibilities. These are the Audit Committee, the Safety, Health and Environmental Advisory Committee, the People and Reward Committee, the GD2 Committee and the Finance Committee.

Each committee's performance, constitution and terms of reference are reviewed annually to ensure they are operating effectively. The Company Secretary acts as secretary for each committee and further details are set out below.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**Audit Committee**

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

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

- Ensuring that 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.

The Chairman of the Audit Committee reports to the Board of Directors following each committee meeting on the main areas and subjects the Committee has reviewed such as risk management, internal control, internal audit reports and any issues arising from its review of the financial statements.

The Board considers that the membership of the Audit Committee as a whole has sufficient recent and relevant financial experience to discharge its functions.

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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 C
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 auditors, EY, and approval of their appointment.	All	-	Principle 3	Section C
Annual Goodwill impairment - review and approval of the annual goodwill impairment and carry value judgements.	All	-	Principle 3	Section A

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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 updated on the delivery of the plan. Also reviewed outcomes of all internal compliance investigations, including incidents raised via raising your 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	-

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**Safety, Health and Environmental Advisory Committee**

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.

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

- Ensuring that 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 auditors in relation thereto);
- Setting health and safety, and environmental targets to improve the Company'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.

The Chairman of the Safety, Health and Environmental Advisory Committee reports to the Board of Directors following each committee meeting on the main areas and subjects the Committee has reviewed.

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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 B
Winter Planning - reviewed and provided feedback on winter planning.	1	Risk 6	Principle 4	Section B and 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 B

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
Supervising: monitoring, seeking assurance				
SHE Performance - reviewed performance to ensure continued focus and improvement.	1	Risk 6	Principle 3 and 4	Section E
HSE Intervention and Inspection Plan - reviewed HSE engagements.	1	Risk 6	Principle 3 and 4	Section E
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	Section E
Safety Culture - reviewed progress against the safety culture programme.	1	Risk 6	Principle 1 and 6	Section E

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**People and Reward Committee**

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

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

- To determine and agree with the Board of Directors the Company'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; and
- To review the ongoing appropriateness and relevance of the remuneration policy.

The Chair of the People and Reward Committee reports to the Board of Directors following each Committee meeting on the remuneration matters which the Committee has reviewed.

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
Steering: Making decisions, shaping, guiding				
Remuneration - continued to review and where appropriate recommend 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	1 and 3	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
	Strategic Priority	Strategic Risk	Wates Principle	S.172
Supervising: monitoring, seeking assurance				
Company and Executive Performance - reviewed and assessment 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	-

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**Finance Committee**

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

The principal responsibility of the Finance Committee is to authorise specific transactions of the Company where it has been provided delegated authority by the Board of Directors to do so. The members of the Finance Committee report to the Board of Directors following each Committee meeting on the matters which the Committee has reviewed.

In addition, the Finance Committee will support the Board in considering and providing recommendations on financial risk management and credit rating strategy.

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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
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Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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	-

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**GD2 Committee**

The current members of the GD2 Committee are Rob McDonald (Committee Chairman), Gregor Alexander, Natalie Falgeul, Michael McNicholas, John McManus, Charlotte Brunning, Nick Salmon, Guy Lambert, Laura Sandys, and Paul Jeffery.

The primary responsibility of the GD2 Board Committee is to provide leadership and challenge on the RIIO-2 process and business plan that will be developed for the RIIO-2 period that will enter into force from April 2021. The Committee meets alongside the main board with additional meetings as necessary.

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
Steering: Making decisions, shaping, guiding				
Development of GD2 Business Plan - extensive review and feedback of GD2 Business plan	All	Risk 3 and 4	Principle 1	Section C to F

Key Activity	Strategic Priority	Strategic Risk	Wates Principle	S.172
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 on www.sgnfuture.co.uk	All	Risk 4	Principle 3	-

Board and Committee Performance Evaluations

During the year, the Board has undertaken a comprehensive evaluation of its own performance and that of its four standing committees, one non-standing committee and individual Directors. This was conducted internally using detailed questionnaires which the Chairman then discussed with each Director and the Company Secretary. The Board has considered and discussed the outcomes of the evaluations and is satisfied that it is operating well and focused on the correct strategic issues. The Directors continue to review the Board's performance and that of its five Committees and individual Directors on an annual basis.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**Attendance at Board and Board Committee meetings**

The attendance of the Board of Directors and the Board Committees during the year is as set out below.

	Board meetings		Audit Committee meetings		People and Reward Committee meetings	
	Attended	Possible	Attended	Possible	Attended	Possible
Gregor Alexander	12	12	3	3	3	3
Robert McDonald	12	12	-	-	-	-
Natalie Flageul	11	12	-	-	-	-
John McManus	8	12	3	3	-	-
Alejandro Lopez Delgado*			-	-	-	-
Charlotte Brunning	12	12	-	-	3	3
Michael McNicholas**	9	9	-	-	3	3
Guy Lambert	9	12	2	3	-	-
Paul Jeffery	12	12	3	3	-	-
Nicholas Salmon	12	12	3	3	-	-
Laura Sandys	12	12	-	-	-	-

	Safety, Health and Environment Committee meetings		Finance Committee meetings		GD2 Committee meetings	
	Attended	Possible	Attended	Possible	Attended	Possible
Gregor Alexander	-	-	6	6	10	10
Robert McDonald	-	-	-	-	10	10
Natalie Flageul	4	4	-	-	8	10
John McManus	3	4	-	-	7	10
Alejandro Lopez Delgado*	-	-	-	-	-	-
Charlotte Brunning	-	-	6	6	10	10
Michael McNicholas**	-	-	4	6	10	10
Guy Lambert	2	4	2	6	8	10
Paul Jeffery	-	-	6	6	10	10
Nicholas Salmon	4	4	-	-	10	10
Laura Sandys	4	4	-	-	10	10

* Alejandro Lopez Delgado resigned on 28 June 2019.

** Michael McNicholas appointed 28 June 2019.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report

for the Year Ended 31 March 2020

Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2020

Gregor Alexander, Chairman, Non-executive Director

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. He is a member of the Audit

Committee, the People and Reward Committee, and the Finance Committee.

Robert McDonald, Non-executive Director

Robert joined the Board of the Company in July 2006. He is Managing Director SSEN Transmission and has previously worked with the industry's regulatory body. Rob is the Chairman of the GD2 Committee.

Natalie Flageul, Non-executive Director

Natalie joined the Board of the Company 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. She is the Chair of the Safety, Health and Environmental Advisory Committee.

Charlotte Brunning, Non-executive Director

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 B.Sc. from the London School of Economics and an MBA from the London Business School. She is the Chair of the Finance Committee and a member of the Audit Committee and GD2 Committee.

John McManus, Non-executive Director

John joined the Board of the Company in March 2012. He is Senior Advisor to OMERS Infrastructure in asset management, assessment of investment opportunities, relationship development and mentorship. John is the Chairman of the Audit Committee and a member of the Safety, Health and Environmental Advisory Committee.

Guy Lambert, Non-executive Director

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. Guy is a member of the Audit Committee, the Finance Committee and the Safety, Health and Environmental Advisory Committee.

Nick Salmon, Non-executive Director

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 McNicholas, Non-executive Director

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.

Peter McCosker, Alternate Director

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.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

Ines Grund, Alternate Director

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 Thomazi, Alternate Director

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.

Paul Jeffery, Statutory Independent Non-executive Director

Paul joined the Board in January 2014. Previously he ran the European Power, Utility and Infrastructure Investment Banking Sector team for Barclays. 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 Paul is a member of the Audit Committee and the Finance Committee.

Laura Sandys, Statutory Independent Non-executive Director

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 women's role 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.

John Morea, Chief Executive Officer

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 Carmedy, Chief Financial Officer

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 Water and Thames Water in a wide variety of roles.

Nicola Shand, Company Secretary

Nicola joined the Board as Company Secretary in July 2011. Nicola is Director of Legal and Compliance 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.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

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 will be 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.
2. Stakeholder Engagement - A statement on how directors have engaged with stakeholders and how directors have had regard to stakeholder interests.
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.
4. Corporate Governance - A statement on the Company's Corporate Governance Arrangements and how these have been applied.

The Company has adopted all four of these reporting regimes (Corporate Governance Requirements). In readiness, the Company has established a governance programme to ensure Directors 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 Requirements 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 and the Company has engaged with these Corporate Governance Requirements during 2020.

Internal controls in relation to the Company's financial reporting process

The Board of Directors is ultimately responsible for the Company's internal control systems and risk management. The Company'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.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report for the Year Ended 31 March 2020

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 has materially affected, or is 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 Company's systems of internal control and reports to the Audit Committee of the Board. The internal audit manager reports to the Audit Committee on the audit programme, progress against the programme and any follow-up actions on a bi-monthly basis.

Wates Principles

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.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2020**Principle 1 - Purpose and leadership**

The focus for the Board and Executive Committee during the year has been the development of the five-year business plan. A copy of our Business plan can be found at www.sgnfuture.co.uk This has given the Board the opportunity to refine and revalidate the Company purpose, vision and strategy with stakeholders through extensive engagement and consultation.

The Company's vision is to own heat and lead the way in low carbon energy delivery by making gas green. Its purpose: to keep everyone safe and warm; and strategy to deliver long term value for existing and future customers, stakeholders and shareholders. A strategy, based on strong financial management, and a governance framework underpinned by our detailed business plan and strategic priorities:

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 the Company at the forefront of the delivery of heat.

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

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 company can practically deliver our business plan.

Principle 2 - Board composition

The Board comprises of 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 Company Board.

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

Directors update their skills, knowledge and familiarity with the Company 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. There is also good diversity but acknowledge further improvements can be made. The Board is committed to developing a more diverse and inclusive workforce including the most senior levels and Board level appointments.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

The Board last 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 Company through the setting of a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders.

Principle 4 - Opportunity and risk

Opportunities are identified through several sources including the Executive Committee and through employee and stakeholder engagement. During 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, stakeholder 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 Company.

The company's risk management framework and key strategic risks and mitigations are outlined in the strategic report.

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 Company'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, whilst 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.

Principle 6 - Stakeholder engagement and remuneration

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 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 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.

This year we completed an employee engagement survey. The Board considers the results of all employee engagement surveys a good barometer of the workforce's confidence in the Company's strategic direction, optimism in the future and career opportunities.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2020

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

AUDITOR

Each of the Directors at the date of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provision 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 LLP intend to resign as Statutory Auditors upon conclusion of the 2020 statutory audit.

BY ORDER OF THE BOARD:

DocuSigned by:

.....
Nicola Sharrad - Secretary

Date: 30 June 2020

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Responsibilities Statement
for the Year Ended 31 March 2020

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 Company and of its profit or loss for that period. In preparing the 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 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company 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 Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

Report of the Independent Auditor to the Members of
Southern Gas Networks Plc

1 Our opinion is unmodified

We have audited the financial statements of Scotland Gas Networks Plc ("the Company") for the year ended 31 March 2020 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, 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 Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with 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 believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 18 July 2017. The period of total uninterrupted engagement is for the 3 financial years ended 31 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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. We summarise below the key audit matter, in arriving at our audit opinion above, together with our key audit procedures to address this matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Report of the Independent Auditor to the Members of
Southern Gas Networks Plc

	The risk	Our response
<p>Valuation of defined benefit obligation (£470m (2019: £548m))</p>	<p>The Company operates a defined benefit pension scheme. Significant estimates are made in valuing the Company's pension obligation.</p>	<p>Our procedures included:</p> <p>Control design and implementation: Evaluating design and implementation of controls around the valuation assumptions for the pension liability.</p>
<p>Refer to page 65 (accounting policy) and page 81-85 (financial disclosures).</p>	<p>Small changes in the assumptions and estimates used to value the Company'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 Company.</p>	<p>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;</p>
<p>Risk vs 2019: unchanged</p>		<p>Actuaries credentials: Assessing the competence, independence and integrity of the Company's actuarial expert;</p>
		<p>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</p>
		<p>Assessing transparency: Considering the adequacy of the Company's disclosures in respect of the sensitivity of the defined benefit obligation to key assumptions.</p>

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 statutory financial statements as a whole was set at £11.25m (2019: £12.0m), determined with reference to a benchmark of profit before tax of £259.0m (2019: £242.0m), of which it represents 4.34% (2019: 5%).

We reported to Audit Committee any corrected or uncorrected identified misstatements exceeding £0.562m (2019: £0.600m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Report of the Independent Auditor to the Members of
Southern Gas Networks Plc

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 to cease its operations, and as they have concluded that the Company'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 Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit and COVID 19 and analysed how those risks might affect the 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 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 Strategic Report, Directors' 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.

Report of the Independent Auditor to the Members of
Southern Gas Networks Plc

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

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 46, 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 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 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 other irregularities (see below), 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, other irregularities 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.

Irregularities - ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, environmental legislation, taxation legislation, pension legislation and Ofgem regulation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Report of the Independent Auditor to the Members of
Southern Gas Networks Plc

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

Date: 30 June 2020

Southern Gas Networks Plc (Registered number: 05167021)Profit and Loss Account
for the Year Ended 31 March 2020

	Notes	2020 £m	2019 £m
TURNOVER		817	797
Net operating costs		<u>(444)</u>	<u>(431)</u>
OPERATING PROFIT		373	366
Interest receivable and similar income	4	3	6
Interest payable and similar charges	5	<u>(117)</u>	<u>(130)</u>
PROFIT BEFORE TAXATION	6	259	242
Tax on profit	7	<u>(111)</u>	<u>(44)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>148</u>	<u>198</u>

The notes on pages 59 to 88 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Statement of Comprehensive Income
for the Year Ended 31 March 2020

Notes	2020 £m	2019 £m
PROFIT FOR THE YEAR	148	198
OTHER COMPREHENSIVE INCOME/(LOSS)		
Gains arising on cash flow hedges	1	1
Remeasurement net defined benefit asset	82	(9)
Income tax relating to components of other comprehensive income/(loss)	<u>(16)</u>	<u>2</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX	<u>67</u>	<u>(6)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>215</u></u>	<u><u>192</u></u>


The notes on pages 59 to 88 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Balance Sheet
31 March 2020

	Notes	2020 £m	2019 £m
FIXED ASSETS			
Intangible assets	9	230	241
Tangible assets	10	<u>4,606</u>	<u>4,412</u>
		<u>4,836</u>	<u>4,653</u>
CURRENT ASSETS			
Debtors	11	76	79
Short term deposits	12	82	-
Cash at bank		<u>3</u>	<u>10</u>
		161	89
CREDITORS			
Amounts falling due within one year	1 3	(452)	(243)
		<u>(291)</u>	<u>(154)</u>
NET CURRENT LIABILITIES			
		<u>(291)</u>	<u>(154)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		4,545	4,499
CREDITORS			
Amounts falling due after more than one year	1 4	(2,724)	(2,834)
PROVISIONS FOR LIABILITIES			
	17	(608)	(536)
DEFERRED INCOME			
	18	(244)	(229)
PENSION ASSET			
	21	<u>213</u>	<u>120</u>
NET ASSETS			
		<u>1,182</u>	<u>1,020</u>
CAPITAL AND RESERVES			
Called up share capital	19	160	160
Hedge reserves	20	1	-
Profit and loss account	20	<u>1,021</u>	<u>860</u>
SHAREHOLDERS' FUNDS			
		<u>1,182</u>	<u>1,020</u>

The financial statements were approved by the Board of Directors and authorised for issue on 30 June 2020 and were signed on its behalf by:

DocuSigned by:


Gregor Alexander (Chairman) - Director

The notes on pages 59 to 88 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Statement of Changes in Equity
for the Year Ended 31 March 2020

	Called up share capital £m	Profit and loss account £m	Hedge reserves £m	Total equity £m
Balance at 1 April 2018	160	737	(1)	896
Profit for the year	-	198	-	198
Other comprehensive income	-	(7)	1	(6)
Total comprehensive income	-	191	1	192
Dividends	-	(68)	-	(68)
Total transactions with owners, recognised directly in equity	160	669	(1)	828
Balance at 31 March 2019	160	860	-	1,020
Profit for the year	-	148	-	148
Other comprehensive income	-	66	1	67
Total comprehensive income	-	214	1	215
Dividends	-	(53)	-	(53)
Balance at 31 March 2020	160	1,021	1	1,182

The notes on pages 59 to 88 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Cash Flow Statement
for the Year Ended 31 March 2020

	Notes	2020 £m	2019* £m
Cash flows from operating activities			
Cash generated from operations	1	525	455
Interest paid		(102)	(110)
Tax paid		<u>(81)</u>	<u>(49)</u>
Net cash from operating activities		<u>342</u>	<u>296</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(3)	(5)
Purchase of tangible fixed assets		(312)	(291)
Sale of tangible fixed assets		-	8
Customer contributions received		21	35
Interest received		<u>(1)</u>	<u>6</u>
Net cash from investing activities		<u>(295)</u>	<u>(247)</u>
Cash flows from financing activities			
Issue of debt		100	160
Repayment of debt		(10)	(400)
Payments of financial instruments		(9)	(7)
Equity dividends paid		<u>(53)</u>	<u>(68)</u>
Net cash from financing activities		<u>28</u>	<u>(315)</u>
Decrease in cash and cash equivalents			
		75	(266)
Cash and cash equivalents at beginning of year	2	10	276
Cash and cash equivalents at end of year			
		<u>85</u>	<u>10</u>

*See note 12 of the notes to the financial statements

The notes on pages 59 to 88 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Cash Flow Statement
for the Year Ended 31 March 2020**1. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	2020	2019
	£m	£m
Profit before taxation	259	242
Depreciation charges	113	109
Loss/(profit) on disposal of fixed assets	5	(1)
Amortisation of deferred income	(6)	(5)
Amortisation charges	14	15
Finance costs	117	130
Finance income	<u>(3)</u>	<u>(6)</u>
	499	484
Decrease/(increase) in trade and other debtors	4	(5)
Increase/(decrease) in trade and other creditors, provisions and employee benefits	<u>22</u>	<u>(24)</u>
Cash generated from operations	<u><u>525</u></u>	<u><u>455</u></u>

2. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Cash Flow Statement in respect of cash and cash equivalents are in respect of these Balance Sheet amounts:

Year ended 31 March 2020

	31.3.20	1.4.19
	£m	£m
Cash in hand	3	10
Short term deposits	<u>82</u>	<u>-</u>
	<u><u>85</u></u>	<u><u>10</u></u>

Year ended 31 March 2019

	31.3.19	1.4.18
	£m	£m
Cash in hand	10	10
Short term deposits	<u>-</u>	<u>266</u>
	<u><u>10</u></u>	<u><u>276</u></u>

The notes on pages 59 to 88 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Cash Flow Statement
for the Year Ended 31 March 2020**3. ANALYSIS OF CHANGES IN NET DEBT**

	At 1.4.19 £m	Cash flow £m	Other non-cash changes £m	At 31.3.20 £m
Net cash and cash equivalents				
Cash at bank	10	(7)		3
Short term deposits	<u>-</u>	<u>82</u>		<u>82</u>
	<u>10</u>	<u>75</u>		<u>85</u>
Debt				
Debts falling due within 1 year	(10)	(183)	(22)	(215)
Debts falling due after 1 year	<u>(2,799)</u>	<u>(100)</u>	<u>201</u>	<u>(2,698)</u>
	<u>(2,809)</u>	<u>(283)</u>	<u>179</u>	<u>(2,913)</u>
Total	<u>(2,799)</u>	<u>(208)</u>	<u>179</u>	<u>(2,828)</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements
for the Year Ended 31 March 2020**1. ACCOUNTING POLICIES****General information and basis of preparation**

Southern Gas Networks Plc 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 Company's principal activity is the development, administration, maintenance and operation of the South and South East of England gas distribution system and the supply of gas transportation 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.

The functional currency of Southern Gas Networks Plc is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. Amounts are expressed in millions of pounds except where noted otherwise.

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited and the financial statements of the Company are included in the consolidated financial statements of Scotia Gas Networks Limited which can be obtained from the address above. Consequently, the Company has taken exemptions available under FRS 102 in relation to financial instruments, presentation of a cash flow statement, intra-group transactions and remuneration of key management personnel.

Going concern

Notwithstanding net current liabilities of £291m 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 Company's forecasts and projections, with specific consideration to the current Coronavirus pandemic in the UK, the directors have a reasonable expectation that the Company 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 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 Company has a fixed rate loan of £215m due for repayment in December 2020.

The Company has access to a £340m 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 the £215m of debt repayments due in December 2020. The Directors expect to raise new finance in 2020 to be used to repay the existing debt. However, the cash flow forecasts are not dependent upon the Company successfully raising new finance.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**1. ACCOUNTING POLICIES - continued**

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.

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.

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 amortisation 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 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 within mains and services and depreciated accordingly 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.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2020

1. **ACCOUNTING POLICIES - continued**

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.

Financial instruments

FRS 102 sections 11 and 12 give an accounting policy choice for financial instruments. The Company 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 Company becomes a party to the contractual provisions of the instrument.

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

The Company'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.

i. 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).

ii. 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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**1. ACCOUNTING POLICIES - continued****iii. 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.

iv. Derecognition of financial assets

The Company 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.

v. 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.

vi. 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.

vii. Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

viii. 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 Company 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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**1. ACCOUNTING POLICIES - continued**

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 Company's documented risk management or investment strategy and information about the Company 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.

ix. 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.

x. De-recognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

xi. Derivative financial instruments and hedge accounting

The Company 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 Company 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 Company documents whether the hedging relationship is highly effective.

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.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2020

1. **ACCOUNTING POLICIES - continued**

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 Company'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 Company 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 Company 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 period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 (see below), and exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**1. ACCOUNTING POLICIES - continued****Employee benefits****i. Defined benefit pension scheme**

The Company participates in a group wide defined benefit pension plan administered by the ultimate parent undertaking, Scotia Gas Networks Limited. The net defined benefit cost of the plan is charged and accounted for based on the proportionate number of members relating to the Company. The contributions payable by the Company is determined on the same basis as the charging policy 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 Company, 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.

ii. 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.

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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**1. ACCOUNTING POLICIES - continued**

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 no one CGU for the purpose of goodwill impairment.

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.

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.

Leases**i. 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.

ii. 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.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2020

1. **ACCOUNTING POLICIES - continued**

Provisions

A provision is recognised in the balance sheet when the Company 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.

Short term deposits

Short term deposits comprise of cash deposits that are available with notice of more than 24 hours (one day).

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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAIN**

In the application of the Company'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 1, 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 useful economic 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 the employee benefit obligations note and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Company 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 provision - in assessing the degree of contamination at the various sites estimation is required where elements of the contamination are underground. In these cases, it is difficult to assess with any certainty the extent of the contamination. The discount rate is also a source of estimation.
- 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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**3. EMPLOYEES AND DIRECTORS**

The Company had 506 full time equivalent employees as at 31 March 2020 (2019: 556). The average monthly number of full time equivalent employees during the year was 528 (2019: 576).

	2020	2019
Field based staff	247	275
Office and other administrative staff	<u>259</u>	<u>281</u>
	<u><u>506</u></u>	<u><u>556</u></u>

The Independent Directors received remuneration totalling £48,925 (2019: £43,395) for their services to the Company during the year. No retirement benefits are accruing in the year or in the prior year to any Directors under money purchase or defined benefit schemes, in respect of their services to the Company. 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 Company during the year are as follows:

	2020 £m	2019 £m
Wages and salaries	24	26
Social security costs	4	3
Pension costs	<u>18</u>	<u>16</u>
	<u><u>46</u></u>	<u><u>45</u></u>

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	2020 £m	2019 £m
Other interest receivable	-	3
Net interest on defined benefit liability	<u>3</u>	<u>3</u>
	<u><u>3</u></u>	<u><u>6</u></u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	2020 £m	2019 £m
Movement in financial derivatives	-	3
Other interest payable on bonds	93	99
Index linked bond interest	23	27
Unwind of discount	<u>1</u>	<u>1</u>
	<u>117</u>	<u>130</u>

No borrowing costs have been capitalised during the year.

6. PROFIT BEFORE TAXATION

The profit is stated after charging/(crediting):

	2020 £m	2019 £m
Depreciation - owned assets	113	109
Loss/(profit) on disposal of fixed assets	5	(1)
Goodwill amortisation	5	6
Computer software amortisation	9	9
Amortisation of customer contributions	(6)	(5)
Operating lease rentals	<u>3</u>	<u>3</u>

Auditor's remuneration for the Company comprises:

- Audit of these financial statements £116,600 (2019: £68,000)
- Audit-related assurance services £42,950 (2019: £52,000)
- Other assurance services £12,360 (2019: nil)

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**7. TAXATION****Analysis of the tax charge**

The tax charge on the profit for the year was as follows:

	2020 £m	2019 £m
Current tax:		
UK corporation tax	59	53
Prior period adjustment	<u>(3)</u>	<u>(3)</u>
Total current tax	<u>56</u>	<u>50</u>
Deferred tax:		
Origination and reversal of timing differences	(8)	(7)
Prior period adjustment	2	1
Effect of change in tax rate	<u>61</u>	<u>-</u>
Total deferred tax	<u>55</u>	<u>(6)</u>
Tax on profit	<u>111</u>	<u>44</u>

UK corporation tax has been charged at 19%.

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2020 £m	2019 £m
Profit before tax	<u>259</u>	<u>242</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2019 - 19%)	49	46
Effects of:		
Adjustments to tax charge in respect of previous periods	-	(2)
Non-deductible goodwill	1	1
Profit on disposal of non qualifying assets	-	(1)
assets		
Effect of change in tax rate on deferred tax provision	<u>61</u>	<u>-</u>
Total tax charge	<u>111</u>	<u>44</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**7. TAXATION - continued****Tax effects relating to effects of other comprehensive income**

	Gross	2020 Tax	Net
	£m	£m	£m
Gains arising on cash flow hedges	1	-	1
Remeasurement net defined benefit asset	<u>82</u>	<u>(16)</u>	<u>66</u>
	<u>83</u>	<u>(16)</u>	<u>67</u>
	Gross	2019 Tax	Net
	£m	£m	£m
Gains arising on cash flow hedges	1	-	1
Remeasurement net defined benefit asset	<u>(9)</u>	<u>2</u>	<u>(7)</u>
	<u>(8)</u>	<u>2</u>	<u>(6)</u>

The standard rate of tax applied to reported profit on ordinary activities is 19% (2019: 19%).

The Finance Bill 2016 reduced the main rate of corporation tax 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 company's deferred tax liability at 31 March 2020 by £60.5m (2019: £0m). There is no expiry date on timing differences, unused tax losses or tax credits.

8. DIVIDENDS

Dividends paid for the year ended 31 March 2020 amount to £53m (33.90p per share) (2019: £68m). No further dividends were proposed.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 20209. **INTANGIBLE FIXED ASSETS**

	Goodwill £m	Computer software £m	Totals £m
COST			
At 1 April 2019	288	111	399
Additions	<u>-</u>	<u>3</u>	<u>3</u>
At 31 March 2020	<u>288</u>	<u>114</u>	<u>402</u>
AMORTISATION			
At 1 April 2019	80	78	158
Amortisation for year	<u>5</u>	<u>9</u>	<u>14</u>
At 31 March 2020	<u>85</u>	<u>87</u>	<u>172</u>
NET BOOK VALUE			
At 31 March 2020	<u>203</u>	<u>27</u>	<u>230</u>
At 31 March 2019	<u>208</u>	<u>33</u>	<u>241</u>

The amortisation charge is recognised in operating costs in the profit and loss account.

The goodwill, which arose on the acquisitions of the business by the Company is being amortised on a straight-line basis over 50 years, with 35 years remaining. This is the period over which the Directors estimate that the value of the underlying business acquired is expected to exceed the value of the underlying assets.

A review for impairment of goodwill is carried out at the end of each financial year. No impairment loss has been recorded in the current year or prior years.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**10. TANGIBLE FIXED ASSETS**

	Freehold property £m	Plant and machinery £m	Computer equipment £m	Totals £m
COST				
At 1 April 2019	78	5,264	60	5,402
Additions	5	302	5	312
Disposals	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>(8)</u>
At 31 March 2020	<u>83</u>	<u>5,558</u>	<u>65</u>	<u>5,706</u>
DEPRECIATION				
At 1 April 2019	26	935	29	990
Charge for year	4	102	7	113
Eliminated on disposal	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>(3)</u>
At 31 March 2020	<u>30</u>	<u>1,034</u>	<u>36</u>	<u>1,100</u>
NET BOOK VALUE				
At 31 March 2020	<u>53</u>	<u>4,524</u>	<u>29</u>	<u>4,606</u>
At 31 March 2019	<u>52</u>	<u>4,329</u>	<u>31</u>	<u>4,412</u>

Customer contributions

The Company has received customer contributions relating to plant and machinery. In accordance with the Company'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:

	Connections 2020 £m	Replacement 2020 £m	Total 2020 £m
Customer contributions brought forward	150	79	229
Customer contributions received in year	11	10	21
Amortisation in year	<u>(5)</u>	<u>(1)</u>	<u>(6)</u>
	<u>156</u>	<u>88</u>	<u>244</u>

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020 £m	2019 £m
Trade debtors	69	71
Prepayments and accrued income	<u>7</u>	<u>8</u>
	<u>76</u>	<u>79</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**12. SHORT TERM DEPOSITS**

	2020	2019
	£m	£m
Short term deposits	<u>82</u>	<u>-</u>

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.

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020	2019
	£m	£m
Borrowings (see note 15)	215	10
Trade creditors	25	26
Amounts owed to group undertakings	57	28
Social security and other taxes	17	40
Other creditors	9	7
Other accrued interest	37	37
Deferred income	24	21
Other accruals	<u>68</u>	<u>74</u>
	<u>452</u>	<u>243</u>

Amounts owed from group undertakings includes an intercompany loan due to Scotland Gas Networks plc of £62m (2019: £29m), to SGN Natural Gas Ltd of £5m (2019: £7m), and to SGN MidCo Ltd of £nil (2019: £3m). Also included are intercompany trade balances due from the Group of £9m (2019: £19m).

Included in borrowings falling due within one year, are loans and public bonds consisting of:

	2020	2019
	£m	£
£215m 4.875% fixed rate note due 2020	215	-
Revolving credit facility	<u>-</u>	<u>10</u>
	<u>215</u>	<u>10</u>

The total revolving credit facility is £340m and expires in March 2025. The facility was undrawn at 31 March 2020 (2019: £10m drawn).

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2020	2019
	£m	£m
Borrowings (see note 15)	2,698	2,799
Derivative financial liabilities - mirror swaps	<u>26</u>	<u>35</u>
	<u>2,724</u>	<u>2,834</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued**

Included in borrowings falling due after more than one year, are public bonds, private placement notes and loans consisting of:

	2020 £m	2019 £m
Fixed rate:		
£215m 4.875% fixed rate note due 2020	-	215
£300m 4.875% fixed rate note due 2023	299	299
£350m 2.5% fixed rate note due 2025	348	348
£375m 4.875% fixed rate note due 2029	374	374
£75m 2.74% fixed rate note due 2030	75	75
£75m 2.87% fixed rate note due 2033	75	75
£100m 2.27% fixed rate note due 2034	100	-
£400m 3.1% fixed rate note due 2036	398	397
£225m 6.375% fixed rate note due 2040	224	224
	<u>1,893</u>	<u>2,007</u>
Index-linked:		
£150m 2.066% index-linked note due 2025	230	224
£83.3m 2.013% index-linked note due 2025	127	124
£15m 2.580% index-linked loan due 2028	21	20
£83.3m 2.013% index-linked note due 2035	127	124
	<u>505</u>	<u>492</u>
Floating rate:		
£125m floating rate note due 2025	125	125
£80m floating rate note due 2026	80	80
£60m floating rate loan note due 2026	60	60
£35m floating rate loan note due 2026	35	35
	<u>300</u>	<u>300</u>
Total borrowings	<u><u>2,698</u></u>	<u><u>2,799</u></u>

The above borrowings are unsecured and are stated after the deduction of unamortised issue costs of £8m (2019: £9m). 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 £175m (2019: £162m). The amount debited to the profit and loss account in relation to accretion during the year amounted to £13m (2019: £17m).

The total revolving credit facility is £340m and expires in March 2025. The facility is undrawn at the year end.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued**

Included within creditors falling due after more than one year are derivatives at fair value through profit and loss with a net fair value of £26m (2019: £35m), which are subject to net settlement provisions with a single counterparty. This portfolio comprises long dated pay fixed/receive floating interest rate swaps originally taken out in 2005-06 to fix the Company's interest cost over periods out to 2025, together with pay floating/receive fixed swaps taken out at a later date within the financial year. The cash flow payment dates and floating leg payment terms match off, although the fixed interest payable on the offsetting swaps is in excess of the original swaps. Changes in the fair value of the portfolio on a net basis are recognised in the profit and loss account as they arise.

Mirror swaps

In 2005 the Company entered into interest rate swap contracts to fix the Company'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 £36.2m (2019: £48.7m).

15. BORROWINGS

An analysis of the maturity of public bonds, private placement notes and loans is given below:

	2020	2019
	£m	£m
Between one and five years	647	513
After five years	<u>2,051</u>	<u>2,286</u>
	2,698	2,799
On demand or within one year	<u>215</u>	<u>10</u>
	<u><u>2,913</u></u>	<u><u>2,809</u></u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**16. FINANCIAL INSTRUMENTS**

The Company's funding, liquidity and exposure to interest rate, foreign currency exchange and credit risks are managed within a framework of policies and guidelines authorised by the Board of Directors. In accordance with these policies, and in accordance with covenants set out as part of bond issuances made by the Company, financial derivatives are used to manage financial exposures.

The Company is a wholly owned subsidiary of SGN MidCo Limited and accordingly is, under FRS 102 exempt from certain disclosures required under sections 11 and 12 as these are detailed in the annual report of Scotia Gas Networks Limited.

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 nil (2019: nil)

In addition the movement on mirror swaps in the year was a loss of £1m (2019: £1m) included in interest payable.

Categories of financial instrument

The categories of financial liabilities held by the company are as follows:

	2020	2019
	£m	£m
Financial liabilities held at amortised cost		
Trade creditors	26	26
Accrued interest	37	37
Other accruals	68	74
Borrowings	<u>2,913</u>	<u>2,799</u>
	3,044	2,936
Financial liabilities held at fair value		
Financial derivatives - mirror swaps	<u>26</u>	<u>35</u>
	<u>26</u>	<u>35</u>
Total financial liabilities	<u><u>3,070</u></u>	<u><u>2,971</u></u>

The financial liabilities held at fair value are stated after credit risk adjustments of £0.9m (2019: £0.7m).

17. PROVISIONS FOR LIABILITIES

	2020	2019
	£m	£m
Deferred tax	<u>594</u>	<u>523</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**17. PROVISIONS FOR LIABILITIES - continued**

	2020 £m	2019 £m
Other provisions		
Other provisions	7	5
Environmental provisions	<u>7</u>	<u>8</u>
	<u>14</u>	<u>13</u>
Aggregate amounts	<u>608</u>	<u>536</u>
	Deferred tax £m	Other provisions £m
Balance at 1 April 2019	523	13
Net movement in deferred tax	<u>71</u>	<u>-</u>
Balance at 31 March 2020	<u>594</u>	<u>13</u>

Environmental

The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Company 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 expenditure expected to be required 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.

Other provisions

Other provisions include 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 31 years.

Deferred tax

Deferred tax is provided as follows:

	2020 £m	2019 £m
Accelerated capital allowances	553	503
Deferred tax on retirement benefit obligations	<u>41</u>	<u>20</u>
Provision for deferred tax	<u>594</u>	<u>523</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**17. PROVISIONS FOR LIABILITIES - continued**

The movement in provision for deferred tax is as follows:

	2020	2019
	£m	£m
Opening balance	523	531
Charged/(credited) to profit and loss account	55	(6)
Movement through other comprehensive income	16	(2)
	<u>594</u>	<u>523</u>
Provision for deferred tax	<u>594</u>	<u>523</u>

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 taxation note in notes to the financial statements.)

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Company.

The Company has no unrecognised deferred tax assets or liabilities.

18. DEFERRED INCOME

	2020	2019
	£m	£m
Accruals and deferred income	<u>244</u>	<u>229</u>

19. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2020	2019
			£	£
160,174,772	Ordinary	£1	<u>160,174,772</u>	<u>160,174,772</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**20. RESERVES**

	Profit and loss account £m	Hedge reserves £m	Totals £m
At 1 April 2019	860	-	860
Profit for the year	148	-	148
Dividends	(53)	-	(53)
Movement in cash flow hedges	-	1	1
Defined benefit pension asset	<u>66</u>	<u>-</u>	<u>66</u>
At 31 March 2020	<u>1,021</u>	<u>1</u>	<u>1,022</u>

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments or foreign exchange risk in firm commitments or highly probable forecast transactions. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

21. EMPLOYEE BENEFIT OBLIGATIONS**Defined contribution schemes**

The Company operates a defined contribution retirement benefit schemes for all qualifying employees of the Group.

The amount recognised in the profit and loss account is as follows:

	2020 £m	2019 £m
Amount charged in respect of defined contribution schemes	<u>7</u>	<u>5</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**21. EMPLOYEE BENEFIT OBLIGATIONS - continued**
Defined benefit schemes

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks which operates the Scotia Gas Networks Pension Scheme, a defined benefit scheme for a significant number of its employees of its subsidiaries who prior to 1 December 2005 were previously members of the Lattice Company Scheme and had joined prior to 31 March 2002. 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. Employees joining the Lattice Company Scheme after 31 March 2002 were entitled to join a defined contribution scheme. Under the Group cost allocation plan, the Company accounts for its agreed share of the total net defined benefit cost, based on the proportionate members relating to the Company.

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.

	As at 31 March 20 20	As at 31 March 20 19
Key assumptions used:		
Retail price inflation	2.8% p.a.	3.4% p.a.
Consumer price inflation	1.8% p.a.	2.4% p.a.
Pension increase rate RPI	2.8% p.a.	3.4% p.a.
Salary increase rate	2.6% p.a.	3.2% p.a.
Discount rate	<u>2.3% p.a.</u>	<u>2.3% p.a.</u>

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 expectations on retirement at age 65 are:

As at 31 March	2020		2019		2018	
	Male	Female	Male	Female	Male	Female
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

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**21. EMPLOYEE BENEFIT OBLIGATIONS - 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.	9,623
	+ 0.1% p.a.	(9,365)
Price inflation (RPI measure)*	- 0.1% p.a.	(8,941)
	+ 0.1% p.a.	9,161
Life expectancy	- 1 year	(15,742)
	+ 1 year	15,852

*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 analysis of scheme assets and the amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit schemes at the balance sheet date is as follows:

As at 31 March	2020			2019		
	Quoted Fair Value £m	Unquoted Fair Value £m	Total Fair Value £m	Quoted Fair Value £m	Unquoted Fair Value £m	Total Fair Value £m
Equities	67	-	67	123	-	123
Government bonds [2]	372	-	372	285	-	285
Corporate bonds	110	81	191	153	50	203
Property	1	-	1	1	-	1
Cash	5	-	5	4	-	4
Insurance contracts	-	47	48	-	52	52
Total market value of assets	555	128	683	566	102	668
Actuarial value of liabilities			(470)			(548)
Net pension asset			213			120

[2] Including LDI repurchase agreement liabilities.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**21. EMPLOYEE BENEFIT OBLIGATIONS - continued**

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 c95% interest rate protection and c95% inflation protection as at 31 March 2020 with respect to the pension scheme liabilities of c.£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.

Movements in the present value of defined benefit obligations were as follows:

	2020	2019
	£m	£m
Opening defined benefit obligation	(548)	(504)
Current service cost	(11)	(10)
Administration costs	(1)	(1)
Interest cost	(12)	(13)
Actuarial gains/(losses)	78	(56)
Benefits paid	24	36
	<u>24</u>	<u>36</u>
Closed defined benefit obligation	<u>(470)</u>	<u>(548)</u>

Movement in the fair value of scheme assets were as follows:

	2020	2019
	£m	£m
Opening fair value of scheme assets	668	621
Interest income on scheme assets	15	16
Contributions from Southern Gas Networks Plc	20	21
Remeasurement of scheme assets	4	47
Benefits paid	(24)	(37)
	<u>(24)</u>	<u>(37)</u>
Closing fair value of scheme assets	<u>683</u>	<u>668</u>

The actual gain on scheme assets was £19m (2019: £63m).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**21. EMPLOYEE BENEFIT OBLIGATIONS - continued**

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 £14.1m 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 £7.5m p.a. from 1 April 2020 to 31 March 2027.

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	2020 £m	2019 £m
Current service cost	(11)	(10)
Administration costs	<u>(1)</u>	<u>(1)</u>
Total charged to operating profit:	(12)	(11)
Expected return on scheme assets	15	16
Interest charge on scheme liabilities	<u>(12)</u>	<u>(13)</u>
Net interest credit	<u>3</u>	<u>3</u>
Total charge to the profit and loss account	<u><u>(9)</u></u>	<u><u>(8)</u></u>

	2020 £m	2019 £m
Actuarial gains on scheme assets	4	47
Actuarial gains/(losses) on scheme obligations	<u>78</u>	<u>(56)</u>
Gains/(losses) recognised in other comprehensive income	<u><u>82</u></u>	<u><u>(9)</u></u>

The spread of COVID 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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**22. FINANCIAL COMMITMENTS**

Capital projects contracted for by the Company but not provided in the financial information amounted to £28m at 31 March 2020 (2019: £33m). Within this amount £6m (2019: £10m) is related to intangible assets.

Total future minimum lease payments under non-cancellable operating leases for the Company are as follows:

	Other		Land and Buildings	
	2020	2019	2020	2019
	£m	£m	£m	£m
- less than one year	2	1	1	1
- between two to five years	2	2	2	1
- after five years	-	-	11	12
	<hr/>	<hr/>	<hr/>	<hr/>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**23. RELATED PARTY DISCLOSURES**

The Company is a subsidiary undertaking of SGN MidCo Limited. The ultimate controlling party of the Company is Scotia Gas Networks Limited, a Company registered in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Scotia Gas Networks Limited, St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ. The smallest group in which they are consolidated is that headed by SGN MidCo Limited, St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ. Copies of Scotia Gas Networks Limited consolidated financial statements can be obtained from the Company Secretary, St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ.

Scotia Gas Networks Limited is owned by a consortium consisting of SSE plc (33%), Borealis Infrastructure Europe (UK) Limited (25%) which is indirectly wholly owned by OMERS Administration Corporation, OTPPB Investments (UK) Limited (25%), which is owned by Ontario Teachers' Pension Plan Board, and Blue Spyder B 2016 Limited (17%), which is owned by Abu Dhabi Investment Authority. It is the opinion of the Directors that the parent Company, Scotia Gas Networks Limited, has no single controlling party as that Company is controlled jointly by the consortium.

In accordance with FRS102 the Company is exempt from disclosing transactions with subsidiaries that are wholly-owned by the group.

Transactions with Key Management Personnel

The Company's ultimate parent undertaking, Scotia Gas Networks includes the Company in its consolidated financial statements. In these financial statements, the Company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the Key Management Personnel compensation disclosures.

Transactions with shareholders

Amounts owed to shareholders and loans from shareholders are set out below:

	2020	2019
	£m	£m
Other amounts owed to shareholders:		
SSE plc	10	8

The amounts owed to shareholders mainly comprise amounts payable in respect of a managed service agreement for corporate services and material purchases.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2020**23. RELATED PARTY DISCLOSURES - continued**

The following transactions took place during the year between the Company and the SSE plc group of companies ("SSE").

	2020	2019
	£m	£m
Sales of goods and services	69	92
Purchase of goods and services	(26)	(29)

Sales of goods and services to SSE primarily represent gas transportation services. At 31 March 2020 an amount of £nil was owed by SSE in relation to these services.

SSE provides services to the Company in the form of a management services agreement for corporate services. The Company also purchases certain items such as consumables stock, shrinkage gas and public liability insurance from SSE.

24. SUBSEQUENT EVENTS

There are no subsequent events to report.