

Southern Gas Networks plc
Unaudited interim financial information
for the six month period ended 30 September 2020

Southern Gas Networks plc

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Profit and loss account

for the six month period ended 30 September 2020

| | Notes | Unaudited | | Audited |
|------------------------------------------------------|-------|-------------------------------------------------|-------------------------------------------------|---------------------------------|
| | | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
| Turnover | 2 | 393 | 402 | 817 |
| Net operating costs | 3 | (224) | (220) | (444) |
| Operating profit | | 169 | 182 | 373 |
| Interest receivable | 5 | 2 | 1 | 3 |
| Interest payable | 6 | (54) | (55) | (117) |
| Profit on ordinary activities before taxation | | 117 | 128 | 259 |
| Tax (charge)/credit on profit on ordinary activities | 7 | (23) | (25) | (111) |
| Profit for the financial period | | 94 | 103 | 148 |

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Statement of comprehensive income for the six month period ended 30 September 2020

| | | Unaudited | | Audited |
|-----------------------------------------------------------------------------------|-------|----------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| | Notes | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
| Profit for the financial period | | 94 | 103 | 148 |
| Cash flow hedges | 15 | - | - | 1 |
| Actuarial gain/(loss) on defined benefit pension schemes (net of deferred tax) | 15 | (21) | 22 | 66 |
| Total recognised gains for the period | | 73 | 125 | 215 |

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Balance sheet as at 30 September 2020

| | | Unaudited | Audited |
|---------------------------------------------------------|--------------|--------------------------------------|----------------------------------|
| | Notes | 30 September 2020 £'m | 31 March 2020 £'m |
| Fixed assets | | | |
| Intangible assets | 9 | 224 | 230 |
| Tangible assets | 10 | 4,661 | 4,606 |
| | | 4,885 | 4,836 |
| Current assets | | | |
| Debtors | 11 | 78 | 76 |
| Short term deposits | | 140 | 82 |
| Cash | | 3 | 3 |
| | | 221 | 161 |
| Creditors: amounts falling due within one year | 12 | (471) | (452) |
| Net current assets/(liabilities) | | (250) | (291) |
| Total assets less current liabilities | | 4,635 | 4,545 |
| Creditors: amounts falling due after more than one year | 13 | (2,722) | (2,724) |
| Provisions for liabilities | 14 | (596) | (608) |
| Deferred income | | (253) | (244) |
| Net assets excluding pension liability/asset | | 1,064 | 969 |
| Defined benefit pension surplus | | 191 | 213 |
| Net assets including pension liability/asset | | 1,255 | 1,182 |
| Capital and reserves | | | |
| Called up share capital | | 160 | 160 |
| Hedge reserves | | 1 | 1 |
| Profit and loss account | | 1,094 | 1,021 |
| Shareholders' funds | 15 | 1,255 | 1,182 |

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Statement of changes in equity as at 30 September 2020

| | Notes | Called up share capital £m | Hedge reserves £m | Profit and loss account £m | Total £m |
|----------------------------------------------------------------------------|-------|----------------------------------|-------------------------|----------------------------------|---------------------|
| At 1 April 2020 | | 160 | 1 | 1,021 | 1,182 |
| Profit for the financial period | | - | - | 94 | 94 |
| Cash flow hedges | | - | - | - | - |
| Remeasurement of net defined benefit pension asset | | - | - | (26) | (26) |
| Deferred tax movements relating to items of other comprehensive income: | | | | | |
| - Cash flow hedges | | - | - | - | - |
| - Pension asset | | - | - | 5 | 5 |
| Total comprehensive income | | - | - | 73 | 73 |
| Dividends paid | 8 | - | - | - | - |
| At 30 September 2020 | | 160 | 1 | 1,094 | 1,255 |

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Cash Flow Statement as at 30 September 2020

| | | Unaudited | Audited |
|----------------------------------------------------------|-------|---------------------------------------------------------|--------------------------------------|
| | | Six month period ended 30 September 2020 £m | Year ended 31 March 2020 £m |
| | Notes | | |
| Cash flows from operating activities | | | |
| Cash generated from operations | 1 | 248 | 525 |
| Interest paid | | (43) | (102) |
| Tax paid | | (22) | (81) |
| Net cash from operating activities | | 183 | 342 |
| Cash flows from investing activities | | | |
| Purchase of intangible fixed assets | | (4) | (3) |
| Purchase of tangible fixed assets | | (128) | (312) |
| Sale of tangible fixed assets | | - | - |
| Customer contributions received | | 12 | 21 |
| Interest received | | - | (1) |
| Net cash from investing activities | | (120) | (295) |
| Cash flows from financing activities | | | |
| Issue of debt | | - | 100 |
| Loan repayments in year | | - | (10) |
| Payments of financial instruments | | (5) | (9) |
| Equity dividends paid | | - | (53) |
| Net cash from financing activities | | (5) | 28 |
| Increase/ (decrease) in cash and cash equivalents | | 58 | 75 |
| Cash and cash equivalents at beginning of year | 2 | 85 | 10 |
| Cash and cash equivalents at end of year | 2 | 143 | 85 |

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Notes to the Cash Flow Statement as at 30 September 2020

1 Reconciliation of profit before taxation to cash generated from operations

| | Six month period ended 30 September 2020 £m | Year ended 31 March 2020 £m |
|--------------------------------------------------|---------------------------------------------------------|--------------------------------------|
| Profit before tax | 117 | 259 |
| Depreciation charges | 71 | 113 |
| Amortisation charges | 8 | 14 |
| Loss on disposal of fixed assets | 2 | 5 |
| Amortisation of deferred income | (3) | (6) |
| Finance costs | 54 | 117 |
| Finance income | (2) | (3) |
| | 247 | 499 |
| Decrease/(increase) in trade and other debtors | (2) | 4 |
| Increase/(decrease) in trade and other creditors | 3 | 22 |
| Cash generated from operations | 248 | 525 |

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:

| Period ended 30 September 2020 | 30.09.2020 £m | 01.04.2020 £m |
|--------------------------------|------------------|------------------|
| Cash in hand | 3 | 3 |
| Short term deposits | 140 | 82 |
| | 143 | 85 |
| Year ended 31 March 2020 | 31.03.2020 £m | 01.04.2019 £m |
| Cash in hand | 3 | 10 |
| Short term deposits | 82 | - |
| | 85 | 10 |

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Notes to the financial information for the six month period ended 30 September 2020

1 Basis of preparation

This interim report for Southern Gas Networks plc (“the Company”) presents the unaudited financial information of the Company for the six month period ended 30 September 2020. Unaudited profit and loss account comparative figures have been presented for the six month period ended 30 September 2019. Comparative figures for the year ended 31 March 2020 have also been presented which have been derived from the audited statutory accounts of the Company.

This interim financial information does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006.

The accounting policies used are consistent with those as set out in the statutory accounts of the Company for the year ended 31 March 2020, and these accounts are therefore prepared under FRS 102.

2 Segmental reporting

Turnover arises entirely in the United Kingdom and is attributable to the continuing activity of transportation of natural gas and the provision of related services, which the Directors consider represents a single class of business.

3 Net operating costs

| | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
|-----------------|----------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| Operating costs | 224 | 220 | 444 |

4 Profit before taxation

The profit is stated after charging/ (crediting):

| | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
|----------------------------------------|----------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| Depreciation | 71 | 56 | 113 |
| Loss on disposal of fixed assets | 2 | 2 | 5 |
| Goodwill amortisation | 4 | 3 | 5 |
| Computer software amortisation | 6 | 5 | 9 |
| Amortisation of customer contributions | (3) | (3) | (6) |

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5 Interest receivable

| | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
|---------------------------------------|----------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| Net interest on defined benefit asset | 2 | 1 | 3 |

6 Interest payable

| | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
|-----------------------------------|----------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| Movement in financial derivatives | | - | - |
| Other interest payable on bonds | 46 | 46 | 93 |
| Index linked bond interest | 8 | 9 | 23 |
| Unwind of discount | - | - | 1 |
| | 54 | 55 | 117 |

Included within index-linked bond interest is £2m of accretion (31 March 2020: £13m)

7 Tax credit/ (charge) on profit on ordinary activities

| | Six month period ended 30 September 2020 £'m | Six month period ended 30 September 2019 £'m | Year ended 31 March 2020 £'m |
|------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| Total tax (charge)/credit for the period | (23) | (25) | (111) |

8 Dividends

| | Six month period ended 30 September 2020 £'m | Year ended 31 March 2020 £'m |
|--------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------|
| Equity shares | | |
| Interim dividends paid nil pence per share (31 March 2020: 33.90 pence per share) | - | 53 |

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9 Intangible fixed assets

| | £'m | £'m | £'m |
|---------------------------------|-------------|-------------|--------------|
| | Goodwill | Software | Total |
| Cost | | | |
| At 1 April 2020 | 288 | 114 | 402 |
| Additions | - | 4 | 4 |
| At 30 September 2020 | 288 | 118 | 406 |
| Accumulated amortisation | | | |
| At 1 April 2020 | (85) | (87) | (172) |
| Charge for the period | (4) | (6) | (10) |
| At 30 September 2020 | (89) | (93) | (182) |
| Net book value | | | |
| At 30 September 2020 | 199 | 25 | 224 |
| At 31 March 2020 | 203 | 27 | 230 |

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10 Tangible fixed assets

| | Land and buildings £'m | Plant and machinery £'m | Motor vehicles and office equipment £'m | Total £'m |
|-----------------------------|------------------------------|-------------------------------|-----------------------------------------------------|----------------|
| Cost | | | | |
| At 1 April 2020 | 83 | 5,558 | 65 | 5,706 |
| Additions | 2 | 125 | 1 | 128 |
| Disposals | - | (4) | - | (4) |
| At 30 September 2020 | 85 | 5,679 | 66 | 5,830 |
| Depreciation | | | | |
| At 1 April 2020 | (30) | (1,034) | (36) | (1,100) |
| Charge for the periods | (2) | (67) | (2) | (71) |
| Disposals | - | 2 | - | 2 |
| At 30 September 2020 | (32) | (1,099) | (38) | (1,169) |
| Net book value | | | | |
| At 30 September 2020 | 53 | 4,580 | 28 | 4,661 |
| At 31 March 2020 | 53 | 4,524 | 29 | 4,606 |

11 Debtors

| | 30 September 2020 £'m | 31 March 2020 £'m |
|--------------------------------|-----------------------------|-------------------------|
| Trade debtors | 68 | 69 |
| Prepayments and accrued income | 10 | 7 |
| | 78 | 76 |

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12 Creditors: amounts falling due within one year

| | 30 September 2020 £'m | 31 March 2020 £'m |
|------------------------------------|--------------------------------------|-------------------------|
| Trade creditors | 16 | 25 |
| Other taxation and social security | 22 | 17 |
| Other creditors | 8 | 9 |
| Accrued interest | 50 | 37 |
| Other accruals | 61 | 68 |
| Deferred income | 25 | 24 |
| Amounts owed to group undertakings | 74 | 57 |
| Eurobonds | 215 | 215 |
| | 471 | 452 |

Amounts owed from group undertakings includes an intercompany loan due to Scotland Gas Networks plc of £72m (31 March 2020: £62m), and to SGN Natural Gas Ltd of £4m (31 March 2020: £5m). Also included are intercompany trade balances due from the Group of £2m (31 March 2020: £9m).

The total revolving credit facility is £340m and expires in March 2025. The facility was undrawn at 30 September 2020 and 31 March 2020.

13 Creditors: amounts falling due after more than one year

| | 30 September 2020 £'m | 31 March 2020 £'m |
|--------------|--------------------------------------|-------------------------|
| Mirror swaps | 22 | 26 |
| Index linked | 507 | 505 |
| EIB Floating | 300 | 300 |
| Eurobonds | 1,643 | 1,643 |
| USPP Fixed | 250 | 250 |
| | 2,722 | 2,724 |

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14 Provisions for liabilities

| | Environmental £'m | Deferred tax £'m | Other provisions £'m | Total £'m |
|-----------------------------|----------------------|------------------------|----------------------------|--------------|
| At 1 April 2020 | 7 | 594 | 7 | 608 |
| Movement during the period | - | (10) | (2) | (12) |
| At 30 September 2020 | 7 | 584 | 5 | 596 |

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 output requirements for land remediation.

Other provisions represent provision for other legal and constructive obligations held by the Company.

Deferred tax has been measured based upon corporation tax rates substantively enacted at the balance sheet date.

15 Reconciliation of movements in shareholders' funds

| | Six month period ended 30 September 2020 £'m | Year ended 31 March 2020 £'m |
|--------------------------------------------------|----------------------------------------------------------|------------------------------------------|
| Profit for the period | 94 | 148 |
| Cash flow hedges | - | 1 |
| Actuarial (loss)/gain on defined benefit pension | (21) | 66 |
| Dividends paid | - | (53) |
| Net increase in shareholders' funds | 73 | 162 |
| Opening shareholders' funds | 1,022 | 860 |
| Closing shareholders' funds | 1,095 | 1,022 |