SGN
Your gas. Our network.

Annual Report and Financial Statements 2021

Creating a zero-carbon network through innovation and excellence

Contents

Image credit: ORE Catapult

H100 Fife – a world-first green hydrogen-to-homes heating network on the Fife coast.

On the east coast of Scotland, our H100 Fife project is laying the foundations for this change while giving residents in the local area the opportunity to be at the leading edge of the low-carbon economy.

We're developing a world-first hydrogen network in Levenmouth that will bring 100% renewable hydrogen into homes in 2022, providing zero-carbon fuel for heating and cooking. In the project's first phase, the network will heat around 300 local homes using clean gas produced by a dedicated electrolysis plant, powered by a nearby offshore wind turbine.

SGN in numbers

Set out here are a few selected facts and achievements reached during the year, all of which we are proud to report on.

In particular the 14 award wins achieved are testament to the hard work and professionalism of our people during what has been an exceptionally difficult year for everyone (see page 13).

Gas escapes attendance within one hour in 2020/21
98.9%
Consistent with 2019/20

External awards in 2020/21
14
Including Utility Week Magazine's Company of the year

Cashflow after investing activities in 2020/21
£417.3m
200% increase on 2019/20

Regulatory Asset Value as at 31 March 2021
£6.0bn
2% increase on 2019/20

Fuel poor homes connected since 2013/14
29,779
5% increase since 2019/20

Greenhouse gas emissions in 2020/21
765,256 tCO_2e
4.4% decrease on 2019/20

Network investment in 2020/21
£370.3m
20% decrease on 2019/20

Turnover in 2020/21
£1,227.4m
3% decrease on 2019/20

Chair's statement

I joined SGN's Board in 2019 and it's now my privilege to be the Company's Chair, after Gregor Alexander stepped down from the role on rotation after 10 years. On behalf of the whole Board, we thank Gregor for his valued leadership, guiding the Board through changing governance requirements and supporting SGN's Executive team through significant industry transformation over the last decade.

Covid-19

The year in review has been incomparable for SGN, our customers and society at large. Our priority throughout the pandemic was to ensure the safety of our employees, our customers and to maintain our essential service; safely delivering warmth and power to homes and industry at all times.

I'm delighted that at the end of the year, SGN has achieved some of its highest customer satisfaction scores and recorded its best emergency response times. The organisation's resilience and adaptability during this time has highlighted different ways of working and the Board will be supporting the Executive as it determines the long-term opportunity for the business, employees and customers. The Board recognises and thanks all SGN employees and delivery partners for the significant efforts they have made to maintain business continuity during this exceptional year.

Much of this year's report is themed around the impact of Covid-19 on the business and our response. But it is also forward looking, with a strong focus on SGN's ongoing work to reduce the impacts of climate change, decarbonise heat and define the pathway for the gas network to support Scottish and Westminster governments' net-zero targets in the future. This story increasingly features our non-regulated activities and the report sets out a number of growth areas where SGN's commercial business is already having an impact.

Our priority throughout the pandemic was to ensure the safety of our employees, our customers and to maintain our essential service.

Board structure and governance

Our strong corporate governance process is overseen by two senior, experienced independent Directors, who continue to guide our implementation of the Wates Principles, adopted last year. This year we have created a new Stakeholder, Environment and Customer Board sub-committee and I welcome the appointment of Laura Sandys CBE as its independent Chair. An early focus for this new committee has been exploring environmental, social and governance (ESG) risks and this year's report includes an enhanced non-financial KPI section covering our performance in key social and environmental areas. Other Board Committees oversee remuneration, audit and safety matters which are reported on fully in the Governance section of this report.

GD2 and the opportunity ahead

In February the Board took the decision to refer Ofgem's RIIO-GD2 Final Determination of our GD2 Business Plan to the Competition and Markets Authority. We await the outcome of the review and continue to work constructively with Ofgem as the GD2 period gets under way. The Board retains an active interest in SGN's world leading decarbonisation activities, such as the H100 Fife hydrogen demonstration project. That project and others are likely to play a significant role in this price control's narrative as the network pursues an ambitious programme of activity to support the green gas agenda.

Nick Salmon
Chair

20 July 2021

Covid-19 statement

The year we have just completed has been an incredible test of our resilience, agility, adaptability and commitment.

Pre-lockdown preparation

For most of the UK, Covid-19 began as a news item about an unusual virus in China at the end of 2019. By the end of January 2020, the World Health Organisation declared a 'Public Health Emergency of International Concern'. We had initiated our response to the emerging crisis earlier in January and John Morea, our CEO, chaired our first formal leadership meeting to discuss the pandemic on 7 February. This early assessment and focus gave us the opportunity to consider the implications of an operational shut-down and the mitigating actions which would allow us to continue to deliver our essential service while keeping the public and our own workforce protected.

Our strategy was to apply a Gold, Silver and Bronze framework to govern our operations for the duration of the crisis. We established 'hub and spoke' communications allowing decisions to be taken as swiftly as possible. The agreed changes in specified behaviour allowed us to accelerate internal procedures and normal governance so we could respond to the rapidly evolving situation, without ever compromising safety to our customers or our own workforce.

By the end of March 2020 we had ceased public-facing work, apart from emergency and essential maintenance and had the majority of our office based employees working from home. The virtually complete transfer of office-based employees to home working environments was a significant undertaking and a considerable challenge for our IT department. However, we achieved a rapid transition and, as with our field operations teams, our office-based workforce successfully delivered the targets and outcomes planned for the year.

Leading on safe working

We set out our operational response with SGN Safe Workplaces. Our internal approach was used by the UK Government's Department of Business, Energy and Industrial Strategy and the Department of Health and Social Care to inform national guidance issued to all UK businesses for safely managing employees in offices and external workspaces. In March 2020 we became the first GDN to sign up to asymptomatic testing to protect key operational parts of our business, six weeks before the Government announced its requirement. This, combined with our rapid deployment of PPE and tailored work processes, led to a positive impact on overall employee health. We experienced a drop in the usual winter absence caused by seasonal flus and other winter bugs in what is our busiest time of the year.

We introduced a revised absence policy for our Clinically Extremely Vulnerable (CEV) employees who were at higher risk due to underlying medical conditions. All CEV colleagues have been able to stay at home supported financially with full pay. Throughout the height of the pandemic and during subsequent peaks and regional lockdowns, our established focus on data-led decisions meant we were well able to apply data from our own workforce to manage a tailored local response. Creating our own workforce infection map allowed us to identify hot spots around our regions and improve the guidance we offered.

Providing an essential service

We were able to complete work to connect a new vaccine manufacturing and innovation centre to the gas network four months ahead of schedule. The Didcot-based vaccine centre on the Harwell Science and Innovation Campus was created to develop the UK's vaccine infrastructure. A safe and reliable gas supply to the centre was essential for the scientists to carry out vaccine work and all parties collaborated to get the connection completed.

"I would like to take this opportunity to thank you and your team for the way you have responded to the pandemic over the past year. I know you have been in regular contact with officials and ministers and I understand your approach has been to work within the letter and the spirit of our guidance throughout."

Andrew Hogg, Deputy Director for Energy Industries, Scottish Government, in a letter to John Lobban, our Managing Director Scotland and Northern Ireland, in March 2021

Since connecting Harwell, the Department of Health and Social Care has identified our site at Seaford as being suitable for an NHS Covid-19 Local Testing Centre. We are pleased to be able to support the public interest and have offered it free to the NHS for an initial six-month period, with option to extend as required.

Despite many aspects of our engineering and maintenance work returning to, or near, normal working conditions by the end of the year we have maintained our use of Silver response. The experienced team continues to listen to local communities and respond to our employees' concerns. We are currently collecting customer preferences on our continued use of PPE in and around their homes and have adopted greater sensitivity around vulnerable customers, especially if we are working close to or on their property.

Further commentary on our related response, actions and how we have adapted our activities has been included throughout this Annual Report, and where possible we have indicated any long-term or ongoing changes to our approach.

SGN overview

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

Our vision

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

Our purpose and strategy

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

1.
Delivering a safe and efficient service
We will deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.

2.
Making a positive impact
We will make a positive impact on society, by supporting vulnerable communities and providing excellent service.

3.
Building a shared future
We will build a shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.

4.
Focusing on talent, skills and opportunities for our people
We will create and maintain an inclusive and diverse workplace where our people can develop and thrive.

5.
Creating value and growing our service
We will create value by accelerating commercial opportunities which complement the core; maximise the value from our existing asset base; invest in opportunities for the sustainability of our network and keep SGN at the forefront of the delivery of heat.

Our engagement

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

Our culture and values underpin everything we do

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

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

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

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

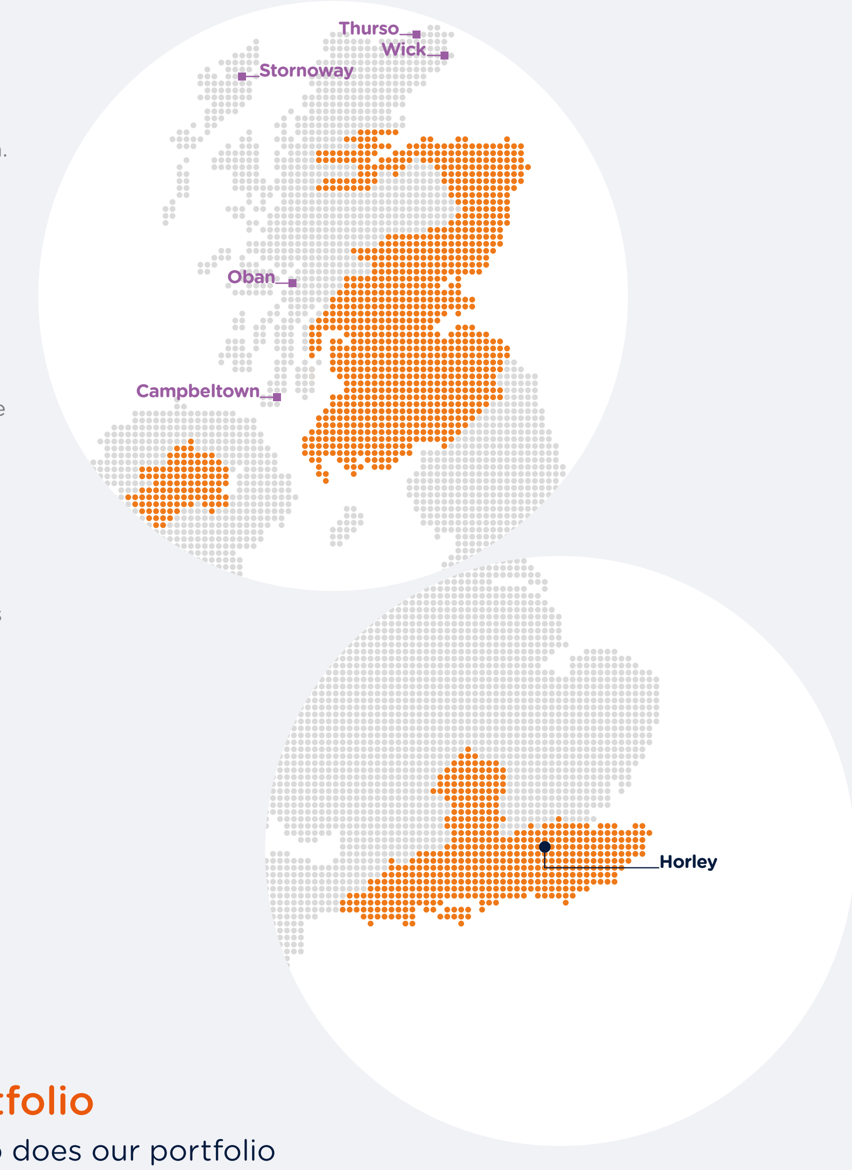
Sustaining our world
We maximise our effect on local communities and minimise our impact on the world

Operations throughout the UK

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

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

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



Key
- SGN head office
- SIUs

The SGN brand portfolio

As our business expands so does our portfolio of brand identifiers under both our regulated and non-regulated activities.

Regulated business
Our regulated businesses form the core of our activities in providing a safe and secure supply of gas to our customers throughout our three gas networks.

SGN Your gas. Our network.
SGN Natural Gas

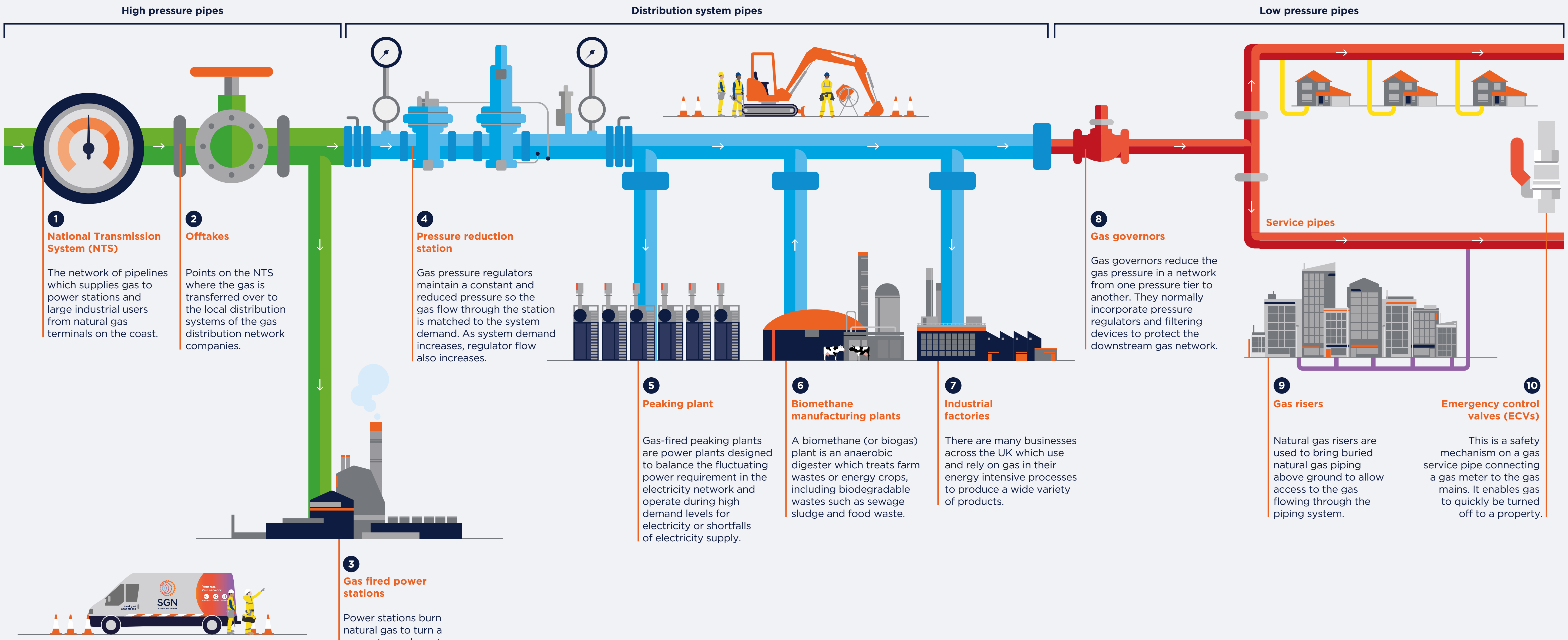
Non-regulated businesses
Our non-regulated activities are closely aligned with our core business activities, ensuring management understanding and decision making comes from a position of knowledge and experience.

SGN Commercial Services
SGN Place
SGN H100 Fife
SGN Metering
SGN Smart
SGN Heat Networks
SGN Connections
SGN Futures

Major components and functions of the gas network

Our regulated gas networks consist of 75,000km of gas mains and services along with the associated infrastructure.

From high pressure pipelines, moving to the intermediate/ medium pressure systems and through a modern low pressure network, our equipment along with the engineering expertise of our workforce combine to provide a fuel source to industry and heat the nation.



1 National Transmission System (NTS)

The network of pipelines which supplies gas to power stations and large industrial users from natural gas terminals on the coast.

2 Offtakes

Points on the NTS where the gas is transferred over to the local distribution systems of the gas distribution network companies.

3 Gas fired power stations

Power stations burn natural gas to turn a generator and create electricity. Waste heat can be used to heat water to produce steam which is used to create more electricity.

4 Pressure reduction station

Gas pressure regulators maintain a constant and reduced pressure so the gas flow through the station is matched to the system demand. As system demand increases, regulator flow also increases.

5 Peaking plant

Gas-fired peaking plants are power plants designed to balance the fluctuating power requirement in the electricity network and operate during high demand levels for electricity or shortfalls of electricity supply.

6 Biomethane manufacturing plants

A biomethane (or biogas) plant is an anaerobic digester which treats farm wastes or energy crops, including biodegradable wastes such as sewage sludge and food waste.

7 Industrial factories

There are many businesses across the UK which use and rely on gas in their energy intensive processes to produce a wide variety of products.

8 Gas governors

Gas governors reduce the gas pressure in a network from one pressure tier to another. They normally incorporate pressure regulators and filtering devices to protect the downstream gas network.

9 Gas risers

Natural gas risers are used to bring buried natural gas piping above ground to allow access to the gas flowing through the piping system.

10 Emergency control valves (ECVs)

This is a safety mechanism on a gas service pipe connecting a gas meter to the gas mains. It enables gas to quickly be turned off to a property.

A day in the life of SGN

24/7

SGN is known for maintaining, repairing or replacing gas pipes in the street, or for checking on safety or responding to call outs to customers' homes. But operating the network for all customers, and preparing for our net-zero future, requires many different roles and responsibilities, often unseen and operating 24/7. These pages offer a snapshot of some of the critical activities going on behind the scenes to keep the gas flowing and delivering what customers want.

03.00

Gas Control Centre: balancing supply and demand

Our round-the-clock teams monitor and control the gas in more than 74,000km of pipes connected to almost 6 million customers, balancing supply and demand and moving gas at different pressures around our Scotland and Southern networks. Understanding customer behaviour is critical to operational efficiency and will help us transform the network for our net-zero future.

08.30

Repex

Parts of the national gas network have been reliably delivering heat to homes and communities for the best part of a century. That's why the gas networks are replacing the old iron pipes with new, hydrogen ready plastic pipes that will continue to deliver safe, reliable heat long into the future. We replaced 250km of old iron pipes in 2020/21.

10.00

Fuel poor connections

The Fuel Poor Network Extension Scheme helps tackle fuel poverty by connecting off-grid, fuel poor households to the gas network. Working with partners we identify eligible, often vulnerable households who would benefit from a connection. Despite Covid-19 enforced restrictions, we connected 1,466 customers to a gas supply in the year.

11.30

Working with stakeholders

Engaging with stakeholders and customers is critical to our ability to deliver the services and priorities customers want. Our Stakeholder Engagement team held eight events attended by 378 individuals in the year, as well as managing extensive online engagement, making sure we understand their priorities and we are addressing their needs.

13.00

Energy Futures

Our Energy Futures Team is defining how our gas network can help deliver the national pathway to net-zero: decarbonised heat for homes, industry and transport. The team works with renowned consulting and engineering firms to explore hydrogen production and distribution, carbon storage and numerous other technologies that promise to transform the gas system into the world's first green gas distribution network.

16.00

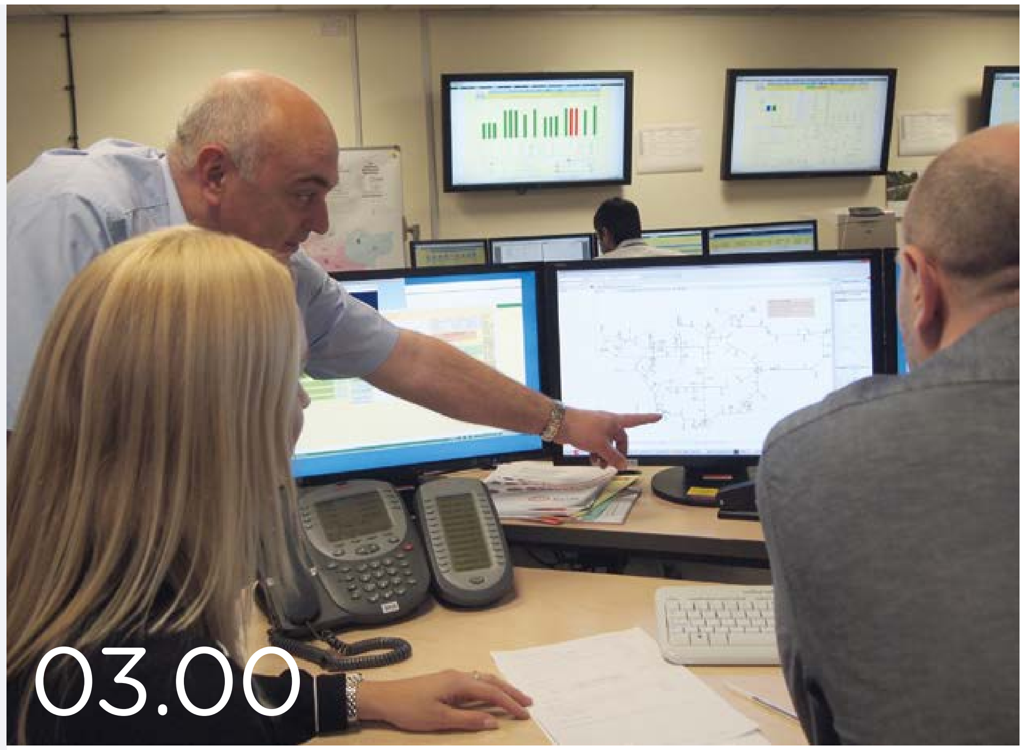
Increasing the volume of biomethane gas in the pipes

While hydrogen promises a green gas future, biomethane is delivering that today. We work with the biogas production sector to increase opportunities to bring more green gas onto our network, exploring innovations that would increase the cost effectiveness for producers and drive more carbon neutral gas onto the system. We already connect the equivalent of a quarter of a million homes to biomethane and we're aiming to get that closer to half a million by 2026.

21.00

Emergency response

This year our emergency response teams attended 117,579 incidents of uncontrolled gas escapes across our two networks. They reached 99.1% of the incidents within one hour, achieving an average response time to uncontrolled gas escapes of 35 minutes, making the year our best ever response performance.



Chief Executive's report

Key achievements over the year
Operating safely and effectively through Covid-19 conditions has required new levels of flexibility, resilience and care as we've focused on serving our customers, communities and colleagues, each managing their own changed circumstances. Despite the challenges of this year, we have still delivered or exceeded our targets in every core area, driving innovation, growth and people development to make us even more resilient and able to excel in a future of energy transformation.

31 March 2021 marked an important milestone, the end of the RIIO-GD1 regulated price control period. For the past eight years we have been delivering what we set out to achieve during GD1 for customers, communities and stakeholders and I want to reflect briefly on some of our achievements in that time.

We connected 38 biomethane plants to our network, helping to supply the equivalent of over 254,000 homes with low-carbon gas. We replaced over 8,000km of our metallic mains with hydrogen ready polyethelene (PE) pipe and renewed over 500,000m steel service pipes. Combined, these two factors alone have contributed to a 14% reduction in leaked gas equivalent to more than 120,000 tonnes CO_2e.

We attended over one million uncontrolled gas escapes and over 580,000 controlled escapes. I'm proud that we became a Living Wage employer and have hired over 250 apprentices, graduates and trainees. We trained over 120 of our employees to become mental health supporters which has proven to be an invaluable resource, especially over this last year.

We have consistently been the top performer for customer service between the Gas Distribution Networks and at 90%, our customer satisfaction rating in Scotland at the end of this year has been our highest ever.

In this particularly challenging year we beat the competition and won Ofgem funding to build the world's first hydrogen-to-homes demonstrating project, H100 Fife, and won Company of the Year at the prestigious Utility Week Awards.

And in 2017, we made a voluntary contribution of £145m in price control allowance terms to customers.

We introduced extra help for our most vulnerable customers like our free Locking Cooker Valve and have connected over 29,000 fuel poor households to our network, the highest number of any gas network, helping to lift these families and individuals out of fuel poverty.

And in this particularly challenging year we beat the competition and won Ofgem funding to build the world's first hydrogen-to-homes demonstrating project, H100 Fife, and won Company of the Year at the prestigious Utility Week Awards, adding to more than 60 external awards we've received since the start of GD1. And as the year ended, I was delighted to learn that SGN was positioned number one out of all the GDNs for customer service. These and many other activities from 2020/21 are written up in the pages ahead.

I'm sincerely grateful to SGN's entire 4,000 strong workforce who, despite the many challenges of the pandemic, have maintained exceptional levels of performance for customers throughout the year. It's testament to the resilience, commitment and determination of SGN's whole workforce that we embark on GD2 with strength, confidence and an ambition to deliver the outcomes our customers want, and demonstrate our role in Britain's green energy future.

Finally, I'd also like to thank our outgoing Company Chair Gregor Alexander for all his valuable support, guidance and encouragement over the course of GD1. Our rules on Board Chair rotation mean Gregor has now stood down and we've welcomed our existing Board member Nick Salmon to the position of new Company Chair.

SGN business model

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

Inputs

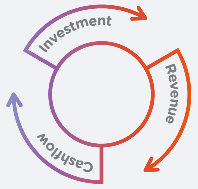
Financial
We make use of our shareholder capital including other forms of financial capital to run our business and deliver a safe and efficient network for our customers.

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

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

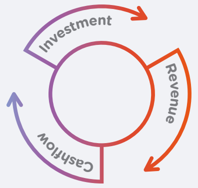
Core activities

SGN and RIIO



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

SGN Natural Gas



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

Non-regulated businesses

SGN Commercial Services
SGN Place
SGN Metering
SGN Smart
SGN Connections
SGN Futures
SGN H100 Fife
SGN Heat Networks

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

Outputs

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

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

- Providing expertise in the development of biomethane plants and associated green gas production.
- Providing a focus on the adoption of gas and electricity infrastructure assets across the UK (including vehicle charging points).
- Providing new gas connections to benefit society and the wider UK economy.
- Targeting a leading market position on developing, owning and operating heat networks throughout our regions.

Chief Executive’s report (cont)

Energy Futures and building the pathway to net-zero

This year we have seen a significant upturn in public discussion and debate around the role of hydrogen in the pathway to delivering net-zero. In October 2020 we published our Green Prospectus, describing a number of future hydrogen related activities and mapping out significant economic benefits to the UK economy from decarbonisation activity enabled by our network. Our own Energy Futures and Public Affairs teams have been helping drive awareness through publicising our investigative work, informing policy makers and by winning significant Ofgem funding for our world-first hydrogen to homes demonstration project in Fife. This and a selection of our other green gas related activities over the year are reviewed over these pages.

H100 Fife

Our pioneering project to demonstrate 100% green hydrogen heating in homes for the first time was approved by Ofgem in October and construction is under way. The 100% green hydrogen network will bring carbon-free heating and cooking to around 300 homes from 2022 and will provide compelling evidence of hydrogen’s performance in a real-world domestic setting as a zero-carbon energy source.

Our project is a world first: using a direct clean power supply (wind) to produce hydrogen through electrolysis for domestic heating, helping to firmly place Scotland at the forefront of the green energy revolution. New hydrogen appliances in the homes will connect to the existing internal pipes for zero-carbon heating and cooking with minimal disruption and with no need to replace existing radiators or plumbing. Critically, the new hydrogen network is being constructed to match the specification of the current gas network, connected to over 24 million homes around Scotland, England and Wales.

On successful completion of this first phase of work in 2024, we will embark on the next phases to connect 1,000 homes, then a town, and finally a whole region of Scotland to demonstrate the role our network can play in delivering clean hydrogen gas and meet net-zero targets.

Decarbonising industrial clusters

In September we partnered with Wood plc. on a new project investigating the feasibility of a 100% renewable hydrogen energy system that will repurpose parts of the existing gas network in Scotland. Called the North-East Network & Industrial Cluster project, we will create a cross-sector decarbonisation roadmap for the north-east and east coast of Scotland, home to some of the country’s heaviest carbon-emitting industry. By outlining the practical steps that will deliver the Scottish Government’s 2045 net-zero target, we can play a significant part in decarbonising heavy industry and accelerating Scotland’s transition to decarbonisation.

H_2 and CO_2 geological storage review

Underground geological storage has been used as a method for storing natural gas for several decades and there are currently seven operating gas storage sites in the UK with a total capacity of 1.5 billion sm^3. Hydrogen storage at scale using these and similar geological formations is a realistic possibility and currently being investigated through a number of research projects.

The UK is potentially rich in secure subsurface locations that can be used to store hydrogen and the CO_2 captured during the production process used to create blue hydrogen (from reformed methane gas). SGN’s Geological Hydrogen Storage Review is studying the geological and engineering constraints related to hydrogen storage, both onshore and near-offshore, along the east and south coast of the British mainland. There is estimated to be around four times the necessary capacity required to store and provide year-round access to hydrogen for heat, power and industry. The UK’s excess storage could also support hydrogen becoming a valuable economic export, as well as an opportunity for the UK to sell storage for other countries’ hydrogen and CO_2.

Hydrogen super-hub in the Port of Southampton

In December we announced a partnership with Macquarie’s Green Investment Group (GIG) to investigate opportunities to decarbonise local industry and transport and create a centre of excellence for hydrogen production and distribution on the south coast. Southampton emits around 2.6 million tonnes of CO_2 from various industrial activities and from customers on our network using gas for heat. The project is looking at the impact of a local hydrogen production scheme with carbon capture, usage and storage (CCUS) technology on the region’s emissions.

The scheme would bring cleaner air, large numbers of jobs, and new economic opportunities in hydrogen production and export for the area and play an important role in delivering Southampton’s commitments set out in its Green City Charter. Once established, the Southampton hub could provide a platform to decarbonise transport and domestic heating and lay the groundwork for the full decarbonisation of our network in the south of England.

HyScale: investigating stored, portable hydrogen

HyScale is an SGN led project investigating the opportunity to capture, store, transport and release green hydrogen at bulk scale around the UK in Liquid Organic Hydrogen Carriers (LOHC), a non-volatile liquid. Producing green hydrogen from surplus renewable energy and storing

Decarbonising industrial clusters will be a big step forward to net-zero.

Plans for a south coast centre of excellence for hydrogen production and distribution are being mapped out around Southampton docks.

External recognition awards

We were proud to again be recognised in a number of national awards across both the energy and utility industries and the wider business community.

This recognition, while helping our standing with the public and the external world, also induces a real pride factor for our employees, with their company, and in some instances their colleagues, being recognised for their hard work and commitment to customers and the world in general.

Utility Week Awards

We started the year by being awarded the accolade of being ‘Utility of the Year’ at the 2020 prestigious Utility Week Awards. While we have won other awards over the years this was the first time we’d taken the top award.

We were also delighted to be shortlisted for four categories overall: Capital Project Management for our Gas to the West project in Northern Ireland, Digital Transformation for the FYLD application, Customer Vulnerability for our partnership with Scope and UKPN and as mentioned above, Utility of the Year. Judges praised us in particular for delivering engineering excellence and putting our customers first:

> “This year, the judges wanted to recognise a strong all-rounder that is really hitting the mark for customers. This energy network is strong on innovation, and the judges were impressed with how this large and complex organisation rose to the challenge of maintaining critical supplies while ensuring the safety of the public and employees through the pandemic.”
>
> **Utility Week**

CCA (Customer Contact Association) Excellence awards 2021

In March 2021 we were pleased to win the overall award for Excellence in social responsibility and awareness at the 2021 CCA excellence awards. We were also finalists in the Most effective vulnerable customer strategy category and our Customer Experience Manager, Linda Spence, was finalist in the Manager of the year category.

UK Customer Experience Awards 2020 (UKCXA20)

Here we won the outright Gold award for our contact centre (small category) and this was complemented by two Silver awards for putting; ‘customers at the heart of everything’ and having a ‘Customer-centric culture’.

IGEM and EUA Gas Industry awards 2021

We picked up four awards here. Our engineers David Rae and David Butler were joint winners of the coveted Engineer of the year award while the Leadership award went to Danny O’Malley. We also jointly won an award for Product of the Year as part of a collaboration with C55 Copperleaf technology, Northern Gas Networks (NGN) and National Grid Transmission.

Inclusive Employers Standard 2020

For this we were proud to be recognised for a Bronze Award for our continued commitment to inclusion in the workplace. Something we take very seriously and this award will drive us on to improving our workspace and awareness to new levels.

Network Awards 2020

Here we came first in three categories:

- **Engineering Project of the Year** for our Erskine Bridge project: This complex infrastructure project was a major feat of engineering involving the construction of an almost 2km long pipeline under the River Clyde.
- **Innovation Project of the Year (Gas):** This recognised our Real-Time Networks project, which is developing the world’s first real-time gas demand network model, a critical step in our ambition to decarbonise our gas network.

> “It really is great for SGN to be recognised for the innovative work we’re carrying out to ensure our gas network plays a key role in a low carbon energy future.”
>
> **Alexander Webb-Brown, SGN Project Manager**

- **Cross Vector Project of the Year** for our East Neuk project: This project explores use of surplus renewable electricity to produce green hydrogen, which could then be used to heat homes and businesses in the East Neuk of Fife.

UK Business Awards 2020

Bronze Award for Customer-centric Organisation of the Year. Our commitment to delivering a 10/10 customer service for all our customers was pleasingly recognised with a bronze award at the UK Business Awards.

IT Awards

Emerging Tech of the Year

Awarded to our FYLD product (see page 15).

Transport for London (TFL)

Streetworks Award for Innovation

Recognition for the innovative use of robotics to reduce disruption across London’s busy road network.

Learning and Performance Institute (LPI)

Gold Standard for Talent and Development

Developing our people is essential to providing the best customer service this achievement is great recognition for our teams.

Progress on our customer commitments

Delivering a safe and efficient service

Improving customer outcomes with robotics

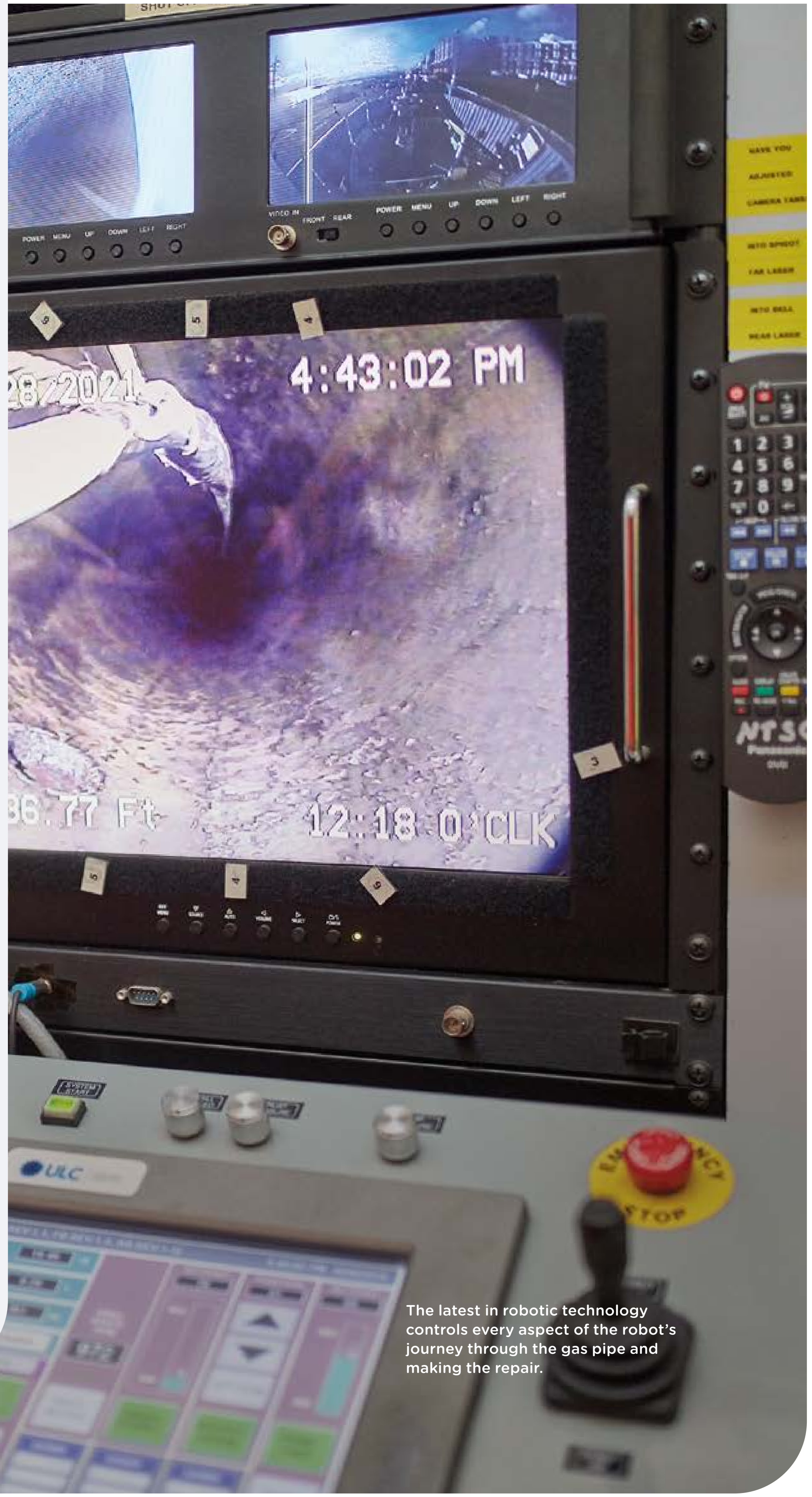
Robotics have been the bedrock of our ambition to reduce the costs, time and disruption caused by street works. Our innovative CISBOT robot is now fully embedded in our business-as-usual operations and used by other GDNs as industry best practice.

We have continued to lead the effort to change utility excavation by exploring and investing in ground-breaking technology to reduce disruption, environmental impact and cost whilst increasing safety.

We're in the final year of a three-year development programme partnering with ULC Robotics on the Robotic Roadworks and Excavation System (RRES) project to deliver safer, faster and cleaner autonomous roadworks. RRES is the world's first functional all-electric autonomous excavation robot and an accurate, safe automated system to maintain our network of underground gas pipes. It will minimise disruption and make excavating close to utility pipes and cables even safer for our engineers.

RRES scans underground using sensors to build a detailed and very accurate map of the area to be excavated. It then generates a three-dimensional model of underground assets, enabling the team to plan a site for excavation with complete confidence. The robot is equipped with a road cutting device to cut and remove a keyhole shape from the road surface (larger and more flexible than conventional coring technology). Using AI, the robotic cutting arm can sense material hardness and adjust the cutting speed, which extends the lifetime of the tool by automatically tailoring the use and strength needed.

We will embark on live trials of RRES on our network in 2021/22 and expect the system to have a similar impact as CISBOT has already had on reducing disruption, improving safety and benefiting our customers.



The latest in robotic technology controls every aspect of the robot's journey through the gas pipe and making the repair.

FYLD

This year we have launched a completely new digital, mobile platform, using speech and image recognition and AI and ML.

FYLD is a digital platform that allows field teams to make data-driven decisions in real-time, leading to enhanced safety management, productivity and quality assurance. We are delighted that FYLD has won Emerging Technology of the Year at the 2020 UK IT Industry awards.

FYLD was designed and developed by SGN Group in partnership with a digital venture company and part funded by one of our shareholders and SGN Commercial Services. The technology offers actionable insights using AI to convert video and audio footage into digital risk assessments and analytics dashboards. FYLD is now available on the open market for other customers, giving financial benefit to SGN Group and a safety benefit for other businesses who adopt it.

FYLD has the opportunity to become the standard methodology behind risk assessments to create industry benchmarks and ultimately increase safety and productivity globally. Since its launch FYLD has led to an increase in the number of company safe days and a 64% reduction in the time taken to complete risk assessments. We have used FYLD on more than 5,000 jobs since its introduction and estimate that it will make an efficiency contribution annually through decreased mileage travelled by our engineers and the reduced paperwork.

Chief Executive's report (cont)

Concluding our RIIO-GD2 planning process

Making good use of platforms such as Microsoft Teams and Zoom has ensured the timely continuation of the GD2 process, despite groups being unable to meet face-to-face.

At the end of 2019 SGN delivered a comprehensive and robust business plan to Ofgem which carefully and clearly reflected the views of many stakeholders and customers on the service we should provide over the next five years, while also setting out how we are preparing for a decarbonised gas network for the future.

Ofgem published its draft response to our plan in July 2020 and we were invited to review and comment as part of the process feeding into Ofgem's final response. Overall, we were disappointed that stakeholders' inputs had not been recognised, nor was there recognition for the scale of engagement we had undertaken. Important areas of focus our customers asked us to build into our plan were underfunded or rejected. We were particularly concerned by Ofgem's decisions to reject our stakeholder backed plan to accelerate our repex programme, in order to prepare parts of our network for hydrogen in support of the UK's 2030 decarbonisation targets.

Preparing our response involved a huge amount of work from over 50 teams across our business. The process gave us the opportunity to re-connect with stakeholders to confirm that despite changed circumstances due to the pandemic, the ambitions and targets set out in our plan remained valid and fully supported. Re-running our business plan acceptability testing resulted in the same high levels of support we achieved during our pre-Covid-19 assessment.

We produced a detailed 307-page, evidence based response to Ofgem's draft determination with extensive supporting information. Following our submission in September, we presented our strong arguments during a virtual open hearing with Ofgem in October, with Ofgem's RIIO-2 Customer Challenge Group and with members of our Customer Engagement Group (CEG). I am grateful for the ongoing support from the CEG to help us shape our response, during the open hearings and for their ongoing challenging to us and Ofgem.

Ofgem published its Final Determination (FD) in December and we remain disappointed with Ofgem's position and the outcome of the review process. We have identified a number of technical issues in Ofgem's FD and, as a result, we have referred these to the Competition and Markets Authority (CMA). Our appeal focuses on the allowed return on equity for investment over the next five years, the outperformance wedge and certain aspects of Ofgem's efficiency methodology.

While the CMA process is ongoing, SGN remains committed to delivering operational excellence and outstanding service for all our customers. We continue to work closely with Ofgem and the UK and Scottish governments to help meet net-zero targets through our pioneering decarbonisation programme.

in LOHCs would create a potential solution to the intermittency challenge of large-scale renewables deployment.

Hydrogen in a LOHC state can be stored and transported in the same way as liquid fuels such as diesel, but at less risk due to the very low volatility of LOHCs. This method also provides a seven-times greater storage density than compressed hydrogen gas, giving LOHCs the potential to make storage and transport of hydrogen a clean, attractive and economically viable future stored energy solution. The first phase of the project will conclude in May 2021, at which time we expect to start work on an LOHC trial demonstration, building the crucial evidence base to support larger-scale development.

Gas transport transition pathways

Decarbonising transport will be a key enabler of the transition to net-zero. This year we joined Cadent, along with the other UK gas distribution and transmission system companies to investigate the opportunity for green gases in low and zero-carbon heavy goods vehicles (HGVs), and how this can support the wider use of green gases across the economy. The report, published in March, found that biomethane and hydrogen powered HGVs represent a substantial opportunity for green gases to accelerate transport decarbonisation over the next decade and beyond, making use of the existing gas network infrastructure to supply refuelling stations for HGVs.

Whole Systems Charter

Our Whole Systems Charter provides a platform to bring our sectors together to help meet Scotland's net-zero emissions targets in 2030 and 2045. This year we have ratified our Charter, with the five major energy infrastructure companies in Scotland committing to a future of collaboration, integration and joint co-operation on activity, from immediate real-time incident management to long-term investment planning. The Charter is underpinned by four principles:

1. Work together, through co-ordination and co-operation;
2. Manage uncertainty;
3. Develop whole system tools and processes; and
4. Demonstrate our commitment to net-zero.

Creating a common set of structures for sharing information across these themes will support a robust whole energy system in its planning, development and operation. We anticipate this charter being extended to include other network companies in GB, enabling further whole system solutions and the delivery of net-zero at a UK level by 2050.

Informing the debate

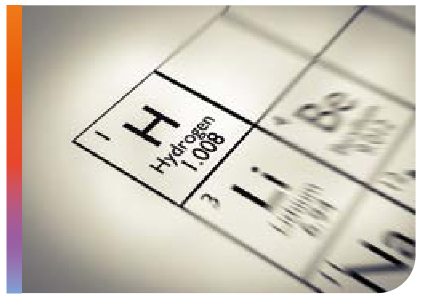
Our External Affairs team work closely with UK and Scottish governments and other policymakers to provide expert knowledge that feeds into government decisions relating to achieving net-zero by 2050, and 2045 in Scotland. In particular, the opportunity for hydrogen to remove carbon emissions from how we heat our homes, business, industry and heavy transport. We've been providing robust evidence to show how utilising the gas networks for hydrogen can enable the decarbonisation of heating with lower upfront costs and less disruption than alternatives.

This year we have been heavily engaged in government consultations on 'Future Support for Low Carbon Heat' and the heating technologies allowed in new homes in Scotland/England from 2024/25. We've also engaged with select committees in Westminster and Holyrood on inquiries into hydrogen, heat pumps, regulation of heat networks and the green recovery from Covid-19. We are increasingly being asked to submit evidence to local authorities as well, such as responding to request to inform Rother District Council's Environment Strategy.

Our 'Heat Without Carbon' podcast

In July we launched our Heat Without Carbon podcast, a series of episodes exploring the opportunities and challenges of achieving a net-zero energy system, including hydrogen heating, its impact on consumers, and the cutting-edge research needed to decarbonise the sector. The platform puts experts from our own Energy Futures Team alongside influential third parties, including Renewable UK, Energy Networks Association and Members of Parliament, as well as with other commercial players like Arup, Kiwa and Northern Gas Networks.

www.sgn.co.uk/about-us/future-of-gas/heat-without-carbon



Hydrogen fuel cell technology is continually advancing for HGV vehicles.

The future of gas boilers is shown here with a boiler conversion from natural gas to hydrogen.

Progress on our customer commitments

Making a positive impact

Adapting our fuel poor service during the pandemic

We entered winter 2020/21 knowing that with lockdown, home working and increased unemployment, more people were at home relying on their gas connection for warmth. Customers without connections were understandably concerned about people entering their homes during the pandemic, even to provide a gas supply. Our teams worked hard to reassure those customers of our stringent new safe-working protocols and how we had adapted our processes to deliver gas connections.

The last Friday in November was Fuel Poverty Awareness Day and we took the opportunity to raise awareness of how we could help make sure our communities stayed safe and warm. Our Help to Heat scheme can support those struggling to make ends meet by providing free connections to the gas network and in some cases funding towards a gas central heating system.

The pandemic has dramatically slowed our fuel poor connections installation rate as works were halted in response to government guidance and customer feedback, and many of our fuel poor partners had furloughed staff. We ran regional targeted online campaigns and used interviews to raise awareness of our scheme and encourage more partners and customers to take advantage.

Our data mapping tool helped us focus on regions where connection opportunities were likely. We established a dedicated taskforce to help partners achieve their fuel poor connection targets and worked with local authorities to ensure we were able to work in the public highway in the condensed timescales available. We have extended the opportunity to draw funds from our Central Heating Grant for a further 12 months (to March 2022).

By the end of March 2021 – the end of RIIO-GD1 – we had made 29,779 fuel poor connections on our Scotland and Southern networks, 2,282 over our combined revised target of 27,497, and 49% more than our original eight-year combined target of 20,000.

Emergency engineer and First Call Operative (FCO) Lee Holbrook being Covid-19 safe for our customers.

Extending services to vulnerable customers

Our comprehensive four-stage plan focusing specifically on vulnerable customers ensures our approach, communication and processes are accessible to all.

We've enhanced our service by connecting these customers to more energy and safety partners to provide valuable support during the pandemic, increasing our network from 30 in 2019/20 to 38 last year.

In June we joined the Utility Networks Partnership of 12 other utilities to help customers in vulnerable situations and improve awareness for the Priority Services Register (PSR). We worked with 35 charities to produce a video to increase awareness about the PSR and free help available from utilities in the event of a gas, water or electricity outage. Collaboration is key to tackling vulnerability and our Partnership is able to provide consistent services for vulnerable customers in the regions we serve.

Our strategy to serve vulnerable customers has been developed around four themes:

- Treating vulnerability through a holistic and needs based approach
- Listening to and developing our people to facilitate greater understanding
- Contributing in the community, through targeted support
- Understanding the impacts of Covid-19 in different customer groups

Chief Executive's report (cont)

Our submissions, collaboration and direct engagement has helped inform government policy which was evidenced in the prominence of hydrogen in the UK Government 10 point plan and Energy White Paper published in November and December. It announced a target for a hydrogen heated large village and large town by 2025 and 2030 respectively immediately following our H100 Fife neighbourhood trial.

The UK Government has committed to publishing a UK Hydrogen Strategy in 2021 which will signify its important role in the UK's plan to meet its net-zero targets.

A selection of items we have responded to this year:

- Scottish Government consultation on offshore wind.
- UK Government Department of Business, Energy, Innovation and Skills (BEIS) consultation on introducing regulation for heat networks.
- Response and oral evidence to Holyrood Energy, Environment and Fair Work Committee inquiry into the Scotland Heat Networks Bill.
- Response to an All Party Parliamentary Group (APPG) inquiry into hydrogen's role in the economic recovery from Covid-19.
- Environmental Audit Committee (EAC) inquiries into hydrogen and heat pumps.
- BEIS consultation on future support for low carbon heat – how biomethane will be supported by the incoming green gas levy.
- Labour Green Recovery consultation.
- Response and oral evidence to BEIS select committee inquiry into heat decarbonisation.
- Ministry of Housing, Communities and Local Government's carbon monoxide alarm consultation.
- Science and Technology committee inquiry into hydrogen.
- BEIS consultation on improving energy efficiency in the private rented sector, relating to fuel poverty.
- Consultation on Scotland's new build heat standard.
- Response to BEIS CCUS phasing consultation.

Our role in the community

The critical importance of our role, providing warmth to the communities across our networks, has been brought into sharp focus by the pandemic. Our activities have always extended beyond our engineering role and this year our efforts have been tailored towards vulnerable customers, nurturing wellbeing, improving social mobility and fostering prosperity in the communities we serve.

At the start of the year, in recognition of the severe, sustained and far-reaching impacts of the pandemic, we donated £185,000 to support local charities and good causes with their response to communities impacted by Covid-19. The donations have helped community funding programmes to issue grants quickly to hundreds of groups, businesses and individuals across Scotland and the south of England. Funding has been awarded to set up foodbanks for vulnerable people, support individuals experiencing chronic loneliness through social isolation, provide payment holiday loans and much more.

Fuel poor connections update

Over the year, despite Covid-19 and the lockdown, we've managed to connect another 1,466 (Southern 640, Scotland 826) households to the gas network under the Fuel Poor Network Extension Scheme (FPNES) scheme. While this is a lower figure than previous years it reflects the changed circumstances for customers and our own workforce during the pandemic. All non-essential work had to stop at the start of the lockdown, and customers have rightly remained extremely cautious about letting people into their homes for maintenance or connections work over the course of the year (see also page 17).

In our Southern network, our Central Heating Grant Fund continues to benefit customers and bolster our fuel poor connections activities. Our fund provides a significant incentive for greater collaborative working with local authorities, energy suppliers and other partners, who can blend our funding with other sources of finance, such as Energy Company Obligation (ECO) and the Warm Homes Fund.

Through these and other partners, we have been able to help customers benefit from ECO funding for 'whole-house' solutions. Some housing associations have national contracts in place for installing gas connections using independent Utility Infrastructure Providers (UIPs). We introduced a new process to provide FPNES funding to UIPs, ensuring another 1,263 fuel poor households received a new gas connection and heating system in the year.

Managing CO risk

Public-health advice to stay at home has meant that more people have spent more time at home over the year. Added to this most people have been more vigilant about any changes in health, in particular awareness of symptoms like coughing and shortness of breath. Unfortunately, these and other symptoms are also shared by CO poisoning. When the stay-at-home guidance became clear, we recognised the increased risk of CO going unchecked or being misdiagnosed.

We targeted several relevant organisations offering in-home services with advice and literature, including Fire and Rescue teams, Dumfries & Galloway Handyvan service, Edinburgh Care and Repair, Greener Kirkcaldy, Changeworks, Warmworks Age Scotland, Age UK, RNIB and Royal Association for Deaf people. We distributed over 1,250 carbon monoxide monitors including a number of specialist units for the hard of hearing and visually impaired.

Responding to low CO risk awareness levels among the 16 to 24 age group, we launched Silent Killer – our sector's first student led digital campaign with Edinburgh and Southampton universities. Our three student ambassadors from each university upload stories and edit posts on their Instagram, Facebook, Snapchat and TikTok accounts, reaching second- and third-year students in rented accommodation with CO safety and awareness messages. We have created a CO awareness e-learning module in partnership with Scotland's largest FE college, West College Scotland, and held a dedicated CO session with our pre-university age Future Thinkers Panel to ask for their advice on how best to engage 12 to 16 year olds about CO awareness.

New services on our customer referral app

We provide a winter appliance repair voucher scheme to help vulnerable customers pay for servicing or repairs if our engineers need to disable appliances on safety grounds. The voucher is available via SGN's dedicated referral app used by all our front-line staff. This year we have added extra services to the app to address the additional needs caused by the pandemic. New services have included:

Befriending service: We've partnered with Age Scotland and Age UK to refer older people who are feeling isolated or lonely to their telephone friendship service. It gives older people an opportunity to chat to someone over the phone from the comfort of their own home.

Energy advice: Our expert partners offer confidential, independent advice on home energy efficiency, help with switching to more affordable tariffs and support with clearing energy bill debt.

Essential food delivery: We can arrange for a delivery of food cupboard essentials for any household who is finding it financially or physically difficult to feed themselves or their family.

Fuel voucher scheme: Working with National Energy Action, we're able to provide our customers with a payment towards their gas bill or prepayment meter if they're struggling to keep warm or are worrying about the cost of turning on their heating.

Safe and well visits: The local fire and rescue service can visit customers and carry out a safety check to make sure they're safe, supported and remain independent in their own home.

Home and Well

We are a lead community partner in the Home and Well initiative, along with the NHS Foundation and Citizens Advice. We have supported over 700 customers coming out of hospital by making sure they were returning to safe and warm homes.

Improving outcomes for disabled customers

This year we have built on our partnership with disability equality charity Scope to take a role in addressing issues faced by disabled people, improving their access to the support services they need. This is the first programme of its kind and is pioneering an approach to improve customer service and support from utilities companies for disabled people. Our partnership with Scope will help us improve a range of activities, from recruitment and training, to stakeholder engagement focus groups, and operational practices on site.

We have produced a series of awareness-raising films to help employees better support our disabled customers. Our campaign with Scope was awarded Corporate Social Responsibility Project of the Year at the 2020 Charity Times Awards.

Online Safe Spaces

One of the many tragic consequences of the pandemic has been the reported rise in domestic violence and we responded by providing an 'Online Safe Spaces' (OSS) service to support victims of domestic abuse. OSS is a virtual portal which provides a pop-up window on a company's website to help abuse victims access support and advice, while leaving no internet history trace. It also provides quick exit options for the person seeking information. The online portal was developed by the Royal Mail Group in collaboration with crisis support charity Hestia.

Volunteering

This year we introduced an extension to our long-standing CAP scheme, allowing employees to volunteer for community schemes in their working time. Overall, volunteering was down in the year due to the Covid-19 restrictions and reduced opportunities to contribute. However, in total over the year, several hundred employees were able to donate many hours of their time to good causes. We also provided £185,000 to Community Foundations throughout to support with Covid-19 grant funding (see page 20).

Working in the community at a SafeTaysiders event (picture taken pre-Covid-19 restrictions).

We are avid promoters of carbon monoxide monitors which can be life preserving devices.

We are proud to be partnering Age UK and Age Scotland on their befriending service, as part of our referral app.

Our teams getting involved in an outdoor community project.

Chief Executive’s report (cont)

Customer satisfaction

In July our Customer Service team was recognised by UK Business Awards, coming third place overall in the category for most customer-centric organisation, reflecting our commitment to delivering a 10/10 customer service. This follows completion of our three-year transformation plan which is underpinned by five guiding principles: getting it right first time; being easy to deal with; being on time; keeping our promises; providing the information customers need.

Our Customer Experience Centre named ‘best’ in the UK

The 2020 11th annual UK Customer Experience Awards celebrate all aspects of customer experience in the UK. This year SGN was named winner of the Best Contact Centre category for our Customer Experience Centre (CXC) and were runners-up in two other categories positions: Customers at the heart of everything and Customer-centric culture.

Delivering great customer service is one of our five values and a strategic driver for our overall business success and has been fundamental in achieving and maintaining our number one network ranking for customer service with Ofgem. SGN’s 55 strong CX team are responsible for communicating with our 14 million consumers who depend on our networks, as well as stakeholders, communities, authorities and other customer representative groups and individuals. The team has a critical role in delivering timely and effective emergency response during major incidents.

The judges believed SGN clearly demonstrated all-round customer experience and employee engagement, not only from embedding excellence in the CXC, but also how the customer service ethic flowed through the engagement of employees at all points of the customer journey.

Consistent high performance over the year and through GD1

Through GD1 we have consistently performed in the top quartile for customer satisfaction scores and we start GD2 with some of the best customer satisfaction rates of any GDN. We also hold the best track record among GDNs for handling complaints well, and have reduced the volume year-on-year, and in Scotland, we have seen the lowest number of GDN complaints over the past four years.

YTD 2020/21 overall customer satisfaction

Ranking	Network	Score
1	SGN (Scotland)	9.29
2	Northern Gas Networks	9.17
3	Wales & West Utilities	9.17
4	SGN (Southern)	9.11
5	Cadent (North West)	9.00
6	Cadent (East of England)	8.83
7	Cadent (West Midlands)	8.72
8	Cadent (London)	8.70

Improving communications

Giving our customers channel choices has decreased traditional telephone calls and increased digital CXC service. We’ve seen a shift from 91% calls/9% digital in 2017/18 to 83% calls/17% digital 2019/20. As a result, cost to serve has decreased. Customer ratings of our Live Chat tool currently sit at 4.7/5.

Our people

Improving diversity and inclusion

We recognise that a firm commitment to diversity, inclusion and equality helps to attract and retain the best talent needed to meet the challenges ahead. Our Diversity and Inclusion (D&I) strategy has been in place for some time and over the last few years we’ve started to see real change happen.

Gold standard for talent and development

Our learning approach and processes are audited annually with the Learning and Performance Institute (LPI) and at the end of the year we received Top 15 company status for the second year running and we achieved our first Gold Accreditation status. Gold Accreditation means we have successfully completed four years of accreditation, with no outstanding actions or quality issues.

Additionally, to support our accreditation this year we submitted two case studies of projects and work completed in the previous 12 months which evidenced demonstrable, quantified, positive business outcomes for SGN. Firstly, nine new SGN Workplaces eLearning packages were designed to support our field force to work with Covid-19 Secure protocols in customers’ homes, commercial workplaces, residential care homes and offices and depots. Secondly, we submitted our Leader Essentials framework and the new live and online Senior Leader Development Programme modules. We’ll continue to improve our approach to training, through applying innovative ways of delivery, particularly from our experience of maintaining our learning services during the lockdown.

This year we’ve had to adapt how we deliver D&I programmes or delay them for future roll-out once operations return to (or near) normal. We’ve recruited more women into roles that previously filled predominantly by men and through application of different practices and policies, such as flexible working and succession planning, we expect to see the ratio of females to males becoming more balanced over time.

Our holistic approach to D&I has also led to a greater focus on ethnicity, with ‘Let’s Talk About Race’ initiatives and our first Black History Month campaign.

By signing the ‘Race at Work Charter’, one of our commitments is to measure the ethnicity pay gap and we have voluntarily published our data for the first time this year (see page 64).

Our Executive Leadership Team remains fully committed to driving forward change, with managers who advocate and support this alongside employees who want to make a difference.

Diversity action plan

In May we received an Inclusive Employers Standard 2020: Bronze Award for commitment to inclusion in the workplace. We followed that up with a series of internal workshops called Let’s Talk About Race which have helped us shape our racial diversity action plan.

Our commitment to diversity has driven a number of initiatives this year, designed to attract talent from underrepresented groups. People with Black, Asian and Minority Ethnic (BAME) backgrounds make up 38% of the working population (3% in Scotland), making London our focus area for attracting and retaining talent from diverse groups. We’re supporting our managers with initiative such as ‘Press Pause’, a bias awareness campaign, to consciously challenge bias and privilege, and partnering with organisations across the energy industry to make the sector more accessible.

Our plan includes actions to improve ethnicity data; to share employee stories to improve understanding of the barriers faced by minority colleagues; support programmes improving opportunities for minority groups, and updating policies, processes and manager resources.

Addressing underrepresentation

Black people are hugely underrepresented in the gas industry and we’re working to change that. We are partnering with expert organisations leading efforts on diversity in the construction sector and have put in place a quarterly diversity data scorecard, to improve our understanding of the composition of our workforce and ensure business decisions and Executive meetings are informed by robust people data and employee insights. We committed to two programmes aimed at improving opportunities for young Black people: WIN Design Labs and #10,000BlackInterns.

SGN is involved with the Workforce Integration Network (WIN) within the Mayor of London’s Strategy for Social Integration to improve pathways for underrepresented groups in the workplace. We’re one of 10 early adopters participating in the Greater London Authority (GLA) Design Labs 12-month programme and will be helping to tackle underrepresentation of young black men in the construction and infrastructure sectors.

The #10000BlackInterns initiative launched in August 2020 has been designed to help transform the horizons and prospects of young black people in the United Kingdom. The programme offers paid work experience across a wide range of sectors, providing training and development opportunities and creating a sustainable cycle of mentorship and sponsorship for the black community. Our participation commits us to the removal of any barriers that could have a detrimental impact on the attraction, retention or advancement of ethnic minority current and future colleagues and we will make updates to our policies and processes to achieve this. We’ll also produce guidance and support materials to help colleagues and managers to create a more inclusive workplace for all.

Supporting mental resilience

In May, we used the opportunity of Mental Health Awareness Week to launch our Mental Health Toolbox for our colleagues to support mental health and wellbeing during lockdown. The toolbox idea and its development came from one of our own employees, who worked with our internal Wellbeing group to refine and finalise it for Company-wide distribution.

The Mental Health Toolbox includes professional support, notes of personal networks, activities, places of safety, and daily goals. All colleagues can access the toolbox and can self-select the tools and support they need. While the toolbox was designed for use during Covid-19 lockdowns, another, broader version was made available at the same time with additional tools to support individuals once we begin to ease out of lockdown.

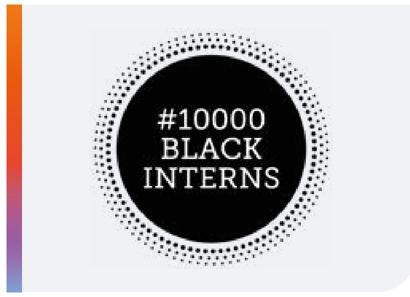
Covid-19 created unprecedented times and we wanted to understand what was working well for our people, and what we could do better. We ran three covid-19 employee surveys, one every four months, with response rates increasing for each survey. The key factors affecting our workforce during the pandemic was ways of working and individual personal circumstances, with demographic data allowing us to understand more about these factors and take appropriate action.

Covid-19 employee survey

	Jun 2020	Sep 2020	Feb 2021
Response rates	61%	65%	66%
Leadership	84%	76%	68%
Engagement	84%	80%	72%
Wellbeing	73%	73%	65%

Will Dodds from our award-winning Customer Service team.

Connections Manager Darren Walker and Admin Supervisor Nicole Cook. We aim to create and maintain an inclusive and diverse workplace where our people can develop and thrive.



We’re proud to be participating in the 10,000 black interns initiative.

Bradley Barlow is one of 93 colleagues who’s now a fully trained Mental Health Supporter and able to offer assistance and support to colleagues throughout the Company.

Progress on our customer commitments

Building a shared future

The road to net-zero

While we are collaborating across the industry to show how hydrogen will be an essential ingredient in the UK's road to the net-zero economy, we are showing how communities across our network can be on the road to net-zero today.

Our ambition is to connect the equivalent of 450,000 homes to biomethane by 2026. One exciting project is the continued evolution of our ground-breaking site at Poundbury. By adding CCS technology to capture carbon during the production process, in January 2021 Poundbury has taken an important step towards showing how communities can achieve net-zero heating using CCS to offset carbon. This demonstrates a clear roadmap to make this and similar communities net-zero for heating. The plant first came online in October 2012 and has been successfully operating ever since, making it the longest serving biomethane-to-grid facility in the UK.

To achieve this, the roadmap for Poundbury has been developed as a collaboration project between the regulated and non-regulated sides of the business, including the carbon capture facility at Rainbarrow Farm, the home of the production plant.

The site started capturing carbon in January 2021 and is an important and essential step towards showing net-zero emissions. We then aim to remove propane from the gas blend, which is added to increase the caloric value of the gas and its combustion energy in line with current regulations, but it also increases the carbon footprint of the gas.

Replacing the metallic gas pipes connecting the plant to the town with PE will result in a significant reduction in leakage which will further reduce the overall carbon emissions from the project. Any residual greenhouse gas emissions can finally be offset by local tree planting, which would also bring other social and environmental benefits to the local area.

A biomethane (or biogas) plant is an anaerobic digester which treats farm wastes or energy crops, including biodegradable wastes such as sewage sludge and food waste.

The role of Scotland's gas network in reaching net-zero

We've partnered with consulting firm Wood to deliver a feasibility study investigating the re-purposing of our gas network in the north-east, east coast and Central Belt of Scotland to help deliver the Scottish Government's 2045 net-zero target.

This re-purposing would see SGN's infrastructure deliver low-carbon clean hydrogen to end users for domestic and commercial heating, power generation, a feedstock for fuel-switched industrial processes and transport applications. Hydrogen would be supplied both via renewably-powered electrolysis ('green' hydrogen) and from gas reformers with carbon capture technology installed ('blue' hydrogen).

Additional to the hydrogen network, a separate carbon-dioxide (CO_2) network would be established to transport CO_2 captured from the blue hydrogen gas reformers and CO_2 from industrial and power generation emitters to offshore geological storage. This CO_2 network would facilitate the rapid deployment of hydrogen at the scales required, provide a service for difficult-to-decarbonise emitters, whilst enabling negative emissions via connected biomass plants.

This system would allow the Scottish Government to meet its target of decarbonising 1 million homes by 2030 and contribute to Scotland's net-zero target by capturing around 18 million tonnes of CO_2 emissions a year by 2045 at which date 1.9 million tonnes per year of clean hydrogen would be transported through SGN's network.

Chief Executive's report (cont)

As the pandemic continued with no end in sight and more restricting lockdown measures were put in place, overall scores started to drop. Life in the pandemic was becoming more challenging, and the winter weather and shortened days were also impacting our people. Supporting wellbeing continued to remain high on the agenda, particularly at a personal level where many felt isolated and anxious, experiencing illness and loss within their own families. During this difficult time many of our managers and leaders provided additional support to those who needed more flexibility in their working arrangements and were struggling mentally and/or physically. As a company, we've become more connected and agile, to further support the overall wellbeing of our people.

Talent and succession: developing our leaders

The transformation of our energy system to achieve net-zero will require new skills, new ways of working and new management capabilities. We're investing now for tomorrow's leaders, the generation who will transform our business and put us at the heart of the green energy revolution. We have developed our Future Business Leaders Programme with the Ashridge Business School and using our talent assessment processes have identified 12 delegates on a succession pathway to attend the new course from April 2021.

In May 2020, we launched Leader Essentials; building on our highly successful Manager Essentials framework.

All members of our Extended Leadership Team (almost 100 members) attended modules on trust, performance culture, change and talent management. For our people managers we successfully converted classroom training sessions Stepping into Management and People Manager Skills programmes, to online and live (via MS Teams) throughout the pandemic.

In addition, our managers and leaders have 24/7 access to eLearning content, book summaries, podcasts and videos. We supported our people managers and leaders with lockdown learning sessions; a range of videos called Tea Talks helping managers with tips and hints to help with communications, wellbeing and recognition of employees during the challenging lockdown periods.

We have developed our Future Business Leaders Programme with the Ashridge Business School and using our talent assessment processes have identified 12 delegates on a succession pathway to attend the new course from April 2021. Ashridge provides the right balance of independent management learning expertise and credibility, along with the necessary flexibility for SGN to design the right course content and learning experiences that will benefit these future leaders in the workplace.

Safety update

Safety year in review

Our safety team has played a central and essential role in our response to the Covid-19 pandemic, benefiting from the established structures and processes connecting the team to operations and the wider business. The team helped create a governance process for decision making and were instrumental in making our workplaces Covid-19 secure, producing key guidance and putting Covid-19 controls in place. The team also successfully procured and distributed the right volumes of personal protective equipment (PPE) to employees around the whole business so that SGN never experienced a shortfall.

Our main safety performance indicator is a 'safe day', measured as a day where none of our 3,865 employees are injured or potentially injured by any incident at work. This year, because of the dramatic change to workload and high numbers of office-based staff working from home, we paused safe days and reintroduced them during the last quarter of the year when work had returned to almost normal levels. We reinstated our standard quarterly target of 16 days and ended the quarter with 25 safe days, 9 days more than our target.

A consequence of time away from usual business practices during lockdown did have a short-term impact on our safety performance, with an increase in workplace injuries and road traffic incidents when post lockdown working resumed. The team refreshed safety messages and campaign material to highlight these 'returning to work' risks and embarked on a series of high-profile safety conversations to quickly bring incidents down to pre-lockdown levels.

During the year, the team completed work on a new process safety measures MRI (major risk indicators) report. The report will be launched in the coming year as a new approach to ongoing safety risk monitoring. During the second half of the year we successfully in-housed our occupational health team, embedding our own medical professionals and moving away from the external contracts model that we have used since 2005. This step-change in approach will give us more flexibility, greater ownership of health provision and heightened ability to respond rapidly as required, as experienced during the pandemic.

Another major safety focus over the year has been our work on fatigue management. An in-depth review of our working arrangements over several years has led to revised shift patterns, a new fatigue management procedure and the introduction of new training on fatigue awareness.

Safety first has meant our engineers wearing full PPE when attending all gas emergencies, an essential service we continued to provide throughout the height of the Covid-19 pandemic.

Successful innovation at SGN

Innovation	Benefit
Live Service Transfer	A new way of working to improve protection for vulnerable customers, to allow us to connect gas services to newly replaced gas mains without entering a customer's property.
LTS in a net-zero future	The role of the Local Transmission System (LTS) in a net-zero future – we're developing the safety, technical and practical evidence to repurpose our LTS for transporting and storing hydrogen and CO_2 to help meet the UK's net-zero ambitions.
RRES	Robotics Roadworks and Excavation System – our world-first all-electric autonomous robot is on track and field trials begun on our network in 2021.
Pressure Control and Management	A project to develop an alternative, modern and more efficient means of controlling network pressures maximum efficiency by constantly reacting to how people use their gas in any given moment.

Our new incident app

Our innovation team has delivered a new digital platform to improve the way we manage incidents. The mobile-friendly app provides all the information and tools in one place to make informed decisions and supports a dynamic response to changing situations. One of the apps important attributes is that it allows our First Call Operatives (FCOs) to capture and process information on the status of customers, helping to identify quickly any vulnerable customers that might be affected. This secure, paper-free way of managing incidents helps us work more efficiently, allows faster recharge for third-party damage and ensures we provide appropriate care to all priority customers in a gas supply incident of any scale or complexity. The app has been trialled throughout the year and is now being rolled out at all our depots with training. Benefits include:

- For customers: A quicker, more co-ordinated response from SGN during an incident. Priority customers get the extra help and support they need. The app saves time during an incident and frees up staff for more critical, value-adding work supporting our customers.
- For FCOs: A simple and intuitive interface which is easy to use and removes paper-based form filling during an incident.
- For managers: Near real-time incident data helps managers make faster and better decisions in changing situations as they can monitor and allocate work remotely.

Carbon monoxide (CO) awareness

We've been developing a pioneering 'spoken warning' CO alarm, engaging over 4,000 pupils through gas safety and CO awareness activities in 30 schools, and sharing messaging on the Bounty app/newsletter to reach new/expectant parents.

In November, our annual school carbon monoxide safety competition was won by children at schools in Croydon and Glasgow (Vedantika Chakraborty, six, from Croydon and Sophie Smith, 11, Glasgow). The competition is for children aged five to 11 and designed to help raise awareness of carbon monoxide (CO) poisoning. Despite improvements in home safety and the ongoing replacement of old boilers and gas appliances, CO poisoning remains a threat and it is critical that children remain aware of the symptoms and know how to respond.

Reducing third-party damage

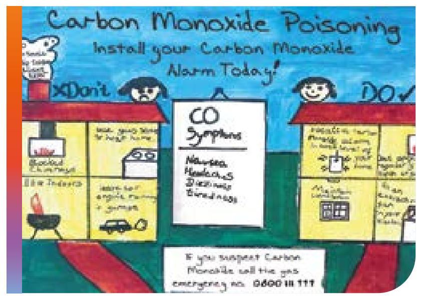
We're targeting a 15% reduction in third-party damage to our network, which will contribute to our leakage reduction programme and reduce gas emissions to the atmosphere. Third-party damage is damage to gas pipelines that is caused by other people or companies, such as construction companies digging in the ground. Our extensive education programme and versatile digital tools are designed to improve awareness of where our pipes are located for people working on the land.

LineSearchBeforeUDig

We also work with LineSearchBeforeUDig (LSBUD) to provide instant access to our mapping data. Unplanned interruptions caused by third-party damage have fallen by 43% in the year since we started working together. We've also focused on education programmes for the agricultural community through our partnership with Scotland's Rural College (SRUC). Our pipeline safety training is being delivered across its six campuses, educating future landowners about pipe risk, and is being rolled out across other land-based courses in colleges across the UK.

National Federation of Young Farmers' Clubs

In July we announced our partnership with the National Federation of Young Farmers' Clubs (NFYFC), which will see us work together to highlight the importance of working



The hardest hitting posters on carbon monoxide safety often come from school children in our poster competition.

We are looking to drastically reduce the amount of damage inflicted on our gas pipes by third parties.

Chief Executive's report (cont)

How we managed continuity of services throughout the pandemic year

- Enabled 4,000+ employees to work securely from any location.
- Home working facilities for 2,000 staff were set up immediately.
- Maintained full operation of emergency gas escape response services and safety critical services, all supported with remote working and resilient systems.
- Scaled up our secure, remote communication networks at pace to facilitate this new working model.
- Established new digital business continuity management (BCM) solutions within days using digital collaboration platforms to remove remaining paper-based services and the need to be present physically in offices.
- Implemented a remote customer contact telephony solution within days and continued to support all our customers during lockdown whilst our Customer Service teams were working from home.
- Full adoption of Microsoft Teams, including support and training to help all employees benefit from this platform.
- Creation and delivery of online training material to enable some of our important digital projects to continue.

safely near our gas pipelines. The most common cause of incidents involving our gas network is damage by others. There's a risk of damage whenever land, such as farming land, is disturbed. This includes excavation, ditching, drainage work, fence installation or anything else within the proximity of our pipelines. Not only is damaging a pipeline illegal, but the consequences can be catastrophic.

Innovation

We invested around £4.6m in our network this year on Network Innovation Allowance (NIA) innovation, to drive operational excellence, increase efficiency, deliver environmental benefits, and support improvements to safety. The team has now fully separated from our Energy Futures Team, whose activities we report on page 12.

Restructuring our approach for GD2

This year the team have been preparing for the transition to GD2, which represents a significant change to how R&D funding is provided to address customer vulnerability. Ofgem's NIA scheme will continue into GD2 but must be linked to Energy System Transition or Consumer Vulnerability related themes. Future innovation funding will come from internal pitching, or via external third parties who would see a direct benefit from a new or changed service. A new benefits measurement framework has been put in place to highlight value adding elements and how our future innovations will deliver value to our customers.

In 2020 the Innovation Team secured £1m from external sources and more projects are in the approval process. Funding partners include Transport for London for 'innovation in action' in the greater London area, Kent Lane Rental, Innovate UK and project work from Scottish Enterprise.

Our award winning FYLD app (page 15) was designed by the team in collaboration with a digital venture company and part-funded by SGN Commercial Services.

Improving operational performance

In December employees from the Innovation team presented at the annual Energy Network Innovation Conference (ENIC) to showcase our Ofgem-funded innovation projects. Each project will lead to an improvement in our performance and customer service and in most cases help the UK meet its net-zero ambitions and become a world-leader in low-carbon heating.

This year one project in particular – Live Service Transfer – demonstrated our adaptability to the dramatic changes brought on by the pandemic, and particularly addressing concerns of our vulnerable customers.

Reducing disruption from London's street works

Our sustained efforts to apply innovation to improve street works were recognised by Transport for London (TfL) at the inaugural Roadworks Charter Awards 2020 by winning Best Use of Lane Rental Funding category, for making roadworks in London safer, more sustainable and more efficient. SGN was singled out for our development and subsequent modernisation of Core and Vac technology, minimising disruption to street surfaces; for our High Volume Gas Escape toolbox which quickly stops gas venting into the atmosphere, dramatically reducing CO_2e; and for our Distribution Network Information Modelling (DNIM) project which is building a 3D virtual map of our pipe network in London to help all utilities and contractors safely plan their work and avoid damage.

Enhancing capabilities through improved IT and digitalisation

Information technology and particularly digitalisation are critical enablers of the energy transition and the decarbonisation of heat. We have made good progress this year and completed our three-year cloud transformation process. This is a significant milestone and by prioritising this work we were able to maintain our service levels throughout the Covid-19 crisis.

Responding to the growing importance of digitalisation

As the global pandemic took hold and the UK went into lockdown, we continued to provide our essential and safety critical services while our business, like many others, was forced to work in ways never planned for or expected. Our reliance on digital technology and IT services, and on the teams responsible for ensuring continuous and adequate service, was amplified beyond any previous experience. Our team rose to the challenge and provided new and modified services to keep our business operating and our customers and employees safe.

The migration to a cloud-based best-in-class service provider has given us a more secure and resilient IT service and has optimised our efficiency around growth and scalability. The delivery of this programme fully supports new ways of working such as analytics, and real-time network monitoring, which are critical to support our longer-term digitalisation strategy.

Rapid scale-up to support home working

By migrating around 90% of our workloads to the cloud, we have benefited from improved security, durability and agility, which has proven an essential capability mix this year. Within days of lockdown we were able to reliably and securely scale up our digital resources to support the massive increase in home-working, remote access and collaboration tools, allowing employees to access our cloud-based services on any device from any place. This complete and sustained transformation in our day-to-day working has required significant behavioural change and our employees have ably demonstrated their adaptability and willingness to adopt new ways of working. The pandemic has been a catalyst for change and I fully believe that going forward, we shall continue to reap the business and human benefits of remote working using our evolving IT and digital capabilities.

Another important benefit from cloud migration is the reduced impact on our business carbon footprint. Our main cloud provider has committed to operating net-zero services by 2025, fully supporting our own ambition and commitment to green growth and net-zero carbon across our entire organisation by 2045.

Increased cyber resilience

One of the key drivers of our IT transformation programme has been the need to maintain world class cyber security. This is a hugely complex area and the migration to the cloud will support a step change in our capability and management of cyber risk, one of our highest scoring corporate risks.

We have continued to progress and benefit from our multi-year investment programme in cyber security and have already significantly moved the dial on improving our capability in this critical area. This year we have delivered on phase 4 of our investment programme with improvements to our Managed Security Service and in-house capability. Migration to our new cloud platforms has also delivered risk reduction through the use of more advanced security capabilities we can now access.

Over the year our IT team have worked closely with the GD2 team and with Ofgem to further define and improve our Cyber Security investment plans for the next five years. Our investment plans across the GD2 period will support our agenda to deliver our cyber related targets and develop our digital security skills, train our people on cyber risk management and demonstrate compliance with our security accreditations and regular assessments.

New digital tools improve our performance and outcomes for customers

This year we have launched a number of digital work tools designed to improve our operational performance. In May we launched FYLD, a digital app that empowers our and other utilities field teams and managers to make data-driven decisions in real-time, leading to enhanced safety management, productivity and quality assurance. The app uses artificial intelligence (AI) to convert audio and video gathered by workers in the field into dashboards and analytical insights. FYLD won the Emerging Tech of the Year prize at this year's UK IT Industry Awards (see page 13).

Our new Incident app improves the way we manage incidents by providing all the information and tools in one place needed to make informed decisions and respond to changing situations. It allows our First Call Operatives (FCOs) to capture and process information on the status of customer contacts and vulnerable customers. It has been trialled throughout the year and trained staff are now using it at all our depots (see page 27).

ADaPt (analytics data platform) is a new insight dashboard for our business which has already provided MI to improve how we manage our vehicle fleet and has delivered significant benefits. It does this by harvesting and analysing complex data that has not been used historically for insight or decision making. The tool is currently delivering important Company insights on fatigue and developing operations performance dashboards across our business.

Innovative and collaborative sustainability project started with Napier University.

Our incident app provides vital real-time information on customer restoration progress.

Progress on our customer commitments

Focusing on talent, skills and opportunities for our people

Responding to Covid-19 – long-term implications and opportunities

The processes we've put in place to ensure our workforce remains safe and supported during the pandemic has heightened our awareness in the needs of employees, and the critical dependencies of collaboration and enabling systems.

Regular surveys of our employees this year have helped us monitor sentiment and establish key themes to improve the support for employees in the field, office and working from home. We also managed weekly communication with senior trades union representatives to ensure employee concerns were promptly addressed and to discuss and manage the implications of constantly changing guidelines as the crisis evolved.

Three out of 10 of our workforce had never worked from home before the crisis. For many, home-schooling presented additional challenges. To support wellbeing, we highlighted our Employee Assistance Programme and Mental Health Supporters Programme, along with external partnerships addressing financial wellbeing to support people through the changes. We issued DSE assessments to all home working employees and provided IT equipment and furniture to support working from home where necessary. We identified 217 employees as 'high risk' which we reviewed in more detail and put additional support measures in place to meet their needs.

We set up a homeworking group and established interim homeworking policy and flexible working arrangements and our recently established recovery group is looking at longer term hybrid working opportunities. All offices were made secure and we managed controlled access for colleagues to collect their personal belongings, and we created a digital support group and home-schooling guide to support working parents with resources and advice. Our HR and Communications Teams developed a 'Staying connected' app to provide colleagues with a single point of access to all lockdown themed resources, including guidance, technology, wellbeing and learning.

Keeping connected through technology and endeavour has ensured our teams remain focussed and supported.

Diversity and inclusion

We've made some good progress in becoming a more diverse and inclusive SGN and this work remains a priority for many reasons. Historically the energy sector has been the least diverse in the UK, but it has woken up and the need for change is greater than it ever was before with diversity being critical for building the energy system of tomorrow.

We have initiatives under way to attract and retain people from different backgrounds and perspectives, making SGN a great place to work. We recognise there's still a way to go to having a truly inclusive workplace where everyone can thrive, and we have a robust action plan to deliver on our ambition. Our plans are informed by data and are business-driven, and everyone is responsible for delivery.

Over the course of the year we recognised more national diversity and inclusion campaigns than ever before, including International Women's Day, Carers Week, Armed Forces Day, International Women in Engineering Day, National Inclusion Week, Black History Month and International Men's Day. These campaigns have allowed us to share different insights and perspectives and signal our support across a range of diversity characteristics.

Chief Executive's report (cont)

SGN – leading the way towards net-zero

We are continuing our journey towards net-zero 2045. This includes a two pronged approach to decarbonise the energy system through collaborations with others in Gas Goes Green and our flagship project H100 Fife, as well as decarbonising our own operations and reducing our carbon footprint.

Progress today 2020/21

Total Carbon Footprint (TCF)
765,256
tCO_2e

92.6% of our supplied electricity is from certified renewable electricity

Business Carbon Footprint (BCF) excl. shrinkage
24,430
tCO_2e

H100 Fife: working with partners and stakeholders to gain planning permission

Target 2025/26

40% of our commercial fleet to be zero emissions where possible 1


2

Solar PV panels to be installed on 100% of our occupied buildings 2

Zero waste to landfill 3


1

Total Carbon Footprint (TCF)
585,094
tCO_2e

Biodiversity net gain on our land 4

3

>80% of suppliers (by value) to meet our new Responsible Supplier Code 5

Business Carbon Footprint (BCF)
12,662
tCO_2e


4

Ambition to reach in total 450,000 domestic households with biomethane which would help customers reduce their carbon footprint 6


6

H100 Fife: demonstration project delivering hydrogen to the community


5

Target 2030/31

H100 Fife: project is the model for widespread hydrogen networks

Total Carbon Footprint (TCF)
420,830
tCO_2e

Business Carbon Footprint (BCF)
9,107
tCO_2e

SGN net-zero 2045

Protecting the environment and dealing with climate change

Edinburgh Napier University: Reimagine fossil fuel spaces for good

In January we launched a collaborative sustainability project with Edinburgh Napier University (ENU) to reimagine six of our Scottish-based sites to respond to climate change adaption and help improve biodiversity and ecosystem resilience. Analysis undertaken by local councils has found 74% of the communities on our network have declared local climate emergencies and we are taking action now to mitigate and reverse the environmental impacts on our land. The students looked at sustainability in the round, including opportunities for community engagement, health and wellbeing and diversity and inclusion improvements.

SGN owns approximately 115 hectares of land across our Scottish and Southern networks. Parcels of non-operational land are currently managed from the point of view of health and safety compliance. In the past this has meant removing everything from the plot, other than mature trees, by strimming back and weed killing year-round to keep on top of new vegetation growth.

"We're thrilled to have this opportunity from SGN for students and academics from such a wide range of disciplines to work together on a project for environmental and social good."

Ruth Cochrane, Enterprise Lead, School of Arts and Creative Industries, Edinburgh Napier University

Eight ENU teams made up from 30 students from a variety of courses have created proposals for improvements to the sites and shared their progress through blogs, videos, exhibitions and demonstrations. We intend to implement a selection of their ideas on these initial sites, with a view to rolling out new land management practices more widely across our network footprint.

We're a Carbon Trust Standard bearer

We've reduced our carbon footprint for the ninth year running, achieving a 6.6% drop since the April 2017 to March 2019 period and we're proud to be a Carbon Trust Standard bearer. The Trust's Standard for Carbon is a mark of excellence recognising success for organisations in cutting their carbon footprint. Our certification, which runs to the end of 2021, shows that we've demonstrated positive all-round carbon management performance in our operations, and displays our commitment to continually reducing our emissions. The Standard recognises organisations that follow best practice in minimising their environmental impact. More than 1,100 organisations have been certified, from public sector bodies to leading international companies and brands. We've pledged to reduce our carbon footprint to net-zero by 2045, in line with the Scottish Government's emissions targets and five years ahead of the UK Government's 2050 aims.

Our new Environment Strategy, in development for the whole of last year was signed off on 31 March 2021, following Executive Leadership Team and Board approval via our new Stakeholder, Engagement and Customer Committee. The strategy focusses on five pillars: net-zero emissions, supply chain engagement, biodiversity improvement, embedding circular economy principals and supporting the transition to hydrogen. The strategy is accessible via our website: sgn.co.uk/environment

Unsurprisingly, the biggest drop in emissions recorded over this last year is a reduction in travel related emissions, linked to the lockdown. This could have implications for ongoing travel policy, particularly in regard to travel between our Scotland and Southern networks.

Climate Disclosure Project: improving our performance

CDP (Climate Disclosure Project) runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Companies are awarded performance grades relating to climate change and environmental stewardship from A to D-. SGN received a B performance grade this year, up from our D grade in 2019/20, putting us two grades above the 'oil and gas storage and transportation' category average. In a separate CDP measurement for engagement with suppliers, SGN scored A-, putting us in the top quartile for our sector.

Decarbonising our business – scopes 1, 2 and 3

Our Total Carbon Footprint (TCF) in 2013/14, first year of GD1, was 1.01 million tonnes of CO_2e. For 2020/21 our actual TCF was 765 thousand tonnes of CO_2e, a reduction of 24% compared to the beginning of the price control. Using the Climate Leadership Framework and due to Covid-19 we reduced our business carbon footprint (BCF, excluding gas leakage) by 31% this year compared to last, our biggest annual reduction since 2012.

Replacing old iron mains with new polyethylene (PE) pipes dramatically reduces methane leakage, our largest area of CO_2 emissions. This year Covid-19 has impacted our Operations. However, due to excellent performance from our teams we have still managed to reduce our Total Carbon Footprint closely in line with what was expected at the start of the year. In fact emissions from our leakage was less than 0.5% higher compared to our original pre-Covid-19 forecast.

Coping with Covid-19 was a challenge, keeping our people and customers safe. The ample supply and continuous and correct use of PPE (Personal Protective Equipment) was central to this.

Chief Executive's report (cont)

Our Business Carbon Footprint reduction efforts will have benefited by less emissions in particular from business travel. Operating two gas networks did result in lots of travel between Southern and Scotland. With a majority of office based staff working from home we have seen a reduction in business travel by air, train and company car/grey fleet by approximately 60% (flights only has shown a reduction in 90% compared to last year). We are aiming to keep some of these new habits and the advances in technology through revised policies and targets for keeping business travel low. In addition, our switch to procuring certified renewable (REGO) electricity for the majority of our sites has resulted in much reduced emissions in our scope 2, a reduction of 91% compared to last year (using the market based methodology). Other elements of our scope 3 emissions, such as embodied carbon in used PE pipe and contractors travel, has also reduced and this is expected to be mainly Covid-19 related.

Our new Environment Advisory Panel

This year, in response to stakeholder feedback about improved governance, we have set up an Environment Advisory Panel to challenge and provide support with our sustainability strategy and action plan. The panel of industry sustainability experts will provide insight into the current and future needs of our stakeholders, customers and communities and suggest appropriate actions to improve our environmental performance. The panel is chaired by Kathryn Dapré, Head of Energy and Sustainability at NHS National Services Scotland, and includes members from our CEG and Stakeholder Advisory Panels.

Operations

Our priority this year has been to keep the network running by concentrating on our emergency service and core repair and maintenance activity. We stopped all non-essential work for seven weeks at the start of the lockdown but by the end of March 2021 we were within 95% of business as usual operations. Our Covid-19 preparations going into 2020/21 have resulted in our delivering all but one of our regulated outputs, despite the break in our activities at the start of the year in compliance with mandated lockdown restrictions.

Fit for the Future

Over the course of RIIO-GD1 we have demonstrated our focus on efficiency, reducing our share of customer bills by 6%. We have also delivered on decarbonisation: we've connected the equivalent of 250,000 homes to green gas and reduced our own total carbon footprint by more than 185ktCO_2e. As we enter RIIO-GD2 we have an opportunity to play a leading role in the clean energy revolution and also to show customers we can keep our costs down and meet the challenging efficiency requirements for GD2 as set out by Ofgem in the final determination of our Business Plan.

The third significant opportunity comes from what we have learnt during the Covid-19 pandemic: how we have been able to maintain performance standards and keep people safe, but with changes to our ways of working. We are working on understanding which aspects of how we have approached this challenging year to inform a re-assessment of our operational processes for the longer term.

These three considerations are driving a strategic programme of change across our business, under the banner Fit for the Future. The programme launched in June 2020 and we already have over 60 initiatives under way for the first half of GD2. They are designed to ensure we are optimised to deliver our GD2 commitments; that we are well placed to lead the transformation of the gas networks to deliver carbon free heat, and that we provide the right environment to attract and retain the best talent and inspire a forward-thinking, customer-focused company at the forefront of innovation and changing the UK's energy future.

The various work programmes include structural reviews, main office locations, our operational boundaries and the number of depots we have, workload optimisation, skills assessments and digital applications to improve how we work. Our workforce has shown remarkable resilience throughout this last year which gives re-assurance that, despite the challenges ahead, we will deliver our Fit for the Future commitments and aims.

Repex programme update

Investment in replacing iron gas mains with new zero-carbon gas-ready pipes will significantly reduce the UK's carbon emissions. The Iron Mains Risk Replacement Programme (repex) switches ageing iron gas mains with new hydrogen- and biomethane-ready piping, reducing methane natural gas leakage. Using targets developed using latest scientific methodology, we are aiming to reduce our total carbon footprint by 164,300 tonnes of CO_2e by 2026.

This year our teams have achieved their primary pipe risk management output and removed risk by replacing 71,953km of mains pipeline across our two operating areas.

Due to the pandemic we stopped our programme of works for around seven weeks, which meant a number of deliverables were missed. Then, when restarting our works at a point it was considered safe to do so, we found it a challenge to quickly get back up to full production levels. We focussed on stakeholder engagement during this time to understand how our customers felt about our carrying out this work in their communities at a time just after national Covid-19 lock down.

Restructuring our Gas Transmission Team

The Gas Transmission Team covers a range of disciplines including pressure control; pipelines; civil engineering; electrical and instrumentation; and even domestic appliance servicing for our SIU customers. This year we have reviewed our structures with the business-wide Fit for the Future team and have created a dedicated Transmission Operations department covering both networks.

This will allow us to create a centre of excellence for transmission engineering pulling together the knowledge and experience within Maintenance, Major Projects and our Remote Networks business. In addition to the new structure, we've created a Transmission Steering Group, chaired by John Lobban, SGN's Managing Director of Scotland and Northern Ireland, and made up of representatives from the Transmission team, Network, Finance and Procurement. This group is responsible for ensuring teams across SGN collaborate to deliver our GD2 outputs efficiently.

SGN Natural Gas

2020 saw the culmination of our £250m infrastructure project in Northern Ireland. We achieved a domestic market penetration rate of 17.9% within the first year, and successfully converted four of the largest commercial users in the network. 15,500 homes and businesses now have a new pathway to an affordable, gradually decarbonised future (we will eventually connect 40,000).

Sustainable Development Goals – progress towards our targets

The Sustainable Development Goals are a collection of 17 Goals initiated by the UN in 2015 to be achieved by 2030. At SGN we have identified eight of the 17 Goals to be material, i.e. important to our stakeholders and significant to the business. The brief stories below show how we are contributing towards achieving these.

3 Good health and wellbeing

Learning about gas

In 2020 we launched 'George and friends', an educational tool for children, helping families to stay safe and well at home.

9 Industry, innovation and infrastructure

Safety in the FYLD

FYLD, a digital on-site safety platform, won Emerging Tech of the Year at the UK IT Industry Awards in 2020.

5 Gender equality

RISE to the challenge

15 female colleagues took part in our RISE programme to develop confidence, their own leadership style and how to respond assertively to difficult situations.

11 Sustainable cities and communities

Our local communities

We take part in environmental steering groups in many of the local councils in our area, adding our expertise to specific energy or climate related discussions.

7 Affordable and clean energy

Gas Goes Green

A collaborative project with the aim to provide our customers with clean energy, reduce carbon emissions, and deliver sustainable jobs and economic growth.

12 Responsible consumption and production

Closing the loop

In 2020 we conducted a single-use plastic audit to identify where we can eliminate or reduce the use of these materials in our business.

8 Decent work and economic growth

Proud to be

We are committed to create an inclusive workplace where everyone, regardless of difference, is valued, respected and encouraged to do their best.

13 Climate action

Net-zero by 2045

We have launched an Environment Strategy which has a focus on achieving net-zero by 2045 and improve our environmental impacts.

Progress on our customer commitments

Creating value and growing our service

SGN Place re-imagines legacy gas sites for new community applications

SGN's former gas holder site in Dundee has been identified as a future site for The Eden Project in Scotland.

SGN Place is our non-regulated business providing land and development opportunities on former and obsolete gasworks sites. With over 50 redundant gasholder properties in the portfolio, SGN Place plans to deliver up to 3,000 homes over the next decade and to work with developers and other organisations to return these legacy industrial sites back into valued community assets, such as housing or renewable energy developments.

After a six-month investigation and feasibility study by the team at Cornwall's renowned Eden Project, SGN and National Grid, Eden's team has identified our former Dundee Gasworks site on the bank of the River Tay as the preferred location for its new eco-visitor attraction in Scotland, due to its location in the city and access to the station and the local community. Applying the industrial heritage of the gasworks is a powerful statement of regeneration and echoes The Eden Project's home in Cornwall which is located in a former clay quarry.

"The narrative of creating an international exemplar of reuse of a post industrial site, particularly one related to energy is core to our theme and narrative and will link the past with the regenerative future we wish to demonstrate and showcase."

The Eden Project

This exciting project will repurpose the former gas holder site in Dundee, not just for the benefit of the local community but also for people right across Scotland and beyond. We are working with the team on proposals to deliver the required energy solution, including an onsite heat network that will meet the energy needs of the new Eden Project and for neighbouring buildings. As partners going forward, we will contribute not just the heat and power connection, but also in support of the exhibition narrative; marketing; education programmes; jobs of the future; apprenticeships; and the story of energy working hand in hand with the social and natural environment in the 21st century.

Aerial view of Dundee City with an artist impression overlay of the Eden project which will soon grace the City's amazing waterfront redevelopment and provide an environment showpiece to be proud of.

The Thames Water biomethane partnership

The UK water and wastewater sector is a significant market for SGN's gas to grid non-regulated business.

The UK water companies own and operate over 160 anaerobic digestion plants and securing a contract with Thames Water, the UK's largest water company, positions SGN Commercial Services well for future growth in this market and would support SGN's GD2 target to double the level of injected biomethane in the gas network (see page 38).

The Thames Water biomethane partnership is a five-year framework contract to support Thames Water's biomethane, gas to grid plans. The company has 25 anaerobic digestion plants and this year we became one of two companies on Thames Water's biomethane framework and have already received our first commission – to design, build, operate and maintain a facility to take the biomethane generated by the existing Deephams Wastewater Treatment plant and inject it into the natural gas network.

Chief Executive's report (cont)

Growth in our non-regulated business

We continue to build a portfolio of non-regulated activities that complement the core business, seek value from our existing resources and assets, as well as broadening our position in the evolving UK energy landscape.

During the year, we have developed a number of opportunities that support continued growth and a pipeline of new opportunities, while maintaining strong performance through our existing non-regulated activities.

We have secured an important biomethane, gas to grid contract with the UK's largest water utility, Thames Water, that provides an important credential in the Anaerobic Digester (AD) market and positions us for further growth on the back of the BEIS Green Gas Support Scheme and greater certainty for investors over the future of the biomethane market.

The UK Government estimates heat networks will provide 20% of UK heat by 2050 supporting net-zero targets and the de-carbonisation of heat. We are creating a joint venture with a leading heat network provider, Vital Energi, to enter the UK's emerging heat network market and initially building on our SGN Place development sites' energy demands.

We have also taken a minority stake in a new venture, FYLD, a field force application, which seeks to drive improved performance in health and safety and productivity and which we have rolled out across the SGN field force. Whilst still at an early stage, we are also looking at the potential for H_2 as a fuel for transportation and are working with a new entrant to develop projects.

Our existing contracts to support third parties with metering and asset management/operations continue to perform well. We have re-secured, expanded our scope and mobilised significant contracts with National Grid and Gas Networks Ireland and which both last for five years.

World Biogas Expo recognises our engineer for significant contribution to green gas

SGN Commercial Services team member Colin Small received the prestigious Hero of the Year award at the 2020 virtual World Biogas Expo, in recognition of the contribution Colin has made to the growth of biomethane since his involvement in the UK's first biomethane project in 2009.

The whole team was 'Highly Commended' at the Expo, in the 'Best Biogas/AD Support' category for providing technical expertise, consultancy services, maintenance, support and project management services to many biomethane customers over the last decade.

SGN Commercial Services

This year our Commercial Services business has successfully completed two significant contracts. We are providing maintenance and repair services for Gas Networks Ireland (GNI) relating to the strategic gas supply involving the high-pressure transmission network. The second contract is with National Grid Metering (NGM), where we are delivering gas meter maintenance, installation and emergency response on its assets across all pressure tiers and both domestic and industrial and commercial sites in southern England and Scotland.

We continue to support independent gas networks with a wide range of specialist and gas related professional services including asset management, maintenance, planning and design, safety and emergency response. Another opportunity we have been exploring is the commercial reuse of our decommissioned gas pipes. Other utility industries are considering these pipes for use as ducts for their infrastructure, for new fibre optic, telecoms or water networks, or even electricity networks that support electric vehicle charging hubs.

Murphy Utility Assets (MUA)

Our 50% joint venture business with Murphy continues to grow since launching in June 2019. MUA focuses on the adoption of gas and electricity infrastructure assets across the UK, owning what is known as the last-mile network between the upstream operator and the end customer. In the longer-term, the joint-venture has plans to develop a full multi-utility offering, providing a 'one-stop shop' for all utility infrastructure on new developments, including future energy solutions such as heat networks. As well as aligning neatly with our property development business SGN Place, MUA leverages SGN's core skills and experience as an infrastructure owner and operator with Murphy's established presence in the construction market. This joint venture business has allowed us to build a platform for growth into the delivery of heat networks and other alternative heat solutions. This is particularly important as the challenge of decarbonisation begins to change the mix of utility connections to new housing developments.

mua
Murphy Utility Assets

The Joint venture with Murphy in the form of Murphy Utility Assets brings together strong skill sets from both sides and a new operation that will add value throughout.

Developing heat networks with SGN Place

SGN Place has also had a successful year, signing its first two joint ventures and establishing a strategy for SGN's redundant gas holder sites and their potential as local energy hubs. At Wandsworth, in South London, we're delivering the heat network to supply a number of new builds on land previously occupied by a decommissioned gas container. The project is the first from a collaboration with Vital Energi, who we are developing plans to convert our legacy gas holder sites into energy hubs and heat networks to serve local communities.

Heat networks are expected to play an important role in heat de-carbonisation, yet today only 2% of UK heat demand is delivered in this way. UK Government research estimates around 20% of the UK's heat demand will need to be delivered through heat networks by 2050, requiring between £16bn and £22bn of capital investment.

SGN has identified 19 of its sites, largely ex-gas holder sites, that are operationally redundant and being considered through SGN Place for development. They are well located in the centre of high population communities where heat demand is high and have good power and gas grid connections making them ideal for development. The heat network market provides us with an opportunity to become an owner/operator of local energy hubs as heat networks emerge to become a fifth utility.

Vital Energi can provide the capital and a track record of heat network developments that would support the conversion of our land into these future clean heat solutions. We are in the process of developing a joint venture business plan and investment case over the next five to ten years for further approval.

Operationally redundant sites considered for development

SGN has identified 19 of its sites, largely ex-gas holder sites, that are operationally redundant and being considered through SGN Place for development.

SGN
Commercial
Services

SGN Commercial Services benefits from a safety-first culture, providing bespoke commercial solutions and green gas services to our clients, allowing them to better meet their business needs today and in the future.

Our partnership with Murphy's is long established with the award winning Erskine Bridge project being a prime example of great teamwork.

SGN financial key performance indicators

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

Our key performance indicators (KPIs), which are used to assess the Group's performance, are set out below.

Financial

Cashflow after investing activities

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

2021 **£417.3m**

2020 **£206.3m**

2019 **£139.2m**

Net debt to Regulated Asset Value (RAV) ratio

RAV is defined by our Regulators and consists of the RAV of the regulated entities in the Group. Net debt excludes shareholders' loans and liabilities arising from derivative financial instruments and is net of cash and cash equivalents. The percentages stated are as at 31 March. The definitions of consolidated MidCo group and regulated businesses can be found on page 45.

Consolidated MidCo group

2021 **77.4%**

2020 **80.9%**

2019 **82.0%**

Regulated businesses

2021 **70.9%**

2020 **71.4%**

2019 **72.5%**

Turnover

Group turnover includes income from the regulated business through Regulator price mechanisms and non-regulated income through our commercial activities.

2021 **£1,227.4m**

2020 **£1,271.7m**

2019 **£1,235.4m**

Operating profit

Group operating profit is the net of turnover (above) less the costs of operating the distribution network together with depreciation and amortisation (see note 4).

2021 **£526.5m**

2020 **£600.6m**

2019 **£523.4m**

Capital expenditure

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

2021 **£127.4m**

2020 **£164.8m**

2019 **£156.7m**

Replacement expenditure

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

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

2021 **£242.9m**

2020 **£299.8m**

2019 **£286.0m**

The sum of capital expenditure and replacement expenditure equal the total additions of intangible and tangible fixed assets as reported in notes 12 and 13 respectively.

Operational

Employee lost time incidents

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

2021 **0.06**

2020 **0.08**

2019 **0.10**

Gas escape attendance

This represents the proportion of uncontrolled gas escapes attended within one hour (target 97%). Uncontrolled gas escapes are defined as those where the smell of gas persists and where the gas supply is still 'on' at the time the customer calls. We responded to around 125,000 uncontrolled and over 60,000 controlled gas escapes during the year ending 31 March 2021.

2021 **98.9%**

2020 **98.6%**

2019 **98.7%**

Customer satisfaction (score out of 10): planned interruptions

Results from customer satisfaction surveys (10 = very satisfied) are based on reports obtained for the nine-month period ended 31 December 2020. Planned interruptions on our replacement, capital or routine maintenance works are where timing can be predicted and the customer has been notified in advance.

2021 **9.0**

2020 **8.9**

2019 **8.8**

Customer satisfaction (score out of 10): unplanned interruptions

Results from customer satisfaction surveys (10 = very satisfied) are based on reports obtained for the nine-month period ended 31 December 2020. Unplanned interruptions arise through leakage or other emergencies.

2021 **9.6**

2020 **9.5**

2019 **9.4**

Customer complaint volume change

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

2021 **(39)%**

2020 **21%**

2019 **(40)%**

Business carbon footprint % reduction

We have improved our Scope 1 and 2 emissions (excluding shrinkage) over which we have direct control, when compared with the baseline year of 2012/13. Further details can be found on page 68.

2021 **50.4%**

2020 **38.4%**

2019 **23.7%**

Financial review

Financial overview

In our regulated business this year, Ofgem published the Final Determination for RIIO-GD2 which will place significant challenges on the business. During the year a number of initiatives have been planned across the business and will be implemented in the coming years to ensure the Group is in the best position to cope with the new demands.

We have continued to develop our unregulated businesses with the sale and acquisition of a number of land sites that were surplus to regulated business needs as well as entering into a joint venture agreement to develop our site at Wandsworth.

Covid-19

The impact of Covid-19 has been felt by businesses across the world and we are no exception to this. Although there was no material impact on turnover during the year, the Group incurred increased labour costs to ensure sufficiency of resources for teams self-isolating, and an increase in costs of PPE to keep our people safe and allow them to work from home, where possible, in line with government guidelines.

During the financial year we continued to take a prudent approach to liquidity planning and management to ensure we have sufficient headroom to manage downside scenarios. Following on from the deferral of budgeted dividends in March of the previous financial year we have also capitalised shareholder loan interest of £28.7m, rather than pay this out during the financial year (for further information refer to note 26), and deferred decision making on external dividend distributions to shareholders until the end of the financial year. With a clearer view of the operational and financial impact of Covid-19 we declared and distributed an interim dividend of £115m to shareholders.

At the year end the Group had £288.6m in cash balances (held on current accounts, within bank deposits or money market funds), of which £9.9m was restricted cash. The Group also had £360m of undrawn revolving credit facilities.

Investment and safety

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

Our RAV increased by 2% in the year from £5.88bn to £6.00bn. The RAV of our GB Networks is determined by Ofgem at periodic reviews and is adjusted for sharing of out/under performance against allowances and inflation indexation. Similar methods are used for the RAV of our Northern Irish Network, which is not included in the RAV calculations.

The total network investment in replacement and capital expenditure was £370.3m (2020: £464.6m). All our operational outputs required under the price control are being met as a result of this investment, and we have maintained the highest standards of safety.

Replacement expenditure, primarily of iron pipes, decreased to £242.9m (2020: £299.8m) due to a reduction in workload at the start of the year due to national restrictions imposed by the UK Government in response to the global Covid-19 pandemic. During the year we replaced 538km of metallic pipe (2020: 885km). Other capital expenditure excluding replacement also decreased to £127.4m (2020: £164.8m).

This financial year our replacement works have focused on key areas of risk, which have required us to close roads to ensure safety of the local community. We worked hard to complete the jobs ahead of schedule minimising the impact to local businesses.

Treasury and financial risk management

Net debt and leverage

A key financial performance indicator for the Group is the net debt to RAV ratio, which the Group monitors at both an individual network level and at a consolidated MidCo group level. At 31 March 2021, net debt (before issue costs), excluding shareholders' loans and liabilities arising from derivative financial instruments, amounted to:

- MidCo group: £4.64bn (2020: £4.75bn)
- Southern: £2.91bn (2020: £2.90bn)
- Scotland: £1.31bn (2020: £1.29bn)

With RAV at:

- MidCo group: £6.00bn (2020: £5.88bn)
- Southern: £4.15bn (2020: £4.06bn)
- Scotland: £1.85bn (2020: £1.82bn)

The debt to RAV ratios were:

- MidCo group: 77.4% (2020: 80.9%)
- Southern: 70.1% (2020: 71.6%)
- Scotland: 71.0% (2020: 71.1%)

Debt issuance

During the financial year we had a £215m bond mature at Southern Gas Networks plc, with no maturities at Scotland Gas Networks plc. We refinanced the Southern maturity and provided incremental funding for investment by issuing a £250m 11-year 1.25% note due December 2031 in the GBP public bond market.

At the year end, our revolving credit facilities in place for Southern and Scotland were undrawn (2020: Southern undrawn; Scotland undrawn).

During the financial year we continued to draw on the bank facility in place at SGN MidCo Limited to fund the construction of the network we have built in Northern Ireland as part of the Gas to the West Project.

At the end of the financial year, we received a material proportion of the proceeds for the sale of the infrastructure and transferred this cash to the SGN MidCo Ltd to be utilised to prepay and cancel the bank facility.

Turnover
2021 **£1,227.4m**
2020 **£1,271.7m**
2019 **£1,235.4m**

Operating profit
2021 **£526.5m**
2020 **£600.6m**
2019 **£523.4m**

Replacement expenditure
2021 **£242.9m**
2020 **£299.8m**
2019 **£286.0m**

At year end, the outstanding facility drawings totalled £122.0m (2020: £126.9m), however the facility was prepaid and cancelled in full shortly after the year end on 6 April 2021.

The debt service reserve liquidity facility held at SGN MidCo Ltd was extended for a further 364 days to 15 January 2021.

In the upcoming financial year there are no scheduled debt maturities within the Group. For a detailed list of the committed financing that we have in place see notes 17 and 18.

Liquidity

As at 31 March 2021, liquidity within the Group was provided by a combination of cash and cash equivalents and committed bank facilities. The cash balances (held on current accounts or within bank deposits or money market funds) totalled £288.6m (2020: £124.4m) across the Group (of which £9.9m was restricted cash); and undrawn committed revolving credit facilities totalled £360m (2020: £360m).

Net finance costs

The Group had net finance costs of £171m during the financial year excluding interest on shareholder loans (2020: £191m), interest relating to the defined benefit pension scheme and interest as a result of the movement on financial derivatives. This was primarily driven by interest on external debt funding within Scotland Gas Networks plc (interest payable of £44m (2020: £56m)), Southern Gas Networks plc (interest payable of £106m (2020: £117m)) and SGN MidCo Ltd (interest payable of £15m (2020: £16m)).

The Group effective interest rate (including index-linked debt and shareholders' loans) for the year was 4.0% (2020: 4.3%).

The Group effective cash cost of interest (excluding the inflation uplift on inflation-linked debt) was 3.4% (2020: 4.1%).

Regulatory Asset Value (RAV) and Total Network Investment (TNI)

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

Risk management

During the year the Group had £215m of fixed interest rate commitments maturing (all at Southern) and no floating interest rate or inflation-linked commitments repaid. To maintain a good degree of certainty of the Group's interest cost, all new debt issuance (£250m) was put in place at fixed interest rates.

As at 31 March 2021 the gross debt exposure to fixed interest rates (post derivatives) within the Group was:

- Group (consolidated): 70.2% (including shareholder loans) (2020: 69.9%)
- SGN MidCo Ltd (consolidated): 68.0% (2020: 67.8%)
- Scotland Gas Networks plc: 63.7% (2020: 63.9%)
- Southern Gas Networks plc: 72.6% (2020: 72.4%)

As at 31 March 2021 the gross debt exposure to inflation within the Group was:

- Group (consolidated): 20.5% (including shareholder loans) (2020: 20.6%)
- SGN MidCo Ltd (consolidated): 22.0% (2020: 22.0%)
- Scotland Gas Networks plc: 31.5% (2020: 31.3%)
- Southern Gas Networks plc: 17.2% (2020: 17.3%)

All of the inflation linked debt has an RPI inflation base.

The remaining gross debt exposure was in floating interest rates.

For a more detailed explanation of the Group's approach to risk management see note 19.

Financial review (cont)

Capital expenditure

2021 £127.4m

2020 £164.8m

2019 £157.3m

Cashflow after investing

2021 £417.3m

2020 £206.3m

2019 £139.2m

Regulatory asset value

2021 £6,003.1m

2020 £5,876.2m

2019 £5,687.4m

Credit ratings

Of the Group's financing vehicles that have external debt financing, two carry public credit ratings: Southern Gas Networks plc and Scotland Gas Networks plc. Each is rated by the same three rating agencies with the following rating (and outlook) applied to the debt raised within those entities at 31 March 2021:

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

During the financial year the following credit rating actions were taken by the credit rating agencies on the Group's public credit ratings:

- 30 April 2020, S&P changed its outlook from stable to negative, while reaffirming its credit ratings on Southern Gas Networks plc and Scotland Gas Networks plc.
- 12 May 2020, Fitch issued a press release re-affirming the long-term credit ratings and outlooks of both Southern Gas Networks plc and Scotland Gas Networks plc. At the same time the short-term credit rating was withdrawn for commercial reasons.

Post the end of the financial year the following credit rating actions have been taken by the credit rating agencies on the group's public credit ratings:

- 23 April 2021, Moody's issued a press release re-affirming the credit ratings and outlooks of both Southern Gas Networks plc and Scotland Gas Networks plc. Credit opinions providing a more detailed explanation for the re-affirmation were published by Moody's on 12 May 2021.
- 13 May 2021, S&P issued a research update announcing that it had downgraded the Southern Gas Networks plc and Scotland Gas Networks plc credit ratings to BBB with a stable outlook.

The latest credit ratings and reports/publications from each of the credit rating agencies can be found on the debt investor relations section of the SGN website.

Distributions

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

During the financial year Scotia Gas Networks Ltd took a prudent approach to liquidity, given the uncertainty created by the Covid-19 pandemic. Scheduled shareholder loan interest distributions totalling £28.7m were capitalised rather than paid in the year (2020: £28.2m), with dividend distributions suspended until the end of the financial year. A dividend distribution of £115m was paid before year end (2020: £50m). At 31 March 2021 Scotia Gas Networks Ltd had £956.3m (2020: £860.0m) of available distributable reserves.

Turnover

Turnover decreased to £1,227.4m from £1,271.7m. This is predominantly driven by a reduction in revenue recognised from site sales in the year ended 31 March 2020 (namely from the sale of our sites at Kennington and Brighton). There was an inflationary increase in turnover, the impact of which was mitigated by a high level of revenue shared with customers, which remains a substantial deduction from turnover due to SGN's outperformance of the allowances set by Ofgem.

Operating profit

Operating profit decreased year on year from £600.6m to £526.5m, this is largely driven by the decrease in turnover noted above. Additionally, total operating costs have increased year on year due to additional costs incremental to the Covid-19 pandemic resulting in increased PPE costs and the cessation of all non-essential public activity in line with government instructions during the first national lockdown.

Gas to the West

The Gas to the West project was substantially completed in 2020 with assets handed over to Mutual Energy. Work continued in the project in 2020/21 but progress was delayed in part due to Covid-19 restrictions. The final outcome of this project remains uncertain due to ongoing contractual negotiations with the main contractor. We expect the resulting margin to be finalised in the coming financial year.

SGN Place

In the year to 31 March 2021, we successfully closed several deals including a series of disposals and acquisitions of sites with National Grid to enhance the future earning potential of a number of sites. SGN Place also entered into its first joint venture agreement to develop our site at Wandsworth.

Taxation

The current tax rate for the year is 19.0% (2020: 19.0%), and the effective tax rate for the year of 20% (2020: 38%) is higher than the standard rate of 19.0%. As explained in note 8 to the financial statements, the current year increase is primarily due to expenses not deductible for tax purposes.

The Group recognises all tax liabilities which are expected to arise, and only recognises tax assets on uncertain tax positions once the matter has been agreed with HMRC.

Our tax strategy

We shall organise ourselves to ensure that we:

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

Compliance

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

Operate within the law

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

Trust and co-operation

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

Tax contribution

Our tax contributions in the year amounted to £415.3m (2020: £429.2m), these consist of the following contributions:

- Corporation tax of £68.9m (2020: £116.4m) paid on our taxable profits
- VAT of £158.1m (2020: £125.2m)
- Business rates of £121.7m (2020: £120.4m) paid to local authorities
- Employment taxes of £66.6m (2020: £67.2m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

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

Pension commitments

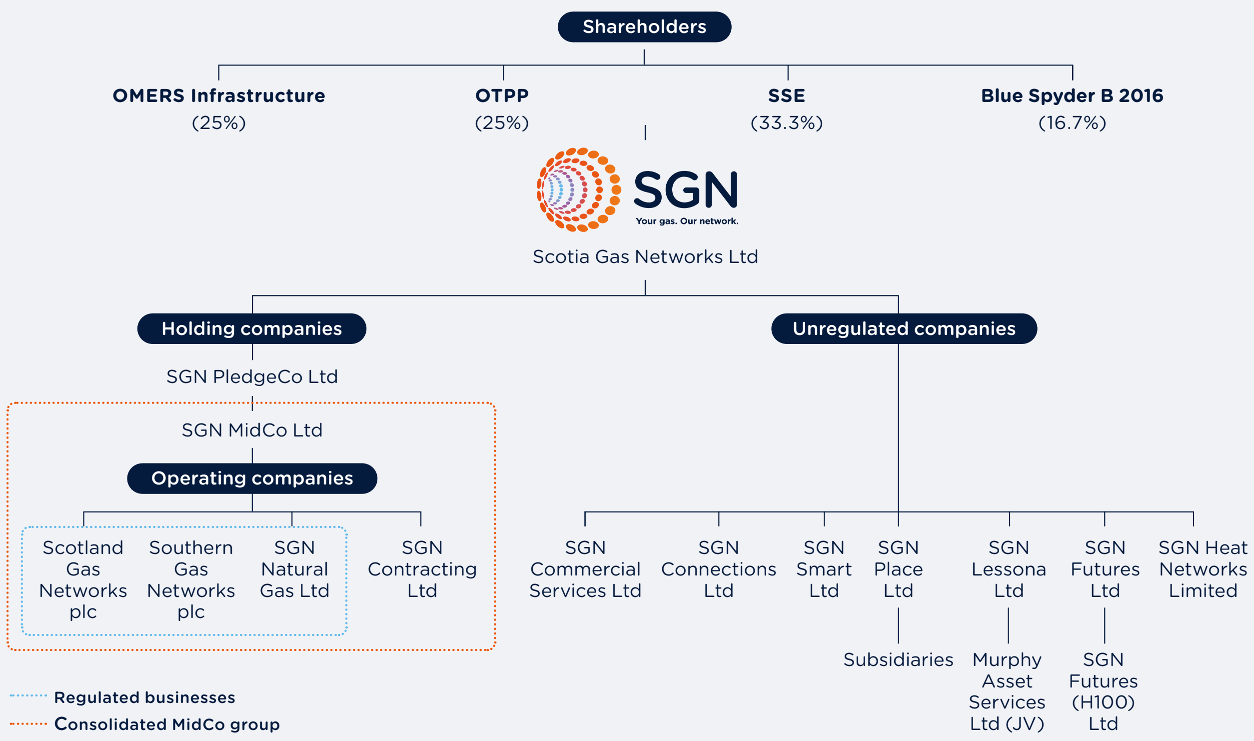
A proportion of our employees are members of the Scotia Gas Networks Pension Scheme which provides final salary defined benefits for members. In accordance with FRS 102, our balance sheet accounts for any pension asset or liability. As of 31 March 2021 the pension surplus was £298.7m (2020: £354.2m), the year on year movement was largely driven by a reduction in the discount rate and an increase in future inflation assumptions. This is partially offset by contributions from the Group and an increase in asset returns. The Group contributed £21.8m to the scheme in the year (2020: £32.8m).

Mick Carmedy
Chief Financial Officer

20 July 2021

Ownership structure

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



Engaging with SGN stakeholders

Effective engagement and dialogue with our key stakeholders is critical to the long-term success of the Company. Our wide ranging stakeholders inform the Board to understand the effects of Company policies and practices, predict future developments and trends, and re-align strategy.

"We want thank all those that participate and contribute to our wide range of stakeholder groups and public consultations. We truly value their contribution and influence on both day to day operational practises and group wide strategic decisions. We are committed to an open, transparent and systematic approach to stakeholder engagement, welcoming the constructive exchange of views and ideas that informs and helps guide the legitimacy and sustainability of our business strategy. Our systematic and fully embedded stakeholder structures ensure on-going and regular engagement reflecting and exceeding our regulatory and legislative obligations."

Laura Sandys, Stakeholder, Environment and Customer Committee Chair

2020/21 activity

We recognise that the purpose of stakeholder engagement is to ensure that the perspectives, insights and opinions of stakeholders are understood and taken account of. We identified six key stakeholder groups: (1) customers; (2) our people; (3) UK and Scottish Government & Regulators; (4) Communities and Environment; (5) Suppliers, contractors and partners; and (6) shareholders and debt investors. The impact of the Company's activities on those stakeholders and taking into account their advice and feedback are important considerations for the Directors when making relevant decisions.

The panels that follow set out our key stakeholders, how we engaged with them during the year and, where relevant, the impact of that engagement on the Company's strategy and the principal decisions taken during the year. The Board recognises that stakeholder engagement takes place at both the operational day-to-day level within the business and at a Board level. In all cases, each level of engagement influences and informs the Board, both in relation to stakeholder concerns and the likely impact on decision-making throughout the year.

SGN key stakeholder groups

We aim to have a two-way constructive relationship with our six key stakeholder groups. By considering their perspectives, insights and opinions.

For more information about our stakeholders:

Customers – See page 47
Our people – See page 47
Government and regulators – See page 48
Communities and the environment – See page 48
Suppliers, contractors and partners – See page 49
Shareholder and debt investors – See page 50

Customers

SGN provides gas distribution and related services to millions of domestic and industrial customers.

Why we engage

Understanding our existing and future customer needs and behaviours help us to achieve our vision to make a positive impact by providing excellent service and delivering long-term value.

How we engage

We have well-established customer engagement channels ranging from dedicated panels and focus groups to ensure perspectives of vulnerable customers are considered, to forums to engage with large business customers. Customer satisfaction surveys drive KPIs which measure how successful we are and provide feedback on the impact of our decisions. We use consumer research groups to engage and shape the key decisions we make. We use social media and our website to communicate directly with our customers. The Consumer Engagement Group (CEG) and Stakeholder Advisory Panel (SAP) help shape our engagement strategy by providing independent challenges on the use of our customer engagement in our business planning.

Covid-19 implications

- Maintaining an essential safe and reliable service
- Curtailing non-essential services to ensure safety of our customers, people and partners
- Gas Shipper Relief

Stakeholder feedback (issues raised)

- Keeping the gas flowing and keeping costs down
- Supporting vulnerable communities and providing excellent service
- Accelerating decarbonised energy solutions and minimising our environmental impact
- Willingness to pay and business plan acceptability testing

Outcomes of engagement on key decisions

Customers, stakeholders, independent experts, the CEG and the SGN Board have reviewed and refined our GD2 plan extensively to reflect and respond to stakeholder views to ensure our strategy is in the best interests of current and future customers. Our customer (and wider stakeholder) priorities are highly visible in our three customer commitments:

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

Key Board decisions

- Revised Business Plan
- Assist in designing the Customer GD2 Strategy

Link to SGN Strategic Pillars

Making a positive impact

Our people

SGN employs around 4,000 people.

Why we engage

We will only deliver our vision if we recruit, skill and retain the best talent and develop a flexible, motivated, efficient, diverse and engaged team.

How we engage

We have ongoing, two-way channels for engaging with our people. This ranges from, on-site and office visits, Let's Chat sessions, regular communication via internal channels and media platforms, employee forums and structured engagement with trades unions and pension trustees.

Employee pulse surveys help measure progress made with our engagement plans and make sure we're moving in the right direction. Our diversity and inclusion networks help us promote a diverse and inclusive culture through events and awareness campaigns. They include: Insight Action Group, D&I Partners, Let's Talk about Race, Rise Programme, and Future Thinkers Panel. Our learning management system ensures we can deliver training and development to make SGN a success. We monitor safety through KPI reporting and take action to continuously improve the safety of our working environment. We have regular team updates, and briefings, via our Extended Leadership Team town hall sessions, Team Talk, our App and Digital HUB intranet portal which includes a CEO and Executive blogs and other communications including podcasts and listening sessions, which employees can listen at their convenience.

A report from the HR & Services Director is submitted to each Board meeting and the results of employee engagement surveys are also presented at Board meetings.

Covid-19 implications

- Ensuring the safety of our people, suppliers and communities
- Keeping all employees actively engaged so not to furlough anyone

Stakeholder feedback (issues raised)

- Covid-19 working arrangements
- Return to offices strategy
- Flexible, agile and family-friendly working patterns
- Safe to Speak Up and Diversity and Inclusion

Outcomes of engagement on key decisions

Engagement with our people ensures that employees remain informed about business strategy and developments in real-time. Corresponding feedback allows both management and the Board to ensure areas of importance highlighted by employees' perspectives are considered and reflected in future decisions and communications. The employee engagement survey results are reviewed at management, Executive and Board level. Each business area uses the feedback to develop action plans and inform its approach, which is communicated to employees and teams.

This feedback has directly informed the Board's decision-making to approve two new offices in Glasgow and Horley and for these to embrace modern ways of working.

Key Board decisions

- New offices in Glasgow and Horley
- Safe to Speak up Campaign

Link to SGN Strategic Pillars

Focusing on talent, skills and opportunities for our people

Engaging with SGN stakeholders (cont)

Government and regulators

SGN works constructively with government and regulatory bodies such as Ofgem and the HSE.

Why we engage
Understanding what drives policy decisions by government and Ofgem helps us to ensure we deliver effective solutions and importantly deliver on our regulatory outputs to ensure everyone is kept safe and warm.

How we engage
We meet regularly with government and Ofgem to discuss all issues relating to the regulated elements of SGN. We engaged on a range of issues over the year including Covid-19, net-zero and green recovery.

Over 2020/21, we engaged with 60 external groups and 33 senior politicians and responded to all material government and regulator consultations affecting our Group. We also engaged extensively and constructively with Ofgem (including by way of an open hearing in which all stakeholders had an opportunity to participate in) on its Final Determination of SGN's RIIO-GD2 Business Plan and Ofgem Statutory Licence Consultation.

The Board's Independent Non-Executive Directors have direct contact and dialogue with Ofgem, giving them an understanding of the Regulator's requirements and intentions, which is brought into Board discussions.

Covid-19 implications
- Maintaining an essential service and high priority works
- Working with government to understand UK Covid-19 impacts and support contingency planning

Stakeholder feedback (issues raised)
- Cost-effective, safe and reliable delivery of network
- Fair treatment of energy customers
- Security of supply and critical infrastructure

Outcomes of engagement on key decisions
Early engagement with Ofgem, government (UK, Scotland and Northern Ireland) on Covid-19 enabled high priority works to continue throughout the pandemic ensuring security of supply to all customers.

It also helped shape our Energy Futures approved to help meet net-zero targets and make a green recovery.

Although engagement with Ofgem remains positive, a decision was taken by our Board to refer certain elements of the RIIO-GD2 process to the CMA. We will continue to work constructively with Ofgem and the UK and Scottish governments to meet net-zero targets.

Key Board decisions
- Decision to refer certain matters to the CMA
- Approval or acknowledgment of Ofgem Statutory Licence Consultation

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Making a positive impact

Building a shared future

Communities and the environment

SGN works in partnership with many third-party organisations in our community.

Why we engage
Working with communities at local, regional and national levels enables us to build our shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.

How we engage
We held a number of consultation events and stakeholder workshops throughout the year to gather feedback on projects and business plans, and progressed partnerships with NGOs which deliver additional social and environmental benefits for the communities in which we operate.

Further information on our engagement on the environment can be found in the sustainability section of this report on pages 32 to 35.

Covid-19 implications
- Ensuring the safety of our people, suppliers and communities

Stakeholder feedback (issues raised)
- Sustainability – pathway to decarbonisation and net-zero transition
- Environmental Strategy and Action Plan
- UN Sustainable Development Goals
- Energy Futures and H100 Fife
- Tailored Project Delivery programme

Outcomes of engagement on key decisions
The engagement throughout 2020/21 continued to build on the work undertaken within our communities including focused community engagement around our Replacement programme.

Using stakeholder feedback, we have developed our Environmental Strategy and Pathway to Decarbonisation which was approved by our Board in March 2021.

The feedback from our engagement and research programme is helping shape the Group's Environmental, Social and Governance strategy.

ESG Strategy
This is being developed with the aim of the Group achieving the status of a responsible and trusted business, and a committed corporate citizen. Further details of the Group's ESG initiatives are set out on pages 64 to 69 of this Annual Report.

Key Board decisions
- Development of the Environmental Strategy
- Input into the Pathway to Decarbonisation

Link to SGN Strategic Pillars

Building a shared future

Making a positive impact

Suppliers, contractors and partners

SGN has a significant number of suppliers and contractors, and two joint venture partners.

Why we engage
The services provided to SGN from different organisations are critical to SGN's safe and efficient operation. It is important that we understand their needs and deliver the right operating environment for all partners to keep the gas flowing and costs down and collectively reduce our environmental impact.

How we engage
We work closely with suppliers to ensure their values on issues, such as safety, environment and modern slavery are upheld throughout our supply chain. Meetings are held with strategic suppliers through our Supplier Relationship Management (SRM) programme, helping enhance performance and strengthen relationships to deliver mutual value as well as key relationship meetings with our Executive and CEO. To ensure high operational standards onsite health and safety audits are undertaken.

We actively engaged with key suppliers to ensure we had sufficient stocks of key materials in preparation for Brexit and to support Covid-19 resilience.

The SGN Group also features an increasing number of Joint Ventures (JVs). We are developing a new Group JV Policy designed to help ensure that all JVs should be structured, governed and operated in a way that is consistent with our goals and culture.

Covid-19 implications
- Ensuring the safety of our people, suppliers and communities
- Stopping and restarting works in a controlled and safe manner
- Covid-19 resilience planning

Stakeholder feedback (issues raised)
- Safety Performance
- Living Wage Employer
- GD2 Contracts
- FYLD Investment
- SGN Place
- Heat Networks
- Effective JV structures, governance and operations
- Prompt payment

Outcomes of engagement on key decisions
Improved engagement with suppliers through procurement programmes ensures we can influence sustainability of our supply chain relationship at all levels, from the project teams at the front line, to the Executive and CEO.

This type of relationship also ensures the Executives and the Board have been provided with supplier feedback so they can have due regard to this when making decisions on material contracts. This has been particularly important this year as the Board approved material contracts to support the delivery of the GD2 business plan.

JV partners from Murphy Utility Assets were also invited to Board meetings in 2020/21 to help provide direct feedback to ensure long-term value creation and success and to ensure their views are considered in the decision making of our Board.

Key Board decisions
- GD2 Contracts
- Living Wage
- Supply Chain Sustainability School
- Joint Venture Investments

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Building a shared future

Creating value and growing our service

Engaging with SGN stakeholders (cont)

Shareholder and debt investors

SGN has a diverse shareholder and large debt provider base.

Why we engage
Understanding the needs of our shareholders and debt investors helps us to access a cost-effective, stable, diversified financing base for the business and to make SGN an attractive investment, whilst delivering long-term value for existing and future customers.

How we engage
All shareholders are entitled to appoint at least one Non-Executive Shareholder Director to the SGN Board with representation overall proportionate to their shareholding. We proactivity engage with shareholders to obtain their views on all shareholder resolved matters. We provide bi-annual performance updates and debt investor reports. We provide an annual report and accounts. Our lenders give their views on key areas of financial risk management strategy. These are regularly discussed by the Finance Committee and additionally the Chief Financial Officer and the Group Treasurer briefs the Board on the views of lenders and rating agencies. We liaise with credit rating agencies to ensure we understand the impact of Ofgem and our own strategic decisions on their assessment.

Covid-19 implications
- Liquidity assessments
- Dividend Deferral

Stakeholder feedback (issues raised)
- AGM and annual report
- Rating Agency Reports
- Financial performance, credit rating and dividends
- RIIO-GD2 Final Determination
- Environmental, social and governance (ESG) Strategy
- Energy Futures and pathway to decarbonisation

Outcomes of engagement on key decisions
The 2020 AGM was attended by the full Board and shareholders. All resolutions put to shareholders in 2020 were passed with unanimous approval.

Shareholder and Debt Investor feedback was incorporated into our Energy Futures approach and Pathway to Decarbonisation. With this in mind, shareholders have approved the incorporation of new companies into the Group (SGN Futures and SGN Heat Networks) to help provide a platform to deliver these plans and achieve net-zero.

We are aware that the priorities and strategic imperatives of shareholders will not all be the same. The Board aims to understand the views of shareholders and to act fairly as between members of the Group.

Throughout the year the Company has been engaging directly with its lenders in relation to the impact of the Covid-19 crisis, including providing scenario assessments and action plans for the management of cashflow and compliance with covenant conditions.

Key Board decisions
- New Investments
- VAT
- CCFF
- Dividend

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Making a positive impact

Building a shared future

Creating value and growing our service

Focusing on talent, skills and opportunities for our people

Section 172(1) statement
Section 172(1) of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole.

In doing so Section 172(1) requires a Director to have regard (among other matters) to:
a. The likely consequences of any decisions in the long term.
b. The interests of the company's employees.
c. The need to foster the company's business relationships with suppliers, customers and others.
d. The impact of the company's operations on the community and environment.
e. The desirability of the company maintaining a reputation for high standards of business conduct.
f. The need to act fairly as between members of the company.

In discharging their Section 172 duty, the Directors of the Company have regard to the factors set out above. We acknowledge that every decision the Board makes will not necessarily result in a positive outcome for all of our stakeholders.

During the period the Directors received information to help them understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups). As a result of this the Directors have had an overview of engagement with stakeholders and other relevant factors which allows them to understand the nature of the stakeholders' concerns and to comply with their Section 172 duty to promote success of the Company.

We set out below some examples of how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) when discharging their Section 172 duty and the effect of those on decisions taken by them. For further details on how the SGN Board operates and the way in which it reaches decisions, including some of the matters that were discussed and debated during the year, please see pages 78 to 87.

Key to Section 172 Factors

Long-term impact
The likely consequence of any decision in the long term

Impact on community and environment
The impact of the Company's operations on the community and the environment

Impact on employees
The interest of Company's employees

Enhanced corporate reputation
The desirability of the Company maintaining a reputation for high standards of business conduct

Nurturing business relationships
The need to foster the Company's business relationships with suppliers, customers and others

Acting fairly between members
The need to act fairly between members of the Company

Engaging with SGN stakeholders (cont)

Board decision

Approval of a new head office encompassing a gas control centre

Section 172 Factors	Directors' consideration of S172 Factors
Long-term impact	Directors considered the age and condition of the existing head office, and the alternative options to buy or lease a site elsewhere, but noted the longer-term benefits (including employee engagement and environment) to construct a new head office from plan to ensure this not only meets the existing but also future needs of the business. The financial analysis confirmed that construction of a new office was best value longer term compared to the alternative options. Link to SGN Strategic Pillars: Making a positive impact
Impact on employees	Directors had regard to employee impacts of the alternative options which would have resulted in either temporary disruption whilst refurbishment was undertaken to the existing site or a permanent relocation to a new site. It was noted that the development would also future proof the property portfolio and be a leading example of a collaborate and agile working hub helping to retain existing and attract new talent into the future. Link to SGN Strategic Pillars: Focusing on talent, skills and opportunities for our people
Nurturing business relationships	Directors noted that the new head offices would also house a new gas control centre building further resilience and security of supply for all customers. Link to SGN Strategic Pillars: Delivering a safe and efficient service
Impact on community and environment	Directors noted that the new head office would be built to meet sustainability and efficiency standards and would achieve BREEAM standards and include renewable technologies to help achieve the Company's environmental and net-zero strategy. Link to SGN Strategic Pillars: Building a shared future

Additional information

St Lawrence House was purchased in 2006 and has been SGN's head office since that date. Due to its age, many of the building's assets are beyond their technological and economic life and it now requires replacement. Given the cost of building the new gas control centre (GCC) offsite and the cost of refurbishing the existing office, it was determined that the most appropriate solution was to build new office facilities as part of the GCC development.

As part of SGN's 'Fit for the Future' change programme, an operational property strategy has been developed based on the changing needs of the operational business. This has involved the rationalisation of depots in the South and a new Horley head office is a key part of this new strategy.

Board decision

Approval of the H100 Fife Project and Incorporation of SGN Energy Futures

Section 172 Factors	Directors' consideration of S172 Factors
Long-term impact	The Future of Gas is a principal risk to the Group. Directors had due regard to this and the benefits that the H100 Fife Project would have in the long term in supporting the evidence base for hydrogen as it would deliver a 'first of a kind' demonstration of a 100% hydrogen network that aims to supply 300 customers in the area of Levenmouth, Fife. Link to SGN Strategic Pillars: Making a positive impact
Impact on employees	Employees engagement on Energy Futures more broadly was considered by Directors, as well as the creation of new opportunities within the Group to deliver the project. Link to SGN Strategic Pillars: Focusing on talent, skills and opportunities for our people
Nurturing business relationships	The Company engaged with BEIS, Scottish Government, Ofgem, suppliers and many others (who all support the project) when developing its proposal for the H100 Fife Project. Feedback was provided to the Board and considered by Directors when reaching a decision on the project and the legal and contracting framework for delivery. Link to SGN Strategic Pillars: Delivering a safe and efficient service
Impact on community and environment	The H100 Fife project seeks to deliver priority evidence for the future role of the gas distribution network in facilitating net-zero in accordance with the UK Government 10-point plan and Scottish Government Hydrogen Policy. Link to SGN Strategic Pillars: Building a shared future
Enhanced corporate reputation	The H100 Fife Project evidences the Company's commitment to Decarbonisation of Heat and its vision to lead the way in making gas green. Link to SGN Strategic Pillars: Delivering a safe and efficient service
Acting fairly between members	To support H100 Fife and future projects, Directors and shareholders unanimously approved the investment to incorporate two new entities into the Group, SGN Futures Limited and SGN Futures (H100) Limited. These new entities will provide a platform to deliver the H100 Fife and support in the Group's longer-term Pathway to Decarbonisation of Heat. Link to SGN Strategic Pillars: Making a positive impact

Additional information

For further information on H100 Fife – please refer to pages 10, 12, 20 and 32.

Engaging with SGN stakeholders (cont)

Board decision

Approval to put in place an external Speak Up Line and commit to the Living Wage

Section 172 Factors	Directors' consideration of S172 Factors
Impact on employees	Following last year's Employee Opinion Survey, the Company launched a 'Safe to Speak Up' initiative which included the introduction of an external speak up line approved by the Board to foster a culture where people feel safe to speak up and share their thoughts, ideas or concerns. Link to SGN Strategic Pillars Focusing on talent, skills and opportunities for our people
Enhanced corporate reputation	The approval by the Board to endorse the living wage will see all employees paid the living wage. Repetitional impacts were also considered if a decision was taken not to support the living wage or high standards of business conduct more broadly with an external speak up line. Link to SGN Strategic Pillars Delivering a safe and efficient service

Additional information

The SGN Way is at the heart of how we understand ourselves as a company and this is underpinned by both our values and behaviours. Of all our values, safety comes first and our commitment to safety extends beyond physical safety, to include psychological safety. Psychological safety means you're able to bring your full-self to work and speak up without fearing potential consequences.

Following last year's Employee Engagement Survey, we identified three key improvement areas and 'Safe to Speak Up' was one of them. Since then, we have formed and engaged with a Safe to Speak Up Action Group, who confirmed to us that 'Safe to Speak Up' can mean many things, including feeling comfortable to:

- provide feedback and ideas to management
- speak out to seek advice about ethical dilemmas or concerns
- report unethical behaviour or practices without fear of retaliation

Amongst other initiatives agreed to drive improvement in this area, we decided to help support a safe culture to 'speak up' and we would put in place an external speak up line which went live in January 2021.

Board decision

Decision to refer Ofgem's RIIO-GD2 Final Determination of our GD2 Business Plan to the Competition and Markets Authority (CMA)

Section 172 Factors	Directors' consideration of S172 Factors
Long-term impact	In determining whether to make an appeal to the CMA, the Directors considered the long-term impact the licence modification published by Ofgem on 3 February 2021 (based on Ofgem's Final Determination published on 8 December 2020) would have on the business. A number of technical issues in Ofgem's Final Determination were considered to have a long-term negative impact and, as a result, the Directors took the decision to refer these to the CMA. Following last year's Employee Opinion Survey, the Company launched a 'Safe to Speak Up' initiative which included the introduction of an external speak up line approved by the Board to foster a culture where people feel safe to speak up and share their thoughts, ideas or concerns.
Impact on employees	Directors had regard to employee impacts in supporting a CMA appeal and approved external resources to mitigate the impact where possible. Link to SGN Strategic Pillars Focusing on talent, skills and opportunities for our people
Nurturing business relationships Impact on community and environment Enhanced corporate reputation	While the CMA process is ongoing, Directors and the Company are committed to delivering operational excellence and outstanding service for all our customers and will continue to work constructively with Ofgem and the UK and Scottish governments to help meet net-zero targets through our pioneering decarbonisation programme. Link to SGN Strategic Pillars Delivering a safe and efficient service Making a positive impact Building a shared future Creating value and growing our service Focusing on talent, skills and opportunities for our people
Acting fairly between members	All shareholders and the Executive team fully supported the decision to refer Ofgem's RIIO-GD2 Final Determination of our GD2 Business Plan to the Competition and Markets Authority. Link to SGN Strategic Pillars Delivering a safe and efficient service Making a positive impact Building a shared future Creating value and growing our service Focusing on talent, skills and opportunities for our people

Principal risks and uncertainties

Our enterprise risk framework enables a consistent approach to how we identify, assess, manage and monitor the risks and uncertainties to the successful delivery of our strategic objectives.

SGN risk management

How we identify principal risks

Our risk profile aligns with our obligations of a gas utility to provide an essential service and considers the statutory and regulatory environment as well as stakeholder expectations. Our emphasis is to anticipate threats and build foundation for long-term resiliency.

We have considered our existing RIIO-GD1 risks to assess developing scenarios, their associated consequences and planned mitigation.

In addition, our approach enables us to understand the new and emerging circumstances that present themselves in unstable and challenging times.

The principal risks also draw from the priority risks recorded in each of the operating-facing units as well as the corporate units and ongoing input from our senior leaders.

We have ensured that our approach supports the achievement of the strategic objectives that underpin our recently updated RIIO-GD2 plan and Final Determination.

Management and oversight of principal risks

The oversight of the enterprise risk management system is Board-led with ongoing input from the Executive giving visibility to the nature of risks and extent of risks facing the organisation. Oversight of the principal risks remains effective through several established routes during the year.

Each principal risk is assigned an Executive risk owner who is responsible for monitoring the exposure and nature of the risk deciding how it should be managed and taking the necessary action to bring it back to the desired target level.

- Detailed reviews involve the Executive risk owner providing an overview of the risk, recent developments, and how we are currently managing it as well as improvement areas.
- Collective reviews at the Risk Committee and the Executive on a quarterly basis and every six months at the Board.

Enhancing our risk framework

Continuous improvement is a key component of our enterprise risk management framework. In recent years we have matured fundamental aspects of our enterprise-wide risk management approach.

- We have partnered with a specialist provider to assess our risk governance and support our ongoing maturity of the risk framework.
- We have benchmarked our risk profile with other utilities to gain insight and understanding of different approaches.
- We have increased engagement with our risk committee to provide risk owners with increased comfort, knowledge and capability to manage their risks.
- On a regular basis, the Executive members have assessed the principal risks facing the Company collectively, recognising that different risks can materialise at the same time and/or potential interactions among risks, including risk concentrations and contingent risks. In making this assessment, the Executive and the Board are in a position to understand potential worst case scenarios and our response and mitigations.

Roles and responsibilities

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

SGN risk management (cont)

Pandemic risk

Throughout the year, our risk management processes have assessed and tracked the implication of Covid-19 has had on safety, asset programme, supply chain, employees, IT and Finance. During the year, regular updates were provided to the Board.

The Covid-19 pandemic has shown us how important it is to understand and prepare for catastrophic events. Following this experience, we have taken steps to enhance our organisational resilience and incident response to deal with future low likelihood and high impact event.

SGN risk management framework

Profile features

Our principal risk profile consists of 12 risks reflecting the changing nature of the business environment, political and regulatory environment, transition to GD2 and other external risks.

Although, our profile is relatively stable we have added three risks and removed one risk since last update.

We have included Customer experience, Finance and Supply Chain risks to align with RIIO-GD2 business plan.

Trend features

- In the table below, we have highlighted the trends since the last update.
- Lower risk to Network asset management due to agreed asset expenditure.
- Increased risk for Cyber resilience reflecting the increased threat landscape.

Principal risks – trend/profile (impact after mitigations)

Residual impact to business model (High to Low)

Risk	New	Lower	Stable	Increased
1. Future of gas network			●	
2. Cyber and IT resilience				●
3. Political and public policy risk			●	
4. Leadership, people and culture			●	
5. Safety and health			●	
6. Financing	●			
7. Environment and climate adaption			●	
8. Legal and compliance	●			
9. Supply chain			●	
10. Network asset management and physical security	●			
11. Customer interests		●		
12. Licence condition and regulatory requirements			●	

Principal risks and uncertainties (cont)

Principal risks

1. Future of gas network

Oversight:
SGN Board

What is the risk?
Decisions from government on climate change present risk to SGN due to the desired outcome being one that does not rely on gas network assets.

Material influencing factors:
- Risk of unfavourable changes arising from 'net-zero' legislation, threatening the future of gas.
- Participation in relevant groups to influence government policy by explaining the role of green gas to deliver net-zero.
- Successful delivery of the Research and Development programme – H100 and other projects set out for GD2.
- Prepare comprehensive evidence for all projects in advance of government's decision on hydrogen role.
- Ensuring that hydrogen meets customers' needs.

Key developments in 2020/21:
- Climate Change Committee (CCC) have put in place more stretching targets to 2030.
- Increased government commitment to hydrogen running in parallel.
- Periodic briefings with key stakeholders on emerging trends and developments.

Key developments associated with Covid-19:
- Reduced customer access and engagement slows research and development projects – H100.

Key mitigations:
- Influencing government policy and regulatory decisions by setting up a collaborative body of networks, industry, BEIS, and Ofgem.
- Co-ordination of the hydrogen programme evidence and activity through the Energy Networks Association.
- Developing a clear SGN policy framework and plan for heat decarbonisation including hydrogen, biomethane, and heat networks.
- Utilising innovation funding and working with others to test potential decarbonisation pathways.

Link to SGN Strategic Pillars

Building a shared future

2. Cyber and IT resilience

Oversight:
SGN Board

What is the risk?
Failure to implement appropriate security risk management and crisis management could result in cyber attacks from nation states, hacktivists, criminals, and/or insiders. Loss of critical IT services due to the design of core services and/or ineffective BCM plans. Loss of IT services could result in interruption or disruption to our core business operations.

Material influencing factors:
- Exponential increase in data breaches and increasing threat landscape due to recent pandemic and disparate new ways of working.
- Cyber actors are targeting utility assets, especially operational technology (OT) environments.
- Increased ransomware attacks.
- Increased targeting of third parties, allowing entry into corporate networks through exploitation of supplier trust relationships.
- Failure in systems due to software, hardware and connectivity issues.

Key developments in 2020/21:
- Raising staff security awareness through training and awareness campaigns.
- Increase in regulatory scrutiny including formal audits and reporting (Cyber Assurance Framework).
- Successful migration to cloud services without interruption to services.
- Greater diversity of physical data centres running our services and more diverse network connectivity to those services.

Key developments associated with Covid-19:
- Continued leveraging of technology/digital services for secure and efficient home working.

Key mitigations:
- Secured uplift in Cyber security funding to combat risk.
- Developed a managed security service with an external partner to complement a skilled in-house security team to improve the defensive capability of our organisation.
- Working closely with our industry peers and government agencies to shape our delivery of the security programme as well as complying with the directives.
- Ongoing work to maintain business continuity and disaster recovery procedures focusing on consequences of geo-political actors or malicious activity.
- Hardware and network resilience/segmentation in place.
- Maintenance plan and activities in place to manage the risk of failure.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

3. Political and public policy risk

Oversight:
Stakeholder, Environment and Customer Committee

What is the risk?
There is a risk that adverse future intervention by the UK and Scottish governments in the energy markets, or changes in governmental policy, may have an unfavourable impact on our business model.

Material influencing factors:
- Labour party policy of nationalising utilities remains in place. In the event of renationalisation, the business could be acquired below fair value.
- The First Minister of Scotland wants to push for an independence referendum. An independent Scotland will create uncertainty due to potential changes to the regulatory system and price controls.
- Persistent political pressure undermines the stable financial attraction to new investors, and difficult debt market conditions.

Key developments in 2020/21:
- Labour party policy of nationalising utilities remains in place. Risk has receded since 2019 General Election.
- Following May 2021 elections Scottish independence has gained momentum.

Key developments associated with Covid-19:
- Fast moving National, Regional and Local government guidance and rules during the lockdown period.

Key mitigations:
- Contributing to development of UK and Scottish Government policy during 2021.
- Continue to build capability within the Company to promote our brand and explain our role.

Link to SGN Strategic Pillars

Building a shared future

Making a positive impact

Creating value and growing our service

4. Leadership, people and culture

Oversight:
People and Reward Committee

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

Material influencing factors:
- Appropriate succession planning and career development that deals with potential future skills and shortages.
- Promoting the value and benefits of an inclusive and diverse workforce.
- Creating a culture in which employees are confident to speak up and follow an ethical approach.

Key developments in 2020/21:
- Leadership team dealt with unprecedented events and fast moving, ongoing business priorities – pandemic, GD2, close out of GD1, and change.
- We have rolled out a leadership training framework which sets out defined behaviour, expectation and support.
- Training largely transferred to online platform.

Key developments associated with Covid-19:
- Deployed new ways of working and supporting flexible working, work/life balance and wellbeing of our workforce.
- Monitoring staff absences and communicating impacts to the regulator on a timely basis.

Key mitigations:
- 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 training to support 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.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Focusing on talent, skills and opportunities for our people

Principal risks and uncertainties (cont)

Principal risks (cont)

5. Safety and health

Oversight:
Health and Safety Committee

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

Material influencing factors:
- Harm to the employees, contractors or members of the public.
- Competent employees and contractors.
- Appropriate procedures, equipment, and training.
- Safety culture.
- Legislation and Regulatory requirements.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Building a shared future

Key developments in 2020/21:
- Continued work to embed safety culture with employees, and contractors.
- Regularly meeting Safety process metrics set by the Regulator.

Key developments associated with Covid-19:
- Workplace risk assessment and training rolled out which was extremely relevant, with working practices and places of work changing due to Covid-19.
- Continued monitoring and management of processes which could have an adverse impact on standards of service or regulatory output.
- Some project delivery has been impacted by lockdown restrictions, self-isolating customers and social distancing.
- Regulatory easement sought where delivery of work activity is slowed by absence levels and restrictions.

Key mitigations:
- We have a continued focus on safety across all assets and operations.
- 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.
- We run wellbeing programmes and campaigns for our people.

6. Financing

Oversight:
Finance Committee

What is the risk?
The risk that the Group is unable to, or that it costs the group materially more to raise equity or external debt financing to refinance existing debt or to fund further investment within the Group.

Material influencing factors:
- Ongoing commitment to and licence obligation to maintain an investment grade credit rating within the Ofgem regulated gas distribution network entities.
- The final determination for the RIIO-GD2 price control outlines a more challenging price control environment versus the current RIIO-GD1 price control with significant reductions in allowances and therefore returns, which will impact investors' appetite for investment and credit metrics.
- The future of the gas network (see principal risks 1 above) and how that develops may have an impact on the appetite that equity and debt investors have for investing in SGN and also the tenor of their investment.
- Fluctuations/volatility in interest rates, inflation rates and credit spreads as a result of macro-economic events may impact investor appetite for investment as well as expected returns.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Building a shared future

Creating value and growing our service

Key developments in 2020/21:
- In December 2020, Southern Gas Networks plc issued an 11-year £250m 1.25% GBP public bond to refinance maturing debt and provide further funding for investment within the business.
- On 25 May 2021, one of SGN's shareholders, SSE plc, announced that it will commence a disposal process for all of their interest in SGN during mid-summer 2021, with the intention of having an agreed sale by the end of the calendar year.

Key developments associated with Covid-19:
- External dividend distributions were deferred until the end of the financial year, whilst the impact of the Covid-19 pandemic was assessed and refinancing of maturing debt completed, to maximise liquidity within the Group.
- During the year we capitalised the interest due on shareholder loans to support maintaining greater liquidity within the Group.

Key mitigations:
- The Group has a treasury policy that is focused on maintaining:
  - 12 to 18 months committed sources of liquidity (cash and committed facilities) within the Group;
  - A smooth debt maturity profile to minimise annual refinancing requirements and spread refinancing risk;
  - Access to diversified sources of funding to avoid over-reliance on any one market;
  - A proportion of direct or synthetic inflation debt liabilities to hedge the Group's assets and cash flows.
- Regular dialogue and updates provided to credit rating agencies.
- Regular internal monitoring and reporting of key credit metrics and financial covenants to the Executive Committee, Finance Committee and Board.
- SGN has identified a number of technical issues in Ofgem's RIIO-GD2 Final Determination and, as a result, has referred these to the Competition and Market Authority (CMA) for judgement. The areas that SGN has specifically appealed on include the cost of equity, outperformance wedge and certain aspects of Ofgem's efficiency methodology.

7. Environment and climate adaption

Oversight:
Stakeholder, Environment and Customer Committee

What is the risk?
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.

Material influencing factors:
- Changes in our social licence to operate.
- Harm to our people and the environment.
- New legislation and targets.
- Damage to assets and property.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Key developments in 2020/21:
- Fast changing landscape with heightened social awareness and changes to public policy.
- Adapting the Environmental Action Plan to reflect funding, customer needs and stakeholder expectations.
- New Licence Condition from Ofgem to produce Annual Environmental Report for GD2.
- Enhanced focus on Environment, Social, and Governance (ESG) reporting from investor community can bring opportunities for SGN.

Key developments associated with Covid-19:
- Extended time on some projects due to unforeseen environmental mitigations.

Key mitigations:
- Delivering the Environmental Action Plan and Environmental Sustainability Strategy by decarbonising the network and operations.
- Engaging with the supply chain.
- Delivering regular interaction with stakeholders and customers, including the establishment of an Environment Advisory Panel.
- Full implementation of behavioural and cultural improvement.
- Maintaining our ISO14001 accreditation.

8. Legal and compliance

Oversight:
Audit Committee

What is the risk?
Legal risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, or ambiguity in, the way law and regulation apply to your business, its relationships, processes, products and services.

Material influencing factors:
- Speed of new legislation.
- Speaking Up culture.
- Training and Communication.
- Compliance.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Creating value and growing our service

Key developments in 2020/21:
- Embedding training and awareness around key business responsibilities and rules.
- Ongoing compliance work.

Key mitigations
- We are progressing programmes to strengthen our compliance framework, supported by relevant training for those in high risk roles.
- 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.

Principal risks and uncertainties (cont)

Principal risks (cont)

9. Supply chain

Oversight:
Audit Committee/Stakeholder, Environment and Customer Committee

What is the risk?
The risk of disruption to supply continuity if there is over-dependence on a limited number of suppliers and/or failure to meet increased expectations for sustainable procurement due to lack of co-ordination with supplier partners.

Material influencing factors:
- Unable to deliver effective supplier selection and/or in-life management of contracts due to limitations in organisational capability.
- Failure to manage suppliers could result in brand damage, business disruption, commercial loss, and regulatory fines.
- Failure to meet current and future customer expectations.

Key developments in 2020/21:
- Supply Chain Resilience improved through implementation of new Mains Replacement Contract and Dynamic Purchasing System for emerging/changing requirements.
- Selected new online sourcing system to implement for 2021/22. Driving improved efficiencies, reporting and compliance.

Key developments associated with Covid-19:
- Ensuring that sufficient third-party resources and inventory are in place to keep the gas flowing, meet emergency obligations and re-start replacement programme.

Key mitigations:
- Developing and harnessing new suppliers to encourage competition and innovation.
- Supplier performance management and compliance across key areas.
- Ongoing support and management of contracts to maximise commercials for both parties.
- Preparation to deal with short-term and long-term shocks.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Making a positive impact

10. Network asset management and physical security

Oversight:
Health and Safety Committee

What is the risk?
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.

Material influencing factors:
- Major incident or explosion leading to total or partial loss of asset.
- Severe adverse weather that causes damage or interrupts supply.
- Appropriate asset management lifecycle and delivery.
- Malicious attacks on infrastructure.
- Reputational damage associated with supply disruption.
- Supply chain management including competent contractors.

Key developments in 2020/21:
- We are particularly focussed on the asset lifecycle management.
- Successfully completed ISO55001 audit.
- GD2 Business Plan and Ofgem Final Determination set out clear asset investment strategy out to March 2026.

Key developments associated with Covid-19:
- Some activities re-commenced at a slower ramp up rate affecting productivity during the year.
- Projects had to be re-planned to ensure that the priority elements are undertaken and completed.
- Revised procedures in place in the event of a local gas supply emergency.

Key mitigations:
- Core business processes help ensure that gas supply to the customer is maintained.
- Long-term horizon scanning is in place to capture network asset changes.
- 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 test resiliency through a number of activities such as emergency exercises and risk assessment tools.
- A physical security upgrade programme is designed to meet government agencies guidelines.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

11. Customer interests

Oversight:
Stakeholder, Environment and Customer Committee

What is the risk?
Failure to maintain high levels of customer service, in particular with our most vulnerable customers, could lead to financial penalties, reputational damage, business stagnation and loss of trust with a range of stakeholders from local communities to national government.

Material influencing factors:
- Unable to deliver effective customer response on the telephone due to limitations in IT capability or loss of service.
- Failure to manage suppliers could result in brand damage, business disruption, commercial loss, and regulatory fines.
- Failure to meet current and future customer expectations.

Key developments in 2020/21:
- Several customer centric award wins during the year.
- New vulnerability strategy developed and ready for implementation throughout 2021/22.

Key developments associated with Covid-19:
- Having to close the call centre as a place of work and operate effectively with Customer Service Advisors working from home.
- Ensuring our customer related IT systems were fit for purpose and advisors had the right IT hardware and internet access to work productively from home.

Key mitigations:
- The new CXGD2 (Customer Experience GD2) project was signed off by the Executive in March 2021.
- The Company-wide vulnerability strategy was agreed by our VSG (Vulnerable Stakeholder Group) in March 2021 to harness new suppliers and to encourage competition and innovation in the area of vulnerability.
- Ongoing support and management of external relationships to maximise collaboration and co-operation of all partners.

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Building a shared future

Making a positive impact

12. Licence conditions and regulatory requirements

Oversight:
Audit Committee/Stakeholder, Environmental and Customer Committee

What is the risk?
Failure to comply with our licence conditions and obligations.

Material influencing factors:
- New guidance for next price control.
- Closing out current price control.
- Changes in business process.
- Ofgem intervention/failure in other gas network companies.

Key developments in 2020/21:
- Ongoing engagement with Ofgem.
- Dissemination of information to the wider business ahead of next price control.

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

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Building a shared future

SGN non-financial key performance indicators

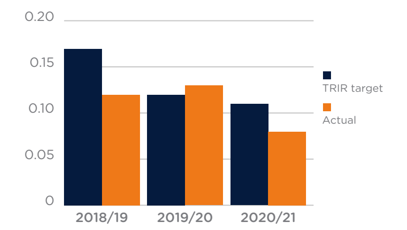
Employee experience

Health, wellbeing and workplace safety

We monitor physical safety at work using industry standard KPIs and use proactive measures to asses overall physical and mental health of employees.

Metric

Total recordable injury rate (employees and contractors)



Notes on metrics

- A new Health and Wellbeing function has been established to support our people and improve future reporting.
- We are developing a network of Mental Health supporters with over 100 embedded across our business so far.
- Safe days are the number of successive days we operate without incident.
- We are working with industry to benchmark occupation safety performance.

For more information

- FYLD – page 15
- Incident app – page 27
- Safety year in review – page 26
- Supporting mental resilience – page 23

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Making a positive impact

Focusing on talent, skills and opportunities for our people

Pay, gender and equal opportunities

Measure of average pay gap between different employee groups.

Metric

Proportion of employees across the pay quartiles

Quartile	2019 Males	2019 Females	2020 Males	2020 Females
Upper	85%	15%	86%	14%
Upper middle	90%	10%	91%	9%
Lower middle	88%	12%	87%	13%
Lower	71%	29%	68%	32%

Notes on metrics

- SGN is a Living Wage employer.
- We monitor the progress of people moving through the organisation to ensure fair and equal representation at all levels.
- Our 2021 pay gap report tracks progression through the Company, detailed statistics and reporting on what we are doing to improve our performance. The report is available at: www.sgn.co.uk/sites/default/files/media-entities/documents/2021-04/SGN-Diversity-Pay-Gap-Report-2020.pdf

For more information

- Awarded gold standard for talent and development – page 22
- Talent and succession: Developing our leaders – page 23

Link to SGN Strategic Pillars

Making a positive impact

Focusing on talent, skills and opportunities for our people

Workforce diversity

We measure workforce representation across different diversity strands including ethnicity, age, gender, disability and sexual orientation.

Metric

Ethnicity	Exec	ELT	Everyone else	2021 total
Not held	–	6	431	437
BAME	–	8	88	96
Other	1	3	38	42
White	9	86	3,071	3,166
Mixed	–	–	10	10
Total	10	103	3,638	3,751

Gender	Exec	ELT	Everyone else	2021 total
Female	2	30	617	649
Male	8	73	3,021	3,102
Total	10	103	3,638	3,751

Notes on metrics

- 542 people have completed bias awareness training.
- The data does not include our Board, which is currently a 70:30 male female split (including independents).

For more information

- Improving diversity and inclusion – page 22
- Diversity action plan – page 23
- Focusing on talent, skills and opportunities for our people – page 30
- Addressing underrepresentation – page 23

Link to SGN Strategic Pillars

Making a positive impact

Focusing on talent, skills and opportunities for our people

Employee engagement

Sustainable Engagement Index from Willis TW, includes breakout for inclusion (culture and values).

Metric

	2019	2021
Employee engagement index	79%	79%
Inclusion index	68%	67%

Notes on metrics

- Scores are very similar for both the Scotland and Southern networks.
- Inclusion performance in 2021 is lower due to the impact of Covid-19 on planned activities.
- Some engagement programmes have been halted but we expect to re-instate these in 2021/22 and the indicator will rise again.

For more information

- Supporting mental resilience – page 23

Link to SGN Strategic Pillars

Making a positive impact

Focusing on talent, skills and opportunities for our people

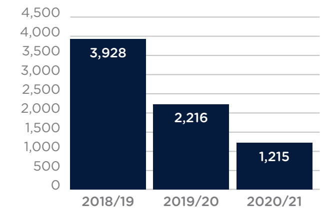
Community care

Addressing fuel poverty

We have an important role to play in combatting fuel poverty. We work together with our partner organisations to identify households affected and provide funded connections to the gas network under our Help to Heat scheme.

Metric

Fuel poor connections (FPNES)



Notes on metrics

The drop off in connections in 2020/21 reflects the periods of lockdown and reduced activity during the year, when we stopped all non-essential work. Even after lockdown, customers remained exceptionally cautious about letting people into their homes and opportunities to connect were reduced.

For more information

- Covid-19 statement – page 3
- Adapting our Fuel Poor service during the pandemic – page 18
- New services on our Customer Referral App – page 21
- Fuel Poor Connections update – page 20

Link to SGN Strategic Pillars

Making a positive impact

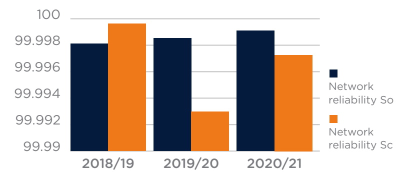
Delivering a safe and efficient service

Network reliability

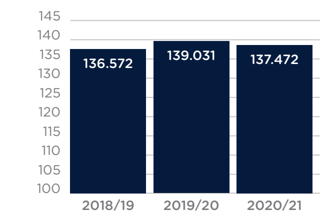
The reliability of our gas networks as measured against a target of total reliability, 100% of the time.

Metric

Network reliability (as % of full availability)



Gas transported (in TWhs)



Notes on metrics

Our customers currently experience an interruption only once every 50 years on average. We continue to seek ways to further reduce the inconvenience of loss of supply. Interruptions to customers' supplies have fallen by 29% during GD1.

Gas continues to play a dominant role in providing domestic and industrial heat energy, and in electricity generation. We expect demand to decline as more wind power comes on stream and government policy creates the necessary frameworks to incentivise the transition to low carbon alternatives, including hydrogen gas.

For more information

- Operations – page 34
- Repex – page 8
- Increasing the volume of biomethane gas in the pipes – page 8

Link to SGN Strategic Pillars

Delivering a safe and efficient service

SGN non-financial key performance indicators (cont)

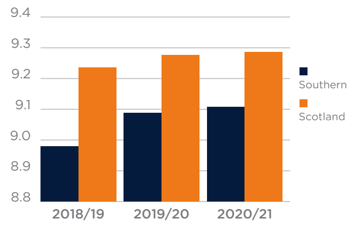
Community care (cont)

Customer satisfaction

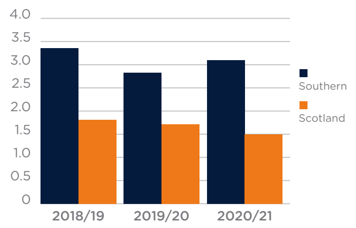
We measure customer satisfaction using Ofgem's RIIO-related metrics, scored out of 10.

Metric

Customer satisfaction (out of 10)



Complaints metric (out of 10)



Notes on metrics

Our customer satisfaction scores for both our networks have improved year on year and sit above 9.0. Scotland has held the number one GDN position for the past five years.

For more information

- Customer satisfaction – **page 22**
- Customer satisfaction scores – **page 41**
- Customer complaint volume change – **page 41**

Link to SGN Strategic Pillars

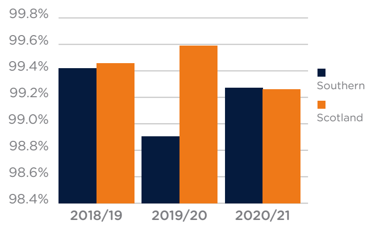
Making a positive impact

Emergency response performance

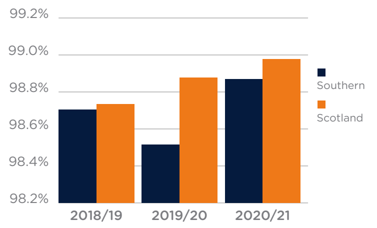
We measure our emergency response performance using Ofgem's RIIO-related metrics. This includes recording the percentage of uncontrolled and controlled gas escapes responded to within one and two hours respectively.

Metric

Controlled gas escapes



Uncontrolled gas escapes



Notes on metrics

We outperformed our targets again in 2020/21, with teams benefiting from less congested roads and greater availability of FCOs who were not able to work on regular projects because of lockdown.

For more information

- Covid-19 statement – **page 3**
- Reducing third party damage – **page 27**
- Operations – **page 34**
- Emergency response – **page 8**

Link to SGN Strategic Pillars

Delivering a safe and efficient service

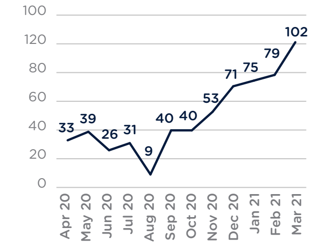
Building a shared future

Value in the community

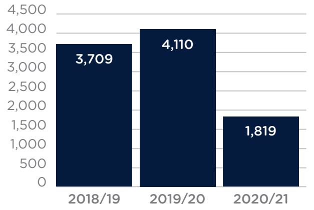
We provide a Careline service to reconnect vulnerable customers. Our engineers also refer vulnerable customers to additional services including energy advice, financial and welfare assistance and access to the Priority Services Register (PSR).

Metric

Referrals (2020/21)



PSR registrations



Notes on metrics

Our engineers refer vulnerable customers for PSR using the 10/10 App. During the pandemic the App was removed which reduced PSR referrals however, Careline was put in place to support customers who wished to register by contacting us directly.

For more information

- Our role in the community – **page 20**
- Managing CO risk – **page 20**
- Volunteering – **page 21**
- Improving outcomes for disabled customers – **page 21**
- Online Safe Spaces – **page 21**

Link to SGN Strategic Pillars

Making a positive impact

Delivering a safe and efficient service

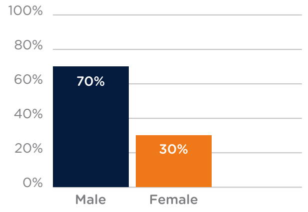
Governance

Board composition

We monitor Board composition to ensure a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution.

Metric

Diversity



Board skills and experience includes:

- Finance, Utilities, Infrastructure, Construction, Energy, Stakeholder, Regulation, Policy and Governance.

Notes on metrics

- The Board is committed to improving its diversity in terms of gender, ethnicity, disability and age in line with best practice.
- The People and Reward Committee continues to monitor the skills, experiences and knowledge of the Board members to ensure long-term success.

For more information

- Board composition and experience – **pages 79 and 81**

Link to SGN Strategic Pillars

Delivering a safe and efficient service

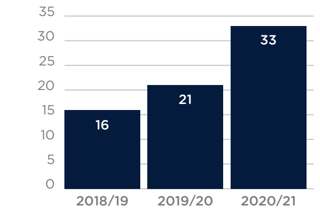
Focusing on talent, skills and opportunities for our people

Safe to Speak Up

Empowering people to speak up against wrongdoing is a central element of our approach doing the right thing. This can be done through an independent whistleblowing channel, called Navex, as well as through various internal channels.

Metric

Speak Up reports



Notes on metrics

- A breakdown of these reports, including how they were made, what they related to and the outcomes of investigation are reviewed by our Audit Committee to ensure effectiveness of actions taken in response to concerns raised.

For more information

- Safe to Speak up initiative – **page 56**

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Focusing on talent, skills and opportunities for our people

Group policies

An organisation's culture is a key determinant of its long-term success and our ethical culture is central to this. The establishment of our Group-wide policies, together with our training and awareness programme, helps ensure the right expectations and culture across the organisation.

Metric

Group-wide policies:

- Conflicts of Interest
- Anti-Bribery and Corruption
- Safe to Speak Up
- Modern Slavery
- Data Protection

Training and awareness:

Compliance area	Plan 2020/21	Actual 2020/21
Data Protection	3,954	3,195
Business Separation and Competition	3,954	3,437
ABC & Fraud	1,300	2,200
Money Laundering	0	0
Modern Slavery	0	0
Total training delivered	9,208	8,832

Notes on metrics

- We have made significant improvements in our ability to deliver SGN specific compliance training this year – achieving 96% against target.

For more information

- www.sgn.co.uk
- Conflicts of interest – **page 76**

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Focusing on talent, skills and opportunities for our people

SGN non-financial key performance indicators (cont)

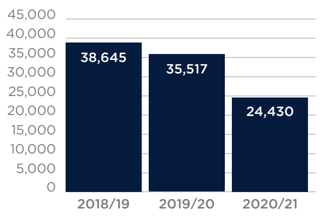
Environmental

Business carbon footprint

Our business carbon footprint includes scope 1, 2 and 3 (in accordance with the greenhouse gas protocol) excluding shrinkage. It is reported in tonnes of CO_2e (tCO_2e). All data is SGN total.

Metric

Business carbon footprint (tCO_2e)



Notes on metrics

Our business carbon footprint has reduced by 31% in 2020/21 when compared with the previous year. This reduction reflects the impact of the Covid-19 pandemic on our operations, with less emissions across all scopes due to business interruptions (less energy consumption, business travel, contractors travel, etc) and because we have switched the majority of our building electricity supply to certified renewable electricity. We don't expect to see a similar year-on-year drop repeated in 2021/22.

We have initiated a programme of installing LED lighting and Building Management Systems which will see significant energy efficiency savings over the coming years.

For more information

- Decarbonising our business, scope 1, 2 and 3 – **pages 33, 35**
- SGN – leading the way towards net-zero – **page 34**
- SECR table – **page 69**
- Business Carbon Footprint % reduction – **page 39**

Link to SGN Strategic Pillars

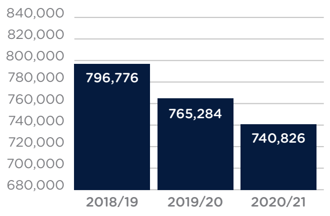
Building a shared future

Gas shrinkage

Shrinkage is defined as gas leakage from the network, own use gas and gas theft. It makes up 95% of our total carbon footprint. Environmental emissions from shrinkage are measured in tCO_2e. All data is SGN total.

Metric

Gas shrinkage (tCO_2e)



Notes on metrics

Environmental emissions for shrinkage have reduced by 11% since 2017/18, while volumes of gas transported has gone up by 2%. Activities that reduce shrinkage include iron mains replacement programme (repex), improved pressure management and innovation.

For more information

- Concluding our GD2 planning process – **page 16**
- Decarbonising our business, scope 1, 2 and 3 – **page 35**
- SGN – leading the way towards net-zero – **page 34**
- SECR table – **page 69**
- Repex programme update – **page 37**

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Building a shared future

Reducing waste

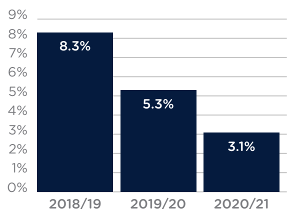
We currently measure business waste (in tonnes) as:

- Waste from depots sent to landfill
- Spoil to landfill

We also measure our sustainable resource use by considering use of virgin aggregate in our reinstatement projects.

Metric

Spoil to landfill (in % of total tonnes)



Notes on metrics

Spoil to landfill is continuing to reduce and we are aiming for zero non-hazardous waste to landfill by 2026. This will also include waste from our depots and offices, and we are working with our waste management provider to reduce landfill waste through re-use and recycle.

By 2026 we are aiming to use no more than 0.1% virgin material for reinstatement works in our Southern network and no more than 20% virgin material for our Scottish network. Scotland has one of the lowest numbers of recycling centres of all gas distribution areas due to its geography and low population density, reducing SGN's access to recycled material.

For more information

- SGN Leading the way towards net-zero – **page 34**

Link to SGN Strategic Pillars

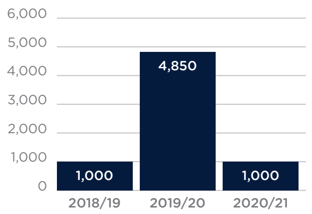
Building a shared future

Greening the gas

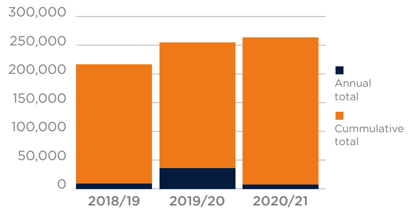
Growing the number of biomethane plants connected to our networks helps customers reduce their carbon footprint by increasing green gas in our pipes. Burning biomethane produces around 90% less carbon dioxide (equivalents) when compared with natural gas.

Metric

Annual volume of new biomethane in the network (scm/h)



Growth in biomethane (equivalent households supplied)



Notes on metrics

The high volume of connected biomethane capacity in 2019/20 was due to the RHI (Renewable Heat Incentive) deadline of 31 January 2020. In 2020/21 the RHI received an extended deadline from 31 March 2021 to 31 March 2022 due to Covid-19 impact. This has delayed some connection dates.

For more information

- Key achievements over the year – **page 10**
- Informing the debate – **page 20**
- Building a shared future – **pages 22-23**
- Creating value and growing our service – **pages 26-27**
- Leading the way towards net-zero – **page 34**
- Growth in non-regulated business – **page 35**

Link to SGN Strategic Pillars

Delivering a safe and efficient service

Making a positive impact

Building a shared future

GHG emissions and energy use data for period 1 April 2020 to 31 March 2021

Scope 1 and 2 (Direct emissions)	Reporting year 2020/21	Comparison reporting year 2019/20
Scope 1: Gas usage from our occupied/operational sites (tCO_2e)	808	864
Scope 1: Natural gas shrinkage (leakage + theft of gas + own use of gas) (tCO_2e)	740,826	765,284
Scope 1: Fuel usage from commercial vehicles, company cars and grey fleet (tCO_2e)	12,529	12,631
Scope 2: Purchased electricity for own use (market based) (tCO_2e)	280	3,244
Total Scope 1 and 2 (tCO_2e)	754,443	782,023
Scope 1 and 2 energy consumption (kWh)	713,314,092	732,416,002
Intensity metric: Total scope 1 and 2 per £m turnover (tCO_2e/£m)	635	666
Intensity metric: Total scope 1 and 2 per km gas pipe in network (tCO_2e/km)	10.49	10.88
Intensity metric: Total scope 1 and 2 per energy throughput (tCO_2e/GWh)	5.32	5.61
Scope 2: Purchased electricity (location based) (tCO_2e)	3,174	3,433

Scope 3 (Indirect emissions)	Reporting year 2020/21	Comparison reporting year 2019/20
Business travel (rail, air, ferry, car hire) (tCO_2e)	18	787
Transmission and distribution losses from purchased electricity (tCO_2e)	20	258
Emissions from production and delivery of purchased PE pipe (tCO_2e)	4,992	9,794
	5,783	7,750
Contractor emissions[1] (tCO_2e)	10,813	18,589

Total emissions (scope 1, 2 and 3)	Reporting year 2020/21	Comparison reporting year 2019/20
Total annual net emissions (tCO_2e)	765,256	800,612
Intensity metric: Total emissions per £m turnover (tCO_2e/£m)	623	682
Intensity metric: Total emissions per km network length (tCO_2e/km)	10.64	11.14
Intensity metric: Total emissions per energy throughput (tCO_2e/GWh)	5.40	5.74

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

1) Mains replacement contractor fuel use, LNG tanker fuel use and helicopter pipeline survey fuel use.

All data relates to the regulated business only for Southern and Scotland networks, and the SGN total is for those two networks combined.

Chair's introduction to governance

I am pleased to introduce this report, which describes the activities of the Board during the year, along with SGN's governance arrangements.

COVID-19
As a Board we have been considering the impact of Covid-19 on our business and overseeing our overall response. Our priority throughout the pandemic was to ensure the safety of our employees, our customers and to maintain our essential service; safely delivering warmth and power to homes and industry at all times. Our robust governance framework has helped to support this work.

RIIO-GD2
SGN is an award-winning gas network company with a strong track-record of delivering a safe and efficient supply of natural and green gas to 5.9 million customers. For the five-year regulatory period covering 2021 to 2026, SGN formulated a comprehensive and robust business plan which carefully reflected the views of many stakeholders and customers, while preparing a decarbonised gas network for the future.

In February the Board took the decision to refer Ofgem's RIIO-GD2 Final Determination of our GD2 Business Plan to the Competition and Markets Authority, following SGN's licence modification published by Ofgem on 3 February 2021 which was based on Ofgem's Final Determination published on 8 December 2020.

We identified a number of technical issues in Ofgem's Final Determination and, as a result, referred these to the CMA.

While the CMA process is ongoing, we are committed to delivering operational excellence and outstanding service for all our customers. We will continue to work constructively with Ofgem and the UK and Scottish governments to help meet net-zero targets through our pioneering decarbonisation programme.

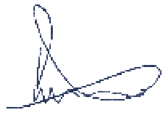
We are building a more inclusive and diverse group of individuals within our Company, who will be much better equipped in dealing with the changing and challenging nature of our world and environment.

Shareholder divestment
SSE plc ('SSE') and Blue Spyder B 2016 Limited ('Blue Spyder') are considering jointly selling their collective 50.0% equity stake in SGN.

We have been doing a lot of work on what it means to our operations when SSE and Blue Spyder are no longer shareholders of SGN. We have an excellent relationship with SSE and are confident that any changes that may be required will be made as smoothly and seamlessly as possible.

Board appointments
The Board's succession planning has always been focused on planning for transition over time. As noted earlier, I joined SGN's Board in 2019 and it's now my privilege to be the Company's Chair, after Gregor Alexander stepped down from the role on rotation after 10 years. Delphine Voeltzel also joined the Board in July 2020 taking over from John McManus.

Governance
As a Board, we remain committed to high standards of corporate governance and believe that these high standards are central to the effective management of the SGN Group and to maintaining the confidence of our stakeholders. The following pages provide information on the composition of the Board and its governance structure and processes, together with reports from each of its committees.



Nick Salmon
Chair

20 July 2021

Wates and compliance with code

For the year ended 31 March 2021, under the Companies (Miscellaneous Reporting) Regulations 2018, the SGN Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018. A full copy can be viewed on its website under www.frc.org.uk/directors/corporate-governance-and-stewardship/governance-of-large-private-companies.

The Wates Principles provide a framework for the SGN Board to monitor corporate governance of the SGN Group and see where governance standards can be raised to a higher level across the business. We believe this, in turn, will result in better engagement with our stakeholder base.

The governance framework will also provide the right environment for the Board to make decisions for the long-term success of the SGN Group.

The tables on pages 72 to 74 summarise the six Wates Principles and indicates where more information can be found in the strategic and the governance reports. Throughout FY 2021/22, the Board will continue to review and challenge how the SGN Group can continue to improve its corporate governance.

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

1. **Employee Engagement** – A statement on how Directors have engaged with employees and how Directors have had regard to employee interests (see page 47 and Directors' Report on page 89).
2. **Stakeholder Engagement** – A statement on how Directors have engaged with stakeholders and how Directors have had regard to stakeholder interests (see pages 46 to 50 and Directors' Report on page 89).
3. **Section 172** – A statement on how Directors have had regard to their Section 172 duty to promote the success of the Company, as set out in the Companies Act 2006 (see page 51).
4. **Corporate Governance** – A statement on the Company's Corporate Governance Arrangements and how these have been applied (see pages 72 to 74).

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

SGN and the Wates Principles for large privately owned companies

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

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

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

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

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

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

Wates and compliance with code (cont)

Principle 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.

Summary

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 our strategy is to deliver long-term value for our existing and future customers, stakeholders and shareholders.

The Board is responsible for ensuring that values, strategy and culture are aligned with our vision and purpose. Our Strategic Pillars embed our vision, purpose and values as key elements to ensure our stakeholders' interests are central to our long-term success.

What we did in FY20/21 and we plan to do in FY21/22

During the financial year we worked with our people and stakeholders to ensure we are fit for our future and focussed on delivering our business plan as we prepared to move from RIIO-GD1 to RIIO-GD2. Looking ahead to FY21/22, we are planning a culture audit to see how we are performing against our core value to put people at the heart of what we do by creating an inclusive workplace for all.

Where you can find further information

For further information on our purpose, vision and Strategic Pillars please refer to page 4.

Principle 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.

Summary

The Board comprises eight Non-Executive Directors, including a separate Chair 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 Director of Legal Services & Group Company Secretary attend each Board meeting. Two Independent Non-Executive Directors also sit on the subsidiary Boards of Scotland and Southern Gas Networks plc.

The Independent Non-Executive Directors bring outside experience in utilities, energy policy and finance, and provide constructive challenge and influence. The composition of the Board is partly determined by the Shareholders' Agreement and it is considered to be in the best interests of the Group for the CEO, CFO and each shareholder to be represented at meetings. We consider that there is an appropriate combination of skills, backgrounds, experience and knowledge that promotes accountability.

What we did in FY20/21 and we plan to do in FY21/22

Towards the end of financial year, Gregor Alexander stepped down as Chair following 10 years and Nick Salmon was appointed as Chair. Gregor Alexander remains on the Board and in advance of this rotation supported with the succession and transition to Nick Salmon.

As part of his new role as Chair, Nick Salmon has completed one-to-ones with each Director, which was followed by a short Board evaluation and report from the Director of Legal Services and Group Company Secretary. From this feedback, we have planned a Board strategy day for FY21/22 and are also planning a culture audit to see how we are performing against our core value to put people at the heart of what we do by creating an inclusive workplace for all. The Board is also committed to improving diversity throughout the Company in terms of gender, ethnicity, disability and age, and its People and Reward Committee is responsible for reviewing diversity and succession planning.

Where you can find further information

Further details of the Board composition and experience can be found on pages 79 to 81.

Principle 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.

Summary

The SGN Group has a separate Chair and CEO to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained. The Board receives regular reports on financial and operational performance, customers, people and stakeholders and management of key business risks along with updates on activities and decisions of its committees. Independent Non-Executive Directors provide constructive challenge to the Board's decision-making process.

What we did in FY20/21 and we plan to do in FY21/22

The Board continues to be supported by the work of the Board Committees. During the year, a review and update to the Committee Terms of Reference and Board Responsibilities was completed to ensure clear understanding of accountability and responsibilities. In FY21/22, a review of the Board Reserved Matters is planned to ensure the balance of responsibilities, accountabilities and decision making is maintained between the Executive Committee, Board and new subsidiary companies within the Group, as the Group continues to grow and diversify.

Where you can find further information

Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 83 to 87.

Principle 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.

Summary

The SGN Board seeks out opportunity while mitigating risk. Long-term strategic opportunities and high value investments are presented to the Board. The Executive Committee ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner updating the risk register for any changes in underlying conditions and reporting this through to the Board. Operational and safety risks are regularly reviewed by the Risk Committee and financial risks by the Audit Committee.

What we did in FY20/21 and we plan to do in FY21/22

The Board formally reviewed the key strategic risks both at the half and full year point, which now encompasses a formal review of emerging risks taking insights from an independent consultant to help shape this discussion. The Board plans to review the risk appetite and target risks in FY21/22 to ensure these reflect the RIIO-GD2 plan and pathway to decarbonisation. The Board also reviews key investment opportunities throughout the year.

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

Where you can find further information

The Group's risk management framework and key strategic risks and mitigations are outlined in the Strategic Report on pages 56 to 63.

Details of the key investment opportunities reviewed by the Board can be found on page 82.

Wates and compliance with code (cont)

Principle 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.

Summary

The People and Reward Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking.

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

What we did in FY20/21 and we plan to do in FY21/22

In FY20/21, the Board (following a recommendation from PARCO) agreed changes to both the short-term and long-term incentive plan to align these against the Strategic Pillars to ensure a better alignment to support delivering what matters to stakeholders including our pathway to decarbonisation. A review of the Executive remuneration policy was also completed in the year which included a move to 80:20 company and personal performance spilt of short-term incentives. We propose to review the short-term incentive framework again in FY21/22 which will provide an opportunity to reflect any changes flowing out of the Board strategy day.

Where you can find further information

Details of activities undertaken by PARCO can be found on page 85.

The gender pay gap report can be found on page 64.

Principle 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.

Summary

The Board is aware of the broader impact it has on its various environments, its customers and society in general, and has established corporate social responsibility policies and practices for the Group. The Board is committed to social responsibility, community engagement and environmental sustainability as underpinned by our Strategic Pillars.

What we did in FY20/21 and we plan to do in FY21/22

Covid-19 has shown that stakeholder engagement and our corresponding responses to events must be dynamic. The focus and priority during the year, have been to focus on our core purpose to keep everyone safe and warm. Regular two-way engagement with our stakeholders has been central to this and helping us shape decision.

In June 2020, our newly established Stakeholder, Environment and Customer Committee (SECC) met for the first time and continued to meet during the year. Listening to feedback and committed to making gas green, we are developing our ESG strategy which we will continue to build and improve. We also plan to continue to build on our engagement by agreeing a formal, but dynamic, Board stakeholder engagement plan to ensure we continue to foster relationships and build at putting stakeholder views at the end of what we do.

Where you can find further information

Further details on Engaging with Stakeholder section and Section 172 (1) statement can be found on pages 46 to 55.

SGN governance structure

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

Governance framework

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

Chair

On 1 March 2021, Nick Salmon was appointed Chair, following rotation from Gregor Alexander who remains in the Board.

Board of Directors

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

The Board is collectively responsible for the long-term success of the Group and for setting a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders.

It provides the leadership necessary for the Group to meet its business objectives while ensuring a sound system of internal control and risk management is in place. The powers and the duties of the Directors are determined by legislation and by the Company's Articles of Association. The Board has also adopted a formal schedule of matters detailing key aspects of the Company's affairs reserved to it for decision.

Board constitution and appointments

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

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

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

Roles and responsibilities for each Board Member, Chief Executive Officer, Chief Financial Officer and Group Company Secretary can be found on page 78 followed by their biographies on page 81.

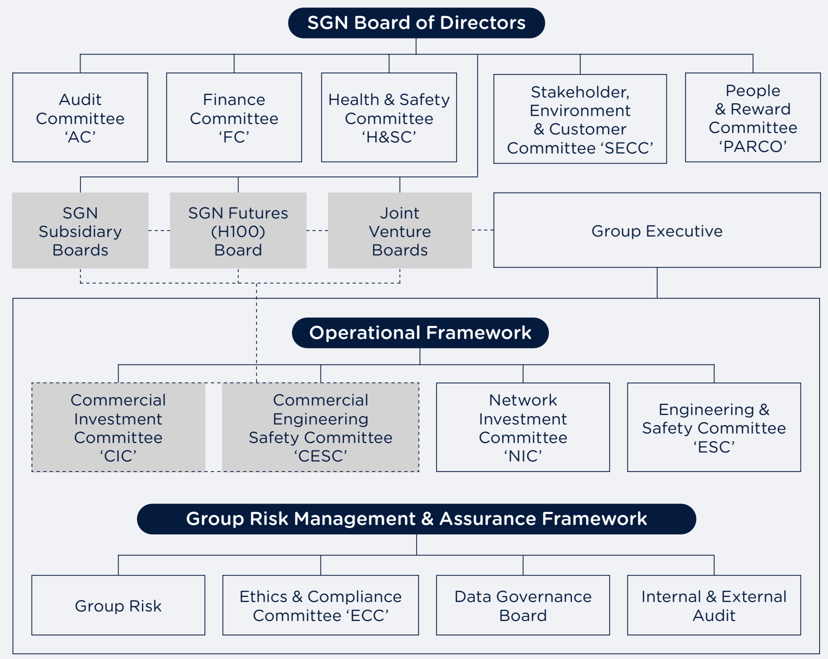
Board Committees

During the year the Board was directly assisted in the discharge of its duties

Governance framework

The SGN governance framework comprises a number of documents and Board level policies which govern the operation of the Board and its Committees. This includes: Articles of Association, Shareholders' Agreement, Scheduled of Reserved Matters, Board Committee Terms of References, Non-Audit Services Policy, Conflicts of Interest Policy and Responsibility of Key Board Roles.

Board Committees hierarchy



SGN governance structure (cont)

by five Board Committees and dedicated GD2 Board meetings, whose remit, authority and composition are monitored to ensure continued and appropriate Board support.

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 purpose and duties 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.

Further information on the Board committees are set out on pages 83 to 87.

Board effectiveness

The Group Company Secretary, Chief Executive Officer and newly appointed Chair conducted a governance review and gathered Board feedback on its effectiveness including areas such as Board paper quality, timeliness, Board meetings and engagements for the financial year. From this, a governance action plan for 2021/22 has been developed focusing on areas of continuous improvement for the Board. As part of this, the Board will have a strategy day which will focus on unregulated growth and energy transition arrangements.

Chief Executive Officer and Chief Financial Officer

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

Biographical details for the CEO and CFO are set out on page 81.

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 Officer and whose membership includes the Chief Financial Officer and leaders of each business unit. The Executive Committee is in turn supported by its own operational and assurance framework, with defined roles and responsibilities including relevant delegated authorities.

Board and Executive reporting

To ensure that all decision making is well-informed, transparent and balanced, careful consideration is given to information provision and flows within the governance framework. During the year the Group Company Secretary worked with Board Intelligence Limited to provide refresher training to Board and Committee paper authors on best practice paper writing to support the provision of high quality information and effective decision making. This exercise involved reinforcing the use of best practice paper templates which seek to help focus the Board on what matters (including checks against its Section 172 duties). Refresher training on dashboard reporting (displaying key performance data and rapid insights on the overall health of the Group) was also provided to streamline reporting across the Group at a Committee level. Board information is distributed digitally, instantly and securely via the Board Intelligence platform once available.

The Group Company Secretary is responsible to the Board for the timeliness and quality of information. All Directors have access to the advice and services of the Group Company Secretary. Biographical details for the Group Company Secretary are set out on page 81.

Conflicts of interest

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

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

Board and Executive reporting cycle

Shareholders

SGN has four supportive shareholders. The Board interacts with the shareholder members on a regular basis and always acts fairly with members of the Company.

Board meetings

There were seven scheduled meetings of the Board and an additional 12 Board calls in 2020/21 in line with the agreed plan of business for the year, and details of Director attendance can be found within the individual biographies on pages 79 and 80. 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 19 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

The Board also ensures it spends time out of the Boardroom with stakeholders. During the year the Board was impacted by what physical engagement it could undertake due to social distancing but plans to resume this once social distance permits. Full details of distanced Board engagement with stakeholders can be found on pages 46 to 55.

The former Chair of the Board, Gregor Alexander on a site visit.

Board activity

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

During the year the Board spent a significant time considering its strategy over the next five years as part of the ongoing RIIO-GD2 and considering its response to Ofgem's draft and final determination. Throughout this process, the Board listened extensively to customers and stakeholders. We heard from over 23,000 customers and stakeholders through our comprehensive and high quality engagement programme, which included multiple face-to-face workshops, telephone interviews, meetings, surveys, webinars and quantitative research activities. In addition, our engagement via digital platforms, including our website and social media channels, reached more than one million people online.

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

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

Further details of the areas which have shaped the Board and Committee agendas during 2020/21 are set out on the following pages, together with an overview of how these link to our Strategic Pillars.

SGN Board roles and responsibilities

The below role specifications set out the clear division of responsibility between members of the Board and ensure adequate focus on areas central to its role.

Position	Responsible for
Chair	• Leading the effective operation and governance of the Board. • Setting agendas which support efficient and balanced decision-making. • Ensuring effective Board relationships and a culture that supports constructive discussion, challenge and debate. • Ensuring Board members are aware of and understand the views of key stakeholders. • Creating the conditions for overall Board effectiveness.
Chief Executive Officer	• Proposing and directing the delivery of strategy as agreed by the Board. • Leadership and day-to-day management of the Group and Executive Committee. • Engaging with SGN's six key stakeholder groups and leading on related activity.
Chief Financial Officer	• The financial performance of the Group and supporting the Chief Executive Officer in implementing strategy. • Proposing policy and actions to support sound financial management. • Leading on unregulated activities. • Overseeing relationships with debt investors.
Non-Executive Shareholder Directors	• Providing constructive challenge to the Board's decision-making processes. • Scrutinising, measuring and reviewing the performance of the Group. • Constructively challenging and assisting in the development of strategy. • Reviewing and challenging the performance of the Group's business against stakeholder interest.
Independent Non-Executive Directors	• Same responsibilities as Non-Executive Shareholder Directors, with the addition of: – Bringing independence to the Board and its decision-making process. – Providing independent insight and support based on relevant experience. – Assessing risk and the integrity of the financial information and controls. – Providing independent input into the Group's strategy to reflect stakeholder interests.
Company Secretary	• Compliance with Board procedures and supporting the Chair. • Ensuring the Board has high quality information, adequate time and the appropriate resources. • Advising and keeping the Board updated on corporate governance developments. • Considering Board effectiveness in conjunction with the Chair. • Facilitating the Directors' induction programmes and training. • Providing advice, services and support to all Directors as and when required.

Board of Directors and Committee attendance

as at 31 March 2021

Chair / Shareholder Non-Executive Directors



	Chair	Shareholder Non-Executive Directors	
	Nick Salmon	**Gregor Alexander**	**Robert McDonald**
Board and Committee membership and attendance	19|19 3|3 6|6	19|19 3|3 4|4 9|9	19|19 3|3 3|3
Date of appointment	Non-Executive Director since 14 March 2019.	Non-Executive Director since 27 August 2004.	Non-Executive Director since 21 July 2006.
Biography	Nick joined the Board in March 2019 and was appointed the Chair of SGN in March 2021. He is also currently Chair 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.	Gregor joined the Board at its inception. He is Finance Director of SSE plc and previously worked with the accountancy firm Arthur Andersen.	Rob joined the Board in July 2006. He is Managing Director SSEN Transmission and has previously worked with the industry's regulatory body.
Key external appointments and changes during the period	• Chair of South East Water Limited	• Finance Director of SSE plc • Non-Executive Director of Stagecoach Group plc • Director of Scottish and Southern Energy Power Distribution Limited and related entities	• Director of Scottish and Southern Energy Power Distribution Limited and related entities • Director of Energy Networks Association Limited

Shareholder Non-Executive Directors (cont)


	Charlotte Brunning	**Michael McNicholas**
Board and Committee membership and attendance	19|19 4|4 9|9 3|3	19|19 4|4 3|3
Date of appointment	Non-Executive Director since 2 May 2018.	Non-Executive Director since 28 June 2019.
Biography	Charlotte joined the Board in May 2018. She is a member of the EMEA Infrastructure and Natural Resources team and had been with Ontario Teachers' since 2015. She has been involved in a number of direct investments, including London City Airport and SGN Smart. Charlotte holds a BSc from the London School of Economics and an MBA from the London Business School.	Michael joined the Board in June 2019. He is Managing Director, Asset Management in OMERS Infrastructure and responsible for the active management of investments, with a focus on Europe. Prior to joining OMERS, Michael was CEO of Ervia Group with responsibility for Ireland's Gas Networks and the national Water Utility. Michael also served as Group CEO of NTR a sustainable infrastructure company investing in renewables, and recycling in Europe and the USA.
Key external appointments and changes during the period	• Director of Galaxy Pipeline Assets Topco Limited • Director of Apple Newco Limited • Director of Western Topco Limited • Director of Rubicon Topco Limited	• Director of Thames Water Limited and related entities • Director of Kemble Water Holdings Ltd and related companies • Managing Director, OMERS • Director of Ellevio AB and related entities • Director of Caruna OY and related entities

Board and Committee membership and attendance key

- SGN Board
- Audit Committee
- Stakeholder, Environment and Customer Committee
- Health and Safety Committee
- People and Reward Committee
- Finance Committee

Board of Directors and Committee attendance (cont)

as at 31 March 2021

Shareholder Non-Executive Directors (cont)

Delphine Voeltzel

Board and Committee membership and attendance
- 14|14 - 2|2 - 6|6

Date of appointment
Non-Executive Director since 1 July 2020.

Biography
Delphine joined the Board in July 2020. A Director at OMERS Infrastructure, she is responsible for the origination, execution and management of investments in the utilities and renewables sectors across Europe. She previously worked with the investment bank Rothschild.

Key external appointments and changes during the period
- Director of OMERS
- Non-Executive Director of NET4GAS

Guy Lambert

Board and Committee membership and attendance
- 15|19 - 3|3 - 2|2 - 6|9 - 3|6 - 1|3

Date of appointment
Non-Executive Director since 26 October 2016.

Biography
Guy joined the Board in October 2016. He joined the Abu Dhabi Investment Authority (ADIA) in 2008 and currently serves as the Head of Utilities. He is responsible for sourcing and executing new investments in the utilities sector and overseeing the existing utilities portfolio.

Key external appointments and changes during the period
- Director of Blue Spyder B Limited 2016
- Director of Kemble Water Holdings Limited and related entities
- Director of Vier Gas Services GmbH and related entities

Statutory Independent Non-Executive Directors

Paul Jeffery

Board and Committee membership and attendance
- 19|19 - 3|3 - 9|9

Date of appointment
Independent Director since 28 January 2014.

Biography
Paul joined the Board in January 2014. Previously he ran the European Power, Utility and Infrastructure Investment Banking Sector team for Barclays. Paul is also a non-executive Director of UK Power Networks.

Key external appointments and changes during the period
- Non-executive director of London Power Networks Ltd, South-Eastern Power Networks Ltd, Eastern Power Networks Ltd and UK Power Networks (IDNO) Ltd all forming part of the UK Power Networks group
- Director and Shareholder for P&G Property Limited

Laura Sandys

Board and Committee membership and attendance
- 19|19 - 6|6 - 3|3

Date of appointment
Independent Director since 1 October 2018.

Biography
Laura joined the Board in October 2018. She was a member of the Energy and Climate Change Select Committee and co-founder of POWERful Women which promotes the role of women in the energy sector. She has been appointed a member of the Government's CCUS Council and is a Member of Imperial College's Centre for Carbon Capture and Storage Advisory Group.

Key external appointments and changes during the period
- Co-ordinator for the Reshaping Regulation Programme with Imperial College and Energy Systems Catapult
- Non-Executive Director of Energy System Catapult Limited
- Chair for the Energy Digitalisation Taskforce
- Non-Executive Director for Antika PLC
- Chair for the Food Foundation CIC

Board and Committee membership and attendance key

- SGN Board
- Audit Committee
- Stakeholder, Environment and Customer Committee
- Health and Safety Committee
- People and Reward Committee
- Finance Committee

Alternate Directors

Peter McCosker

Date of appointment
Alternate Director since 8 June 2019.

Biography
Peter joined the SGN Board in 2019. Peter is a Portfolio Manager in the Infrastructure Division of the Abu Dhabi Investment Authority (ADIA) 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.

Key external appointments and changes during the period
- Director of Oasis Infrastructure Investments Ltd
- Alternate Director of Tawreed Investments Limited and Blue Globe A 2013 Limited
- Director and Vice President of Black Buffalo B 2014 Inc

Charles Thomazi

Date of appointment
Alternate Director since 26 October 2017.

Biography
Charles joined the Board in October 2017 and leads the EMEA Infrastructure team in Teachers' Infrastructure Group. He attends Board meetings as a substitute to Charlotte Brunning.

Key external appointments and changes during the period
- Director of Ontario Teachers' Pension Plan (OTPP)
- Director of Galaxy Pipelines Asset TopCo Limited, Apple NewCo Limited, Sauna HoldCo Limited and related entities and Western TopCo Limited

Senior Management Team

John Morea
Chief Executive Officer

Date of appointment
Chief Executive Officer since May 2005.

Biography
John joined the Company in May 2005 from SSE plc. He has over 30 years' experience in the energy industry. John is a companion of the Institute of Gas Engineers and Managers, a member of the Institute of Engineering and Technology and holds an MBA.

Key external appointments and changes during the period
- Director of Thames Water Utilities Limited
- Director of the Energy Networks Association Limited

Michael Carmedy
Chief Financial Officer

Date of appointment
Chief Financial Officer since January 2018.

Biography
Mick joined the Company in January 2018. Mick was CFO of Southern Water, the regulated water business, for five years prior to joining. Mick has also worked at United Utilities and Thames Water in a wide variety of roles.

Key external appointments and changes during the period
- Director of Murphy Asset Services Limited

Nicola Graham-Shand
Director of Legal Services (Group Company Secretary)

Date of appointment
Company Secretary since July 2011.

Biography
Nicola joined the Board as Company Secretary in July 2011. Nicola is Director of Legal Services and is responsible to the Board for compliance with Board procedures and for advising and keeping the Board up-to-date on all corporate governance developments.

Key external appointments and changes during the period
- Non-Executive Director, FYLD Limited

Corporate information

Registered office
St Lawrence House
Station Approach
Horley, Surrey
RH6 9HJ

Auditor
Ernst & Young LLP
Statutory Auditor
London

Registered number
04958135

SGN Board activities during 2020/21

The SGN Board held seven scheduled meetings and 12 further Board calls during the year ended 31 March 2021. The Board splits its time between steering and supervising the organisation across strategy, performance and governance in the short, medium and long-term, which is discussed at each meeting of the Board. During the year the SGN Board focused on a number of areas as set out below.

Board Focus		Link to Strategic Pillar
Strategy	Development of GD2 Business Plan and decision to appeal Final Determination by Ofgem – extensive review and analysis.	● ● ●
	Transformation – review of transition plans into GD2 to ensure ability to meet regulatory outputs and financial metrics.	● ● ● ● ●
	Energy Futures and net-zero – approved various energy future projects connected with the development of the Group's strategy towards the pathway to the decarbonisation of heat, including H100 Fife and incorporation of SGN Futures.	● ● ● ● ●
	Environment – approved the Environmental Action Plan and strategy.	●
	Stakeholders – review of engagement with energy policy holders on various topics including, energy transition, Covid-19 and Brexit.	● ● ● ● ●
	People and Culture – review of Covid-19 engagement surveys to understand employee views and approval of action plans, including return to work strategies.	●
	Property – approved development of new head office encompassing a new gas control centre.	● ● ● ● ●
	Digitalisation strategy – reviewed and approved digitalisation strategy (DS) forming part of Scotland and Southern Gas Networks plc's licence obligations.	● ●
	Non-regulated growth – consideration and approval of the unregulated strategy and new investments in property (SGN Place), technology (FYLD Limited), Energy Transition (Heat Networks and Biomethane) and opportunities which complement the core.	●
Performance	Financial – review of long-term financial outlook and performance including consideration of dividend proposals, sufficient resources and approval of annual budget.	● ● ● ● ●
	Liquidity – approval of short-term liquidity measures as a result of Covid-19, including CCFF placement and deferral of dividends.	● ● ● ● ●
	Covid-19 Impact and Response Plans – extensive consideration of Covid-19 impact areas and response plans to ensure corporate objectives are met.	● ● ● ● ●
	Regulatory performance – continued Board focus and review of regulatory performance and initiatives.	● ● ●
	Safety performance – continued Board focus and review of safety performance and initiatives, including Board site visits.	●
	Large project and investment performance – review of progress against significant projects and investments, including, Gas to West, H100 Fife, SGN Lessona Limited (Murphy Utility Assets) and various unregulated biomethane projects.	● ● ● ● ●
	Cyber – focussed review and assurance.	●
Governance	Strategic risks – consideration of strategic risks (further details on pages 56 to 63) and implementing appropriate governance, monitoring compliance and ongoing risk management.	● ● ● ● ●
	Contract strategy and approvals – various significant contracts, including strategies, considered pursuant to the Board schedule of reserved matters.	● ● ● ● ●
	Policies and certificates – approved various Group polices and compliance certificates in line with the Governance Framework, such as modern slavery.	–
	Governance – review of Board committee membership, reporting, priorities and planning and compliance with the new Corporate Governance requirements.	–
	Board effectiveness – review of Board effectiveness and action plan.	–

Key to Strategic Pillars

- ● Delivering a safe and efficient service
- ● Making a positive impact
- ● Building a shared future
- ● Focusing on talent, skills and opportunities for our people
- ● Creating value and growing our service

SGN Board Committees

Audit Committee

"The Committee continues to support the Group through an independent and robust review of financial and regulatory reporting and assurance processes."

Paul Jeffery
Audit Committee Chair

Appointment: July 2020

Membership
The current members of the Audit Committee are **Paul Jeffery** (Committee Chair), **Nick Salmon**, **Gregor Alexander**, **Guy Lambert** and **Delphine Voeltzel**

Attendees
The External Auditors are invited to attend the Audit Committee along with following members of Management:

Chief Financial Officer
Head of Internal Audit & Compliance
Group Financial Controller
Group Accounting Manager

The role of the Committee and principal responsibilities
The Audit Committee is a sub-committee of the Board. The Committee's role is to support the Board within the Governance Framework in matters relating to the:

- integrity of Financial Reporting;
- relationship with the External Auditor and the effectiveness of the external audit process;
- effectiveness of the Internal Audit and Compliance function; and
- effectiveness of the System of Internal Control.

The Audit Committee also reviews key regulatory fillings prior to submission to Ofgem.

What the Committee has done this year
The Audit Committee held three meetings during the financial year which were scheduled in advance of Board meetings. This enabled the Chair to report on key matters discussed to the Board and, where required, recommend decisions to be ratified by the Board in line with the Committee Terms of Reference.

Key highlights
The key highlights for the year were:

Financial reporting
- Reviewed and considered key accounting judgements, the interim and final financial results and recommended the same for approval by the Board for the annual results for the statutory and regulatory accounts.
- Reviewed the goodwill impairment and carrying value judgements and recommended the same for approval by the Board.

External audit
- Reviewed and considered the appointment of a new external auditor, Ernst & Young LLP.
- Monitored the independence of the external auditor.
- Reviewed the effectiveness of the external audit process and considered market trends and impacts.
- Considered the accounting, financial control and audit issues from the external auditor's report.

Internal audit
- Reviewed the outputs from the internal audit benchmarking against the Internal Auditors (IIA) Code of Practice and approved changes to the Internal Auditor Charter.
- Reviewed the annual audit plan, recommended the same for approval by the Board and received regular updates on the delivery of the plan.

Risk management and internal controls
- Reviewed the annual compliance plan, recommended the same for approval by the Board and received regular updates on the delivery of the plan.
- Reviewed key outcomes of all internal compliance investigations, including incidents raised via 'speak up' channels to help assess risks, trends, and culture across the Group.
- Received the external compliance report on compliance with standard licence condition A27 concerning business separation and recommended the same for approval by the Board prior to submission to Ofgem.

Regulatory filings and governance
- Reviewed the debt to RAV and compliance certificates for Scotland Gas Networks PLC and Southern Gas Networks PLC and recommended the same for approval by the Board.
- Reviewed the financial compliance certificates for the MidCo Group and recommended the same for approval by the Board.
- Monitored the level of non-audit fees, reviewed new non-audit services and recommended the same for approval by the Board.
- Reviewed and agreed changes to the Committee terms of reference.

Looking forward
The Committee's priorities for FY21/22 are continuing to develop and improve our internal controls and assurance processes, with input from our internal and external auditors. An external quality assessment of the Internal Audit Function is also planned for 2022.

SGN Board Committees (cont)

Finance Committee

"The Committee continues to ensure that the financial and risk management strategy are closely linked to risk appetite and regulatory requirements whilst taking into account market factors."

Charlotte Brunning
Finance Committee Chair

Appointment: October 2018

Membership
The current members of the Finance Committee are **Charlotte Brunning** (Committee Chair), **Paul Jeffery**, **Gregor Alexander**, **Guy Lambert** and **Delphine Voeltzel**

Attendees
The following members of Management attend the Finance Committee:

Chief Financial Officer
Group Treasurer

The role of the Committee and principal responsibilities
The Finance Committee is a sub-committee of the Board. The Finance Committee's role is to support the Board by determining:

- distribution proposals and strategy including forecast distributions;
- financing and refinancing strategy and proposed debt issuance;
- financial risk management strategy;
- credit rating strategy;
- a policy concerning the operation of bank accounts and facilities, including appointment of authorised personnel to those accounts and facilities; and
- a policy of granting guarantees, indemnities, any type of parent company support or security interest.

In addition, the Finance Committee will review and approve investments or transactions where the Committee has been delegated authority by the Board to do so.

What the Committee has done this year
The Finance Committee held ten meetings during the financial year of which six were additional, planned to consider Covid-19 impacts and Ofgem's draft and final determination of RIIO-GD2. The Chair reports on key matters discussed to the Board and, where required, recommends decisions to be ratified by the Board in line with the Committee Terms of Reference.

Key highlights
The key highlights for the year were:

Strategy
- Reviewed the EMTN update and Bond Issuance and recommended the same for approval by the Board.
- Reviewed the counterparty liability and recommended the same for approval by the Board.
- Received regular updates from the GD2 Management team on finance-ability, together with rating agency outlooks.
- Considered the financing and inflation strategy to support the RIIO GD2 delivery and recommended the same for approval by the Board.
- Reviewed the changes to the Company's defined benefit pension scheme together with an engagement strategy and recommended the same for approval by the Board.

Governance
- Reviewed a six month extension to the Gas to the West project capex facility and recommended the same for approval by the Board.
- Reviewed a commercial bid for a biomethane opportunity with Thames Water and recommended the same for approval by the Board.
- Discussed the LIBOR reform.
- Reviewed the Company's bank and treasury mandates and recommended the same for approval by the Board.
- Reviewed and agreed changes to the Committee terms of reference.

Performance
- Reviewed the liquidity of the Group and Covid-19 relief measures.
- Considered distribution proposals before making recommendations to the Board.

Looking forward
The Committee's priorities for FY21/22 are to monitor the implementation of financial and risk management strategics approved in FY20/21 to ensure credit ratings are maintained within target rating levels.

People and Reward Committee

"The Committee continues to ensure that remuneration outcomes are closely linked to financial and non-financial performance, as well as ensuring our people are listened to and we attract and retain diverse talent."

Michael McNicholas
People and Reward Committee Chair

Appointment: November 2019

Membership
The current members of the People and Reward Committee are **Michael McNicholas** (Committee Chair), **Nick Salmon**, **Gregor Alexander**, **Charlotte Brunning** and **Guy Lambert**

Attendees
The following members of Management attend the People and Reward Committee:

Chief Executive Officer
HR & Services Director
Head of Employee Relations, Policy & Rewards

The role of the Committee and principal responsibilities
The People and Reward Committee is a sub-committee of the Board. The People and Reward Committee's role is to support the Board by ensuring:

- remuneration policy and practices of the Company reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements;
- talent and succession strategy for the Group's Executive is suitable for the Group's long-term success;
- diversity and inclusion plays a key role across the Group; and
- employee feedback is listened to and acted on.

What the Committee has done this year
The People and Reward Committee held four meetings during the financial year, which were scheduled in advance of Board meetings. This enabled the Chair to report on key matters discussed to the Board and, where required, recommend decisions to be ratified by the Board in line with the Committee Terms of Reference.

Key highlights
The key highlights for the year were:

Strategy
- Reviewed the executive remuneration policy framework and recommended changes to the Board for approval.
- Reviewed the Leadership Development and Succession Planning framework.
- Reviewed the short-term incentive plan (STIP) and long-term incentive plan (LTIP) framework for the Financial Year, ensuring these measured both financial and non-financial performance.
- Reviewed and recommended to the Board the proposed annual salary review of all employees for cost of living increases.

Performance
- Reviewed the performance assessments for STIP and LTIP for the prior year and recommended to the Board for approval.
- Considered impacts and adjustments to the STIP for the year due to Covid-19.
- Reviewed and approved personal objectives for the Chief Executive Officer and Chief Financial Officer and assessed prior year performance.

Governance
- Reviewed and recommended approval of an exceptional thank you payment to all employees (excluding the Executive) by the Board, recognising their commitment and hard work during Covid-19.
- Reviewed the Gender Pay Gap Report.
- Reviewed becoming a Living Wage employer and recommended the same for approval by the Board.
- Reviewed and agreed changes to the Committee terms of reference.

Looking forward
The Committee's priorities for FY21/22 are to ensure the talent and succession strategy for the Group's Executive is suitable for the Group's long-term success and diversity and inclusion plays a key role across the Group. The Committee will also review feedback from employees taking part in the Company's bi-annual employee engagement survey and monitor performance against an approved an action plan.

SGN Board Committees (cont)

Health and Safety Committee

"Throughout the year, the Committee has focused on safety performance and the new challenges faced by Covid-19."

Robert McDonald
Health and Safety Committee Chair

Appointment: June 2020

Membership
The current members of the Health and Safety Committee are **Rob McDonald** (Committee Chair), **Laura Sandys**, **Guy Lambert**, **Michael McNicholas** and **Nick Salmon**

Attendees
The following members of Management attend the Health and Safety Committee:

Chief Executive Officer
Network & Safety Director
Group Head of Safety & Environment Group
Accounting Manager

The role of the Committee and principal responsibilities
The Health and Safety Committee is a sub-committee of the Board. The Health and Safety Committee's role is to support the Board by fulfilling its health and safety responsibility to employees and members of the public. The Health and Safety Committee is responsible for:

- ensuring that the Company's health and safety policy statement remains fit for purpose and monitoring the execution of those policy statements by the Group;
- approving and monitoring the Group's Safety and Health Assurance Plan;
- setting engineering process safety, occupational health and safety targets to improve Group performance;
- monitoring health and safety performance against targets and key improvement areas by means of suitable and sufficient leading and lagging key performance indicators; and
- providing Board leadership to the Company's Executive Committee to drive continuous and sustained improvement in all aspects of safety and health performance.

What the Committee has done this year
The Health and Safety Committee held six meetings during the financial year, which were scheduled in advance of Board meetings. This enabled the Chair to report on key matters discussed to the Board and, where required, recommend decisions to be ratified by the Board in line with the Committee Terms of Reference.

Key highlights
The key highlights for the year were:

Performance
- Reviewed the process safety, occupational health and safety targets for the financial year, recommended the same for approval by the Board and monitored performance against these.
- Reviewed the safety compliance and assurance plans (including external assurance activity) and recommended the same for approval by the Board.
- Reviewed the impact of Covid-19 on safety performance and agreed revised targets in light of circumstances.
- Reviewed the Group's winter readiness and road traffic improvement plan.
- Reviewed progress against the safety culture and mental health programme.

Governance
- Reviewed the Safety, Health and Environment Policy statement for FY20/21 and recommended the same for approval by the Board.
- Reviewed and agreed changes to the Committee terms of reference.

Strategy
- Reviewed the Group's approach to Covid-19 health and safety matters.
- Reviewed the adoption of technology to help monitor health and safety across the Group.

Looking forward
The Committee's priorities for FY21/22 are continuing to drive health and safety improvements ensuring that the Group achieves its commitment to getting everyone home safe and well. FY21/22 will see increasing focus on safe day performance which will now be monitored, and performance assessed, against seven days (previously five days). A further drive in reporting and performance improvements for mental health and wellbeing is also planned.

Stakeholder, Environment and Customer Committee

"The first meeting was in July 2020 and focussed on understanding the Stakeholder, Environment and Customer regulatory, legal and social commitments, challenges and opportunities. This is providing the foundations to design and implement the Group's first ESG strategy."

Laura Sandys
Stakeholder, Environment and Customer Committee Chair

Appointment: July 2020

Membership
The current members of the Stakeholder, Environment and Customer Committee are **Laura Sandys** (Committee Chair), **Charlotte Brunning**, **Guy Lambert**, **Rob McDonald** and **Michael McNicholas**

Attendees
The following members of Management attend the Stakeholder, Environment & Customer Committee:

Chief Executive Officer
Director of Stakeholder and Communications

The role of the Committee and principal responsibilities
The Stakeholder, Environment and Customer Committee is a sub-committee of the Board. The Stakeholder, Environment and Customer Committee's principal role is to ensure the Company has due regard to:

- stakeholder, environmental and customer (SEC) interests;
- the need to foster relationships with suppliers, customers and other stakeholders; and
- the Company's impact (including the impact of any principal decisions taken by the Group) on the broader community and environment.

The Committee also supports with Board oversight for the identification of stakeholder, environmental and customer opportunities and risks and emerging ESG issues.

What the Committee has done this year
The Stakeholder, Environment and Customer Committee held three meetings during the financial year, which were scheduled in advance of Board meetings. This enabled the Chair to report on key matters discussed to the Board and, where required, recommend decisions to be ratified by the Board in line with the Committee Terms of Reference.

Key highlights
The key highlights for the year were:

Strategy
- Reviewed the remit and principal duties and future ambition of Stakeholder, Environment and Customer Committee.
- Considered ESG reporting and framework options.
- Reviewed and provided feedback on the customer strategy for RIIO-GD2.
- Reviewed and recommended to the Board the approval of the Environment Strategy.

Performance
- Reviewed performance against GD1 and GD2 Ofgem reporting requirements.

Governance
- Review and recommended to the Board the approval of the Environmental policy and targets for FY21.
- Reviewed the Company's approach to S172 of the Companies Act 2006 in its annual report.
- Reviewed and agreed changes to the Committee terms of reference.

Looking forward
The Committee priority for FY21/22 is to select and recommend to the Board the right ESG strategy and reporting framework which underpins the long-term success of the Group, whilst continuing to ensure stakeholder interests are listened to and acted upon.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent financial statements for each financial year. Under that law they are required to prepare the Group and parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

Nick Salmon
Chair
20 July 2021

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2021.

The financial statements consolidate the financial statements of the Company and its subsidiary undertakings (together the 'Group'). This report must be read in conjunction with the Strategic Report found on pages 10 to 69.

Principal activities
The Company is a holding company which does not trade. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 1 to the financial statements. The Group's principal activity is the development, administration, maintenance and safe operation of the Gas Distribution Networks in Scotland, southern England and Northern Ireland and the supply of associated transportation, connection and metering services. It will continue these activities for the foreseeable future.

Directors
The Directors of the Company who served during the year ended 31 March 2021 and up to the date of signing can be found on pages 79 to 81.

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

Principal risks
The review of business for the year, including an analysis using key performance indicators and an indication of likely future developments in the business, together with a description of the principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 59 to 64.

Employee engagement
The Group places considerable value on the involvement of its employees. It has continued to keep them informed on matters affecting them and on the various factors affecting the Group. Participation by employees generally is encouraged through team meetings, briefings, a digital app and an intranet site. The CEO and other senior executives regularly communicate with employees through these channels and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employer within the Group continues to make sure that appropriate training and development is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees. Further detail on Employee Engagement is set out on page 47.

Stakeholder engagement
Details of how the Directors have engaged with stakeholders can be found in the section 172 (1) statement on pages 46 to 56.

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

Research and Development
The Group is dedicated to innovation of methods and techniques, focusing on areas such as enhanced safety delivery, the development and integration of new materials and working techniques, energy efficiency and information modelling. Further detail on innovation is set out in the Strategic Report on pages 27 and 28.

Political contributions
The Group made no political contributions in the current or previous financial year.

Results and dividends
The consolidated profit and loss account is set out on page 96. The Group paid interim dividends of £115.0m (2020: £50.0m). The Directors do not recommend the payment of any final dividend for the year (2020: nil).

Subsequent events
In April 2021, following receipt of funds from Mutual Energy, the Group repaid the £122.0m capital expenditure facility which was used to fund the Gas to the West project.

For the purposes of FRS 102, the Finance Bill 2021 has been substantively enacted on 24 May 2021. The Finance Bill 2021 will increase the main corporation tax rate from 1 April 2023 from 19% to 25%. The Group's deferred tax liability is estimated to increase by £253.7m to £1,057.1m due to this change in tax rate.

Directors' report (cont)

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

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

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

Foreign exchange risk
The Group's borrowings are currently denominated in Pound Sterling, so there is minimal foreign exchange risk. However, in accordance with its policy, should the Group decide to raise finance in currency other than Pound Sterling, cross-currency swaps would be used to fully hedge the borrowings into Pound Sterling.

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

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

Going concern
The Group's financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the Group's principal risks and uncertainties are set out in the Strategic Report on pages 58 to 63. The Group's financial risk management objectives and risk exposures are set out above.

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

The Covid-19 pandemic has impacted the global economy and, in light of this, the Group has performed additional analysis of its going concern of the Group as a whole including performing scenario testing and sensitivity analysis.

These forecasts show the Group should be able to operate within its available committed liquidity (cash and bank facilities).

As a consequence, the Directors believe the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for a period of at least twelve months following the approval of the Annual Report & Accounts (i.e. until 31 July 2022). Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

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

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The auditor, Ernst & Young LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

By Order of the Board.

Nicola Graham-Shand
Company Secretary
20 July 2021

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

Opinion

In our opinion:

- Scotia Gas Networks Limited's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2021 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Scotia Gas Networks Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2021 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2021	Balance sheet as at 31 March 2021
Consolidated profit and loss account for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 27 to the financial statements, including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated cash flow statement for the year then ended	
Related notes 1 to 27 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding and walking through management's process for and controls related to assessing going concern including discussion with management to ensure all key factors were taken into account;
- Obtaining and performing mechanical integrity testing on management's going concern model, which is for the period to 31 July 2022, and which includes details of facilities available, covenant calculations, and the results of management's scenario planning;
- Comparing to the debt agreements both the maturity profile of the debt and the covenants that are required to be met within the going concern period;
- Agreeing the forecasts underpinning the going concern model to the Board-approved budget for FY 2022 and the Board-approved strategic plan;
- Challenging how these forecasts have been revised to reflect any impact of COVID-19;
- Challenging key assumptions within the forecasts with the assistance of our regulatory specialist team and with reference to the GD2 regulatory regime;
- Evaluating management's historical forecasting accuracy by comparing budgets to actual results;
- Assessing the consistency of the going concern assessment with information obtained from other areas of the audit, such as the goodwill impairment testing;
- Performing reverse stress testing on the going concern model by understanding what reduction in EBITDA would be required before liquidity is exhausted and considering the likelihood of the events required to breach the covenants;
- Evaluating the Group's ability to undertake mitigating actions and considering whether those actions are within the Group's control and the timing of when they could be implemented; and

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited (cont)

- Reviewing the going concern disclosures in the annual report to ensure that they are in accordance with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for the period to 31 July 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group and parent company's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 4 components and audit procedures on specific balances for a further 3 components. In addition, we performed specified audit procedures on specific balances for a further 10 components. • The components where we performed full, specific or specified audit procedures accounted for 100% of Profit before tax, 100% of Revenue and 100% of Total assets.
Key audit matters	• Valuation of goodwill. • Valuation of the defined benefit obligation.
Materiality	• Overall Group materiality of £13.2m which represents 4% of Group profit before tax.

An overview of the scope of the parent company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 25 components of the Group, we selected 17 components which represent the principal business units within the Group. For these 17 components, all audit procedures were undertaken by the Group audit team. The remaining 8 components were holding companies, dormant companies or property companies which no longer hold any properties.

Of the 17 components selected, we performed an audit of the complete financial information of 4 components ('full scope components') which were selected based on their size or risk characteristics. For 3 components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 10 components ('specified procedures components'), we performed audit procedures on specific accounts within those components in response to specific risk factors.

The components where we performed audit procedures accounted for 100% of the Group's Profit before tax, 100% of the Group's Revenue and 100% of the Group's Total assets. For the current year, the full scope components contributed 99% of the Group's Profit before tax, 98% of the Group's Revenue and 97% of the Group's Total assets.

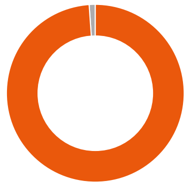
The specific scope component contributed 0% of the Group's Profit before tax, 1% of the Group's Revenue and 2% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage for the Group audit.

For 10 components we performed specified procedures over the valuation of inventory, the valuation of investments and the completeness and valuation of provisions.

The remaining 8 components together represent 0% of the Group's Profit before tax. For these components, we performed other procedures, including analytical review, as well as testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

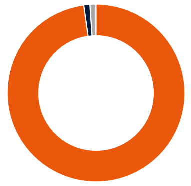
The charts below illustrate the coverage obtained from the work performed by our audit team.

Profit before tax



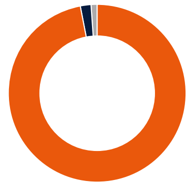
Full scope: 99%
Specific scope: 0%
Specified procedures: 1%
Other procedures: 0%

Revenue



Full scope: 98%
Specific scope: 1%
Specified procedures: 1%
Other procedures: 0%

Total assets



Full scope: 97%
Specific scope: 2%
Specified procedures: 1%
Other procedures: 0%

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of goodwill (£326.1m, PY comparative £335.6m) *Refer to the Audit Committee Report (page 10); Accounting policies (page 104); and note 12 of the Consolidated Financial Statements (page 113)* There is a risk that the Scotland Gas Networks plc and Southern Gas Networks plc Cash Generating Units ('CGUs') may not achieve the anticipated business performance to support the carrying value of the underlying assets, leading to an impairment charge that has not been recognised by management. Significant judgement is required in determining the future cash flows and therefore the recoverable amounts of the CGUs. If these judgements are not appropriate, then this increases the risk that goodwill could be incorrectly valued.	We performed the following audit procedures for the 2 full scope components within which 100% of the goodwill balance is recorded: • Performed walkthrough procedures to verify our understanding of the process, identifying key controls; • Understood how management had identified the CGUs and methodology for assessing the recoverable amount and compared this approach to what we would expect for an industry participant; • Checked management's CGU carrying value composition for consistency with the recoverable amount methodology; • Engaged our modelling experts to test the integrity of the Board approved Strategic Model which underpins the impairment model and identify the key assumptions; • Tested the discounted cashflow ('DCF') in the impairment model for clerical accuracy; • Utilised EY valuation and regulatory specialists to audit the key assumptions and inputs to the impairment model. This included comparing the discount rate and terminal value to our independent range, as well as agreeing GD2 inputs to the Ofgem approved model. It also included assessing the reasonableness of assumptions in respect of outperformance in GD2 and future regulatory periods, and how climate and sustainability trends could impact the business in the future; • Compared forecasts and assumptions used in the prior year analysis (where applicable) to the actual performance to assess management's forecasting accuracy; • Considered if any contradictory evidence existed, including comparing the implied RAV multiple to recent regulatory transactions; • Performed sensitivity analysis on certain key assumptions in the model including the discount rate; and • Considered compliance of the related goodwill disclosures under FRS 102.	We identified that management's initial assessment of CGU's was inappropriate as a CGU had been identified for which there were no underlying cash flows. Management appropriately reassessed the determination of the CGUs and the prior year disclosures have been restated accordingly. Following our audit challenge, management made changes to the impairment model and composition of the CGUs. However, these changes did not impact the overall impairment assessment. All assumptions used in valuing the goodwill were within an acceptable range. Our year end audit procedures did not identify evidence of material misstatement regarding the carrying value of goodwill. We consider the disclosures to be appropriate and in accordance with FRS 102.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited (cont)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of the defined benefit obligation (£937.3m, PY comparative £783.9m) *Refer to the Audit Committee Report (page 11); Accounting policies (page 106); and note 25 of the Consolidated Financial Statements (page 127)* The Group operates a defined benefit pension scheme. Significant estimates and judgements are made in valuing the Group's pension obligation. Due to the quantum of the underlying balance, relatively small changes in key assumptions could have a significant effect on the calculation of the carrying value of the Group's pension obligation. Key assumptions include salary increases, the mortality rate, the discount rate and the RPI and CPI inflation rates. There is a risk that if one (or several assumptions in aggregate) are outside of an acceptable range, the defined benefit obligation would be incorrectly valued which would have a significant impact on the Group's financial position.	We performed the following audit procedures at the 2 full scope components within which 100% of the defined benefit obligation balance is recorded: • Performed walkthroughs of the pension process to verify our understanding and identify the key controls in place around the valuation assumptions; • Assessed the independence, objectivity and competence of the external actuarial specialist; • With support from our pension actuarial specialists, we independently benchmarked the key assumptions used in valuing the defined benefit obligation against an EY range derived from market data. This included salary increases, mortality rate, the discount rate, and RPI and CPI inflation rates; • Performed tests of detail for a sample of the participant data used by the external actuaries to confirm the completeness and accuracy of this data; and • Considered compliance of the related disclosures under FRS 102.	Based on the audit procedures performed, we consider the valuation of the Group's defined benefit obligation for the year ended 31 March 2021 to be appropriate. All assumptions used in valuing the obligation within an acceptable EY range. We consider the disclosures to be appropriate and in accordance with FRS 102.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £13.2m, which is 4% of Group profit before tax. We believe that Group profit before tax provides us with the most relevant performance measure to the stakeholders of the entity and therefore have used this as the basis for determining materiality.

We determined materiality for the Parent Company to be £16.1 million, which is 0.8% of total assets. However, since the Company was a full scope component, for accounts that were relevant for the Group financial statements, a performance materiality of £3.3m was applied.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £6.6m. We have set performance materiality at this percentage due to the additional complexities associated with a first-year audit for EY and the number and size of the misstatements identified by the predecessor auditor in the prior year.

Audit work at component level for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £1.3m to £5.3m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.7m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 90, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 88, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited (cont)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (FRS 102 and the Companies Act 2006) and the local tax legislation. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being laws and regulations relating to health and safety, environmental protection and employee matters, notably pensions. In addition, the Group operates in a regulated market; it is subject to regulations from the national regulatory authorities in Great Britain and Northern Ireland.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit and those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included using data analysis for testing journal entries that met our defined risk criteria based on our understanding of the business and challenging the assumptions and judgements made by management in areas where judgement is required including those referred to in the key audit matters section above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved understanding management's internal controls over compliance with laws and regulations; enquiry of legal counsel, Group management and internal audit; and reviewing internal audit reports and whistleblowing logs.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andy Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

20 July 2021

Consolidated profit and loss account

for the year ended 31 March 2021

	Notes	2021 £m	Restated 2020 £m
Turnover	3, 4	**1,227.4**	1,271.7
Net operating costs	4	**(700.9)**	(671.1)
Operating profit	4	**526.5**	600.6
Interest receivable and similar income	7	**9.3**	5.9
Interest payable and similar expenses	8	**(200.9)**	(221.3)
Share of (loss) of investments in jointly controlled entities		**(1.0)**	(0.6)
Profit before taxation	5	**333.9**	384.6
Tax charge on profit	9	**(66.8)**	(147.4)
Profit for the financial year	22	**267.1**	237.2

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

The accompanying notes form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March 2021

	Notes	2021 £m	Restated 2020 £m
Profit for the financial year	22	**267.1**	237.2
Cash flow hedges:			
– Profit/(loss) arising on cash flow hedges	22	**11.5**	(16.0)
Remeasurement on net pension asset	25	**(68.9)**	137.1
Deferred tax movement relating to components of other comprehensive income:			
– Cashflow hedges	22	**(2.5)**	4.5
– Pension asset		**13.1**	(26.2)
Other comprehensive (loss)/income for the year		**(46.8)**	99.4
Total comprehensive income		**220.3**	336.6

The accompanying notes form part of these financial statements.

Balance sheets

as at 31 March 2021

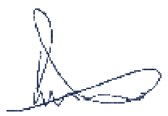
	Notes	Group 2021 £m	Group Restated 2020 £m	Company 2021 £m	Company 2020 £m
Fixed assets					
Intangible assets	12	**362.0**	379.5	**-**	-
Tangible assets	13	**6,869.4**	6,682.8	**-**	-
Investments	14	**6.9**	2.5	**2,029.7**	2,028.4
		7,238.3	7,064.8	**2,029.7**	2,028.4
Current assets					
Inventories	15	**46.8**	50.9	**-**	-
Debtors	16	**171.4**	283.1	**92.4**	55.5
Short term deposits		**151.1**	115.5	**-**	-
Cash at bank and in hand		**137.5**	8.9	**0.7**	0.7
		506.8	458.4	**93.1**	56.2
Creditors: amounts falling due within one year	17	**(439.5)**	(646.9)	**(15.9)**	(9.4)
Net current assets/(liabilities)		**67.3**	(188.5)	**77.2**	46.8
Total assets less current liabilities		**7,305.6**	6,876.3	**2,106.9**	2,075.2
Creditors: amounts falling due after more than one year	18	**(5,189.4)**	(4,917.9)	**(356.3)**	(327.6)
Provisions for liabilities	20	**(870.7)**	(903.4)	**-**	-
Deferred income	13	**(444.9)**	(415.2)	**-**	-
Net assets excluding pension asset		**800.6**	639.8	**1,750.6**	1,747.6
Defined benefit pension asset	25	**298.7**	354.2	**-**	-
Net assets including pension asset		**1,099.3**	994.0	**1,750.6**	1,747.6
Capital and reserves					
Called up share capital	21	**200.0**	200.0	**200.0**	200.0
Hedging reserve	22	**(57.0)**	(66.0)	**-**	-
Profit and loss account	22	**956.3**	860.0	**1,550.6**	1,547.6
Shareholders' funds	22	**1,099.3**	994.0	**1,750.6**	1,747.6

The accompanying notes form part of these financial statements. Refer to note 1 for details of the 2020 restated balances.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. The Company's profit for the year amounted to £118.0m (2020: £43.5m).

The financial statements of Scotia Gas Networks Limited, registered number 04958135, were approved by the Board of Directors and authorised for issue on 20 July 2021.

Signed on behalf of the Board of Directors



Nick Salmon
Director

Consolidated statement of changes in equity

for the year ended 31 March 2021

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	Total £m
Group:					
At 1 April 2019 (Restated)		200.0	(54.5)	561.9	**707.4**
Profit for the financial year (Restated)		–	–	237.2	**237.2**
Cash flow hedges		–	(16.0)	–	**(16.0)**
Remeasurement of net defined benefit pension asset		–	–	137.1	**137.1**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	4.5	–	**4.5**
– Pension asset		–	–	(26.2)	**(26.2)**
Total comprehensive income (Restated)		–	(11.5)	348.1	**336.6**
Transactions with owners, recognised directly in equity					
Dividends paid	11	–	–	(50.0)	**(50.0)**
At 31 March 2020 (Restated)		200.0	(66.0)	860.0	**994.0**
Profit for the financial year		–	–	267.1	**267.1**
Cash flow hedges		–	11.5	–	**11.5**
Remeasurement of net defined benefit pension asset		–	–	(68.9)	**(68.9)**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	(2.5)	–	**(2.5)**
– Pension asset		–	–	13.1	**13.1**
Total comprehensive income		–	9.0	211.3	**220.3**
Transactions with owners, recognised directly in equity					
Dividends paid	11	–	–	(115.0)	**(115.0)**
At 31 March 2021		200.0	(57.0)	956.3	**1,099.3**

The accompanying notes form part of these financial statements. Refer to note 1 for details of the 2020 restated balances.

Company statement of changes in equity

for the year ended 31 March 2021

	Notes	Called up share capital £m	Profit and loss account £m	Total £m
Company:				
At 1 April 2019		200.0	1,554.1	**1,754.1**
Profit for the financial year	10	–	43.5	**43.5**
Total comprehensive income		–	43.5	**43.5**
Transactions with owners, recognised directly in equity				
Dividends paid	11	–	(50.0)	**(50.0)**
At 31 March 2020		200.0	1,547.6	**1,747.6**
Profit for the financial year	10	–	118.0	**118.0**
Total comprehensive income		–	118.0	**118.0**
Transactions with owners, recognised directly in equity				
Dividends paid	11	–	(115.0)	**(115.0)**
At 31 March 2021		200.0	1,550.6	**1,750.6**

The accompanying notes form part of these financial statements. Refer to note 1 for details of the 2020 restated balances.

Consolidated cash flow statement

for the year ended 31 March 2021

	Notes	2021 £m	Restated 2020 £m
Cash flows from operating activities			
Operating profit	4	**526.5**	600.6
Depreciation and software amortisation	12, 13	**185.5**	184.1
Goodwill amortisation	12	**9.5**	9.5
Amortisation of deferred income	13	**(10.3)**	(9.7)
(Profit)/loss on disposal of fixed assets		**5.6**	5.3
(Increase)/decrease in inventories	15	**4.1**	16.8
(Increase)/decrease in debtors	16	**114.0**	(38.5)
Increase/(decrease) in creditors and employee benefits	17, 18	**10.9**	8.6
Increase/(decrease) in provisions	20	**(16.3)**	(19.2)
Cash generated by operations		**829.5**	757.5
Interest paid		**(154.4)**	(159.0)
Tax paid		**(68.9)**	(116.4)
Net cash inflow from operating activities		**606.2**	482.1
Cash flows from investing activities			
Interest received		**0.3**	0.4
Purchase of fixed assets		**(368.0)**	(461.8)
Purchase of intangible fixed assets		**(4.7)**	(5.6)
Sale of tangible fixed assets		**2.0**	4.7
Customer contributions received	13	**32.3**	29.8
Fixed asset investment additions		**(5.4)**	(2.3)
Sale of subsidiary		**0.2**	–
Net cash outflow from investing activities		**(343.3)**	(434.8)
Cash flows from financing activities			
Shareholder loan interest paid		**–**	(28.1)
Issue of debt		**250.0**	227.1
Dividend paid	11	**(115.0)**	(50.0)
Repayment of borrowings		**(219.8)**	(75.0)
Payments in respect of financial instruments		**(13.9)**	(16.8)
Net cash (outflow)/inflow from financing activities		**(98.7)**	57.2
Net increase in cash and cash equivalents		**164.2**	104.5
Cash and cash equivalents at beginning of the year		**124.4**	19.9
Cash and cash equivalents at the end of the year		**288.6**	124.4

Analysis of changes in net debt	2020 £m	Cashflow £m	Other non-cash movements £m	2021 £m
Net cash and cash equivalents				
Cash at bank	8.9	128.6	–	**137.5**
Short term deposits	115.5	35.6	–	**151.1**
	124.4	164.2	–	**288.6**
Financial liabilities, loans and borrowings				
Debt due within one year (note 17)	(343.6)	219.8	1.8	**(122.0)**
Debt due after one year (note 18)	(4,917.9)	(250.0)	(21.5)	**(5,189.4)**
	(5,261.5)	(30.2)	(19.7)	**(5,311.4)**
Total	(5,137.1)	134.0	(19.7)	**5,022.8**

Other non-cash movements in borrowings relate to movements in the fair value of financial instruments and the amortisation of borrowing fees.

The accompanying notes form part of these financial statements. Refer to note 1 for details of the 2020 restated balances.

Notes to the financial statements

for the year ended 31 March 2021

1. Principal accounting policies

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

The financial statements of the Group present the results for the year ended 31 March 2021. The comparative period presented is the year ended 31 March 2020.

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

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

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

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

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

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

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

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

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

Going concern
As at 31 March 2021 the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

After reviewing the Group's forecasts and projections, with specific consideration to the current Covid-19 pandemic in the UK, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for a period of twelve months following the approval of the Annual Report & Accounts (i.e. until 31 July 2022).

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).

In these downside scenarios, the business has sufficient headroom on its existing banking facilities to maintain sufficient liquidity in the short and long-term and to satisfy the lenders' covenants.

The Group also has £122.0m drawn on a capital expenditure facility used to fund the Gas to the West project, which was repaid in April 2021, following receipt of funds from Mutual Energy. Refer to note 27.

Notes to the financial statements (cont)

for the year ended 31 March 2021

1. Principal 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 the foreseeable future and for a period of twelve months following the approval of the Annual Report & Accounts (i.e. until 31 July 2022) and consequently have prepared the financial statements on a going concern basis.

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

Intangible assets – software
Software assets are included at cost, net of depreciation and any provision for impairment. Amortisation is provided on a straight-line basis over a period of 3 to 10 years, which is their estimated useful economic life. The Group's intangible assets have a remaining useful economic life ranging between 1 to 7 years.

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 and as allowable under FRS 102, costs include an element of capitalised overheads which are, as far as reasonably practicable, allocated in accordance with the activities which lead to the generation of the assets. These costs are directly attributable to the associated assets. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

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

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

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

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

Interest receivable and Interest payable
Interest payable and similar expenses include interest payable on borrowings 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 on page 106).

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

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

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

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

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

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

Through the Group's property companies, there is land in the course of remediation, sale or development which is included within inventories. It is measured at the lower of cost and net realisable value and is increased by the amount of the associated provision for the expected future cost to demolish any gas holders and remediate land to a statutory level.

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

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

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

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

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arises from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

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

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

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

Notes to the financial statements (cont)

for the year ended 31 March 2021

1. Principal accounting policies (continued)

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

Turnover attributable to construction contracts is recognised using a percentage of completion method based on cost incurred to date plus profit, where profit can be reliably measured.

Employee benefits

Defined benefit pension scheme

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

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

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

When the calculation results in a net asset to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling. Any deduction made by the tax authorities in the event of a refund of a surplus would be regarded by the Group as an income tax.

Defined contribution pension scheme

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

Foreign currency

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

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

Leases

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Borrowing costs capitalised

Borrowing costs which are directly attributable to the construction of qualifying tangible fixed assets are capitalised as part of the cost of those assets. Qualifying tangible fixed assets are considered to be those of significant size or complexity, which typically are under construction for in excess of one year and/or where project costs exceed a pre-determined threshold. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress.

Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Borrowing costs are not capitalised in respect of construction projects which do not meet the defined thresholds or relate to replacement expenditure.

Grants and contributions

1) Customer contributions

Customer contributions for connections to the network and for replacement expenditure diversions are treated as capital grants. They are accounted for as deferred income and released to profit and loss on a straight line basis over the estimated life of the related asset.

2) Government grants

Government grants in respect of additions to fixed assets are treated as deferred income and released to turnover in the profit and loss account over the estimated life of the related assets.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact of discounting the expected future cash flows is material.

Financial instruments

FRS 102 sections 11 and 12 give an accounting policy choice for financial instruments. The Group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

The Group's funding, liquidity and exposure to interest rate risks are managed within a framework of policies and guidelines authorised by the Board of Directors. In accordance with these policies financial derivative instruments are used to manage interest rate and currency exposure.

Where appropriate these instruments are recorded at fair value and accounted for as described below.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets designated as at 'fair value through profit or loss' (FVTPL).

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL, which are initially measured at fair value.

Financial assets at the balance sheet date are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Impairment of financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Notes to the financial statements (cont)

for the year ended 31 March 2021

1. Principal accounting policies (continued)

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Trade debtors
Trade debtors are initially recognised at fair value. The carrying amount is reduced through the use of provision. Appropriate provision for estimated irrecoverable amounts are recognised where there is a difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the asset's original effective interest rate. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

Cash
Cash comprises cash on hand and demand deposits, which are those deposits, which are repayable on demand and available within 24 hours (one day) without penalty.

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

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

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of disposal in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments and hedge accounting
The Group uses interest rate swaps and foreign exchange forward contracts to hedge interest rate and foreign currency risk arising on debt instruments. On inception of the hedge relationship the Group documents the relationships between the hedged item and the hedging instrument along with the risk management objectives and its strategy for undertaking various transactions. Furthermore, at inception of the hedge and on an ongoing basis the Group documents whether the hedging relationship is highly effective.

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.

Prior year adjustments
a) Legacy gas meters
During the year, a group balance sheet review identified two errors relating to legacy metering assets (part of plant and machinery) which were found to have been in existence in previous reporting periods:

1) Impairment indicators were noted in relation to the Group's meter asset portfolio which would have resulted in an impairment charge in prior years.

The key impairment indicators observed:

- Technological obsolescence (i.e. the emergence of smart meters)
- The UK government's smart meter rollout programme which aims to replace all existing gas meters with smart meters by 2025
- Reduction in revenue from gas meters as they become out of use
- An increase in early termination charge on meters that are discontinued earlier than it was contractually agreed

2) The existence of legacy meter assets included on the fixed asset register which had previously been removed from service resulting in a write off which should have been recorded in previous years.

As both of these errors were:

i) in existence in previous reporting periods when the financial statements for those periods were authorised for issue and
ii) could reasonably be expected to have been taken into consideration when preparing those financial statements

A prior period adjustment is required in the financial statements as 31 March 2021.

The errors have been corrected by restating each of the affected financial statement line items for the prior periods, as follows:

	31 March 2020 £m	1 April 2019 £m
Impact on equity		
Fixed assets	**1.6**	(14.0)
Total assets	**1.6**	(14.0)
Deferred tax	**(0.3)**	2.7
Total liabilities	**(0.3)**	2.7
Net impact on equity (increase/(decrease) in equity)	**1.3**	(11.3)

	31 March 2020 £m
Impact on statement of profit or loss	
Depreciation	**(1.6)**
Tax impact of the change in depreciation	**0.3**
Increase in profit for the year	**(1.3)**

The £14m impact to fixed assets at 1 April 2019 reflects the write off and impairment of the legacy assets. The £1.6m impact to fixed assets is to add back the over depreciation in year ended 31 March 2020.

Consequently, the useful life of the remaining meter assets were revised.

b) Reallocation of Goodwill
During the year, a group balance sheet review identified that the Goodwill previously associated with the SGN Group cash generating unit ('CGU') should in fact have been allocated upon acquisition to the Southern and Scotland CGUs as disclosed in note 12.

The error has been corrected by allocating the goodwill previously associated to the SGN Group CGU to the Southern and Scotland CGUs based on the relative fair value of the businesses upon acquisition. There is no impact on the goodwill balance, equity or profit previously reported.

Notes to the financial statements (cont)

for the year ended 31 March 2021

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting judgements

a. Cost classification – the allocation of overhead costs to capital investment projects is subject to accounting judgement, particularly around the amount of time spent on different activities. Guidelines have been established, and a Cost Allocation Model is used as part of a process to determine the split of attributable overheads between capital expenditure and operating expenditure.

b. Impairment of fixed assets – as set out in note 1 above, management has exercised judgement during the group balance sheet review when identifying impairment indicators affecting the legacy gas meter portfolio of the Group and when determining an appropriate revised useful economic life for these assets.

Key source of estimation uncertainty

a. Useful lives of assets – The Group depreciates its assets over their useful economic lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The useful economic lives of assets can vary depending on a variety of factors, including technological innovation, product life cycles, maintenance programmes as well as the economic life of the gas industry. The depreciation policy is set out in note 1.

b. Retirement benefit schemes – the assumptions used in accounting for the defined benefit pension scheme are based on estimates and are subject to uncertainties. These assumptions are set out in note 25 and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Group takes advice from independent actuaries on the appropriateness of these assumptions.

c. Valuation of financial instruments – where financial instruments are recognised at fair value there are uncertainties in forward yield curves used in discounted cash flow calculations.

d. Environmental and demolition provision – in assessing the degree of contamination at the various sites estimation is required where elements of the contamination are underground. Additional uncertainty exists for the costs to demolish the gas holders. In these cases, it is difficult to assess with any certainty the extent of the contamination and demolition required. The discount rate is also a source of estimation. See note 20.

3. Segmental reporting

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

The non-regulated businesses are not sufficiently material to be disclosed separately.

4. Operating profit and net operating costs

	2021 £m	Restated 2020 £m
Turnover	**1,227.4**	1,271.7
Cost of sales	**(40.8)**	(50.4)
Operational and administrative expenses	**(470.5)**	(431.5)
Depreciation	**(172.9)**	(170.4)
Amortisation	**(22.1)**	(23.2)
Gain/(loss) on disposal of fixed assets	**(5.6)**	(5.3)
Other operating income	**11.0**	9.7
Total net operating costs	**(700.9)**	(671.1)
Operating profit	**526.5**	600.6

Contract revenue relating to Gas to the West recognised in the year amounted to £11.8m (2020: £28.6m). Revenue is recognised with reference to stage of completion based on costs incurred as a proportion of total forecasted expenditure.

Included in turnover for the year ended 31 March 2021 is income from the sale of surplus property sites of £6.3m (2020: £44.9m).

5. Profit before taxation

Group profit before taxation is stated after charging/(crediting):

	2021 £m	Restated 2020 £m
Auditor's remuneration	**0.5**	0.5
Amortisation of goodwill	**9.5**	9.5
Amortisation of intangible assets	**12.6**	13.7
Depreciation of tangible fixed assets	**172.9**	170.4
Amortisation of customer contributions	**(10.3)**	(9.7)
Loss on disposal of fixed assets	**5.6**	5.3
Rental under operating leases	**5.0**	5.4

Auditor's remuneration for the Group comprises:

- Audit of these financial statements £18,000 (2020: £20,400)
- Audit of financial statements of subsidiaries of the company £367,000 (2020: £357,600)
- Audit-related assurance services £80,000 (2020: £91,000)
- Other assurance services £30,000 (2020: £20,600)

6. Employee information and Directors' emoluments

The Group had 3,835 full time equivalent employees as of 31 March 2021 (2020: 3,954). The average monthly number of full time equivalent employees during the year was 3,870 (2020: 3,966).

	2021	2020
Field based staff	**2,053**	2,132
Office and other administrative staff	**1,782**	1,822
Total	**3,835**	3,954

The Independent Directors received aggregate remuneration of £125,906 (2020: £97,850) for their services to the Group during the year. There are 6 Directors who did not receive any remuneration in respect of services to the company during the current or preceding financial year. These Directors are employed by the company's shareholders and do not specifically receive any remuneration in respect of the company.

Staff costs for the Group during the year are as follows:

	2021 £m	2020 £m
Staff costs		
Wages and salaries	**175.3**	168.2
Social security costs	**19.2**	18.9
Pension costs (see note 25)	**31.7**	34.2
	226.2	221.3

The Company had 5 employees as of 31 March 2021 (2020: 5).

7. Interest receivable and similar income

	2021 £m	2020 £m
Net defined benefit pension income (see note 25)	**8.4**	5.0
Other interest receivable	**0.9**	0.9
	9.3	5.9

Notes to the financial statements (cont)
for the year ended 31 March 2021

8. Interest payable and similar expenses

	2021 £m	2020 £m
Index-linked bond interest	30.4	46.2
Other interest payable on bonds	134.0	137.3
Shareholders' loan interest (see note 26)	29.5	28.1
Other interest payable	4.0	4.1
Unwind of discounts	0.8	4.8
Movement on financial derivatives	2.2	0.8
	200.9	221.3

During the year, the Group incurred borrowing costs of £2.2m which were included in the carrying amount of the issued bond (2020: £nil). Included within Index-linked bond interest is £10.2m of accretion (2020: £26.0m).

9. Tax charge/(credit) on profit

a) Analysis of the tax charge/(credit) on profit

	2021 £m	Restated 2020 £m
Current tax		
UK corporation tax on profits for the year	76.1	81.4
Adjustment in respect of previous years	(2.2)	(3.6)
Total current tax charge	73.9	77.8
Deferred tax		
Origination and reversal of timing differences	(8.3)	(15.2)
Adjustments in respect of previous years	1.2	(1.2)
Effect of change in tax rate	-	86.0
Total deferred tax charge/(credit)	(7.1)	69.6
Total tax charge on profit	66.8	147.4

b) Factors affecting the total tax charge/(credit) for the year

	2021 £m	Restated 2020 £m
Profit before tax	333.9	384.6
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	63.4	73.1
Effects of:		
Expenses not deductible for tax purposes	2.1	1.1
Non deductible goodwill	1.8	1.8
Depreciation of non qualifying assets	0.6	0.6
Corporate interest restriction	-	(1.4)
Adjustment in respect of prior years	(1.0)	(4.8)
Utilisation of tax losses	-	(0.9)
Research & Development (tax credit) taxed in prior year	(0.1)	(0.1)
Effect of change in tax rate	-	86.0
Deferred tax asset arising from disallowed interest	-	(8.0)
Total tax charge on profit	66.8	147.4

The standard rate of tax applied to reported profit on ordinary activities is 19% (2020: 19%). Finance Bill 2016 reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. Finance Bill 2020 has amended the main rate of corporation tax to remain at 19% from 1 April 2020 and 1 April 2021. As these changes have been substantively enacted at the balance sheet date deferred tax has been calculated accordingly and this has had the effect of increasing the group's deferred tax liability at 31 March 2021 by £nil (2020: £86.0). There is no expiry date on timing differences, unused tax losses or tax credits. For further details of tax rate changes enacted after the balance sheet date, see note 27.

10. Profit of the Company for the financial year

The Company's profit for the year amounted to £118.0m (2020: £43.5m). The intercompany interest receivable during the year ended 31 March 2021 amounted to £1.2m (2020: £0.8m) in the Company. In accordance with the exemption available under section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

11. Dividends

	2021 £m	2020 £m
Equity shares		
Interim dividends paid of 24.4655p (2020: 10.6372p)	115.0	50.0

The dividends paid in the current year of £115.0m were paid in March 2021.

12. Intangible fixed assets

	Goodwill £m	Software £m	Total £m
Group			
Cost			
At 1 April 2020	477.6	186.5	664.1
Additions	–	4.7	4.7
Disposals	–	(0.3)	(0.3)
At 31 March 2021	477.6	190.9	668.5
Amortisation			
At 1 April 2020	142.0	142.6	284.6
Charge for the year	9.5	12.6	22.1
Eliminated on disposal	–	(0.2)	(0.2)
At 31 March 2021	151.5	155.0	306.5
Net book value			
At 31 March 2021	326.1	35.9	362.0
At 31 March 2020	335.6	43.9	379.5

The goodwill, which arose on the acquisitions of Scotland Gas Networks plc and Southern Gas Networks plc, is being amortised on a straight-line basis over 50 years, with 34 years remaining. 50 years is the expected life of the network and is consistent with the long-term outlook of the Regulator.

Goodwill is monitored by management for two operating units as follows:

	2021 £m	Restated 2020 £m
Southern Gas Networks plc	223.1	229.6
Scotland Gas Networks plc	103.0	106.0
	326.1	335.6

A review for impairment of goodwill is carried out at the end of each financial year. Impairment testing is performed by comparing the carrying value of fixed assets at the balance sheet date with the recoverable amount. The recoverable amount is the higher of the value if sold or its value in use.

The fair value less cost to dispose methodology has been used in this review because of the increase in visibility of potential GD2 scenarios. This calculation includes discounting the future operational cashflows of the two operating units at the nominal discount rate of 3.86% (2020: 6.19%) over the expected life of the network, in line with anticipated regulatory outcomes for GD2 and onwards.

The amortisation charge is recognised in operating costs in the profit and loss account and no impairment loss has been recorded in either the current or the prior year.

There is no security held against the intangible fixed assets.

Notes to the financial statements (cont)

for the year ended 31 March 2021

13. Tangible fixed assets

Group	Short leasehold properties £m	Freehold properties £m	Plant and machinery £m	Motor vehicles and office equipment £m	Total £m
Cost					
At 1 April 2020 (Restated)	0.7	130.4	8,076.3	128.7	8,336.1
Additions	–	9.0	347.6	9.0	365.6
Disposals	–	–	(9.8)	(3.0)	(12.8)
At 31 March 2021	**0.7**	**139.4**	**8,414.1**	**134.7**	**8,688.9**
Depreciation					
At 1 April 2020 (Restated)	0.2	41.2	1,529.0	82.9	1,653.3
Charge for the year	–	4.8	158.8	9.3	172.9
Disposals	–	–	(4.5)	(2.2)	(6.7)
At 31 March 2021	**0.2**	**46.0**	**1,683.3**	**90.0**	**1,819.5**
Net book value					
At 31 March 2021	**0.5**	**93.4**	**6,730.8**	**44.7**	**6,869.4**
At 31 March 2020 (Restated)	0.5	89.2	6,547.3	45.8	6,682.8

There is no security held against the fixed assets.

The Company had no tangible fixed assets in either year.

The Group has received customer contributions relating to plant and machinery. In accordance with the Group's accounting policy the assets are capitalised within fixed assets and the contributions are recognised as deferred income in the balance sheet. The connections contributions are from customers being connected to the network and replacement contributions are related to the diversion of gas mains. Other deferred income relates to contributions received in relation to the Group's new H100 Fife project (as introduced in the Chief Executive's report on page 12). The deferred income is released to the profit and loss account over the estimated lives of the related assets. The amount deferred under this policy was as follows:

Group	Connections £m	Replacement £m	Other £m	Total 2021 £m	Total 2020 £m
Deferred income					
Customer contributions brought forward	256.5	158.7	–	**415.2**	395.3
Customer contributions deferred in the year	14.7	17.6	7.7	**40.0**	29.7
Amortisation in year	(7.2)	(3.1)	–	**(10.3)**	(9.8)
	264.0	173.2	7.7	**444.9**	415.2

The Company has no deferred income.

14. Fixed asset investments

	Group		Company	
Cost or valuation and net book value	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Shares in Group undertakings				
At 1 April	**–**	–	**2,028.4**	2,028.4
Additions	**–**	–	**1.3**	–
At 31 March	**–**	–	**2,029.7**	2,028.4
Other investments				
At 1 April	**2.5**	0.2	**–**	–
Additions	**5.4**	2.9	**–**	–
Share of losses in Joint Venture	**(1.0)**	(0.6)	**–**	–
At 31 March	**6.9**	2.5	–	–

The fixed asset investments held by the Company represent investments in subsidiaries.

Other fixed asset investments

£0.2m of the carrying value of other fixed asset investments relate to the Group's investments in Xoserve Limited, which provides transportation transactional services on behalf of all the major gas network transportation companies. This investment is held at cost. The address of its registered office is Lansdowne Gate, 65 New Road, Solihull, B91 BDL. The Group holds 23.02% (2020: 23.02%) of the ordinary shares of Xoserve Limited. The Xoserve Limited operating results for the year ended 31 March 2021 are not considered material to the Group's financial statements.

The Group also holds a 50% interest in Murphy Asset Services Limited with a carrying value of £5.3m and a 50% interest in SGN Mitheridge Limited with a carrying value of £0.1m. These joint ventures are accounted for using the equity method of accounting.

The address of Murphy Asset Services Limited's registered office is Hiview House, Highgate Road, London, United Kingdom, NW5 1TN. The joint venture's financial year end is 31 December. The aggregate amount of capital and reserves of the undertaking as at the 31 March 2021 was £4.7m. Its loss for the year then ended was £1m.

The address of SGN Mitheridge Limited's registered office is Langham Hall UK Services LLP, 8th Floor, 1 Fleet Place, London, EC4M 7RA. The aggregate amount of capital and reserves of the undertaking as at the 31 March 2021 was £2.1m. Its loss for the year then ended was £2m.

The Group also has a 10% holding in FYLD Ltd with a carrying value of £1.2m. This investment is held at cost.

Interests in Group undertakings

Details of the subsidiary undertakings at the end of the year, which are directly wholly-owned by the Company, are as follows:

Name of subsidiary	Description of shares held	Country of registration	Principal activities
SGN PledgeCo Limited	2,517,000,001 ordinary shares of £0.01	England & Wales	Holding company
SGN Place Limited	1 ordinary share of £1	England & Wales	Holding company
SGN Connections Limited	1 ordinary share of £1	England & Wales	Supply of gas connections services
SGN Commercial Services Limited	1 ordinary share of £1	England & Wales	Meter asset manager and supply of commercial services
SGN Smart Limited	1 ordinary share of £1	England & Wales	Supply of managed services
SGN Lessona Limited	100 ordinary shares of £0.01	England & Wales	Holding company
SGN Futures Limited	1 ordinary share of £1	England & Wales	Holding company

The registered address of Scotland Gas Networks plc is Axis House, 5 Lonehead Drive, Newbridge, Edinburgh, EH28 8TG. The registered address of all other subsidiaries above is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ.

Details of the subsidiary undertakings at the end of the year, which are indirectly wholly-owned by the Company, are as follows:

- Southern Gas Networks plc
- Scotland Gas Networks plc
- SGN Contracting Limited
- SGN Natural Gas Limited
- SGN MidCo Limited
- SGN Property Holdings Limited
- SGN Property Services Limited
- SGN Belvedere Limited
- SGN Brighton Limited
- SGN Southampton Limited
- SGN Epsom Limited
- SGN Greenwich Limited
- SGN Motspur Park Limited
- SGN Old Kent Road Limited
- SGN Rotherhithe Limited
- SGN Kennington Limited
- SGN Lessona Limited
- SGN Rotherhithe Holdco Limited
- SGN Croydon Limited
- SGN Futures (H100) Limited

The Company also has holdings in the following entities:

- Murphy Asset Services Limited – 50%
- SGN Mitheridge Limited (formerly known as SGN Wandsworth Limited) – 50%

Notes to the financial statements (cont)

for the year ended 31 March 2021

15. Inventories

	Group		Company	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Work in progress	**46.1**	50.3	**–**	–
Finished goods	**0.7**	0.6	**–**	–
	46.8	50.9	**–**	–

Included within work in progress is £36.7m (2020: £44.8m) of surplus land.

The amount of inventory recognised as an expense in the year amounted to £0.2m (2020: £1.9m).

16. Debtors

	Group		Company	
	2021 £m	Restated 2020 £m	**2021 £m**	2020 £m
Trade debtors	**135.1**	150.0	**–**	–
Prepayments and accrued income	**31.7**	131.4	**–**	–
Deferred tax asset (see note 20)	**–**	–	**5.8**	–
Amounts owed by Group undertakings	**–**	–	**86.6**	55.5
Other debtors	**2.2**	1.7	**–**	–
Corporation tax	**2.4**	–	**–**	–
	171.4	283.1	**92.4**	55.5

Included in trade debtors are amounts falling due after more than one year of £12.3m (2020: £20.6m).

Included in prepayments and other debtors is accrued income on the Gas to the West project of £10.9m (2020: £126.6m), which is due for payment in April 2021.

17. Creditors: amounts falling due within one year

	Group		Company	
	2021 £m	2020 £m	**2021 £m**	2020 £m
£215m 4.875% fixed rate loan due 2020	**–**	214.8	**–**	–
Bank facility	**122.0**	126.2	**–**	–
Trade creditors	**35.0**	52.3	**5.7**	–
Other taxation and social security	**41.7**	31.8	**–**	–
Other creditors	**15.9**	17.1	**–**	–
Accrued interest	**54.8**	57.0	**10.2**	9.4
Accruals	**126.0**	110.3	**–**	–
Deferred income	**44.1**	34.8	**–**	–
Derivative financial instruments (see note 19)	**–**	2.6	**–**	–
	439.5	646.9	**15.9**	9.4

The Group held four committed bank facilities at 31 March 2021:

- £120m revolving credit facility at Scotland Gas Networks plc maturing in March 2025, this facility was undrawn at 31 March 2021 (2020: undrawn);
- £240m revolving credit facility at Southern Gas Networks plc maturing in March 2025, this facility was undrawn at 31 March 2021 (2020: undrawn);
- £25m debt service reserve facility at SGN MidCo Ltd maturing in January 2022, this facility was undrawn at 31 March 2021 (2020: undrawn);
- £122m term loan facility at SGN MidCo Ltd maturing in December 2021, this facility was fully drawn at 31 March 2021 (2020: £126.2m).

18. Creditors: amounts falling due after more than one year

	Group		Company	
Borrowings:	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Fixed rate				
£300m 4.875% fixed rate note due 2023[1]	**299.3**	299.1	**–**	–
£350m 2.5% fixed rate note due 2025[1]	**348.3**	348.0	**–**	–
£35m 2.407% fixed rate loan due 2025	**35.0**	35.0	**–**	–
£250m 3.25% fixed rate note due 2027[1]	**248.2**	248.0	**–**	–
£375m 4.875% fixed rate note due 2029[1]	**374.1**	374.1	**–**	–
£100m 2.9% fixed rate note due 2030	**98.9**	98.6	**–**	–
£75m 2.74% fixed rate note due 2030	**74.8**	74.8	**–**	–
£75m 2.74% fixed rate note due 2030	**74.8**	74.8	**–**	–
£250m 1.25% fixed rate note due 2031[1]	**247.8**	–	**–**	–
£75m 1.98% fixed rate note due 2032	**74.7**	74.7	**–**	–
£50m 2.04% fixed rate note due 2033	**49.8**	49.8	**–**	–
£185m 3.02% fixed rate note due 2033	**182.8**	182.5	**–**	–
£75m 2.87% fixed rate note due 2033	**74.8**	74.7	**–**	–
£75m 2.87% fixed rate note due 2033	**74.8**	74.7	**–**	–
£100m 2.27% fixed rate note due 2034	**99.6**	99.6	**–**	–
£225m 4.875% fixed rate note due 2034[1]	**224.6**	224.6	**–**	–
£400m 3.1% fixed rate note due 2036[1]	**397.5**	397.5	**–**	–
£15m 3.11% fixed rate note due 2038	**14.8**	14.7	**–**	–
£225m 6.375% fixed rate note due 2040[1]	**224.0**	223.9	**–**	–
	3,218.6	2,969.1	**–**	–
Inflation-linked:				
£165m 2.127% RPI-linked note due 2022[1]	**255.1**	253.0	**–**	–
£150m 2.066% RPI-linked note due 2025[1]	**231.8**	230.0	**–**	–
£83.3m 2.013% RPI-linked note due 2025[1]	**128.7**	127.7	**–**	–
£15m 2.580% RPI-linked loan due 2028	**20.9**	20.7	**–**	–
£37.5m 0.11% RPI-linked note due 2033	**39.8**	39.0	**–**	–
£83.3m 2.013% RPI-linked note due 2035[1]	**128.7**	127.7	**–**	–
£87.5m 0.28% RPI-linked note due 2038	**92.9**	91.2	**–**	–
£125m 2.317% RPI-linked note due 2039[1]	**171.8**	169.6	**–**	–
	1,069.7	1,058.9	**–**	–
Floating rate:				
£125m floating rate loan due 2025	**125.0**	125.0	**–**	–
£80m floating rate loan due 2026	**80.0**	80.0	**–**	–
£60m floating rate loan due 2026	**60.0**	60.0	**–**	–
£30m floating rate loan due 2026	**30.0**	30.0	**–**	–
£35m floating rate loan due 2026	**35.0**	35.0	**–**	–
£35m floating rate loan due 2026	**35.0**	35.0	**–**	–
£80m floating rate note due 2043[1]	**79.7**	79.7	**–**	–
	444.7	444.7	**–**	–
Total borrowings	**4,733.0**	4,472.7	**–**	
Shareholders' loans[2] (see note 26)	**356.3**	327.6	**356.3**	327.6
Derivative financial liabilities – Mirror swaps (see note 19)	**28.7**	36.1	**–**	–
Derivative financial instruments (see note 19)	**71.4**	81.5	**–**	–
	5,189.4	4,917.9	**356.3**	327.6

The shareholder loans, which are subordinated, are redeemable at par on 9 April 2043 and carry a fixed interest rate of 8.6%. The Company may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to shareholders.

In the financial year the Company capitalised shareholder loan interest of £28.7m through the issuance of further loan notes to shareholders.

(1) Listed on the London Stock Exchange.
(2) £178.2m of the shareholder loan is listed on The International Stock Exchange.

Notes to the financial statements (cont)

for the year ended 31 March 2021

18. Creditors: amounts falling due after more than one year (continued)

Maturity of borrowings

	Group	
	2021 £m	2020 £m
Due within one year	**122.0**	341.0
Between one and five years	**1,503.2**	935.3
After five years	**3,586.1**	3,865.0
	5,211.3	5,141.3

The Company's borrowings all fall due by 9 April 2043.

The above borrowings are unsecured and are stated after the deduction of unamortised issue costs of £19.2m (2020: £18.0m). 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 2021 is £325.6m (2020: £315.5m).

19. Financial instruments and risk management

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them.

The Group operates a centralised treasury function which is responsible for the management of financial risks of the Group as a whole and each of the regulated entities on a standalone basis. Financial risks comprise exposure to funding risk, liquidity risk, counterparty credit risk, interest rate risk, inflation risk, credit spread risk and foreign exchange risk. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Finance Committee, which meets on a periodic basis throughout the financial year. The Finance Committee is comprised of four directors (one from each of the Group's shareholders) plus one statutory independent non-executive director. The Group's Treasurer reports on a regular basis to the Finance Committee.

The Board reviews and approves all major treasury decisions.

Liquidity risk

Liquidity risk represents the risk of having insufficient funds to meet its financing in any particular subsidiary when needed.

To manage this risk the Group has a policy of actively maintaining a mixture of medium-term and long-term debt alongside committed facilities and short-term cash investments to ensure that the Group has sufficient available funds to meet forecast requirements over the short-term to medium-term. As part of their regulatory license Scotland Gas Networks plc and Southern Gas Networks plc are required to submit an annual certificate to their regulator to confirm sufficiency of resources (liquidity looking forward 12 months). The same principles are also applied across the wider Group.

To prevent over-reliance on individual sources of liquidity, funding is accessed across a range of instruments including: fixed rate bonds, floating rate bonds, inflation-linked bonds, bank loan facilities (RCF), private placements and EIB loans.

The Group currently raises external financing (including undrawn revolving credit facilities) across four of the Group's subsidiaries:

- Scotia Gas Networks Limited: £356.3m shareholder loans;
- SGN MidCo Limited: £132.7m inflation-linked private placements; £300.0m fixed rate private placements; and £122.0m bank loan facilities;
- Scotland Gas Networks plc: £475.0m fixed rate bonds; £80.0m floating rate bonds; £426.9m inflation-linked bonds; £275.0m fixed rate private placements; £100.0m EIB loans; and £120.0m (undrawn) bank RCF; and
- Southern Gas Networks plc: £1,900.0m fixed rate bonds; £510.1m inflation-linked bonds; £250.0m fixed rate private placements; and £300.0m EIB loans; and £240.0m (undrawn) bank RCF.

Group subsidiaries are also funded through a combination of share capital, retained earnings and intercompany loans. Cash pooling structures are used to centralise surplus cash balances held by subsidiaries where possible to minimise external borrowings and interest costs. The treasury function seeks to minimise cash balances by conducting a detailed cash flow forecast process and timing funding issuance appropriately, however where surplus cash balances do arise these are invested in bank deposits and money market funds.

As part of these processes the Group ensures that there is appropriate segregation between cash flows generated within the regulated businesses and those generated by other Group subsidiaries.

The contractual maturity of the Group's financial assets and liabilities are shown in the following tables. The amounts shown are gross cash inflows/(outflows) with the exception of financial derivatives settled on a net basis where the amounts represent undiscounted net cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to relevant conditions existing at the reporting date.

2021

	0-6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	> 5 years £m	Contractual cash flows £m	Interest/ discounting £m	Carrying value £m
Financial liabilities loans and borrowings								
Shareholder loans	(15.3)	(15.3)	(30.6)	(433.0)	–	(494.2)	137.9	(356.3)
Bank facility	(122.0)	–	–	–	–	(122.0)	–	(122.0)
Bonds	(171.8)	(87.0)	(402.5)	(1,656.2)	(4,241.3)	(6,558.8)	1,825.8	(4,733.0)
	(309.1)	(102.3)	(433.1)	(2,089.2)	(4,241.3)	(7,175.0)	1,963.7	(5,211.3)
Derivative financial liabilities								
Hedging interest rate swaps	(2.2)	(2.2)	(4.4)	(13.2)	(74.7)	(96.7)	25.3	(71.4)
Onerous mirror swaps	(3.1)	(3.2)	(6.3)	(15.7)	–	(28.3)	(0.4)	(28.7)
	(5.3)	(5.4)	(10.7)	(28.9)	(74.7)	(125.0)	24.9	(100.1)
Other financial liabilities								
Trade creditors	(35.0)	–	–	–	–	(35.0)	–	(35.0)
Total financial liabilities	(349.4)	(107.7)	(443.8)	(2,118.1)	(4,316.0)	(7,335.0)	1,988.6	(5,346.4)

The Group expects to meet its obligations from cash balances, operating cash flows and refinancing. The maturity date of the bank facility is December 2022, but is classified as short term as the facility requires extending at the end of each applicable interest period.

The corresponding amounts for 2020 were as follows:

2020

	0-6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	> 5 years £m	Contractual cash flows £m	Interest/ discounting £m	Carrying value £m
Financial liabilities loans and borrowings								
Shareholder loans	(14.1)	(14.1)	(28.2)	(84.6)	(341.6)	(482.6)	155.0	(327.6)
Bank facility	(126.2)	–	–	–	–	(126.2)	–	(126.2)
Bonds	(51.1)	(321.2)	(137.3)	(1,334.6)	(4,670.3)	(6,514.5)	1,827.0	(4,687.5)
	(191.4)	(335.3)	(165.5)	(1,419.2)	(5,011.9)	(7,123.3)	1,982.0	(5,141.3)
Derivative financial liabilities								
Hedging interest rate swaps	(1.9)	(1.9)	(3.7)	(11.3)	(67.5)	(86.3)	2.1	(84.2)
Onerous contract swaps	(6.5)	(3.1)	(6.3)	(18.9)	(3.1)	(37.9)	1.7	(36.2)
	(8.4)	(5.0)	(10.0)	(30.2)	(70.6)	(124.2)	3.8	(120.4)
Other financial liabilities								
Trade creditors	(52.3)	–	–	–	–	(52.3)	–	(52.3)
Total financial liabilities	(252.1)	(340.3)	(175.5)	(1,449.4)	(5,082.5)	(7,299.8)	1,985.8	(5,314.0)

Notes to the financial statements (cont)

for the year ended 31 March 2021

19. Financial instruments and risk management (continued)

Credit risk
Credit risk represents the risk that a counterparty does not settle an obligation for full value when that amount becomes due.

The Group is primarily exposed to credit risk arising from the extension of credit to its customers, cash deposits, derivatives and amounts due from external financing counterparties arising on other financial instruments.

The maximum exposure to credit risk is the carrying value of financial assets as follows:

	2021 £m	2020 £m
Net trade receivables	135.1	150.0
Other debtors	2.2	1.7
Short term deposits	151.1	115.5
Cash	137.5	8.9
	425.9	276.1

Trade and other receivables:
Our principal debtor exposure is governed by the credit rules within the Uniform Network Code. This sets out the level of credit relative to the RAV for each credit rating. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed daily. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary.

Trade debtors predominantly relate to transportation income from gas shippers. Credit risk arising from the Group's regulated business is managed in accordance with industry standards as set out by the Unified Network Code. The Group contracts with shippers having investment grade ratings only, or where suitable collateral or cash prepayments are made. The Group currently holds £15.8m of security in respect of its trade counterparties (2020: £26.4m). These are included in trade creditors as at the year end.

Trade debtors from non-transportation income relates to consumers and businesses in relation to works for alterations, diversions, meters or damage repairs. In the year ending 31 March 2021 non-transportation debtors (£53.8m) were 39.8% (2020: 42.6%) of net trade debtors (£135.1m). An impairment allowance has been set aside according to the Group's impairment policy.

The largest transportation debtor is £21.8m (2020: £22.4m). There is no material credit exposure to any one customer.

The ageing of trade debtors net of impairment allowance is:

	2021 £m	2020 £m
Not past due	126.4	142.1
Past due 0-30 days	0.9	1.4
Past due 31-90 days	1.0	0.8
Past due over 90 days	6.8	5.7
	135.1	150.0

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtors mentioned above.

At the end of each reporting year a review of the provision for bad and doubtful debts is performed taking into account the age, status and risk of recovery for each debtor.

Financial instruments:
The Group seeks to minimise its exposure to counterparties under financial instruments by agreeing individual exposure limits with the Finance Committee for financial instruments (based on counterparty credit ratings) and by diversifying exposure across a range of counterparties. Counterparty credit ratings are monitored by the treasury function on a regular basis and ISDA agreements are in place to permit net settlement of assets and liabilities across certain financial instruments.

Counterparty credit risk arising from financial derivatives are managed through the maintenance of financial limits according to defined criteria, subject to a minimum credit rating of A-/A3 for new transactions and at credit ratings below this level counterparties are required to cash post collateral for mark to market position owed to the regulated businesses within the Group. Investments of cash through deposits in the short-term are also subject to review and approval according to defined criteria agreed by the Finance Committee and Board.

The Group conducted a review of counterparty credit risk and its own credit risk, and concluded that an adjustment was required to reflect the net credit risk in arriving at the fair value of financial instruments stated in the balance sheet. The net credit risk adjustment reduced liabilities by £1.0m (2020: £5.6m). £0.3m (2020: £1.3m) was charged to the profit and loss account. £0.7m (2020: £4.3m) was charged to other comprehensive income. A discounted cash flow method was used. At 31 March 2021 the Group was holding collateral with a fair value of £nil (2020: £nil).

Market risk
Market risk represents the risk of losses or other adverse effects resulting from adverse changes in market prices or from unfavourable market conditions.

The Group is primarily exposed to market risk on UK interest rate; UK inflation rates and credit spreads in general.

Interest rate risk:
The Group's interest rate risk arises as a result of two primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses; and
- Borrowings net of cash and cash equivalents,

with the primary exposures arising from fluctuations in Sterling interest rates.

Certain of the group's financing arrangements carry requirements to maintain exposure to fixed interest rates or inflation-linked above a certain level/within a range.

The Group manages its exposure to interest rate risk by targeting issuance in the most efficient markets available to achieve desired size and duration and using derivative financial instruments to manage the ultimate exposure to fixed/floating interest rates if required. In addition, the Group maintains a smooth maturity profile across all debt instrument to ensure that there is no significant concentration of interest rate exposure when refinancing maturing debt.

The following table represents the annualised impact (net of deferred tax) of 100 basis point change in short-term interest rates at the reporting date in relation to equity and profit and loss account. The analysis assumes that all other variables remain constant.

	2021 £m	2020 £m
Impact on profit and loss account		
Floating rate instruments	(3.7)	(4.5)
Fixed to floating swaps	–	–
	(3.7)	(4.5)
Impact on equity		
Floating to fixed swaps	0.2	0.8

Inflation risk:
The Group's inflation risk arises as a result of three primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses;
- Impact on controllable and non-controllable costs; and
- Borrowings net of cash and cash equivalents,

with the primary exposures arising from fluctuations in Sterling RPI.

Certain of the group's financing arrangements carry requirements to maintain exposure to fixed interest rates or inflation-linked above a certain level/within a range.

The Group manages its exposure to inflation rate risk by targeting issuance in the most efficient markets available to achieve desired size and duration and using derivative financial instruments to manage the ultimate exposure to inflation if required.

At 31 March 2021 the Group did not have any inflation linked derivatives in place.

The Group's inflation-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK Retail Price Index ('RPI'). This form of liability is currently a good match to the Group's regulatory asset value which in the RIIO GD1 price control has been also been linked to RPI due to the pricing mechanism imposed by the Regulator. The turnover capacity charges are also linked to RPI.

Notes to the financial statements (cont)

for the year ended 31 March 2021

19. Financial instruments and risk management (continued)

By matching liabilities and assets, inflation-linked debt hedges the exposure to changes in inflation and delivers cash flow benefit. The compensation for the inflation risk is recorded as payable on the balance sheet with the principal, as opposed to a cash payment.

The following table shows the illustrative effect on the profit and loss account that would result from a 1% movement in RPI before the effects of tax.

	2021 £m	2020 £m
Impact on profit and loss		
Index-linked bonds accretion	**9.3**	9.3
Transportation income	**(11.3)**	(11.2)
Total	**(2.0)**	(1.9)

Credit spread risk:
The Group's credit spread risk arises as a result of the capital structure that is maintained, currently with external committed debt and facilities totalling £5,259.3m (including undrawn bank facilities but excluding shareholder loans and gross of unamortised issue costs). Lenders and investors assess the credit quality of the borrowing entity and charge a spread above benchmark rates to determine the overall return they require (and as a result the interest rate that the borrowing entity pays). Credit spreads can be impacted by both the specific credit risk of the borrower and macro events as well as general investor appetite for debt investments.

The Group manages its exposure to credit spreads by maintaining access to a diversified range of debt markets so that there is less exposure to a single group of investors/lender. The Group also maintains credit ratings with Fitch; Moody's and S&P at the operating company level, with regular meetings and dialogue to support their appraisal, which ensures that a clear independent indication of the Group's credit risk is available to investors. In addition, the Group maintains a smooth maturity profile across all debt instrument to ensure that there is no significant concentration of credit spread exposure when refinancing maturing debt.

Foreign exchange risk – transaction:
The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions, however the volume of foreign denominated payments and receivables is not considered material and no active hedging of foreign exchange transactions is undertaken.

Foreign exchange risk – translation:
The Group seeks to match the currency of borrowings to the currency of its underlying investments. As the Group's assets are materially denominated in Sterling the Group and its subsidiaries seek to source Sterling debt. Debt is sourced from the most appropriate market or markets available at the time of raising new finance (including foreign currency markets) and appropriate derivative financial instruments transacted to manage the proceeds into the appropriate currency. The Group does not currently have any debt instruments denominated in any currencies other than Sterling, however it has issued private placement notes in the US that are denominated in Sterling where the underlying exposure is USD. On these transactions the investor has transacted a derivative financial instrument to hedge the USD exposure into Sterling on the Group's behalf and as a result the Group does not carry a material exposure to USD under the transactions.

Cash flow hedges
Cash flow hedges comprise floating to fixed interest rate swaps of future interest payments relating to existing bonds. Receipts and payments for the swaps and the underlying bonds are exactly matched and in accordance with IAS 39 any gain or loss that is deferred to equity is recognised in profit or loss over the period that the floating rate interest payments impact on profit.

In October 2011 the Group issued a £300m 12 year fixed rate bond. Prior to the bond issue, from July to August 2012 the Group entered into six floating to fixed rate 10 year swaps of £25m each, to hedge the fixed interest rates prevalent in the market. After the issue of fixed rate bonds, the floating to fixed rate swaps were cancelled and a loss of £8.2m was recognised.

The swaps were entered into to hedge future interest outflows on the bond and therefore were effective hedging instruments. In accordance with the requirements of IAS 39 the loss arising on settlement of the swaps has been recorded in equity. The loss will be recycled to profit and loss account over 10 years. As at 31 March 2021 the unamortised hedge loss balance in equity was £0.4m.

The movement before deferred tax taken to equity in respect of cash flow hedges in the year was a £16.8m gain (2020: £17.3m loss). The hedge reserve movement is expected to unwind in profit or loss over the life of the swaps.

The notional principal amount of the outstanding cashflow hedges at 31 March 2021 was £80.0m (2020: £80.0m).

At 31 March 2021 the fixed interest rate is 6.57% and floating rate 0.08%, three month Libor plus 100bp.

Movement in derivatives included in profit and loss account
The net movement included within interest in the profit and loss account for financial derivatives is as follows:

	2021 £m	2020 £m
Net fair value (loss)	**(2.2)**	(0.7)
Net amounts (paid)/received	**(4.3)**	(3.8)
Net movement in financial derivatives	**(6.5)**	(4.5)

In addition the movement on mirror swaps in the year was a loss of £1.2m (2020: loss of £0.8m) included in interest payable.

Categories of financial instruments
The categories of financial assets and liabilities held by the Group were as follows:

	Book value	
	2021 £m	2020 £m
Financial assets held at amortised cost		
Trade debtors[1]	**135.1**	150.0
Short term deposits[1, 2]	**151.1**	115.5
Other debtors	**2.2**	1.7
Cash	**137.5**	8.9
	425.9	276.1
Financial assets at fair value		
Derivative financial instruments through the profit and loss account	**–**	–
Available for sale financial assets[1]	**–**	–
Total financial assets	**425.9**	276.1

(1) The carrying amount of financial assets approximates to their fair value.

(2) We have reviewed the presentation of the cash flow and determined that short term deposits are more appropriately designated as cash and cash equivalents. The prior year cash flows have been adjusted to reflect this.

	Book value	
	2021 £m	2020 £m
Financial liabilities held at amortised cost		
Trade creditors	**35.0**	52.3
Accrued interest	**54.8**	57.0
Other accruals	**126.0**	110.3
Bank loans and overdrafts	**122.0**	126.2
Borrowings	**4,733.0**	4,687.5
Shareholder loans	**356.3**	327.6
	5,427.1	5,360.9
Financial liabilities at fair value		
Derivative financial instruments in designated hedging relationships	**71.4**	84.1
Financial derivatives – mirror swaps	**28.7**	36.1
	100.1	120.2
Total financial liabilities	**5,527.2**	5,481.1

The carrying amount of financial liabilities approximates to their fair value except for bonds and shareholder loans, the fair value of which is disclosed on the next page.

Notes to the financial statements (cont)

for the year ended 31 March 2021

19. Financial instruments and risk management (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Valued using unadjusted quoted prices in active markets for identified financial instruments;
- Level 2: Valued using techniques based significantly on observable market data. Instruments in this category are valued using valuation techniques where all of the inputs that have a significant impact on the valuation are directly or indirectly based on observable market data;
- Level 3: Instruments in this category have been valued using a valuation technique where at least one input (which has a significant input on the financial instruments' valuation) is not based on observable market data. Where inputs can be observed from market data with not undue cost and effort, the observed input is used. Otherwise management determines a reasonable estimate for the input.

An analysis of financial assets and liabilities that are recorded at fair value at 31 March 2021 is as follows:

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– other financial assets (derivatives)	–	–	–	–
	–	–	–	–
Financial liabilities				
At fair value through profit and loss				
– other financial liabilities (onerous contract swaps)	–	28.7	–	28.7
Derivatives used for hedging	–	71.4	–	71.4
	–	100.1	–	100.1

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– other financial assets (derivatives)	–	–	–	–
	–	–	–	–
Financial liabilities				
At fair value through profit and loss				
– other financial liabilities (onerous contract swaps)	–	36.1	–	36.1
Derivatives used for hedging	–	84.1	–	84.1
	–	120.2	–	120.2

Mirror swaps

In 2005 the Group entered into interest rate swap contracts to fix the Group's interest cost relating to (floating rate) bridging loans which were in place at the time. In October 2005, permanent long-term capital markets debt was issued to replace floating rate bridging loans. At that point these swaps became obsolete and consequently matching swaps were transacted (under which the Group received fixed rate interest) to close out the position. The crystallised loss was recognised in the profit and loss and a discounted balance equal to the market value of the matched swaps was established within creditors. At 31 March 2021 the mirror swap loss was £28.7m (2020: £36.1m).

Fair values

The Group's financial instruments recorded at amortised cost are shown below together with their fair values:

	31 March 2021		31 March 2020	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	4,733.0	5,949.3	4,687.5	5,869.0
Bank facility	122.0	122.2	126.2	127.1
Shareholder loans	356.3	685.1	327.6	601.1
	5,211.3	6,756.6	5,141.3	6,597.2

Fair values of borrowings and shareholder loans have been determined by reference to closing quoted market values where available or otherwise by discounting future cash flows at their market interest rate.

The carrying value of all other financial assets and liabilities approximates to their book value.

20. Provisions for liabilities

	Environmental and demolition £m	Restated Deferred tax £m	Other provisions £m	Total £m
Group				
At 1 April 2020	72.5	821.0	9.9	903.4
Reassessments during the year	(10.6)	–	5.8	(4.8)
Utilised during the year	(10.6)	–	(0.4)	(11.0)
Net movement in deferred tax	–	(17.7)	–	(17.7)
Amortisation of discount	0.7	–	0.1	0.8
At 31 March 2021	52.0	803.3	15.4	870.7

Environmental and demolition

The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Group has a legal obligation to restore sites at the balance sheet date. The provision has been discounted at the nominal rate of 1% 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 five years in line with anticipated regulatory outputs requirements for land remediation.

The demolition provision is an obligation to demolish the gas holders on sites held in inventories. The provision is based on third party valuations that have been discounted at the nominal rate of 1% (2020: 5.23%) to the present value of the estimated expenditure to settle the obligation. They are expected to be utilised over the next five years.

Deferred tax

The net movement on the deferred tax provision has arisen mainly as a result of movements in fixed assets and the defined benefit pension asset, offset by other movements in the year of which £7.1m (2020: £(77.3)m) is recorded as a credit (2020: debit) to the profit and loss account and £10.6m (2020: £22.0m) is recorded as a loss (2020: income) to the statement of comprehensive income.

The Company has no provisions in either year.

Deferred tax recognised in the financial statements is as follows:

	Group		Company	
	2021 £m	Restated 2020 £m	2021 £m	2020 £m
Accelerated capital allowances (restated)	(777.4)	(789.7)	–	–
Deferred tax on cash flow hedges	13.5	16.0	–	–
Other timing differences	17.6	19.9	5.8	–
Retirement benefit obligations	(57.0)	(67.2)	–	–
	(803.3)	(821.0)	5.8	–

Other timing differences relate to elimination of intergroup profits, deferred tax on corporate interest restriction and the unwinding of discount on provisions.

Notes to the financial statements (cont)
for the year ended 31 March 2021

20. Provisions for liabilities (continued)

The movement in provision for deferred tax is as follows:

	Group	
	2021 £m	Restated 2020 £m
At 1 April	(821.0)	(730.0)
Credited to profit and loss account	7.1	(69.3)
Credited/(charged) to other comprehensive income	10.6	(21.7)
At 31 March	(803.3)	(821.0)

The Group is not expecting a reversal of deferred tax in the next financial year. Overall deferred tax is expected to increase due to the changes in tax rates now enacted. For further information refer to note 27.

The Group has unrecognised deferred tax assets in respect of unutilised tax losses of £235.3m (2020: £235.4m). Deferred tax assets have been recognised in respect of tax losses to the extent that it is considered probable that these assets will be recovered. The Company has not recognised deferred tax on £235.3m (2020: £235.4m) of unutilised tax losses. These assets have not been recognised as the Group is uncertain that there will be sufficient future profits against which to utilise the assets. There is no time limit for expiry of the losses or allowances to which they relate. Deferred tax has been measured based upon corporation tax rates substantively enacted at the balance sheet date (information regarding rates of corporation tax can be found in note 9 to the financial statements).

Other provisions
Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks. The other provisions represent management's best estimates of the future expenditure necessary to settle the obligations. The provision has been discounted and is stated at the present value of the estimated expenditure to settle the obligation. The asbestos related provision is expected to be utilised over the next 30 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next 3 years.

21. Share capital

	31 March 2021		31 March 2020	
	Number	Value £m	Number	Value £m
Allotted, called up and fully paid shares				
'A' ordinary shares of 42.55p (2020: 42.55p) each	235,025,002	100.0	235,025,002	100.0
'B' ordinary shares of 42.55p (2020: 42.55p) each	117,512,501	50.0	117,512,501	50.0
'C' ordinary shares of 42.55p (2020: 42.55p) each	117,512,501	50.0	117,512,501	50.0
Total	470,050,004	200.0	470,050,004	200.0

The 'A', 'B' and 'C' ordinary shares rank pari passu in all respects.

22. Reconciliation of movements in Group shareholders' funds

	2021 £m	Restated 2020 £m
Profit for the financial year	267.1	237.2
Dividend paid on equity shares (see note 11)	(115.0)	(50.0)
Cash flow hedges (net of deferred tax)	9.0	(11.5)
Actuarial (loss)/gain on defined benefit pension scheme (net of related deferred tax)	(55.8)	110.9
Movement in shareholders' funds	105.3	286.6
Opening shareholders' funds	994.0	707.4
Closing shareholders' funds	1,099.3	994.0

23. Operating lease commitments

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

	Other		Land and buildings	
	2021 £m	2020 £m	2021 £m	2020 £m
Within one year	2.5	3.9	1.4	1.1
Within two to five years	2.2	4.1	4.2	1.9
After five years	–	–	15.6	12.5
	4.7	8.0	21.2	15.5

The Company has no operating lease commitments in either year.

24. Capital commitments

Capital projects contracted for by the Group but not provided in the financial statements amounted to £14.4m at 31 March 2021 (2020: £39.1m). The Company has capital commitments of £nil at 31 March 2021 (2020: £nil).

25. Pension commitments

A significant proportion of the Group's employees are members of the Scotia Gas Networks Pension Scheme ('the Scheme'). Under the Scheme, the employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). The Scheme is open to future accrual of benefits and closed to new members. The Scheme provides final salary defined benefits for employees who joined the Lattice Group Scheme prior to 31 March 2002. A defined contribution section was added to the Lattice Group Scheme from 1 April 2002 for employees joining the Lattice Group Scheme from that date. Employees of the Group who were previously members of the Lattice Group Scheme transferred to the Scotia Gas Networks Pension Scheme on 1 December 2005.

a) Defined benefit scheme
The Scheme is operated by the Group and is funded with assets held in separate trustee administered funds. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary determines the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable under the scheme.

The most recent triennial valuation of the Scheme was carried out at 31 March 2018. The Company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the Company to measure the Scheme's liabilities on the financial statements, as well as adjusting for benefit accrual and benefits paid by the Scheme. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. In accordance with FRS 102, a limited actuarial review has been carried out by PwC at 31 March 2021 using the projected unit method.

The following financial assumptions have been used:

	2021	2020	2019	2018
As at 31 March				
Discount rate	2.0%	2.3%	2.3%	2.7%
Retail price inflation	3.5%	2.8%	3.4%	3.2%
Consumer price inflation	3.1%	1.8%	2.4%	2.2%
Rate of increase of salaries	3.3%	2.6%	3.2%	3.0%
Rate of increase of pensions payment	3.5%	2.8%	3.4%	3.2%

The discount rate is based on the return of high quality corporate bonds.

The assumptions relating to longevity underlying the pension liabilities reflect the characteristics of the Scheme membership ('VitaCurves') for base mortality with an allowance for further improvements in life expectancy in line with the medium cohort adjustments subject to a 1.5% p.a. underpin in the longevity assumption. The assumed life expectancy in years for a member once they reach age 65 is as follows:

	2021		2020		2019	
	Male	Female	Male	Female	Male	Female
As at 31 March						
Members currently aged 65	22.7	24.3	23.7	24.2	22.4	23.9
Members currently aged 45	24.4	26.9	24.3	26.4	24.2	26.5

Notes to the financial statements (cont)
for the year ended 31 March 2021

25. Pension commitments (continued)

The approximate effects of movements in the main assumptions on the defined benefit obligation are shown in the table below:

	Sensitivity	Approximate change in DBO £000
Discount rate	– 0.1% p.a.	19,139
	+ 0.1% p.a.	(18,614)
Price inflation (RPI measure) (1)	– 0.1% p.a.	(17,548)
	+ 0.1% p.a.	17,947
Life expectancy	– 1 year	(36,277)
	+ 1 year	37,976

(1) These movements have been calculated assuming that changes in the inflation assumption have a knock-on effect on the pension increase and salary growth assumptions (i.e. the 'real' increase rates are maintained). Note that the sensitivities do not allow for the movement in the insured pensioner asset, therefore the net balance sheet movement is smaller.

The fair value of the assets in the scheme and the present value of the liabilities in the scheme were:

As at 31 March

	2021			2020		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities	**134.7**	**–**	**134.7**	111.0	–	111.0
Government bonds (1)	**461.5**	**–**	**461.5**	619.9	–	619.9
Corporate bonds	**208.8**	**139.4**	**348.2**	183.8	134.2	318.0
Property	**–**	**0.7**	**0.7**	1.0	–	1.0
Cash	**21.0**	**–**	**21.0**	9.3	–	9.3
Insurance contracts	**–**	**269.9**	**269.9**	–	78.9	78.9
Total market value of assets	**826.0**	**410.0**	**1,236.0**	925.0	213.1	1,138.1
Actuarial value of liabilities			**(937.3)**			(783.9)
Surplus/(deficit) in scheme			**298.7**			354.2

(1) Including LDI repurchase agreement liabilities.

The fair value of scheme assets at 31 March 2021 are based on the bid price where available. The fair value of property is based on the mid price and the value of the single unit price funds is based on the single unit price.

To reduce the risk of volatility in the Scheme's funding level, a liability driven investment (LDI) strategy forms part of the assets employed within the investment strategy of the Scheme. The LDI strategy provides 95.0% interest rate protection and 95.0% inflation protection as at 31 March 2021 with respect to the pension scheme liabilities of £1.2bn (valued using a UK government bond yield curve). The Scheme assets which provide this interest rate and inflation protection are managed by BlackRock and Goldman Sachs and include a variety of instruments e.g. UK government bonds (gilts), interest rate swaps, inflation swaps, gilt repos and corporate bonds. The Scheme has implemented a pensioner buy in which also contributes to the total interest rate and protection ratios referred to above.

Movement in fair value of scheme assets

	2021 £m	2020 £m
At 1 April	**1,138.1**	1,112.5
Interest income	**25.9**	25.5
Contributions from the Group	**21.8**	32.8
Remeasurement of scheme assets	**90.7**	7.7
Benefits paid	**(39.2)**	(39.3)
Administration costs	**(1.3)**	(1.1)
As at 31 March	**1,236.0**	1,138.1

Movement in fair value of scheme liabilities

	2021 £m	2020 £m
At 1 April	**(783.9)**	(913.0)
Current service cost	**(15.0)**	(19.1)
Past service cost	**(0.4)**	–
Interest cost	**(17.6)**	(20.5)
Actuarial (losses)/gains	**(159.6)**	129.4
Benefits paid	**39.2**	39.3
At 31 March	**(937.3)**	(783.9)

Employer contributions for the period ending 31 March 2021 were 37.3% of monthly salary roll, before allowing for any salary sacrifice contributions. Deficit contributions are also payable at the rate of £12.5m p.a. from 1 April 2021 to 31 March 2027.

The actual gain on scheme assets was £99.0m (2020: £33.2m).

The cumulative amount of actuarial gains/losses recognised in the statement of comprehensive income since adoption is £98.6m (2020: £166.6m).

Analysis of the amounts recognised in the profit and loss account

	2021 £m	2020 £m
Amount charged to operating profit:		
Current service cost	**(15.0)**	(19.1)
Administration cost	**(1.3)**	(1.1)
Past service cost	**(0.4)**	–
Analysis of the amount credited/(charged) to finance income/expense:		
Interest income on pension scheme assets	**25.9**	25.5
Interest cost on pension scheme liabilities	**(17.6)**	(20.5)
Net finance income	**8.3**	5.0
Net charge to the profit and loss account	**(8.4)**	(15.2)

Analysis of the amount recognised in other comprehensive income

	2021 £m	2020 £m
Actual gains on scheme assets	**90.7**	7.7
Actuarial (losses)/gains	**(159.6)**	129.4
(Loss)/gain recognised in other comprehensive income	**(68.9)**	137.1

b) Defined contribution schemes
The amounts recognised in the profit and loss account are as follows:

	2021 £m	2020 £m
Amount charged in respect of defined contribution schemes	**16.7**	15.1

26. Related parties

The Company is owned by a consortium consisting of SSE plc (33.3%), OTPPB Investments (UK) Limited (25.0%), which is owned by 2465817 Ontario Limited, Borealis Infrastructure Europe (UK) Limited (25.0%), which is indirectly wholly-owned by OMERS Administration Corporation, and Blue Spyder B 2016 Limited (16.7%), which is owned by Abu Dhabi Investment Authority. It is the opinion of the Directors that the Group and Company have no single controlling party as the Company is controlled jointly by the consortium.

Transactions with key management personnel
Total compensation of key management personnel in the year amounted to £5.4m (2020: £5.0m). Directors are also deemed to be key management personnel and their remuneration is disclosed in note 6.

Notes to the financial statements (cont)
for the year ended 31 March 2021

26. Related parties (continued)

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

	Group 2021 £m	2020 £m
Shareholders' loans:		
SSE plc	118.8	109.2
Borealis SGN Holdings BV[(1)]	89.1	81.9
2465817 Ontario Limited[(2)]	89.1	81.9
Blue Atlas ZA 2014 Limited Partnership	59.3	54.6
	356.3	327.6
Interest owed to shareholders:		
SSE plc	3.4	3.1
Borealis SGN Holdings BV[(1)]	2.5	2.4
2465817 Ontario Limited[(2)]	2.5	2.4
Blue Atlas ZA 2014 Limited Partnership[(3)]	1.7	1.5
	10.1	9.4
Other amounts owed to shareholders:		
SSE plc	15.5	15.0

(1) Borealis SGN Holdings BV is an affiliate of Borealis Infrastructure Europe (UK) Limited. (2) 2465817 Ontario Limited is wholly owned by OTPPB.
(3) Blue Atlas ZA 2014 Limited Partnership is owned by Abu Dhabi Investment Authority.

The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £29.5m (2020: £28.1m). Interest accrues on the shareholders' loans at a fixed rate of 8.6% per annum and is payable semi-annually in arrears on 30 November and 31 May each year. The Company may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to its shareholders. In the financial year the Company capitalised shareholder loan interest of £28.7m through the issuance of further loan notes to shareholders.

Other than interest charges relating to shareholder loans, the following transactions took place during the year between the Group and the SSE plc group of companies (SSE).

	2021 £m	2020 £m
Sales of goods and services	13.2	107.9
Purchase of goods and services	(29.6)	(39.5)

Sales of goods and services to SSE primarily represent gas transportation services. At 31 March 2021 an amount of £nil (2020: £nil) was owed by SSE in relation to these services. The decrease in the year ended 31 March 2021 was due to SSE selling its retail unit to OVO Energy in January 2020.

SSE provides services to the Group in the form of a management services agreement for corporate services. The Group also purchases certain items such as consumables stock, shrinkage gas and public liability insurance from SSE. Included within purchases of goods and services are direct costs in relation to tangible fixed asset and acquisitions projects incurred by SSE which have been recharged to the Group and capitalised.

Transactions with other related parties
During the year, SGN Smart Limited, a wholly owned subsidiary of Scotia Gas Networks Limited, sold goods and services amounting to £9.0m (2020: £3.7m) to MapleCo1 Limited. SGN Smart Limited and MapleCo1 Limited have common ultimate shareholders and as such they are considered to be related parties. These goods and services were purchased on an arm's length basis. At 31 March 2021 an amount of £0.4m (2020: £0.3m) was receivable from MapleCo1 Limited and is included within trade debtors.

In the year the Group also invested £4.0m in a Joint Venture, Murphys Asset Services Limited. The Group also accounted for a share of the loss to the year ended 31 March 2021 of £1.0m.

The company contributed £21.8m (2020: £32.8m) to Scotia Gas Networks Pension Scheme during the year.

27. Subsequent events

In April 2021, following receipt of funds from Mutual Energy, the Group repaid the £122.0m capital expenditure facility which was used to fund the Gas to the West project.

For the purposes of FRS 102, the Finance Bill 2021 has been substantively enacted on 24 May 2021. The Finance Bill 2021 will increase the main corporation tax rate from 1 April 2023 from 19% to 25%. The Group's deferred tax liability is estimated to increase by £253.7m to £1,057.1m due to this change in tax rate.

Glossary

AC – Audit Committee
ADaPt – Analytics Data Platform
ADIA – Abu Dhabi Investment Authority
AFS – Available-for-Sale
AI – Artificial Intelligence
APPG – All Party Parliamentary Group
BAME – Black, Asian and Minority Ethnic
BCF – Business Carbon Footprint – includes Scope 1,2,3 (in accordance with the Greenhouse gas protocol) excluding shrinkage
BCM – Business Continuity Management
BEIS – Department for Business, Energy and Industrial Strategy
BSL – British Sign Language
CA – Citizens Advice
CAP – Community Action Programme
CAS – Citizens Advice Scotland
CCA – Customer Contract Association
CCC – Climate Change Committee
CCFF – Covid Corporate Financing Facility
CCS – Carbon Capture and Storage
CCUS – Carbon Capture, Usage and Storage
CDP – Climate Disclosure Project
CEG – Customer Engagement Group
CEO – Chief Executive Officer
CESC – Commercial Engineering Safety Committee
CEV – Clinically Extremely Vulnerable
CFO – Chief Financial Officer
CHG – Central Heating Grant
CI – Cast Iron
CIC – Commercial Investment Committee
CISBOT – A cast iron pipe-repair robot that seals joints in natural gas pipelines from the inside
CMA – Competition and Markets Authority
CO – Carbon Monoxide
Consolidated MidCo group – Consists of SGN MidCo Ltd, Scotland Gas Networks plc, Southern Gas Networks plc, SGN Natural Gas Ltd, and SGN Contracting Ltd
Covid-19 – Coronavirus disease
CXC – Customer Experience Centre
D&I – Diversity and Inclusion
Defra – Department for Environment Food & Rural Affairs
DNO – Distribution Network Operator
DNIM – Distribution Network Information Modelling
DS – Digitalisation Strategy
DSE – Display Screen Equipment
EAC – Environmental Audit Committee
ECC – Ethics and Compliance Committee
ECO – Energy Company Obligation
EFV – Excess Flow Valve
EMEA – Europe, the Middle East and Africa
ENA – Energy Networks Association
ENIC – Energy Network Innovation Conference
ENU – Edinburgh Napier University
ESC – Engineering and Safety Committee
ESG – Environmental, Social and Governance
Executive/Executive Leadership Team – The CEO, CFO and department directors
FC – Finance Committee
FCO – First Call Operative
FD – Final Determination
FE – Further Education
FIFO – First-in, First-out
FPNES – Fuel Poor Network Extension Scheme
FRC – Financial Reporting Council
FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland
FVTPL – Fair Value Through Profit or Loss
FYLD – Digital, mobile platform, using speech and image recognition
GB – Great Britain
GCC – Gas Control Centre
GDN – Gas Distribution Network
GHG – Greenhouse Gas
GIG – Green Investment Group
GLA – Greater London Authority
GNI – Gas Networks Ireland
GttW – Gas to the West
H&SC – Health and Safety Committee
HGV – Heavy Goods Vehicle
HMRC – Her Majesty's Revenue and Customs
HR – Human Resources
HSE – Health and Safety Executive
HVGE – High Volume Gas Escape
IGEM – Institution of Gas Engineers & Managers
IT – Information Technology
JV – Joint Venture
KPI – Key Performance Indicator
LCV – Locking Cooker Valve
LIBOR – the average interbank interest rate at which a selection of banks on the London money market are prepared to lend to one another
LDI – Liability Driven Investment
LNG – Liquefied Natural Gas
LPI – Learning and Performance Institute
LOHC – Liquid Organic Hydrogen Carrier
LSBUD – LineSearchBeforeUDig
LTIP – Long-term Incentive Plan
LTS – Local Transmission System
MHS – Mental Health Supporter
MI – Machine Intelligence
MRI – Major Risk Indicator
NGM – National Grid Metering
NGN – Northern Gas Networks
NGO – Non-government Organisation
NFYFC – National Federation of Young Farmers' Clubs
NIA – Network Innovation Allowance
NIC – Network Innovation Competition
NIC – Network Investment Committee
NTS – National Transmission System
Ofgem – Office of Gas and Electricity Markets Ofgem is responsible for regulating the gas and electricity markets in the UK to ensure customers' interests are protected
OMERS – Ontario Municipal Employees' Retirement System
ORE – Offshore Renewable Energy
OSS – Online Safe Spaces
OT – Operational Technology
OTPPB – Ontario Teachers' Pension Plan Board
PARCO – People and Reward Committee
PAYE – Pay As You Earn
PE – Polyethylene
PPE – Personal Protective Equipment
PSR – Priority Services Register
RAV – Regulated Asset Value
RCF – Revolving Credit Facility
Regulated businesses – Consists of Scotland Gas Networks plc, Southern Gas Networks plc, and SGN Natural Gas Ltd
RHI – Renewable Heat Incentive
RIIO-GD1 – The price control period that will run from 1 April 2015 to 31 March 2023; the first gas distribution price control that will use the RIIO framework for setting allowances
RIIO-GD2 – The next price controls for the network companies running the gas and electricity transmission and distribution networks
RISE – Resilient, Influential, Strong, Empowered
RPI – Retail Price Index
RRES – Robotic Roadworks and Excavation System
SAP – Stakeholder Advisory Panel
SDG – Sustainable Development Goal
SECC – Stakeholder, Environment and Customer Committee
SIUs – Scottish Independent Undertakings
SRM – Stakeholder Relationship Management
STIP – Short-term Incentive Plan
TCF – Total Carbon Footprint – includes business carbon footprint as well as gas leakage from the network, own use gas and gas theft (also known as shrinkage)
TCP – Total Carbon Footprint
TfL – Transport for London
The Group – The Company and its subsidiary undertakings (together the Group)
TNI – Total Network Investment
UIP – Utility Infrastructure Provider
UN – United Nations
UREGNI – Utility Regulator for Northern Ireland
VSG – Vulnerable Stakeholder Group
WHO – World Health Organisation
WIN – Workforce Integration Network

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If you smell gas or are worried about gas safety you can call the National Gas Emergency Number on **0800 111 999**

Carbon monoxide (CO) can kill. For more information: **co-bealarmed.co.uk**