Your gas. Our network.

Working together today to create tomorrow's clean energy network

Annual Report & Financial Statements 2022

SGN in numbers

Contents

Our 2021/22 annual report brings together the key elements of the year. It incorporates a wide-ranging overview of the Company plus the statement from the Chair. The strategic report section contains the CEO's report for the year, plus the financial review along with the new ESG reporting.

The Governance section sets out the governance structures in place, lists the Board of Directors, the make-up of the Board committees and the Board activities.

The final section contains all the financial statements and accounts relevant to the year.

Gas escapes attendance within one hour in 2021/22

98.0%

0.9% decrease on 2020/21

External awards in 2021/22

11

Cashflow after investing activities[1] in 2021/22

£205.0m

49% decrease on 2020/21

Regulatory Asset Value as at 31 March 2022

£6.38bn

6% increase on 2020/21

Vulnerable customers offered assistance or advice in 2021/22

52,136

c.100-fold increase on 2020/21

Total carbon footprint in 2021/22

763,125 tCO_2e

0.3% decrease on 2020/21

Network investment in 2021/22

£349.1m

6% decrease on 2020/21

Turnover in 2021/22

£1,115.9m

9% decrease on 2020/21

[1] Defined in Alternative Performance Measures (APMs) on page 141.

Chair's statement

We need to build an energy system which will meet the challenge of rising living costs, reduce reliance on global price dependencies, while delivering on net zero.

The year to 31 March 2022 was the first year of the new RIIO-GD2 five-year price control period. I am pleased to report that SGN has made good progress in the year in transforming the organisation to meet the challenges presented by Ofgem's RIIO-GD2 final determination and in achieving a smooth transition into our new ownership structure.

On 27 May 2022 we announced our Chief Executive Officer John Morea will retire on 12 August 2022, having served as CEO since 2008. With a 42-year career in the energy sector, I'd like to pay a special tribute to John who is a widely respected industry figure, having built an enduring reputation for SGN as a safety-first, sector-leading energy company. On behalf of the Board, I would like to thank John for his service and achievements during his time with SGN and wish him well for the future. Mark Wild has been appointed as CEO to succeed John and joins SGN on 15 August. Mark is a highly regarded leader, most recently leading the successful opening of the Elizabeth Line as the CEO of Crossrail.

During the year, our teams have continued to deliver a very high level of performance, in what have often been very difficult professional and personal situations arising from the second year of the Covid-19 pandemic. Throughout, their professionalism, spirit and exceptional levels of commitment have been key to our success, including our fundamental requirement to maintain a safe and secure gas network. Because of this, for the sixth year running our Scotland network has again been recognised as the best UK gas network for customer satisfaction.

It was also pleasing to see our further expansion in the net-zero arena, keeping us at the forefront of hydrogen development, as we embark upon new and exciting opportunities on the decarbonisation pathway. On behalf of the whole Board, I'd like to voice my profound thanks to the entire workforce for their hard work and commitment to all our customers.

Responsible stewardship

As we grow SGN, we are aiming high from the outset with our Environmental, Social and Governance (ESG) obligations. We have made good progress in understanding and managing the environmental footprint of our Group; and we have refreshed the articulation of our Purpose, Vision and Values, as referenced later in this annual report. We have launched new initiatives to support vulnerable customers and assist our customers with the current cost of living crisis.

We continue to have a positive approach to Diversity and Inclusion, as part of the process of developing our ESG strategy, and continue to embed this thinking as a priority across all our work.

RIIO-GD2

Ofgem's RIIO-GD2 final determination sets out in considerable detail what we are obliged to deliver over the five-year period from April 2021 to March 2026 and what we can charge for our services. To meet the challenges set by this process we have made ourselves more efficient and productive through reorganisation and innovation. At the same time, we have adapted to requirements enforced by the Health and Safety Executive, to limit working hours to minimise risks from fatigue. The tight labour market, particularly in our Southern region, has led to a higher-than-normal level of employee turnover and some difficulties in recruiting replacements. As a result of these headwinds, overall progress has fallen slightly behind our business plan for year one, but we believe we can recover to fulfil all obligations over the full five-year period.

In February 2021 the Board took a considered decision to refer four elements of Ofgem's RIIO-GD2 final determination of our business plan to the Competition and Markets Authority (CMA). In its finding announced in October 2021, the CMA landed in our favour on factors relating to two of the elements appealed.

The first was the imposition of the 'outperformance wedge' where the CMA found in our favour and requested Ofgem make an adjustment to the cost of equity on the expectation of out-performance in RIIO-GD2. The second was the innovation uplift to ongoing efficiency and here the CMA determined Ofgem was wrong to impose a further uplift over-and-above the ongoing efficiency challenge. The CMA however concluded that Ofgem's methodology for calculating the cost of equity and the use of the 85th percentile for its efficiency benchmark was within their regulatory discretion.

Economic outlook

With GDP growth estimates for the UK revised to just 3% for 2022, along with significantly higher inflation predicted, potential supply shortages and increasing interest rates, the macro-economic outlook is at best uncertain. Furthermore, the expected economic upturn from the end of Covid-19 is being stifled by the current cost of living crisis, which undoubtedly has been made worse by the war in Ukraine. The energy sector is being particularly affected with record price increases for wholesale gas and electricity and the failure of many of the UK wholesalers. As a result, customers are facing significant price increases for their gas supplies and we are re-doubling our efforts to support our vulnerable customers.

The war in Ukraine has also focused the Board's attention on cyber security. Cyber security has been a high priority for the Board for a number of years and we continue to work hard to ensure that we have the right capability to counter any external attacks.

In the longer term, global warming remains the planet's biggest threat. Through the decarbonisation and net-zero agenda, governments and businesses are being challenged to think and act differently. We are looking to play our part in this space by actively exploring exciting new opportunities around clean, green energy which in turn, will help secure our future.

COP26 climate conference

We acknowledge the good work achieved at October's COP26 conference in Glasgow, with world leaders committing to work together to accelerate clean technologies to reach the Paris Agreement goals. The 'Glasgow Breakthroughs', are global goals to make clean technologies and sustainable solutions the most affordable, accessible, and attractive options in each emitting sector before 2030 and notably includes hydrogen among its four main target areas.

Our net-zero transformation journey

On 7 April 2022 the UK Government's Energy Security Strategy was published. We welcome this strategy which said that only by switching to domestic sources of clean electricity or hydrogen in industry, heating and transport, can the dependence on imported gas and oil be broken.

Policymakers now need to put the right framework forward for the country's Energy Security Strategy to build an energy system which will meet the challenge of rising living costs, reduce reliance on global price dependencies, while at the same time deliver net zero.

We are now progressing a number of new net-zero opportunities. These include our H100 Fife scheme to connect some 300 residential properties to a green hydrogen network, to be operational next year, as well as development studies to create hydrogen based industrial clusters around Southampton Water and Aberdeen. We are also now looking to expand our activities in building heat networks, connecting bio-gas plants to the gas grid and other emerging technologies.

Ownership and Board structure

In late March the biggest ownership changes since the Group was formed some 17 years ago were completed. Two of the original three shareholders, SSE and OMERS sold their shareholding, as did the more recent investor ADIA. This was undertaken in two separate deals and brought two new investors into our Group. The new investors are Brookfield Super-Core Infrastructure Partners (Brookfield), a Canadian global asset manager, and Global Infrastructure Partners (GIP), a US based global independent infrastructure fund manager. Brookfield has taken a 37.5% share and GIP has taken a 25% share. As part of the transactions, Ontario Teachers' Pension Plan, our third original investor, increased its ownership from 25% to 37.5%.

As a result the Directors from SSE, OMERS and ADIA stepped down from the Board. Here I would like to thank Gregor Alexander, Rob McDonald, Michael McNicholas, Adam Friedrichsen and Guy Lambert for their contributions to the success of the Group over the years. I am pleased to welcome the incoming Directors nominated by the new shareholders: Michael Botha, Becky Lumlock, Felipe Ortiz, Martin Catchpole, Paul Trimmer and Christian Fingerle. Details of all Directors can be found on pages 86 to 89 from which it can be seen we have a Board with a broad range of relevant experience and expertise.

Our shareholders have made significant long-term financial commitments with these investments, reflecting their optimism about the future of SGN and in particular the part it has to play in helping the UK decarbonise and reach its net zero targets.

Nick Salmon
Chair
25 July 2022

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 purpose

Serving our communities by keeping everyone safe and warm.

Our vision

To give our customers the best clean energy experience.

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 are now fully operational with our High Pressure (HP) and Intermediate Pressure (IP) pipelines built and connected. We have also connected a number of large industrial and commercial (I&C) customers and continue to build our domestic customer base. 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

Our values

Safety
We keep people safe.
↓
We look after each other and our customers.

Innovation
We innovate.
↓
We think differently and welcome change.

Reliability
We are reliable.
↓
We aim never to let people down.

Openness
We are open.
↓
We share our knowledge and expertise to help others.

Respect
We treat people with respect.
↓
We make sure everyone feels like they belong.

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

Working together today to create tomorrow's clean energy network

As well as our success in the Strategic Innovation Fund, gaining funding for six net-zero related projects, the principle of continuous innovation and improvement is alive and well in the Company.

This is showcased throughout this report detailing many new and exciting products and processes introduced by our vibrant in-house innovation team. Their focus is always on improving safety and efficiency, while always seeking to collaborate and share best practice across the gas industry and sometimes beyond.

Gas main repair

Project: Stent bag

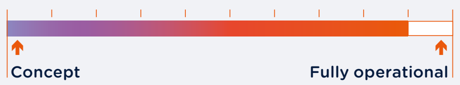
Improving safety for our employees and the public.

The 'stent bag' allows a gas escape to be remotely stopped from inside the gas main while maintaining the flow of gas to our customers. The concept is similar to stents used in the medical industry where a wire mesh tube, with a balloon catheter is inflated, reopening the blockage, and the stent expands and locks into place. Our stent can be inserted at a safe 30m distance from the repair.

In December 2021 our project partner Sarco delivered the first set of equipment to our London region and trained three of our teams to use the kit. This is the start of a Company-wide roll-out which will bring the equipment to both Scotland and the rest of southern England by the end of March 2023.

Innovation focus
This equipment allows for a much safer and quicker approach to managing high volume gas escape scenarios, leading to improved safety for our employees and members of the public. There are also environmental benefits in deploying the stent bag during a repair, as any release of gas into the atmosphere can be vastly reduced or even stopped, while maintaining the gas flow to our customers.

Operational status – 90%



Roadworks excavation

Project: RRES autonomous robot

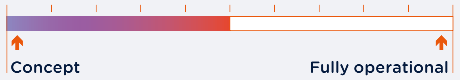
Our Robotics Roadworks and Excavation System (RRES) is the world's first autonomous roadworks robot. It's equipped with sensors to build a detailed and very accurate picture of the ground beneath it, so we can make roadworks safer, avoid damage and reduce disruption. Its custom-designed concrete cutting device uses artificial intelligence to cut any shape into different types of road surfaces.

Successful testing
Following successful testing in the USA, our project partners ULC Technologies sent RRES for UK trials. These began in Epsom in March 2022, with trials in Scotland and elsewhere in southern England to follow.

Innovation focus
This all-electric robot ensures our excavations are smaller so we can minimise our carbon footprint and keep traffic moving. It also takes up less space on our roads and produces less CO_2 in the process.

RRES being put through its paces.

Operational status – 50%



RRES
ROBOTIC ROADWORKS AND EXCAVATION SYSTEM

Working together today to create tomorrow's clean energy network (cont)

Mapping our network

Project: Distribution Network Information Modelling (DNIM) – Phase 1

The objective of the DNIM is to create a fully automated robotic system that can travel within the existing gas infrastructure and accurately map the network.

After completion of the sensor evaluation, a mock environment was set up to test the technology. This environment proved accurate in mapping our network with different configurations. However, this requires further development to improve accuracy of localising assets, particularly when going around corners.

Innovation focus
This first phase successfully demonstrated a proof of concept in a laboratory setting. The next phase is focussing on an integrated software and hardware implementation of an autonomous platform to develop DNIM further.

Operational status – 25%

Concept Fully operational

A demonstration of the futuristic mapping robot.

Live service transfer

Project: TEENEE

It's widely recognised, being able to perform a 'live' service transfer without the need to enter a customer's home would let us plan, manage and deliver our gas mains replacement programme with less customer disturbance.

Operational status – 30%

Concept Fully operational

The new fitting provides maximum safety for operatives.

This project came as a result of the Covid-19 pandemic and our desire to help protect our most vulnerable customers. This saw us collaborate with Northern Gas Networks and Steer Energy on a polyethylene (PE) plastic pipe option to allow small-bore 25mm and smaller gas services to be transferred 'live', while keeping the gas flowing to our customers.

This project 'TEENEE', is the initial stage in developing the fitting. Input will also be gathered from suitable PE manufacturers to ensure maximum safety and compliance before further developing this concept and creating a market ready solution.

Innovation focus
At the start of 2022 soft prototypes were produced and successfully tested. The project will now develop a final prototype which will go to testing and field trials will take place during 2022.

Street work enhancement

Project: Street Score 2

Necessary signing, lighting and guarding are placed around all our street works which also conform to strict standards stated in 'Safety at Street Works and Road Works: A Code of Practice'.

Our ambition is to further improve street works accessibility for vulnerable customers, reducing disruption without compromising the existing standards.

We previously collaborated with Northern Gas Networks and Wales & West Utilities, along with project partners Steer Energy to carry out a project called 'Street Score'.

The next stage of this project aims to take the multiple concepts outlined in Stage 1 and accelerate them forward to field testing through design and prototyping. These include the development and testing of an Impact Assessment Tool, Code of Practice Booklet, Checklist Tape, QR Coding and Training Material.

Innovation focus
Since approval there's been considerable interest from other utility networks with seven companies interested in joining.

Operational status – 40%

Concept Fully operational

Improving street works accessibility for vulnerable customers.

Working together today to create tomorrow's clean energy network (cont)

Plastic pipe repairs

Project: Timberline

We've been carrying out work to look at alternative means of completing PE plastic pipe repairs and have been in discussion with US company Timberline. It has developed a system to repair PE mains using an electrofused repair patch.

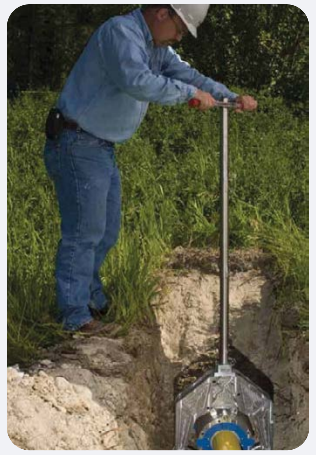
Although the system has been trialled in the US, its introduction to the UK would provide a revolutionary 'repair and go' system where a permanent repair could be welded to the existing pipe in the excavation without the need for longer timescales, specialist procedures or extended excavations.

This process would potentially reduce the time needed to occupy the carriageway and complete the repair and also allow a one visit repair, thereby reducing disruption to road users, other utility companies and other stakeholders.

Innovation focus
The Timberline system arrived in the UK for us to commence testing in April 2022.

Operational status – 60%

Concept — Fully operational



Trialling a revolutionary 'repair and go' system.

Groundworks excavation

Project: Vac ex soft touch (VEST)

Vacuum excavation (Vac ex) has been with us for a while now, but in its original form.

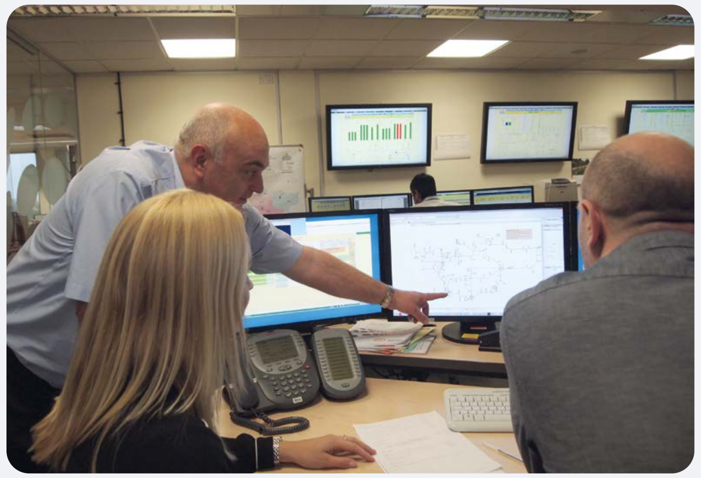
To improve on an already successful process, we designed, developed, and manufactured a non-touch stand-alone excavation head, which uses integrated supersonic air nozzles to agitate the ground in the excavation more safely and effectively. This provides a faster and more efficient removal of soil around our higher-pressure assets. This new innovation also removes the requirements for an operative to be in the excavation, improving all-round safety and speeding up the excavation process, meaning the excavation is open for far less time.

Innovation focus
The fabricated VEST units have been integrated with our Vacuum Excavators at our partner's testing facility where controlled testing and on-site trials have begun.

Operational status – 70%

Concept — Fully operational

Network modelling will allow engineers to improve future gas network design at the planning stage.



Modelling gas use

Project: Real-time network implementation pilot study

The recently completed Real Time Network (RTN) project aimed to develop, install and demonstrate a flexible 'real-time' network which will enable the GB gas network to meet current and evolving needs.

The project successfully installed all required real-time sensors and loggers (from the identified data requirements) on the Medway networks to analyse performance in real time through the modelling of energy (rather than volumetric) flow in the network as well as modelling the impact of renewable technology and unconventional sources of gas.

Innovation focus
This next generation pilot study will apply the RTN Demand Modelling with variable diversity to two networks. The purpose is to provide the resulting network models for our network planning team to be able to use in the design of all required programmes across both networks.

Operational status – 40%

Concept — Fully operational

While we innovate to improve safety and increase efficiency, above all it's to better serve our customers.

Our industry has always been highly innovative in delivering gas safely and efficiently to homes and businesses around the country. But today we are also innovating to help our vulnerable customers and create a clean, green, energy network for tomorrow.

Chief Executive Officer's report

I'm particularly pleased to report for the sixth year running, our Scotland network remains the UK's number one gas distribution company for customer satisfaction.

Introduction

This year sees us complete the first year in the new RIIO-GD2 price control period (2021 to 2026) and I'm pleased to report it's been a good year for our Company, progressing our net-zero ambitions and growing our wide range of service offerings to our customers, particularly to those customers in vulnerable circumstances. This is especially pleasing as having made my decision to retire on 12 August 2022, I'm extremely proud of what many thousands of my colleagues have achieved since SGN was formed back in 2005. We've made great progress in that time, but now it's time for a new chapter. I'd like to wish the incoming CEO Mark Wild every possible success and thank everyone I've worked with over these past 14 years.

Looking at the year just gone, I'd like to pay tribute to our dedicated and highly professional workforce. They have met and overcome the continuing challenges presented by Covid-19, ensuring throughout the two years of the pandemic we've delivered on all of our most important commitments to keep our customers safe and warm.

2022 was the first year of the new price control period, and we have responded to the new output structures that have been put in place by our Regulator. These go into much greater detail and introduce more mechanisms through which allowances are returned to customers where the outputs have not been delivered. This has allowed us to take on more ambitious targets which we are progressing towards.

Indeed, I'm particularly pleased to report for the sixth year running, our Scotland network remains the UK's number one gas distribution company for customer satisfaction. This is great testament to the hard work and dedication of all our people in putting our customers first.

Vision, values and purpose

Our values have always demonstrated what we stand for as a company and help guide us to achieving our vision and goals. They not only dictate the way we behave but also help us build trust, so we can thrive as both individuals and as a company.

This year we've taken the opportunity to refresh our vision, values and purpose. We deliberately didn't introduce wholesale change, but instead developed them from where they were, reflecting our own progress as a company and the evolving societal values that surround us.

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 in addition to other forms of financial capital to run our business and deliver a safe and efficient network for our customers.

Social

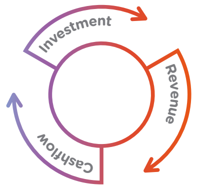
We provide a public service supplying gas to those who need it, keeping our 5.9 million customers safe and warm while our people play a key role in wider society looking after the communities we serve.

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.

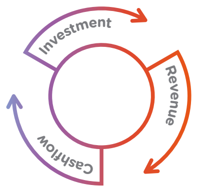
Core activities

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 as part of a decarbonised energy system.
- 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 Officer's report (cont)

In order to maintain their authenticity and relevance we have asked and listened to over 1,000 employees. This ensured we were able to reflect in these values, what matters most to them.

Once formed, its important values aren't just another set of words, but people live up to them and are held to account if not. So, this year all our people's performance will be reviewed against these refreshed values and every potential new employee will be assessed against them. Simply put, they represent the way we do things in our Company.

SSE sale and joint-services

The SSE sale of its ownership in our Company, which took effect from March 2022, also necessitated detailed planning and implementation in the preceding months to identify all the service areas which were either partly or entirely provided by SSE.

Once identified, migration plans were agreed for a wide number of functions, including Treasury, Payroll and Procurement, allowing them to move across to SGN in readiness for the sale completion.

A number of other services areas, such as Logistics, continue to be provided through a new Transition Service Agreement (TSA). In this instance SSE continues to provide us the required services against a detailed scope and price. The duration of each TSA is dependent upon individual functional plans and specific requirements, such as the purchase and implementation of new software systems. Another essential TSA is for IT which is being closely managed as we migrate away from all SSE contracts and establish our own agreements.

An operative wearing a face mask calling at a customer's home.

Ensuring all our people go home from work every day safe and well has been our priority since our Company was formed 17 years ago. We end 2021/22 with a good story around overall safety performance.

Artist impression of the new Head Office building to be built in Horley and due to be completed at the end of 2023.

New office facilities in Glasgow include optional desk standing set-ups.

As well as standing and hot desk facilities, a new pod facility brings additional flexibility to office working.

Covid-19 update

From the beginning of the Covid-19 epidemic, through to where we are today, our overarching aim has been to prioritise the safety and wellbeing of both our employees and the people within the communities we serve. In doing so, we've used government guidance as a minimum across all our regional networks, regularly going over and above the recommendations. Here we've always prioritised the initiatives which support our drive for safety. This includes liaising with government departments on testing provisions for critical workers and being early adopters of enhanced testing schemes. Our Covid-19 recovery group continues to coordinate our recovery activities across our business, while we keep a close watch for any changes in the rules, or nature of the pandemic which, should they occur, may require us to respond quickly and further adapt.

The total number of Covid-19 related absences we experienced during 2020/21 amounted to 1,998, including those who tested positive and those who were just self-isolating.

Just over a quarter of our entire workforce (1,031) was diagnosed as having Covid-19 at some point during this period. While this would mean most of our customer facing operational employees being unable to work, because we reacted quickly at the start of the pandemic, the majority of our office based employees could continue to work effectively from home, but only if feeling well enough to do so.

While this is a situation no one wants to see continue, this contingency is one we can call upon very quickly should the situation ever worsen. My heartfelt thanks go out to all our employees who have adapted so well to the difficult situations that have confronted us since the start of the pandemic.

Safety and wellbeing performance

Ensuring all our people go home from work every day safe and well has been our priority since our Company was formed 17 years ago. We end 2021/22 with a good story around overall safety performance.

We successfully achieved the majority of our Company targets around personal and process safety, health and wellbeing and the environment. This doesn't take away from the reported injuries we had in the early summer period, however through a focus on culture and behavioural safety we halved our injury rates, ensuring more of our own people and our contractors went home safely.

Safe Days

We measure our safety performance in a number of different ways, the main visible measure being our reporting of 'Safe Days'. A 'Safe Day' is achieved where there are: (i) no lost time injuries to colleagues or our contractors; (ii) there are no road traffic collisions; (iii) no cable strikes; and (iv) no injuries to members of the public.

In the year to 31 March 2022 we recorded 194 safe days, 18 better than we had targeted. This compares favourably to the previous year which was affected by Covid-19 controls, and we have set a target of 210 Safe Days for the year to March 2023.

While I would consider this a good result, we want to stretch it even further going forward and have therefore set the bar at 210 Safe Days for the year to March 2023. To ensure visibility and transparency among all our operatives, we publish local daily statistics on safety boards around our offices and depots.

I'm also pleased to report we achieved all our process safety targets, including those relating to our mains replacement programme, electricity cable damages and our emergency response targets.

Health surveillance

Our health surveillance programme was the most affected by Covid-19, with the necessary additional controls having to be put in place to stop face-to-face encounters.

However, with some hard work from our in-house safety and welfare team plus support from the wider business, we achieved our targets and took the opportunity to also introduce many new wellbeing initiatives. These included providing lateral flow self-testing kits and widening the scope and reach of our externally provided employee assistance programme.

Safety briefings

We've always encouraged our managers to have regular safety conversations and briefings with their team members, and as we see restrictions lift this is increasingly returning to face-to-face engagement.

Because of the challenges brought about by the pandemic, earlier in the year we introduced a safety briefing programme called 7-to-1. Professionally designed and implemented throughout our Company, this programme encapsulated safety conversations and briefings which were cascaded down the line taking advantage of our ability to communicate using video links and the latest digital technology. It commenced with safety managers engaging with team managers and then team managers to their direct employees. Our objective was simple. To keep these essential briefing sessions down to seven people or less, to ensure full participation and engagement. These Company-wide sessions achieved their objectives and importantly, during a time of no direct contact being allowed, enabled us to keep a very strong focus among all our people on the continuous need to focus on safety.

Near-miss reporting

Near-miss reporting is an integral part of our safety culture and we actively encourage all our people to report on them. Along with ensuring our people have the best possible PPE (personal protective equipment) available to them in all circumstances, near-miss reporting is a last line of defence for us. To ensure it's effective we make sure our near-miss reporting mechanism is open, transparent and honest. Learning and sharing from what nearly went wrong, can positively affect the avoidance of incidents and accidents in the future.

In addition to keeping our people safe, keeping our customers and the public at large safe and warm is something we as a company, and the gas industry as a whole, has done for many decades.

National gas emergency number – 0800 111 999

We always promote the national gas emergency number. This year was no different and to ensure people know what to do should they smell gas at any time, either inside or outside their homes, we carried out an engaging campaign on social media in order to reach a wider and more diverse audience.

This multi-channel campaign initially targeting our Southern region, included digital radio adverts, out of home advertising seen in public spaces (such as bus shelter advertising) and paid for social media. The combined number of reach, listens and impressions was estimated to top 50 million. We've also undertaken our own 'organic' social media and Facebook activity over the winter. Our Facebook advertising campaign has so far enjoyed a reach of some 1.8 million people.

Chief Executive Officer's report (cont)

At the same time, working in close collaboration with the other gas networks, a national campaign run by our trade association the Energy Networks Association (ENA), on behalf of all network operators, has been running since November 2021. Here the 'smell gas' posts have reached 3.5 million people so far.

Ukraine support

To offer some meaningful support to the Ukrainian people from our Company as well as industry, we've teamed up with the other gas distribution networks to help keep gas flowing in Ukraine.

We've arranged the donation of 70 small gas district governors to help re-establish gas to thousands of people. We also donated to the Disaster Emergency Committee over 15,000 pieces of PPE, including surgical masks, gloves and sterile wipes.

We also set up a Company Just Giving page to offer support. So far, over £1,000 has been raised by concerned colleagues and we've pledged to match-fund anything raised up to £25,000. This is being actively promoted among our people.

Cyber safety

We continue to be active and vigilant in our work to identify and mitigate potential cyber-attacks on our IT and OT systems and infrastructure. As part of the UK's critical national infrastructure, we're a target for cyber criminals from around the world. The risk of this has escalated significantly since the start of the war in Ukraine.

To minimise this risk, we have long-term and substantive cyber security investment programme which we regularly update Ofgem and senior stakeholders on progress. We take our adherence to the Network Information Systems (NIS) Directive seriously and we have committed to improving our cyber security capability. We regularly assess our progress and improvement through a variety of measures including the newly implemented Cyber Assessment Framework which is Ofgem's mechanism to assess all UK energy companies' cyber security capability. As one of our highest corporate risks, cyber security is an Executive and Board matter. We know and understand that this is a constantly evolving threat that requires constant attention and action.

We have a team of cyber experts who protect our systems around-the-clock and as with all organisations, the first line of defence is our people. We therefore put a lot of time and effort into educating all our people on how to be vigilant, with regular updates and warnings of new methods being operated by the criminals.

Operational and network update

Operations performance

It was a very positive year across all our operational activities, and we made excellent progress on our major engineering projects across our region. Our vision to keep our customers safe and warm at all times is embodied through exceeding our target 97% licence condition for emergency response. Here we achieved 99.1% for controlled and 98.0% for uncontrolled gas escapes (see page 62). Our engineers and customer teams received very positive feedback and unsolicited praise from customers and stakeholders during a number of 'no-gas' situations throughout the year.

Communication is everything when it comes to good customer experience and by delivering a greater choice of communication channels, particularly a strong social media presence, has improved our ability to engage meaningfully at every point of customer and stakeholder interaction. (See page 37 for more information on customer initiatives.)

During the year, we invested £310.5m in delivering our replacement policy mains, non-policy mains, gas risers, capital projects and other gas mains replacement projects. In total, we've delivered a replacement workload of 849km across our Southern and Scotland networks for the first year of the RIIO-GD2 price control.

We continue to connect new properties to the gas mains and in 2021/22 we made 12,049 new connections.

New Director appointment

In September 2021 we appointed a new Director of Operations (Southern) with Martin Holloway joining us from HomeServe UK. Martin brings wide-ranging experience and is a recognised specialist in motivating and leading large and diverse teams, in both the public and private sectors.

He also has a strong track record in delivering sustainable change and excellent results. At the start of 2022 Martin undertook a series of face-to-face roadshows inviting every member from his field teams to hear his and his leadership team's new vision and philosophy for the future. From initial feedback these sessions have been very well received throughout our Southern operations region.

Martin Holloway, Director of Operations (Southern).

Resilience

We continue to learn valuable lessons and insight through carrying out mock large-scale loss of supply incidents with external resilience partners. We recognise the benefits of having strong relationships with resilience partners throughout the UK, which is why we actively look to strengthening our relationships with existing partners, while working to extend our relationship to new organisations.

Every year we participate in a range of different external resilience meetings and exercises, many involving various emergency services, voluntary organisations and local authorities. Our relationships with the local authorities covering our southern England and Scotland regions are particularly valuable, as together we aim to always protect and look after our most vulnerable customers.

This was demonstrated on a few significant loss of supply incidents during the year, when we worked closely with the authorities to identify and help those who needed it the most. We always carry a large stock of temporary electric heating and cooking appliances, which we provide free of charge when needed, to those in vulnerable circumstances.

We also fully engage in annual industry-run exercises, some of these co-ordinated through our industry trade association the ENA and we participate in an annual national gas supply emergency exercise which models adverse effects on the UK's energy infrastructure. All these exercises enable us to continually assess our readiness and ability to respond through our contingency plans and importantly make improvements where we need to.

Customer satisfaction

In terms of keeping our customers satisfied with our work, in Scotland our teams retained first position from the eight network regions identified by Ofgem (Cadent with four networks, us with two and one network each for Wales & West Utilities and Northern Gas Networks).

Our Scotland network recorded an impressive score of 9.28 out of 10. Although our Southern network is in sixth position, it still achieved a score in excess of 9 as we promised in our business plan. I'd like to congratulate all our people on this outcome, which is a direct result of their hard work and dedication to our customers.

A lot of hard work goes into resolving any complaints and issues our customers bring to our attention and we always look to resolve an enquiry, wherever possible, by the end of the next working day. During 2021/22, this was achieved to our customers' satisfaction 72% of the time.

COP26 – gas network protection

COP26 was one of the most high-profile events in the UK during 2021 and meant our involvement in some significant multi-agency planning. We brought forward any planned maintenance activities we had in the centre of Glasgow as well as other sensitive areas and reported into a multi-utility planning group, working with the Foreign and Commonwealth Development Office to help ensure the safety of the event.

Also working closely with Glasgow City Council, we helped deliver a multi-agency exercise, designed to ensure preparedness for a range of possible scenarios and help the relevant authorities clarify 'special' arrangements for the duration of the conference.

During the conference itself, our emergency engineers spent time on the re-designated UN site as a precaution to any incident or call-out that may have been required. I'm pleased to report from our perspective, the conference was incident free.

External recognition awards

This year our individuals, teams and Company were recognised through winning 11 different industry and national awards.

We were very proud to be nominated in many areas, particular excelling in customer service and IT. The breadth of awards also demonstrates: (i) our desire to continually develop our young people; (ii) our commitment to the care and safety of our customers; and (iii) our pursuit of engineering excellence.

Dan Edwards
Social Impact Programme Lead

Winner of the Invest in Surrey Business Awards 2022

The award recognised innovative individuals from business leaders under the age of 40. The judges recognised Dan for his tireless work in transforming how we raise awareness and protect customers against the dangers of carbon monoxide (CO) poisoning and for his leading role in setting up new awareness and advice partnerships.

Roger Crane
Gas Control Manager

Winner of the IGEM/EUA Awards 2022 – Gas Industry Engineer of the Year

The judges cited Roger's dedication to the job saying on a daily basis he makes a significant difference to colleagues, customers, the environment and energy users across the UK.

Tracey Dao
Property Dispute Solicitor

Winner of the IGEM/EUA Awards 2022 – Gas Industry Young Person's Achievement Award

The judges recognised Tracey's passion and commitment to her work and how she applies a pragmatic and commercial approach to everything she does. This included her interest in health and safety matters which they said added real value to her role.

The list below, which is also available on our website, shows the awards won during the year.

Gas Industry Awards 2022:
Engineer of the Year

Gas Industry Awards 2022:
Young Person's Achievement Award

Utility Week Awards 2021/22:
Customer Vulnerability Award for Home & Well

Chair's Commendation Award from UKPOA (United Kingdom On-shore Pipeline Operators Association):
Margaret Hamilton

UK IT Awards 2021:
Automation Project of the Year – Fatigue Manager

British Construction Industry Awards 2021:
Partnership Initiative of the Year

UKSTT Awards 2021:
Innovative Product of the Year

UKSTT Awards 2021:
Young Professional Award

UK Business Awards 2021:
Gold for the Maggie Colman Customer Service category

UK Business Awards 2021:
Silver for Best Customer Experience – Large Organisation

CCA Excellence Awards 2021:
Winner for Excellence in social responsibility and awareness

Chief Executive Officer's report (cont)

Improving our fleet

Safety is at the forefront of this investment and with the arrival or our new operational vehicles, a safer driving experience will be delivered for our field colleagues. New features include a pedestrian collision avoidance system, lane departure warning and lane keeping aid.

We have plans to transition around half of our new commercial fleet to become a zero emissions fleet by the end of the current regulatory price control. In addition, we've taken delivery of our first electric vehicle, which is being put through its paces in our Southern region.

Our fleet team is working hard with suppliers to secure our new vehicles as quickly as possible. However, along with many companies around the world, we are facing challenges and delays to delivery dates. This is primarily due to a worldwide shortage of microchips, with lower numbers of semi-conductors being produced and delays on parts and materials.

While we are waiting on a backlog of over 100 vehicles being delivered from last year, and with around 400 vehicles due to be delivered in this financial year, we have taken delivery of a number of new vehicles, which are enhancing our fleet.

We're currently replacing our existing fleet with new vehicles, with a c.£16m investment.

Chief Executive Officer's report (cont)

Gas Control centre
Operating 24/7, our Gas Control centre forecasts our customers' gas demand, stores the gas required to meet this everyday demand and also monitors and responds to any alerts received in our high-pressure sites.

To help the transition to net-zero, our Gas Control centre is also monitoring a large number of biomethane sites which are connected to our gas networks or through a facility to bring gas that isn't directly connected to the national network, into our Portsdown Hill injection facility near Portsmouth in Hampshire.

We also continue to support the import of gas from Liquefied Natural Gas (LNG) which arrives on ships into the Isle of Grain. Here our Gas Control team oversees the continual taking of 'boil-off' gas from the site, to support their operations.

We've also been awarded a further 10-year contract, to operate the transmission system from Scotland to Northern Ireland on behalf of Mutual Energy.

Damage prevention
We continue to work with partners across our operating regions to raise awareness and actively prevent third parties from damaging our gas network. This is important, not only to stop anyone being injured, but also to ensure our customers are not inconvenienced or worse, from losing their gas supplies.

To further advance our aim, we're participating in a BEIS/GLA working group which seeks to use BEIS's regulators' pioneers fund to encourage greater levels of cross-utility collaboration across the sector. Our research into the negative impact of disruption on residents' subjective wellbeing has been highly influential in this process.

We were also delighted to be recognised, with a number of individual and collaborative awards, in our efforts to reduce damage and encourage cross-utility cooperation:

- Our Stakeholder manager, Margaret Hamilton was presented with a Chairs Award by UKOPA (The United Kingdom OnShore Pipeline Operators Association) to recognise the significant role she has played in relation to damage prevention.
- In the 2021 British Construction Industry Awards 2021, we were recognised in the Partnership Initiative of the Year award. Here, the Collaborative Streetworks Partnering Project, in collaboration with Greater London Authority recognised ourselves along with Thames Water, Transport for London, Cadent and UK Power Networks.

Strategic innovation fund

Project name	Project partners	Description
Digital Twin – a digital copy of the gas network	SGN, IBM, aws, nationalgrid	To test and demonstrate the successful use of a Digital Twin gas network, which will allow the modelling of innovative changes, which will in turn enhance decision making across a range of challenges, all driven by the energy transition to a sustainable future.
Digital Twin – hydrogen	SGN, DNV, aws, nationalgrid	To create a working green hydrogen Digital Twin gas network, to explore the commercial, societal and operational benefits on green hydrogen projects. This will allow changes to the traditional way of analysing asset condition and overall performance.
Predictive digital safety interventions	SGN, FYLD	To expand the capability of the FYLD product with predictive analytics, to reduce risk and enhance employee safety by enabling remote, positive and proactive safety interventions.
Intelligent gas grid	SGN, utonomy, nationalgrid	To autonomously and intelligently monitor and control gas networks, using data-driven algorithms and decision-making. In addition to further support network digitisation.
Velocity design with hydrogen	SGN, DNV	To allow gas network operators to introduce hydrogen/natural gas mixes as well as 100% hydrogen into existing gas networks with the minimum requirement for network reinforcement. There'll be no increased risk in safety or integrity but there will be enhanced protection for the environment.
Navigation	SGN, Farad.ai, Intelligent Power Generation, SMP Net	To demonstrate how predictive grid mapping AI, fuel-flexible, pollutant-free power generation, along with real-time optimisation and control technology, can involve the use of the gas network. In particular, as the networks evolve to 100% renewables.

Stakeholder Manager Margaret Hamilton receives her damage prevention award from Asset Engineering Manager Barry Mackay.

H100 is the pioneering hydrogen project in Fife, Scotland and when complete will bring hydrogen to some 300 homes.

In January 2022 we received news from Ofgem that six of our Strategic Innovation Fund submissions had been successful and were approved for us to actively pursue.

Innovation
Over many decades Great Britain has been recognised as one of the most innovative and inventive of modern-day nations, pioneering the ideas and technologies which make our world what it is today.

You could say it's in our DNA to innovate and invent new technologies, processes and products.

And that tradition continues within the gas industry, with new technologies driving safety improvements and environmental change. We, for example, are at the forefront of the hydrogen revolution, helping to bring a clean green alternative to natural gas into our homes, though a world-first demonstration project being created in Fife, Scotland. See page 23.

But aside from the big-ticket items, we're just as creative with small and incremental innovations. Not necessarily large in their own right, but collectively they bring a sense of advancement to an industry that's evolved over the past 200 years and will continue to evolve over the next 200.

Throughout this report we showcase a number of smaller innovations we and others have produced, which we'll be progressing.

Strategic Innovation Fund
But separate to those, at the end of January 2022 we received news from Ofgem that six of our Strategic Innovation Fund (SIF) submissions had been successful and were approved for us to actively pursue.

These exciting projects covered different challenge areas which included whole system integration, data and digitisation as well as heat and zero emission transport.

The SIF is a scheme delivered in partnership between Ofgem and Innovate UK, as a funding mechanism for the electricity system operator, electricity transmission, gas transmission and gas distribution sectors.

It aims to find and fund ambitious, innovative projects with the potential to accelerate the transition to net-zero. These projects will help shape the future of the gas and electricity networks and succeed commercially where possible.

The table on the opposite page lists our six approved projects and the partners we'll be working with.

Chief Executive Officer's report (cont)

Building the pathway to net-zero

LTS future

We announced on 7 April 2022 we had secured £27m funding from Ofgem, to test the use of high-pressure pipelines for hydrogen transmission and storage as an option for net-zero heating.

This collaborative project along with other gas distribution companies is the first stage in determining whether Great Britain's local gas transmission networks can be repurposed for hydrogen gas.

The project will be based in Grangemouth, Scotland, and delivered in partnership with Global Chemical Company, INEOS, which has extensive manufacturing and infrastructure facilities in the region.

The Local Transmission System (LTS) is the critical gas infrastructure connecting our towns and cities to the National Transmission System. Gas distribution networks manage around 11,000km of these high-pressure pipelines, which were originally designed to transport and store natural gas. Part of the National Hydrogen Programme is to 'define the role of the LTS in system transformation and facilitating industrial clusters'.

With Scotland and the UK targeting net zero by 2045 and 2050 respectively, this is an important step in preparing the country's gas networks for greener alternatives like hydrogen.

COP26

As well as ensuring the security of gas supplies to the conference (detailed earlier), we also attended the delayed 26th climate change conference as part of our net-zero ambition to champion hydrogen as being a serious solution in providing a zero-carbon option for heating Britain's homes.

We hosted an event at Glasgow's COP 26 Lighthouse venue with a variety of invited stakeholders where our H100 Project Director Craig McCafferty presented our H100 Fife hydrogen project.

A further engagement at the conference came when our Director of Energy Futures Gus McIntosh shared aspects of the exciting work we're doing with a US Senate delegation of Democrats and Republicans. They had expressed an interest to hear the hydrogen story from ourselves.

From left: Gus McIntosh (SGN Director of Energy Futures), Sacha Dench (biologist, conservationist and adventurer), Lorna Archer (H100 Project Manager) and Pauline Silverman (Senior Manager Partnerships and Places, SEPA).

SGN's H100 Project Director Craig McCafferty (left) with Mark Nellor from ARUP, pictured at the COP26 Conference.

US Senator Tom Carper (left) with SGN's Gus McIntosh at the COP26 Conference.

H100 Fife will provide compelling evidence of hydrogen's performance, in a real-world domestic setting, as a zero-carbon energy source.

Another outcome for us from the conference, was offering our support for the UK Government's signing of an international accord with the US, EU and a number of other countries. This was a pledge to reduce methane emissions by 2030.

H100 Fife

Progress continues on our pioneering project to demonstrate 100% green hydrogen heating in homes for the first time.

Building the world's first end-to-end hydrogen system from turbine tip to burner in the home is gaining momentum and is on-target to start to bring carbon-free heating and cooking to around 300 homes by the end of 2023.

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 and will therefore provide compelling evidence of hydrogen's performance in a real-world domestic setting as a zero-carbon energy source.

Round Britain climate challenge – Sacha Dench

After stopping off to meet us at our H100 project in Levenmouth, Fife during her world-first circumnavigation of mainland Britain using an electric-powered paraglider, we were devastated to learn a week later Sacha Dench was seriously injured in an accident in the Scottish Highlands and her friend and cameraman Dan Burton was tragically killed.

We understand Sacha continues to recover, albeit slowly and wish her well. However we'd like to express our sadness at the tragic loss of Dan, who our team met on the day of the visit. Our thoughts go out to his family and friends.

Throughout her journey last year, Sacha made frequent stops, all to raise awareness of the climate crisis ahead of COP26, and we were thrilled when she joined us to see how the Levenmouth community is helping tackle the crisis, with our H100 Fife project leading the way. We hope the legacy of the programme she made and the people she touches in her future work will carry on making a real difference.

Net-zero reporting

In late November and early December, we published two summary reports.

The first details our view of the Accelerated Pathway required for Hydrogen in Scotland. It argues by switching a large proportion of Scotland's homes and businesses to hydrogen, which doesn't produce carbon when it burns, is a natural and pragmatic step forward. Doing this would provide a substantial contribution to meeting Scotland's ambitious 2030 and 2045 climate targets bringing with it investment, jobs and opportunities.

The second was the Southampton Water Project report which is a project to explore the decarbonisation of the Solent area and build on the outputs of the feasibility study. It's a project that can kick-start a net-zero industrial cluster in Southampton while also stimulating net-zero gas networks across the south of England.

Both documents state clearly the potential contribution we can make to the decarbonisation of domestic and industrial heat in the respective regions. The reports have been positively received by industrial stakeholders.

Other initiatives

Following recent engagement on our accelerated pathway and wider hydrogen development projects (with the BEIS Hydrogen Economy team), we've been invited to join a working group on hydrogen transportation and storage infrastructure. This working group will sit underneath the Government's Hydrogen Advisory Council and will help take forward elements of the Hydrogen Strategy.

At the start of the year we joined the independent right of centre think tank (Bright Blue) and taken a seat on its Advisory Council. Its research programme covers energy and the environment and recent publications have covered green financing and climate diplomacy post COP26.

Our people

Improving diversity and inclusion

We recognise a solid 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 now and over the last few years we've started to see real change happen.

This year we were delighted to be awarded the Inclusive Employers Standard: Bronze Award, for our commitment to inclusion in the workplace which neatly sits alongside our British Standard BS 18477 accreditation for our inclusive service provision.

Our D&I ambitions are primarily there for our people and our customers and revolve around three areas: (i) our desire to build a diverse workforce and one which reflects the communities we serve; (ii) for us to have a more inclusive workplace, where people can be themselves and don't feel they have to be what they're not; and (iii) for us to have our leaders role model the right behaviours. It's important, especially when bringing new people into our company, that everyone understands the type of company we are and the people we want to have working for us.

For each of these actions, every department within our Company has a D&I action plan, along with champions and an ever-expanding understanding of the issues. With interactive training materials created and available, we ensure everyone gets to see first-hand their expected behaviours.

With Covid-19 dominating things these past two years, we've had to adapt how we deliver D&I programmes or in some cases, delay them for future roll-out once our operations returned to some form of normality. We've recruited more women into roles that were previously filled predominantly by men, through the application of different practices and policies, such as flexible working and succession.

Our holistic approach to D&I has also led to a greater focus on ethnicity, with 'Let's Talk About Race' initiatives and the second year of having in place our 'Race at Work Charter'.

Developing our people

The key to success in any role and career is to constantly build your ability to learn. With 'change' the only constant in many of our working lives, continuous learning can improve self-esteem and increase life-satisfaction, optimism and belief in our own abilities.

Investing in time to learn keeps a brain sharp, supports mental health, helps individuals upskill and position themselves for new roles. This is why our employee development ambitions remain high on our agenda.

Our 'online and live' offering for our people proves a popular source of learning and our multi-modular management development programmes continue to be popular. A further enhancement of more complex skills development courses will be designed later this year. In addition, transformation leadership is a new focus for us, as we begin to transition our Company into a net-zero future.

Chief Executive Officer's report (cont)

Future LTS (Local Transmission System)

Scottish Government
Riaghaltas na h-Alba
gov.scot

Having secured £27m in funding from Ofgem, this unique and collaborative project will further the arguments for hydrogen to become a mainstream zero-carbon fuel to assist the UK achieve its decarbonisation ambitions.

Based in Grangemouth, Scotland, the project will test a small section of high-pressure pipeline to assess its suitability to carry hydrogen safely and securely. If successful it would pave the way for the whole of the UK's 11,000km LTS to potentially convert to hydrogen in the future.

The support of the Scottish Government is key to the project and the following comments were received from Michael Matheson BPA/MSP, the Cabinet Secretary for Net Zero, Energy and Transport in the Scottish Government. The following is an extract from Mr Matheson's letter:

"I welcome the announcement that £29.9m of funding has been secured to undertake work to determine whether local transmission system infrastructure can be repurposed for hydrogen gas and wish SGN well with the delivery of the project.

As committed in our Heat in Building Strategy and our Hydrogen Action Plan, we will continue to work with the gas network sector and the UK Government to explore opportunities for blending hydrogen in the gas network. We continue to keep under review the benefits and cost-effectiveness of increased hydrogen blending at GB-level, including in terms of the wider energy system and supply chains.

We are actively exploring where in Scotland hydrogen might ultimately be most appropriate for heating homes and buildings and we are using this evolving understanding to guide our approach."

This unique and collaborative project will further the arguments for hydrogen to become a mainstream zero-carbon fuel.

Chief Executive Officer's report (cont)

New programmes
The future skills requirements of our business are continuing to evolve and to meet this challenge we're developing our early careers streams through new traineeships, apprenticeships and graduate programmes.

These programmes will introduce new talent to our business which will support our succession planning and have the potential to bring new and fresh approaches and different thinking to the way we work.

This year we've successfully recruited 86 Transmission Trainees across our Scotland and Southern area and they are due to commence their training programmes in May 2022. Our ambition is to grow this programme further.

Our apprenticeship programmes are being further developed in a variety of disciplines that will be a first for our business. These include project management, building energy management, IT and cyber security, and safety, health and environmental. Our traditional training routes will still be maintained for our gas networks while we work alongside the other gas network companies on new hydrogen training programmes.

Recruitment
The job market across all industries is extremely volatile just now, bringing with it challenges for our own recruitment activity. While our employee churn is relatively low compared with some industries, we have seen people leave our Company and where we do lose people in key roles, it's important we quickly replace them with suitably skilled and qualified individuals.

We also wish to ensure within our recruitment activity we fully embrace our desire to have a diverse and inclusive workforce. 90% of our hiring managers have been trained in inclusive recruitment practices and we've expanded our recruitment team to help deal with the volumes.

We've also had to be resourceful when recruiting, including the use of targeted social media campaigns for bulk recruitment and headhunting for specialised roles. Recognising the difficulties, we were facing to recruit good candidates, our recruitment and digital communications teams collaborated on a very successful paid social media campaign to support the recruitment of new operational trainees across our Scotland and Southern regions.

We also wish to ensure within our recruitment activity we fully embrace our desire to have a diverse and inclusive workforce.

Providing a friendly face with care and advice for customers.

Conversations with customers through our Careline refer them towards the help available from the many partnerships we have in place.

The adverts placed were seen by over 280,000 people and generated over 17,000 clicks to our job listings page on our website, double what we'd normally expect.

Customer service

Looking after our customers
The last three months of the financial year, along with the start of the new financial year, have seen monumental challenges presented to householders and businesses the length and breadth of the country.

Wholesale gas prices in March 2022 reached record levels and we've seen the failure of many of the UK's smaller energy supply companies. All of this has fed into the 1 April 2022 increase in the energy price cap overseen by Ofgem resulting in higher energy bills for customers, the consequences of which, as seen by many energy experts, is likely to be thousands of households being plunged into fuel poverty.

Recognising the difficulties and strains this puts people under, we've developed several new and effective schemes, some collaborative across the industry and some of our own, to help combat recognised difficulties customers will find in heating their homes. Keeping the most vulnerable customers across our regions safe and warm is an undoubted priority.

Our stated ambition for the current price control period RIIO-GD2 (2021-26), is to help some 250,000 vulnerable customers use energy safely, efficiently and affordably. This ambition is supported by funding allocated by Ofgem through its Vulnerability and Carbon Monoxide Allowance (VCMA).

Within the VCMA there's a £65m funding pot split across the four gas distribution companies. This fund is enabling us all to work together to deliver on all our commitments to energy safeguarding and increasing carbon monoxide awareness.

For us in SGN, we have around £18m to spend during the five years, on a use-it or lose-it basis and we're committed to spending this allowance in full, to help those households struggling the most.

Identifying those at risk
We took a three-stage approach to identifying those most at risk.

1. Working with our Vulnerability Steering Group (a key stakeholder panel with expertise in customer vulnerability), we considered who was most in need of help to maintain a safe and warm home. Together we identified customer groups most likely to benefit from energy industry initiatives such as the Priority Services Register, and those more likely to be at risk of financial vulnerability and fuel poverty. This has allowed us to define our priority customer groups.
2. We then applied a consistent and detailed data driven approach to prioritising our community work.
3. We identified those at greatest risk from harm from Carbon Monoxide (CO) poisoning. Here we're committed to delivering a range of targeted CO safety initiatives and awareness programmes designed to reduce the risk of CO harm.

Actions being taken
We've been actively developing our 'additional services' offering, including increasing the existing skills in our Careline team, to ensure we never have to walk away from a customer in need.

Our referral networks and services have evolved since their launch in 2018, and to ensure our 'additional services' remain relevant, we continually review the changing needs of customers and ask our front-line operatives what support services they feel our customers would benefit from.

These services currently include two key initiatives:

- **Care and Repair:** This scheme replaced our 'winter voucher scheme' and better supports customers in financial hardship to repair or replace their faulty pipework, boilers, heaters and cookers where needed. This is at no cost to the customer.
- **Fuel and food vouchers:** Our teams can provide same day access to fuel and food vouchers. Here we also provide an onward referral to one of our independent energy advice teams, who will check if the customer is accessing all the available benefits to help reduce their energy costs and increase household income.

In helping vulnerable customers 2021 was our most successful year to-date. In total we helped some 4,098 households (598 last year) including 315 households which directly benefit from our Care and Repair scheme. Our teams are making sure we have a huge impact on those customers needing our support, not just by taking a moment to offer a helping hand, but by fundamentally helping our customers stay safe and warm and, in some cases, independent in their homes for longer.

Fuel poor performance
This was our first year of the scheme within the new price control and we faced many challenges around support for fuel poor households. However, we worked hard across both our networks and now have 26 partners signed-up to support our fuel poverty network extension scheme (FPNES) where we connect homes to the gas network.

These partners have helped identify 1,410 eligible households, (Scotland 1,035, Southern 375), which although only 39% of our overall target, is still a good achievement considering the uncertainty all gas distribution networks have faced over the first year.

Crystal Mark accreditation
During the year we gained a Crystal Mark accreditation from the Plain English Campaign. This accreditation is an important element of our commitment to deliver quality digital communications to our customers, which are fully inclusive and accessible to all.

The Internet Crystal Mark is the Plain English Campaign's seal of approval for companies showing a real commitment to plain English and providing clear, easy to read information on their websites.

Offering help to a customer in central Glasgow.

Chief Executive Officer's report (cont)

Community partnerships

Care and Repair scheme

Timeframe: 1 April 2021 to 30 June 2021, working with an existing partner. At the start of 2022, the tender process was under way for a new partner for the next four years.

As provider of the national gas emergency service in both Scotland and southern England, there are times we have to isolate a customer's gas supply to keep them safe in an emergency. If our engineers discover the cause of the gas emergency to be an issue with internal pipework or a faulty appliance, we must refer them to a Gas Safe registered engineer to complete the repair.

We recognise that vulnerable customers might not have the finances or resources to make the repair and restore their gas supply. Our Care and Repair scheme is there to provide an emergency funding referral service, for our engineers can now pass on to any vulnerable customer where they've had to isolate the gas supply or condemn an essential gas appliance.

This service is offered to eligible vulnerable customers who are unable to afford the costs associated with servicing, repairing and/or replacing gas pipework or gas appliances following a disconnection. We also offer further support services best suited to their circumstance, such as:

- Gas safety advice and raising awareness of carbon monoxide
- Energy efficiency advice and referrals for energy efficiency measures
- A working carbon monoxide alarm if there is not one at the property
- Access to additional support services for our vulnerable customers, suited to their needs
- Registering vulnerable customers on the Priority Service Register (PSR)

Initially, we set out to support 100 vulnerable customers from gas isolation to restoration. As well as providing emergency funding, this programme also aims to increase customer awareness of gas safety and carbon monoxide and provide energy and financial advice beyond the emergency support.

Scope energy help desk

Timeframe: 1 April 2021 to 1 April 2023

It's widely recognised people with a disability are more likely to face financial vulnerability, fuel poverty, increased energy costs and may also find it more challenging to access information and support.

Working with disability equality charity Scope, we aim to provide a bespoke and dedicated utility advocacy service for disabled people, designed for and marketed to disabled people. The service provides free energy and water advice to disabled people, helping them to manage their energy and water needs.

Customers can pre-book up to three 45-minute appointments with an expert adviser for support with issues, such as:

- Switching energy tariffs and suppliers
- Applying for the Warm Home Discount
- Applying for the Priority Services Register
- Accessing gas and CO safety information

Following their appointment, the service users will receive an action plan of steps to take to address their concerns and empower them as engaged and confident customers.

In year one we supported 543 disabled people in our network area with tailored support to reduce energy costs and increase energy efficiency. In addition we positively engaged 12,000 people with helpful guidance on energy matters through Scope's online community.

Scope estimated that we've saved disabled people £787,307 since April 2021 through our energy help desk service.

Warm and Safe Homes Advice Service (WASH) from National Energy Action (NEA) and Wise Group

Timeframe: Ongoing from 1 April 2021

Over four million UK households live in fuel poverty. This means people living in cold, energy inefficient homes, they can't afford to heat. Access to crisis support, as well as accurate and accessible advice and information to help people remain warm in their homes is vital, particularly for people in vulnerable circumstances or struggling on a low income.

Our project partners, National Energy Action (NEA) launched their Warm and Safe Homes Advice Service (WASH) in September 2019 to provide a single point of contact for people on low incomes or living in vulnerable circumstances to address their energy issues and ensure a client is provided with holistic advice.

Our project extended and also added crisis funding and broadened the geographic areas covered by joining together with additional project partner Wise Group. The scope of services also increased gas safety information.

Accredited fuel poverty energy advisers offer in-depth, personalised advice to any of our customers who require it. Those with more complex needs are triaged to Project Development Co-ordinators who can offer more specialised advice and support to address the issues faced by the household.

In addition to addressing current challenges, the ambition is to build customers' confidence and skills, empowering customers to manage and take ownership of household utility consumption and costs, with the knowledge that a safety net is available to them should they need assistance in the future.

With support from our project team, we're now using Sign Video (a British Sign Language interpreting service) alongside Language Line Solutions, enabling us to better communicate with our customers.

Regional fire and rescue services and community partnerships

Timeframe: 1 September 2021 to 31 March 2026

Many people in the UK who use carbon fuelled appliances are not aware of the dangers of Carbon Monoxide (CO) and do not have a working audible CO alarm. Of 8,000 people surveyed in 2020, 45% were unaware CO doesn't have a smell and only 42% had a working audible CO alarm.

Through partner engagement, we've learned the provision of funding is inconsistent for CO safety, including engagement and access to CO alarms. In many cases, the alarms provided are also restricted to standard standalone CO alarms and not accessible offerings.

People with sensory and/or cognitive impairments are among those vulnerable groups most at risk from CO and fire. There's a need to provide accessible CO and fire alarms, specific to their needs to better protect these individuals in their own homes.

By working in partnership with 11 fire services and a number of relevant community agencies (e.g. Care and Repair Edinburgh) we're able to support the funding of consistent services around gas and CO safety. We can deliver tailored in-home interventions to reduce harm and increase household health and wellbeing and engage hard-to-reach customers that we may not have been able to reach otherwise.

We'll ensure our vulnerable customers with sensory or cognitive disability who don't have a working or suitable accessible CO alarm receive one tailored to their needs. We'll train those individuals carrying out the in-home visits to correctly install accessible CO and fire alarms and support FRS teams to increase customer awareness of the risks of carbon monoxide.

As part of our partnership, we'll also be working with FRS education teams to incorporate CO safety education into their education programmes for young people.

The Money House and MoneyCast from MyBnk

Timeframe: December 2021 to December 2024

Many young people don't have the essential information, sources, or support networks in place to avoid poverty, including fuel poverty. According to Child Poverty Action Group, there were 4.2 million children living in poverty in the UK in 2018/19. That's 30% of children. The relationship between poverty and fuel poverty is clear, with a lack of education surrounding these issues, the opportunity for change in the future seems distant.

Our partnership with financial education expert MyBnk will deliver direct financial education to vulnerable young adults aged 16 to 25 to help build financial resilience and avoid families becoming fuel poor in future. In a real-life flat, not a classroom setting, known as The Money House, young people will be directly educated in money management with the aim of maintaining their homes as they live independently, ensuring they manage their money and energy efficiently.

↑↑ Looking after our customers on their doorsteps.

↗ A new leaflet being left with customers offering contacts for extra help.

↑ Collecting the Customer Vulnerability Award from host Dara Ó Briain are representatives from all partner companies.

We will ensure our vulnerable customers with sensory or cognitive impairment, receive an accessible CO alarm tailored to their needs.

Keeping our customers safe at all times

Call the National Gas Emergency Number on
0800 111 999
Lines open 24 hours a day, 365 days a year

Our priority throughout the Covid-19 pandemic was to keep our customers and our employees safe as we delivered emergency and other essential services. We recognise our role in the communities we serve and in wider society generally, is to keep people and property safe at all times.

During the pandemic we ensured we followed all health and wellbeing safety guidance issued by the three governments, which between them had responsibility across the three jurisdictions in which we operate. Namely England, Scotland and Northern Ireland. In fact, in all cases, we went beyond that advice to ensure we kept people safe at all times, while not compromising the services we provide.

To raise awareness of this we undertook a joint awareness programme with the other gas networks as well as our own concentrated regional awareness campaign using social media. Our own campaign was particularly successful, reaching in excess of two million people and because of this, is continuing. This demonstrates our total commitment to ensuring people know what to do if they ever smell gas.

It's essential our customers know if they smell gas at any time, 24 hours a day and 365 days a year, they need to immediately call the National Gas Emergency Number on 0800 111 999.

Chief Executive Officer's report (cont)

All young people who successfully complete the five-day The Money House course are eligible for a Level 1 (Level 4 in Scotland) qualification in Personal Money Management and receive a further entry-level qualification around skills for employability.

Our partnership has enabled the expansion of The Money House from London and the south to other areas of great need including Glasgow, which is home to the first Money House in Scotland.

A further element of our partnership has been tailored episodes of MyBnk's MoneyCast. This is an interactive stream of MyBnk experts and special guests discussing key areas of finance for young people. All episodes will centre on money management related to energy, bills, and fuel poverty, and provide the opportunity for young people to ask questions in real-time and receive a response from a MyBnk expert.

Home and Well – Hampshire

Timeframe: 1 April 2021 to 1 April 2023

Prior to Covid-19, our stakeholders identified an endless cycle of hospital readmissions among vulnerable patients and found readmissions accounting for one in five of all admissions. With health and social care systems under significant stress during the pandemic, we joined an existing regional networks partnership scheme to help break the cycle of readmission by supporting patients back into safe and warm homes.

Following our trial participation during the pandemic, we're able to extend our support for a further two years thanks to VCMA funding.

The initiative is a collaboration between SGN, Citizens Advice Hampshire, NHS Hampshire, Southampton and Isle of Wight Clinical Commissioning Group, Portsmouth Water, South East Water, Southern Water and SSEN. Working together, the Home and Well initiative supports patients in hospitals across Hampshire and the Isle of Wight by addressing the financial and practical issues that might otherwise cause them to be readmitted to hospital.

We're keen to direct support towards customers living in this particular region as, working with our data and insight partner the Energy Savings Trust, we understand the Isle of Wight, Southampton and Portsmouth are all area with significantly higher indicators of financial vulnerability than the national average. This results in poor health, longer hospitalisation and greater numbers of hospital readmissions.

At the Utility Week awards 2021, the Home and Well project won the Customer Vulnerability Award.

Keeping a presence in our communities.

With our funding and support, patients who are part of the Home and Well project receive additional energy-related help and safeguarding. This includes direct services we provide such as locking cooker valves, CO alarms and access to our Help to Heat scheme, as well as access to our referral partners who can provide broader support.

The Home and Well partnership has supported 946 vulnerable households across Hampshire return to safe and warm homes each year.

Groundwork Green Doctors – Kent

Timeframe: 1 April 2021 to 1 April 2023

Working with our data and insight partner the Energy Savings Trust, we understand that areas in coastal Kent (Medway, Thanet and Folkstone) have a significantly higher than the national average number of older people, indicators of financial vulnerability, instances of fuel poverty resulting in poor health and digital exclusion rates.

Delivered in partnership with Groundwork South and Groundwork London's Green Doctor teams, and co-funded by the regional network companies and Smart GB, the project ambition is to support around 900 vulnerable households with independent and bespoke support to keep a safe and warm home for less, and we were able to help 1,559 households this year.

A dedicated team of experienced Groundwork Green Doctors across coastal Kent will provide utility services including PSR registration, Warm Home Discount and winter fuel payment support, tariff and energy switching advice, water social tariff, debt support, information on smart meters, gas and carbon monoxide safety advice, locking cooker valve referrals, referrals to our Help to Heat scheme and information on who to contact in a gas or electricity emergency.

The project will work collaboratively with expert agencies to maximise positive impacts beyond energy, increasing the health and wellbeing of the individual supported and deliver defined outcomes.

The Green Doctor teams are linked in with regional support services in health and social clinics, where they will be providing tailored front-line training to help key workers effectively identify people in need of support to achieve a safe, affordable and warm home.

Tackling fuel poverty together – Sussex

Timeframe: 1 December 2021 to 1 May 2023

Working with the primary community networks, social prescribers, adult care services, hospitals, mental health units and voluntary care organisations in Sussex, we'll set up direct referral pathways for professionals to refer anyone who is in fuel poverty, and in one of the vulnerable groups, into a dedicated crisis support team.

This dedicated team and broader Citizens Advice network will deliver a holistic, wraparound advice service mainly focused on debt, welfare benefit, income maximisation, and energy advice such as who to call in an emergency, eligibility for water tariffs, gas and CO safety, LCV and PSR referrals.

We aim to support more than 825 customers across Sussex by addressing the issues that would stop them from maintaining a safe and warm home long term. We will provide practical help to improve their health and wellbeing and increase their confidence in managing household utility costs.

Age Scotland Safe and Warm Homes

Timeframe: 1 April 2021 to 1 April 2024

Many older people face unique challenges in managing a safe and warm home. For example, older people need to consume more energy to keep warm. They're also less likely to switch energy suppliers and so miss out on the opportunity to reduce energy cost through competition.

Although older people are eligible for a number of energy schemes, such as the Priority Services Register and Warm Home Discount, they're often unaware of these. Additionally, we also understand older people who own their own homes are less likely to be living in an energy efficient property or have their gas appliances routinely serviced, putting them at greater risk of living in a cold, damp home or being exposed to carbon monoxide.

Our front-line engineers see first-hand the challenges faced by older members of our communities and would value the skills to identify and engage older people to provide a safe and trusted referral into partners with expertise in supporting this vulnerable group.

In partnership with Age Scotland, we can provide our front-line colleagues with the training and resources to refer individuals to Age Scotland for direct, efficient help to the person in need. Age Scotland can provide wrap-around support tailored around each household's personal circumstances.

Part of our support will include increasing the householder's awareness of the real dangers of carbon monoxide and providing access to a CO alarm to be installed though an existing partnership we have with Scottish Fire & Rescue.

Through our partnership, we enable Age Scotland to employ three qualified energy rights employees to provide a specialist energy telephone adviser to support people who call their helpline, enable generalist helpline advisers to provide more in-depth energy advice and provide energy awareness training to all Age Scotland employees, volunteers and project partners.

Together, we're also providing free online energy workshops, which enable older people to get a better understanding of their household energy use, supporting them to stay warm and save money on their bills.

Delivery outputs in year 1 include supporting 19,561 older people with energy advice which has included 1,471 CO awareness conversations and the allocation of 381 lifesaving CO alarms.

Highland Affordable Warmth

Timeline: September 2021 to March 2024

The Highlands have some of the highest fuel poverty rates in the UK, with 32% of people affected. Our project with Scotland's leading environmental charity Changeworks and New Start Highland, an organisation tackling poverty, homelessness and long-term unemployment in the Highlands, will target groups most vulnerable to fuel and food poverty in a timely way to maximise energy safeguarding impact.

The project will build on the two organisations' existing support and success in the Highland area. Early intervention support will be dovetailed into New Start Highland's existing services for those transitioning from homelessness into permanent accommodation to help maintain their tenancy.

After support, tenants will be able to affordably heat their homes, cook nutritious meals and address carbon monoxide safety issues. The project will work collaboratively with other agencies to maximise positive impacts and deliver defined outcomes for individuals.

The project aims to empower up to 1,500 vulnerable people to build skills to tackle the root causes of fuel poverty and address CO safety issues, and up to 750 to tackle food poverty.

Empowered by Energy with NEA

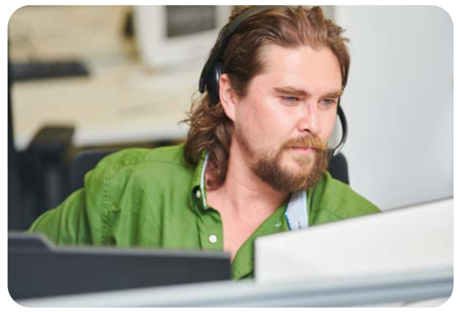
Timeline: 1 April 2021 to 31 March 2023

For people coming to Britain as refugees or asylum seekers, life is exceptionally challenging. Across the UK, refugees are disproportionately represented in unemployment statistics and they live in much of the poorest housing stock.

These two factors alone result in a high risk of fuel poverty. Our Empowered by Energy project aims to support refugee and asylum seeker communities in achieving warm and safe homes for their families by building energy skills and resilience through effective engagement and a network of support.

NEA lead the delivery of our Empowered by energy project, engaging third-party organisations including Tamil Women's Group, Migrant Help UK and Scottish Refugee Council. The project will directly engage between 96 and 120 people within the refugee community through a minimum of 12 online and face-to-face workshops. Participants will also receive an energy efficiency pack to supplement their online learning, demonstrating immediate changes that can be made at home.

Our highly trained customer team is there to advise and help.



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Chief Executive Officer's report (cont)

Packs include energy efficient products such as radiator foil, LED light bulbs, slow cookers and language appropriate materials.

Although the number of people directly impacted through the project delivery may seem small, the complex needs of refugee and asylum seekers means more in-depth support is required and shorter/lighter touch advice is not appropriate. As participants are recruited to become energy champions within their community, NEA estimates – based upon previous outcomes from the pilot delivery – for every individual trained, this will indirectly impact a further 10 people to whom they can pass on advice and knowledge.

Therefore, the number of indirect beneficiaries of the project is estimated at between 960 and 1,200 people.

Mental Health UK Adviser Service – Scotland pilot

Timeline: March 2022 to September 2022

During the year we teamed up with Mental Health UK to support vulnerable people and provide valuable energy advice at a time when many people are suffering hardship. This collaboration with the mental health charity, which initially runs for six months, sees us fund an additional specialist support adviser for MHUK's Mental Health and Money Advice Service. It will offer help to people whose mental health is being impacted most by rising energy costs.

There are approximately 7.5 million people in the UK living with a diagnosed mental illness. Pre-pandemic, it was estimated that one in four of us experience a mental health issue every year. Research from the Money and Mental Health Policy Institute shows that people with poor mental health struggle to communicate effectively with their energy provider and most worryingly, 44% of adults with mental health problems who fell behind on a bill had considered taking their own life.

Our partnership with Mental Health UK will trial the effectiveness of establishing a dedicated referral pathway for us and our partner organisations to a dedicated utility specialist within the Mental Health & Money Advice Service for a period of six months.

This service, launched early in 2022, includes training on mental health for our people and involves partner organisations, as well as extending the existing service provided by the Mental Health & Money Advice Service. This includes energy debt advice and access to energy efficiency advice services where we have been unable to provide this due to customer's mental health.

The project trial aims to support a minimum of 50 individuals through free online or telephone appointments. The learnings from our trial project will be shared with the other gas distribution networks to explore a further collaborative project to provide this support network throughout the UK.

Ensuring site safety for all pedestrians and cyclists.

CEO John Morea visiting a works site in Shoreham-by-Sea.

Biogas ambition for 450,000 homes.

Locking cooker values

Towards the end of this year we reached a significant milestone in providing help to families and carers when we fitted our 1,000th locking cooker values. Designed specifically to help people living with dementia and autism, these safety devices are fitted free of charge designed to help people who need that extra support.

We first launched the locking cooker valve in 2015 and shared the initiative with the rest of the UK's gas networks and are delighted to see the way it continues to help customers in vulnerable circumstances remain independent in their own homes.

Partnership with The Scout Association

The UK gas networks have partnered up with The Scout Association to help teach young people about the dangers of carbon monoxide (CO), and how to keep them and their families safe from the 'silent killer'. Since the launch, we've awarded 2,646 CO Partnership CO Home Safety Badges, educated 35,696 young people on the dangers of carbon monoxide and engaged 140,000 adult volunteers on co safety advice.

Commercial services and ventures

Commercial services and ventures cover our non-regulated activities. We maintain strict business separation principles between the regulated and the unregulated business activities.

Vital Energi joint venture

In July 2021, we formed a joint venture partnership with renewable energy solutions provider Vital Energi to establish a unique and pioneering private sector initiative to develop, own and operate low and zero-carbon heat networks.

The venture unites the UK's leaders in utility infrastructure and heat networks to provide affordable and low-carbon infrastructure to our existing land portfolio. Approximately 20 sites in Scotland and southern England have been identified to have heat networks supplied to new and existing residential, industrial and commercial facilities.

Estimates suggest the UK heat network market requires £30bn of investment and 20% of all heat demand should come through low-carbon heat networks by 2050 to meet the government net zero targets.

Biogas ambition

We're aiming to increase biomethane injection across our regions and into the grid. We will deliver an increase in renewable energy being supplied to domestic homes, from 200,000 to 450,000 homes by March 2026, the end of the current regulatory period.

Thames Water eight-year framework

Thames Water awarded SGN Commercial Services an eight-year framework worth around £70m, to design, construct, operate and maintain biogas processing installations at its wastewater treatment facilities.

Work at each site will turn sewage into biomethane for a heat and power alternative to help offset thousands of tonnes of carbon dioxide from entering the atmosphere each year.

Project 1: Deephams sewage treatment site

The first project is located at its Deephams sewage treatment site in North London. Biogas upgrading and grid entry equipment to enable biomethane injection into the local gas pipeline infrastructure will result in heating 3,500 Enfield homes annually.

Grangemouth to Granton LTS Futures project

Project 2: Mogden biomethane injection

The second project announced is a £9.3m scheme located at Thames Water's Mogden sewage treatment site in Isleworth, West London. Here sewage will be used to create biomethane as a heat and power alternative, which will help offset more than 8,000 tonnes of carbon dioxide from entering the atmosphere each year and will heat some 3,500 homes. It's expected to be completed by July 2023.

BrewDog collaboration

Sustainable drinks company BrewDog selected SGN Commercial Services to convert organic waste to site-generated biomethane for injection into the local gas grid infrastructure in Aberdeenshire.

The project to support biogas upgrading at the site will reduce water usage by 40% and help meet government net-zero targets with the increased generation of renewable energy.

H2 Green Inverness

H2 Green and SGN Commercial Services have agreed to develop a major green hydrogen production, storage, and distribution facility in Inverness on the former gas holder site on Harbour Road.

Hydrogen presents a valuable and cost-effective route for widespread decarbonisation of the Highlands and this site will provide green hydrogen directly to large volume anchor customers, including rail, bus and HGVs.

The hub capacity is expected to scale in the medium term to eight tonnes of hydrogen each day, servicing up to 800 HGVs daily and has the capacity to reduce carbon emissions by 30,000 tonnes a year. The hydrogen generation can also provide zero-carbon heat and medical-grade oxygen for hospitals, aquiculture and water treatment works in the area.

Inverness is to be the first site developed by the partners after signing a Memorandum of Understanding (MOU) in January this year. This is to explore the establishment of hydrogen supply hubs across Scotland and England, with 21 SGN sites earmarked for development.

SGN financial and operational KPIs

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[1]

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.

2022 **£205.0m**

2021 **£417.3m**

2020 **£206.3m**

Net debt to Regulated Asset Value (RAV) ratio[1]

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 in the ownership structure on page 41.

Consolidated MidCo group

2022 **75.6%**

2021 **77.4%**

2020 **80.9%**

Regulated businesses

2022 **68.8%**

2021 **70.9%**

2020 **71.4%**

[1] Defined in Alternative Performance Measures (APMs) on page 141.

Turnover

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

2022 **£1,115.9m**

2021 **£1,227.4m**

2020 **£1,271.7m**

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 of the financial statements.

2022 **£364.3m**

2021 **£526.5m**

2020 **£600.6m**

Capital expenditure[1]

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.

2022 **£119.9m**

2021 **£127.4m**

2020 **£164.8m**

Replacement expenditure[1]

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.

2022 **£229.2m**

2021 **£242.9m**

2020 **£299.8m**

The sum of capital expenditure and replacement expenditure equal the total additions of intangible and tangible fixed assets as reported in notes 13 and 14 of the financial statements 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.

2022 **0.06**

2021 **0.06**

2020 **0.08**

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 over 114,000 uncontrolled and 54,000 controlled gas escapes during the year ending 31 March 2022.

2022 **98.0%**

2021 **98.9%**

2020 **98.6%**

Customer satisfaction (score out of 10): planned interruptions

Results from customer satisfaction surveys (10 = very satisfied). Planned interruptions on our replacement, capital or routine maintenance works are where timing can be predicted and the customer has been notified in advance.

2022 **9.1**

2021 **9.0**

2020 **8.9**

Customer satisfaction (score out of 10): unplanned interruptions

Results from customer satisfaction surveys (10 = very satisfied). Unplanned interruptions arise through leakage or other emergencies.

2022 **9.4**

2021 **9.6**

2020 **9.5**

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.

2022 **29%**

2021 **(39)%**

2020 **21%**

Business carbon footprint

Our business carbon footprint includes Scope 1, 2 and 3 emissions, excluding shrinkage, reported in tonnes of CO_2e. Our business carbon footprint has increased in the year due to the inclusion of additional Scope 3 emissions data and a return to more normal business operations following the Covid-19 pandemic. Further details can be found on pages 68 and 69.

2022 **41,677 tCO_2e**

2021 **24,430 tCO_2e**

2020 **35,517 tCO_2e**

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During the year we have seen wholesale gas prices increase by over 250% since January 2021, placing significant pressure on the industry. We have worked closely with Ofgem and the Energy Networks Association to facilitate the regulatory changes needed to ensure customers continue to be provided with gas following supplier failures.

SGN has also felt the impact of the rises in wholesale gas prices, with the cost of shrinkage (gas lost from the network) for 2022 totalling £33.5m, up from £6.8m in 2021.

In February 2021, the Board took the decision to refer Ofgem's Final Determination for RIIO-GD2 to the Competition and Markets Authority (CMA). SGN were successful on two grounds of appeal, the first was the removal of an 'innovation uplift' to Ofgem's estimate of ongoing efficiency. The removal of this uplift reduced the efficiency challenge by circa £22m (18/19 prices) over the GD2 period. The second was the removal of an assumed level of outperformance on the cost of equity equivalent to 25bps, the actual financial impact of this can't currently be estimated as we cannot be confident on whether or not SGN will outperform the GD2 price control at this stage.

SGN were unsuccessful on two grounds, the overall cost of equity (prior to an outperformance wedge being applied) and the use of the 85th percentile for benchmarking purposes. For both, SGN presented strong evidence for both cases as to why the Ofgem conclusions were inappropriate but were unable to demonstrate, to the CMA's satisfaction, an actual error. Accordingly, the CMA confirmed that Ofgem was within regulatory discretion.

In 2021/22, we continued to invest in the future of our networks; advancing our work on net-zero initiatives including our pioneering H100 hydrogen project in Fife.

In line with the Group's business plan, we have continued to maximise opportunities in our unregulated businesses, selling and developing some of the redundant brownfield sites held within the SGN Place Group. 2021/22 has seen the sale of a number of surplus gasholder sites including at Sydenham, Christchurch and Newbury. The Group also continues to seek joint venture partners with which to develop key sites.

Investment and safety

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

Our RAV increased by 6.3% in the year from £6.00bn to £6.38bn. 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 £349.1m (2021: £370.3m).

Replacement expenditure, primarily of iron pipes, decreased to £229.2m (2021: £242.9m) in value due to the types of replacement works undertaken being relatively cheaper to complete than those in the previous year. During the year we replaced 849km of metallic pipe (2021: 538km). Other capital expenditure excluding replacement also decreased to £119.9m (2021: £127.4m) as result of the timing of expenditure within the RIIO-GD2 price control.

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 2022, net debt (before issue costs), excluding shareholders' loans and liabilities arising from derivative financial instruments, amounted to:

- MidCo group: £4.82bn (2021: £4.64bn)
- Southern: £3.01bn (2021: £2.91bn)
- Scotland: £1.38bn (2021: £1.31bn)

With RAV at:

- MidCo group: £6.38bn (2021: £6.00bn)
- Southern: £4.39bn (2021: £5.15bn)
- Scotland: £1.99bn (2021: £1.85bn)

The net debt to RAV ratios were:

- MidCo group: 75.6% (2021: 77.4%)
- Southern: 68.5% (2021: 70.1%)
- Scotland: 69.5% (2021: 71.0%)

Debt issuance

During the financial year we had no debt maturing at either Southern Gas Networks plc or Scotland Gas Networks plc. In the coming year Scotland has a £278.7m RPI-linked public bond maturing in October 2022. To part-refinance this, we have put in place a £100m CPI-linked bank term loan facility in March 2022, which has a six-month delayed draw feature. Further financing will be sought ahead of the maturity.

There are no scheduled debt maturities for Southern or MidCo in the coming year. For a detailed list of the committed financing that we have in place see notes 18 and 19 to the financial statements.

At the year end, our revolving credit facilities in place for Southern were drawn by £30m (2021: undrawn) and for Scotland were undrawn (2021: undrawn).

On 6 April 2021 we prepaid and cancelled in full 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.

A material proportion of the proceeds for the sale of the infrastructure was received at the end of the previous financial year, and this was transferred as cash to SGN MidCo Ltd to fund the prepayment and the facility was cancelled.

The debt service reserve liquidity facility held at SGN MidCo Ltd was extended for a further 364 days to 11 January 2023.

Turnover
2022 £1,115.9m
2021 £1,227.4m
2020 £1,271.7m

Operating profit
2022 £364.3m
2021 £526.5m
2020 £600.6m

Replacement expenditure
2022 £229.2m
2021 £242.9m
2020 £299.8m

Liquidity

As at 31 March 2022, 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 £122.6m (2020: £288.6m) across the Group (of which £25.5m was restricted cash); and committed revolving credit facilities totalled £360m, of which £30m was drawn as at 31 March 2022 (2021: undrawn).

Net finance costs

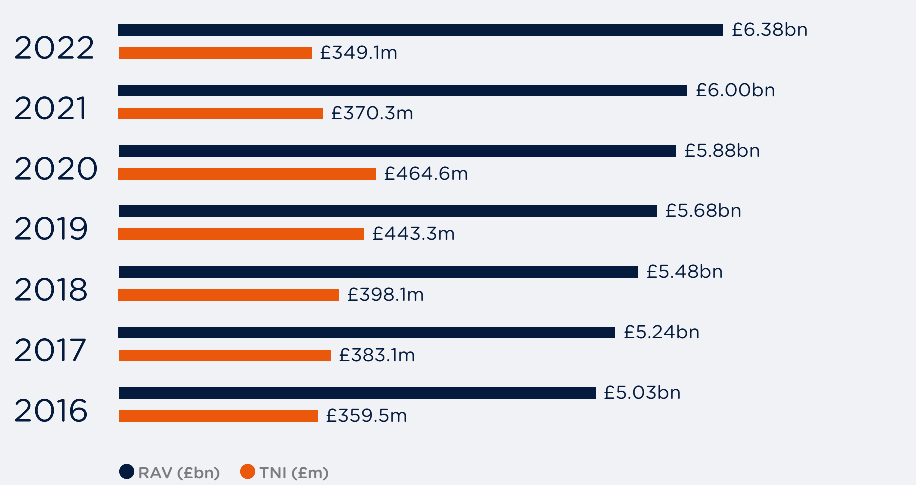
The Group had net finance costs of £230m during the financial year (2021: £171m) excluding interest on shareholder loans, interest relating to the defined benefit pension scheme, and movement on financial derivatives. This was primarily driven by interest on external financing arrangements within Scotland Gas Networks plc (interest payable of £69m (2021: £44m)), Southern Gas Networks plc (interest payable of £104m (2021: £106m)) and SGN MidCo Ltd (interest payable of £21m (2021: £15m)).

The Group effective interest rate (including inflation-linked debt and shareholders' loans but excluding swaps MTM movement) for the year was 5.1% (2020: 4.0%).

The Group effective cash cost of interest (excluding the inflation uplift on inflation-linked debt) was 3.9% (2021: 3.4%).

The increase in net interest noted above reflects the impact of higher inflation on inflation-linked instruments, partially offset by the prepayment of MidCo's bank facility. The increase in the Group effective cash cost of interest reflected the prepayment of certain financial guarantees (as further detailed in note 9 of the financial statements), and the payments made for shareholder loan interest, which were capitalised in 2020/21.

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



Risk management

During the year the Group had no fixed or inflation-linked interest rate instruments maturing, however SGN MidCo Ltd prepaid and cancelled a £122m floating rate debt facility. Southern and Scotland transacted £540m and £130m respectively of CPI linked swaps that economically switch all or part of the notional principal of certain fixed rate debt instruments into CPI-linked debt instruments. These derivative instruments have a CPI-linked interest payment leg and CPI-linked maturity payment leg, and a fixed receipt leg matched to the fixed rate coupons of certain fixed rate debt instruments. More details of these instruments can be found in note 20 to the financial statements.

As at 31 March 2022 the gross debt exposure to fixed interest rates (post derivatives) within the Group was:

- Group (consolidated): 57.4% (including shareholder loans) (2021: 70.2%)
- SGN MidCo Ltd (consolidated): 54.2% (2021: 68.0%)
- Scotland Gas Networks plc: 52.9% (2021: 63.7%)
- Southern Gas Networks plc: 52.9% (2021: 72.6%)

As at 31 March 2022 the gross debt exposure to inflation (post derivatives) within the Group was:

- Group (consolidated): 35.1% (including shareholder loans) (2021: 20.5%)
- SGN MidCo Ltd (consolidated): 37.7% (2021: 22.0%)
- Scotland Gas Networks plc: 42.4% (2021: 31.5%)
- Southern Gas Networks plc: 36.2% (2021: 17.2%)

The majority of the inflation-linked debt has an RPI-base apart from the loan raised in March 2022 which has a CPI base. All inflation-linked swaps have a CPI base.

The remaining gross debt exposure was in floating interest rates.

On 5 March 2021 the Financial Conduct Authority confirmed a London Inter-Bank Offer Rate (LIBOR) cessation event, which meant that banks would no longer

Financial review (cont)

Capital expenditure
2022 £119.9m
2021 £127.4m
2020 £164.8m

Cashflow after investing
2022 £205.0m
2021 £417.3m
2020 £206.3m

Regulatory asset value
2022 £6,378.9m
2021 £6,003.1m
2020 £5,876.2m

be required to submit rates applicable to the calculation of LIBOR past 31 December 2021 for GBP-based contracts.

To manage the risks associated with having floating rate debt referencing an unsupported benchmark rate, the Company completed a series of amendments to its floating rate financial contracts over the course of the year, whereby the Sterling Overnight Index Average (SONIA) rate replaced LIBOR as the benchmark rate in these contracts. Further details of the amendments can be found in note 20 to the financial statements.

For a more detailed explanation of the Group's approach to risk management see note 20 to the financial statements.

Credit ratings

Of the Group's entities 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 2022:

- BBB+ (stable) Fitch
- Baa1 (stable) Moody's
- BBB (stable) 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:

- 13 May 2021, S&P downgraded its credit ratings on Southern Gas Networks plc and Scotland Gas Networks plc from BBB+ to BBB and changed its outlook from negative to stable.
- 10 December 2021, Moody's issued a press release re-affirming the credit ratings of both Southern Gas Networks plc and Scotland Gas Networks plc at Baa1, and changed their outlook from negative to stable.
- 4 February 2022, Fitch issued a press release re-affirming the senior unsecured credit ratings of both Southern Gas Networks plc and Scotland Gas Networks plc debt instruments at BBB+, and changed their outlook from negative to stable.

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:

- 9 June 2022, S&P issued a research update re-affirming the credit ratings of both Southern Gas Networks plc and Scotland Gas Networks plc credit ratings at 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 Group's financial covenants and credit metrics and targets set by the Board. The inherent risk in the business and wider economy is also considered.

During the financial year Scotia Gas Networks Ltd paid scheduled shareholder loan interest distributions totalling £30.7m (2021: £28.7m). A dividend distribution of £84.0m was paid before year end (2021: £115m). No further dividends were declared for 2021/22. At 31 March 2022 Scotia Gas Networks Ltd had £722.6m (2021: £956.3m) of available distributable reserves.

Turnover

Turnover decreased to £1,115.9m from £1,227.4m. This is predominantly driven by a reduction in regulated revenue recognised from transportation charges under the new price control.

Operating profit

Operating profit decreased year on year from £526.5m to £364.3m, this is largely driven by the decrease in turnover noted previously.

Gas to the West

The Gas to the West project was substantially completed in 2020 with assets handed over to Mutual Energy, and remedial works continued on the project in 2021/22. We expect the resulting margin to be finalised in the coming financial year.

Taxation

The current tax rate for the year is 19% (2021: 19%), and the effective tax rate for the year is 383% (2021: 20%). The increase in effective tax rate is driven by the rise in the main UK corporation tax rate to 25% with effect from 1 April 2023, that was substantively enacted on 24 May 2021 and resulted in an additional deferred tax charge of £242.2m in the year. The effective tax rate excluding the tax rate change is 23% which is higher than the standard rate of 19%, the reasons for which are detailed in note 10 to the financial statements.

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 £371.9m (2021: £415.3m), these consist of the following contributions:

- Corporation tax of £38.3m (2021: £68.9m) paid on our taxable profits
- VAT of £146.5m (2021: £158.1m)
- Business rates of £121.9m (2021: £121.7m) paid to local authorities
- Employment taxes of £65.2m (2021: £66.6m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

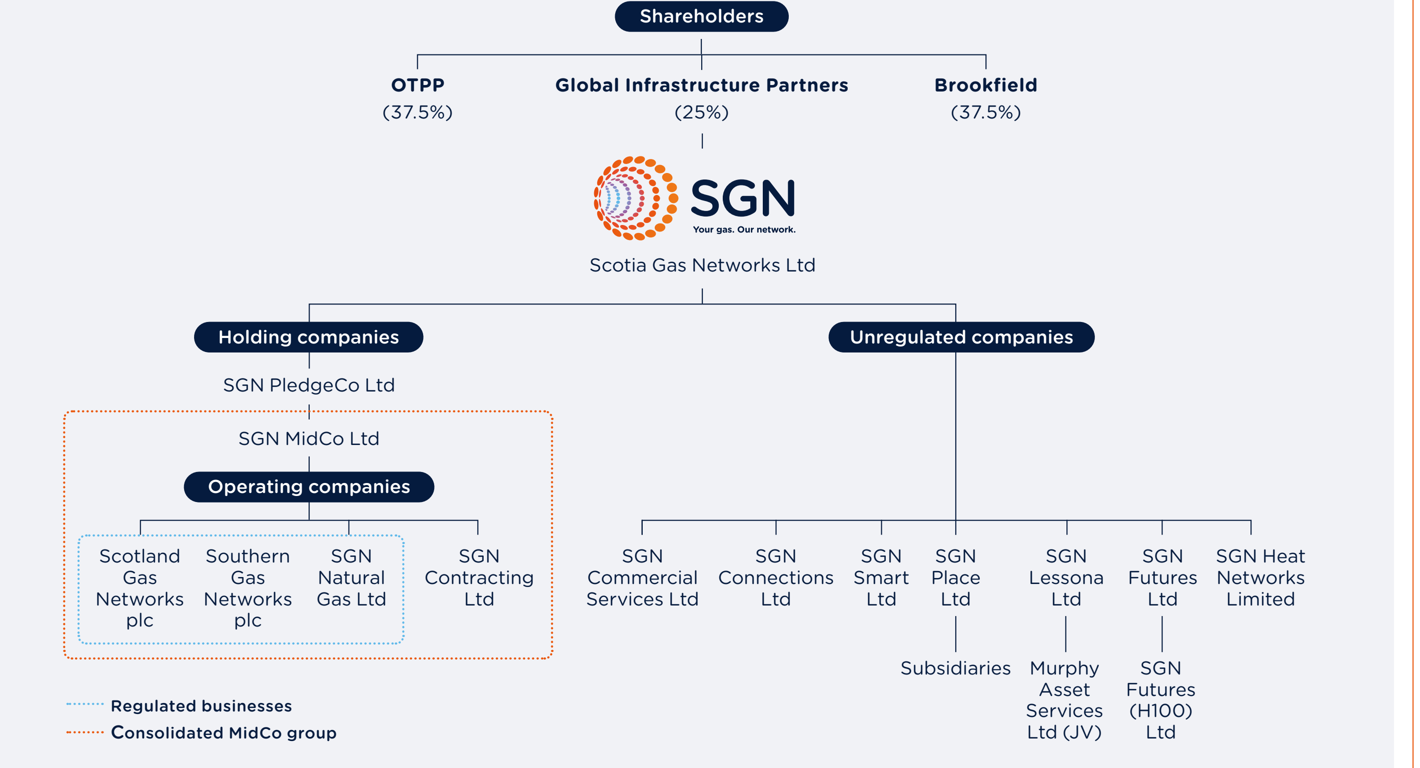
Pension commitments

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 2022 the pension surplus was £362.5m (2021: £298.7m), the year on year movement was largely driven by an increase in the discount rate lowering the value of liabilities, as well as contributions by the Group over the year. This is partially offset by an increase in inflation and in commutation factors over the year which increased projected future benefit payments. The Group contributed £20.9m to the scheme in the year (2021: £21.8m).

Mick Carmedy
Chief Financial Officer
25 July 2022

Ownership structure

SGN has three 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.



Further details regarding the shareholding entities can be found on page 139, note 28.

Engaging with SGN stakeholders

We believe we make better decisions for our customers and stakeholders when we understand our stakeholders' needs and priorities.

Engaging with our stakeholders is fundamental not just to our day-to-day activity, but also to the long-term success of our business. It's this invaluable, continual insight generously shared by our wide range of stakeholders that helps the Board shape policies and practices, best predict future developments, and react to emerging threats and trends.

"Our stakeholders are key to how and what we do as a business and always inform all our decision making. Their input, ideas and approaches assist us in developing both day-to-day operational practices and group-wide strategic decisions. SGN is committed to an open, transparent and systematic approach to stakeholder engagement, welcoming the constructive challenge having instituted several approaches to enabling the exchange of views. We are particularly pleased that we have constituted a new Customer and Stakeholder Engagement Group that has a wide range of expertise, knowledge and insights that we can learn from."

Laura Sandys, Stakeholder and ESG Committee Chair

2021/22 activity

We have continued an extensive programme of engagement with our six key stakeholder groups this year:

- customers
- our people
- UK and Scottish Government and regulators
- communities and environmental advocates
- suppliers, contractors and partners
- shareholders and debt investors

Stakeholder engagement takes place at both the operational day-to-day level within the business and at Board level, with the Board taking insight from each level of engagement into account in its decision-making process.

We have consulted our stakeholders to seek views on how they want to engage. In line with the easing of Covid-19 restrictions, we've returned to some face-to-face engagements. A significant proportion of our engagement continues to be conducted via digital platforms, utilising the latest software solutions to ensure our engagements are inclusive and allow for two-way dialogue with our stakeholders. We anticipate that engagement using virtual platforms will remain a key tactic in our longer-term approach to engaging with stakeholders.

The panels that follow set out how we engaged with each of our six key stakeholder groups during the year and, where relevant, the impact of that engagement on our strategy.

SGN key stakeholder groups

We encourage genuine two-way engagement with our six key stakeholder groups to gain valuable insight and expertise to help inform our decision-making.

For more information about our stakeholders:
Customers – See page 43
Our people – See page 43
Government and regulators – See page 44
Communities and the environment – See page 44
Suppliers, contractors and partners – See page 45
Shareholders and debt investors – See page 45

Customers

We keep gas flowing safely and reliably to 5.9 million homes and businesses, all day, every day.

Why we engage
Understanding our existing and future customer needs and behaviours helps us to achieve our vision of giving our customers the best clean energy experience.

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 that 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 merging of our Customer Engagement Group (CEG) and Stakeholder Advisory Panel (SAP) into the Customer and Stakeholder Engagement Group (CSEG) has helped shape our engagement strategy by providing independent challenges on the use of our customer engagement in our decision making. The influence of our Vulnerability Steering Group, established in 2020/21, has been vital in helping to shape our approach and strategies for supporting customers in vulnerable circumstances. Our Future Thinkers Panel is the voice of young people at SGN, and is made up of 14–16 year-olds from across our network regions in Scotland and southern England. This Panel was an industry first, giving us the perspective of tomorrow's customers and employees. It ensures young people are at the heart of our business, and has an influential voice in our decision-making on important issues like diversity and inclusion, our Environment Strategy, the future of energy, and safety and wellbeing.

Stakeholder issues raised
- Concerns about the carbon impact of natural gas, and an appetite for greener forms of energy
- Affordability concerns due to rising cost of living
- A desire for high-quality customer service

Outcomes of engagement on key decisions
Our customer strategy was developed by reviewing a number of customer principles and how to enhance these:
- Easy to deal with
- Information when and how you need it
- Extra help when needed
- Right first time
- Keeping our promises
- Cost efficient
- Adding value

There is evidence to suggest that hydrogen could provide a lower cost and less disruptive route to decarbonisation for customers.

Key Board decisions
- RIIO-GD2 Customer Strategy approved
- Approval to create a political and policy space for hydrogen, supported by our Energy Futures programme of demonstration projects (see page 49)

Our people

We employ approximately 3,800 highly skilled and dedicated people across Scotland, the south of England and in Northern Ireland.

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 numerous, established channels for engaging with our people, whether they're field-based, home-based or work from our offices and depots. This year, we've also introduced a new audio channel, EnergyFM, and our digital magazine Future Proof.

Our internal communication channel SGNapp continues to successfully enable us to reach every employee – regardless of where they're based – and share multiple news stories and organisational updates each day, while also facilitating open and honest two-way communication between colleagues across all levels of the business.

This two-way approach to engaging our people is reinforced through on-site and office visits, Let's Chat sessions, employee forums and structured engagement with trades unions and pension trustees. Our senior leaders are supported to engage their teams through monthly Extended Leadership Team town hall sessions, Team Talk, safety briefings and regular 121s.

Our diversity and inclusion networks help us promote a diverse and inclusive culture through events and awareness campaigns, including D&I Partners, Let's Talk about Race and Rise Programme. Expanding our People Portal HR platform to include an online learning portal allows our people to become more engaged in their development and career progression.

We use employee surveys to help measure the progress of our engagement plans and make sure we're moving in the right direction. More than 60% of our colleagues participated in our annual employee engagement survey.

Stakeholder issues raised
- Being kept informed about, and involved in, our activities and business strategy towards net zero through low-carbon gas projects
- Good communication, visibility of senior leaders and opportunities for training and development are important to our people
- Suitability and environmental impact of our operational fleet

Outcomes of engagement on key decisions
Engagement with our people ensures 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.

Key Board decisions
- Approval of refreshed purpose, vision and values
- Agreement of the fleet purchase framework for procuring new operational vehicles for our teams

Engaging with SGN stakeholders (cont)

Government and regulators

We work constructively and collaboratively with both UK and Scottish Governments as well as regulatory bodies such as Ofgem and the HSE.

Why we engage
Understanding what drives government and regulatory policy decisions helps us to ensure we deliver on our regulatory outputs to keep our customers safe and warm.

How we engage
We meet regularly with government, Ofgem and UREGNI to discuss all issues relating to our regulated businesses. During 2021/22, we engaged with numerous external groups and senior politicians and responded to all material government and regulator consultations affecting our Group.

This year, we engaged extensively around decarbonisation, cyber security and the challenges facing the energy industry.

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.

Stakeholder issues raised
- Supplier of last resort
- Decarbonisation projects
- Cyber security

Outcomes of engagement on key decisions
Working alongside Ofgem and the distribution networks to find solutions to Supplier of Last Resort (SoLR) claims arising from the financial pressures on gas suppliers.

In response to the increasing threat level, our Cyber Security team carried out extensive risk reviews and put in place additional precautionary measures.

Key Board decisions
- Review of SoLR and impacted parties
- Approval of continuing investment in our Cyber Security Programme
- Approval to create a political and policy space for hydrogen, supported by our Energy Futures programme of demonstration projects

Communities and the environment

We've established multiple strategic and long-term partnerships with third-sector organisations representing hard-to-reach and vulnerable groups within our communities, as well as environmental bodies.

Why we engage
Engaging 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, while also ensuring the support we provide to vulnerable groups is delivering genuine and valuable impact to those most in need of help to stay safe and warm at home.

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

Through regular engagement with our Vulnerability Steering Group this year, our expert partners have shared crucial real-time community insight into how the energy crisis and emerging cost of living crisis are impacting some of the most vulnerable groups within the communities we serve. This has enabled us to reassess our vulnerability support delivery programme to ensure our help reaches those who need it most, when they need it most. Regular meetings of our Environmental Advisory Panel provide us with specialist external expertise, feedback and support, to challenge and improve our environment strategy and action plan.

Stakeholder issues raised
- Additional support for customers in vulnerable circumstances, exacerbated by the cost of living crisis
- Transparency around our environmental and social performance
- Decarbonisation and improving environmental impact

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 the Board. Insight from engagement is helping shape our Environmental, Social and Governance (ESG) strategy, with reporting being undertaken to enhance our status as a responsible and trusted business, and committed corporate citizen.

We have multiple initiatives and partnership projects to provide additional support to customers in vulnerable circumstances (see page 26 for further information).

Key Board decisions
- Approval to adopt the World Economic Forum (WEF) Stakeholder Capitalism Metrics framework for ESG reporting
- Approval to create a political and policy space for hydrogen, supported by our Energy Futures programme of demonstration projects

Suppliers, contractors and partners

We're supported by a significant number of suppliers and contractors to keep gas flowing to our 5.9 million customers. While our six joint venture partners enable us to develop new technologies and alternative heat solutions alongside our core gas distribution business.

Why we engage
Our suppliers, contractors and partners play a critical role in enabling us to deliver a safe and efficient service 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. Our Supplier Relationship Management (SRM) programme helps enhance performance and strengthen relationships to deliver mutual value, through meetings with strategic suppliers.

We've continued to actively engage with key suppliers to ensure we had sufficient stocks during times of supply chain pressure during the past 12 months.

We have now developed a new Group JV Policy to help ensure that all JVs are structured, governed and operated in a way that is consistent with our goals and culture.

Stakeholder issues raised
- ESG factors
- RIIO-GD2 contracts
- Effective JV structures, governance and operations
- Prompt payment

Outcomes of engagement on key decisions
Improved engagement with suppliers through procurement programmes ensures we continue to influence the sustainability of our supply chain relationship at all levels, from front-line project teams through to our Executive team. This year we published a new Sustainable Procurement Code to enable our supply chain stakeholders, including contractors, service providers, suppliers, and partners to understand our plans.

Key Board decisions
- New framework instituted for RIIO-GD2 contracting

Shareholders and debt investors

We have 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. This also ensures we have access to low cost debt and equity capital to support growth which delivers 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 our 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, as well as an annual report and accounts.

Our lenders give their views on key areas of financial risk management strategy, which are regularly discussed by the Finance Committee. Our Chief Financial Officer and Group Treasurer brief the Board on the views of lenders and rating agencies.

We also liaise with credit rating agencies to ensure we understand the impact of Ofgem and our own strategic decisions on their assessment.

Stakeholder issues raised
- AGM and annual report
- Rating Agency Reports
- Financial performance, credit rating and dividends
- ESG strategy
- Energy Futures and pathway to decarbonisation

Outcomes of engagement on key decisions
The 2021 AGM was attended by the full Board and shareholders. All resolutions put to shareholders in 2021 were passed with unanimous approval.

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.

Completion of the share sales resulted in a number of new appointments to the Board, which provides a diverse shareholder base.

Key Board decisions
- Appointments of the new Board March 2022
- Dividend
- New investments

Engaging with SGN stakeholders (cont)

Section 172(1) statement

Section 172(1) of the Companies Act 2006 requires a Director of a Company to act in the way they consider, 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 to maintain 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 the 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.

Further details on how the SGN Board operates and how it reaches decisions, including some of the matters discussed and debated during the year, are detailed in this section and on pages 86 to 95.

Key to Section 172 Factors

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

Impact on employees
The interest of the Company's employees

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

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

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

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

Board decision

Approval to adopt the World Economic Forum (WEF) Stakeholder Capitalism Metrics framework for Environmental, Social and Governance (ESG) reporting

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	The World Economic Forum is influential in developing an international standard for ESG reporting through the International Sustainability Standards Board (ISSB). By selecting the WEF Stakeholder Capitalism Metrics framework, we can be confident our reporting approach will not be too far from the proposed ISSB standard once developed. In addition, it was also noted that the WEF framework incorporates TCFD (Task Force on Climate-related Financial Disclosures) requirements so would help us with these requirements and prepare us to adopt this, as and when this would become necessary. The WEF framework aggregates other key frameworks and standards that we'll need to adhere to and measure performance against in the years to come, such as the Climate Disclosure Project and the UN Sustainable Development Goals.
Impact on employees	Feedback from our colleagues revealed a lack of clarity on the Company's direction of travel and uncertainty over the future of gas. While a new generation of talented employees expect their employers to be a force for good with environmental issues influencing their career decisions. Participating in ESG reporting, and adopting the WEF framework in particular, demonstrates to our people what we do and what we want to achieve. It reflects our commitment to sustainability and social equity, and our desire to build a safer, greener and more just society.
Nurturing business relationships	Many stakeholders, including Ofgem, are taking a keen interest in corporate governance, notably around purpose, values and culture in driving corporate success. Adopting an ESG framework will provide us with a cultural framework for long-term sustainable value creation. There's a growing stakeholder expectation, particularly among investors, for companies to report ESG performance in addition to financial performance. Organisations communicating a strong track record as a responsible business will be more attractive to the market and more likely able to access finance at competitive rates. ESG reporting would also give us access to a wider and more diverse investor base, such as those with an explicit ESG or ethical mandate.
Impact on community and environment	In committing to ESG reporting, we're making a public commitment to being a force for good for our communities and the environment. This is reinforced by our target to achieve net zero by 2045 and the publication of our upcoming Annual Environmental Report in October 2022.
Enhanced corporate reputation	As a gas distribution network, the way we carry out our business will come under increased scrutiny. Adopting the WEF framework allows us to provide clear reporting on our material issues and how we intend to manage those areas in future. It will strengthen our reputation, build trust and increase our appeal to stakeholders.
Acting fairly between members	We reviewed several ESG frameworks and sought external input, liaising with three of our banks. It was important to select a recognised framework that was right for our business and to add value without unnecessary bureaucracy. The WEF framework will enable us to streamline corporate reporting for the benefit of members.

Additional information

While there are many frameworks and approaches used by companies to report Environmental, Social and Governance commitment and performance, there is not currently an internationally-agreed standard for ESG reporting.

However, at COP26 in November 2021, a new International Sustainability Standards Board (ISSB) standard was announced. The World Economic Forum (WEF) framework has been influential in the development of the proposed global standard and this is the framework we have selected for our ESG reporting.

The WEF Stakeholder Capitalism Metrics (SCM) is effective in simplifying the plethora of ESG reporting frameworks by breaking down metrics into four comprehensive pillars, making it easy to understand and apply.

This year, for the first time, we have included an Environmental, Social and Governance report – aligned to the WEF framework – within our annual report. Refer to page 58 to read the report in full.

Engaging with SGN stakeholders (cont)

Board decision

Approval of continuing investment in our Cyber Security Programme

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	By not investing in our cyber resilience, we would put our Company at risk of attacks from national states, hacktivists, criminals and/or insiders. Investment is required to ensure our continued cyber resilience against ever-growing threats.
Impact on employees	To maximise the effectiveness of our cyber security programme, we will need to raise employee awareness of cyber risks and how to protect employees and our Company against cyber threats through training and awareness campaigns.
Nurturing business relationships	We work with our industry peers and government agencies to ensure our cyber security programme complies with relevant directives. Following Russia's attack on Ukraine, the National Cyber Security Centre called on UK organisations – including us – to bolster their online defences. This investment allows us to deliver on stakeholder expectations.
Impact on community and environment	An extreme cyber event could prevent us from distributing gas to our 5.9 million customers. Further investment is essential to ensure our cyber defence continues to adapt and improve to the ever-evolving cyber threat landscape, as well as to minimise the risk and impact of cyber events on our core business.
Enhanced corporate reputation	We must invest in our cyber resilience through the cyber security programme to give us the best chance of mitigating the threat of attacks. An attack on our systems that impacts our ability to keep our customers safe and warm could have a catastrophic impact on our corporate reputation.
Acting fairly between members	All shareholders and the Executive team fully supported the decision to invest further in cyber security.

Additional information

The UK National Cyber Security Strategy 2016-21 identified that cyber attacks are growing more frequent, sophisticated and damaging. We, along with UK Government and Ofgem, recognise the scale of the cyber threat to critical national infrastructure, such as our gas networks.

In our 2021-26 RIIO-GD2 business plan, we committed to keeping our network safe and resilient to keep our customers safe from cyber and physical attacks. To ensure our continued cyber resilience, we must substantially increase our cyber security and that requires significant financial investment.

Board decision

Approval to create a political and policy space for hydrogen, supported by our Energy Futures programme of demonstration projects

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	The net-zero challenge presents a clear risk to our business, but also an opportunity in transitioning the current regulated assets from delivering methane to hydrogen. This can help reduce carbon emissions of energy sources in Scotland and Southern England while protecting and enhancing our core assets. Our programme of Energy Futures projects is designed to provide evidence for future low-carbon policy decisions and a clear path towards net zero. Establishing a political and policy space for hydrogen will help ensure hydrogen takes a prominent role in decarbonising heat and industry.
Impact on employees	We're committed to providing job security for our c.3,800 colleagues during the energy transition and beyond. To do that, we need to prove the viability of hydrogen for heat. We can only do this by establishing a political and policy space for hydrogen alongside our programme of demonstration projects, such as H100 Fife, LTS Futures and Project Cavendish.
Nurturing business relationships	Our hydrogen demonstration projects, including our world-first green hydrogen-to-homes project H100 Fife, are part of the national Gas Goes Green initiative. Collaborating with fellow gas networks, we aim to deliver the world's first zero-carbon gas grid. Our policy and political work supports the industry's collective efforts to demonstrate the role of hydrogen in the energy transition.
Impact on community and environment	Our work in the political and policy space will amplify our hydrogen demonstration projects and establish hydrogen as the clear and cost-effective pathway to decarbonise heat at lower cost and disruption to end-users, at pace and at scale.
Enhanced corporate reputation	We need to create the political space to ensure hydrogen is not timed out as an option in the UK's energy transition. With a political campaign, backed by our hydrogen evidence projects, we will strengthen our reputation as a world-leading network in the transition from natural gas to hydrogen. The Board noted that sentiment around certainty, stable progress and control resonate with voter groups. These themes will provide pillars for a campaign to support a positive hydrogen decision in 2026.
Acting fairly between members	Our hydrogen demonstration projects have provided good grounding and supported the drive for net zero policy decisions to include hydrogen, putting it on the political agenda, which all shareholders support.

Additional information

We believe transitioning the gas in our pipes from natural gas to hydrogen is the lowest-cost, least-disruptive way to heat Britain's homes.

Together with Britain's other gas networks and appliance manufacturers, our hydrogen projects are building the evidence that government and regulators need to permit the distribution of hydrogen in the gas network at scale.

In parallel to this, we need to create the political space to ensure hydrogen is not timed out as an option in the UK's energy transition. We need to gain political and social acceptance of hydrogen as a source of home heating.

We have commissioned research into public attitudes to the decarbonisation of heat which will underpin a long-term political communications campaign.

The objective is to win enough key support so that when the evidence is delivered to enable a positive decision on hydrogen's role in domestic heating, political decision-makers feel they have permission from voters to give the green light.

Engaging with SGN stakeholders (cont)

Board decision

Approval of refreshed purpose, vision and values, following internal and external research programme

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	Our current purpose, vision and values have been in place since we were formed in 2005. Since that time, they've remained unchanged, but our Company has evolved significantly. There was a pressing need to unite our people behind a single version of our purpose, vision and values. The Board noted our new purpose needs to be future facing, as well as fit for purpose for today. We needed a refreshed purpose, vision and values that reflect our organisation as we are now and our aspirations as we move into RIIO-GD2 and beyond.
Impact on employees	Our people have been integral in developing our new purpose, vision and values. We heard from around 1,300 of our people to understand what's important to them at work, and the behaviours they expect to see from each other. The purpose, vision and values we've developed reflect the opinions of our employees. By being so involved in the development, the Board can be assured our people are in support of our new purpose, vision and values.
Nurturing business relationships	Reviewing and refreshing our outdated purpose, vision and values will help us communicate to our suppliers, customers and stakeholders what we stand for and what we aspire to now. Unlike our existing vision and values that reflect what we stood for and aspired to be more than 15 years ago when the Company was formed. As well as carrying out research among our employees, we also consulted with external stakeholders during the research programme.
Impact on community and environment	Our purpose is to serve communities by keeping them safe and warm, and our vision is to give our customers the best clean energy experience, meaning improving our environmental impact and striving for net zero are central to our strategy.
Enhanced corporate reputation	A revised purpose, vision and values will make sure it is well understood who we are, what we do, what we want and how we will achieve it. We need a purpose, vision and values that not only resonate with our current employees but also inspire future colleagues too. We want to attract and retain the very best talent to ensure we can deliver on our vision of giving our customers the best clean energy experience.
Acting fairly between members	The Board noted we need to be clear on this terminology we use in our new purpose, vision and values and were supportive of our refreshed approach.

Additional information

Our previous vision and values were determined in 2005 when the Company was first formed. Our vision was to be dedicated to keeping our customers safe and warm by leading the way in energy delivery.

This was supported by our five values: safety first, driving performance, putting people at the heart, looking after customers and sustaining our world.

As we look ahead to a net-zero energy future, we recently amended our existing vision and values to reflect our organisation as we are now, and our aspirations throughout RIIO-GD2 to unite and engage our employees through the energy transition.

Our purpose, vision and values are also underpinned by our new Environmental, Social and Governance framework detailed on page 58.

For more information about our new purpose, vision and values, please refer to page 4.

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 a foundation for long-term resiliency.

At the start of RIIO-GD2 we reviewed our principal risks to ensure that our approach would support the achievement of the strategic objectives that underpin our RIIO-GD2 plan and Final Determination.

During the year we have re-assessed our principal risks to consider developing scenarios, their associated consequences, and planned mitigations, drawing from:

- Priority risks recorded in each of the operating-facing units as well as the corporate units.
- Ongoing input from our senior leaders.
- Key external factors impacting upon the gas utilities sector.

Our approach enables us to understand and respond to the new and emerging circumstances that present themselves in unstable and challenging times.

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.
- We have extended the remit of our Risk Committee to cover risk and resilience, in recognition of the strategic importance of resilience across the organisation.

Roles and responsibilities

1	2	3	4
Customer, asset, safety and corporate leadership	Risk and Resilience Committee	Executive Team	Board

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 and Resilience Committee includes representation from all parts of the business with a mixture of the Executive team and Senior Leadership. The Risk and Resilience Committee supports the Executive team by overseeing the operational risk registers and making recommendations. It meets every quarter to review SGN's current and future risk profile and resilience capabilities.
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 principal risk map. The risk function supports the Executive to ensure ongoing risk management. During these unprecedented times, the Executive receive 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 principal 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.

Principal risks and uncertainties (cont)

SGN risk management (cont)

- 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.

Cyber risk

Cyber risk is consistently recognised as a high risk to the organisation, with cyber actors actively targeting utility assets (especially operational technology (OT) environments). In response to Russia's attack on Ukraine and a historical pattern of cyber-attacks against Ukraine with international consequences, our Cyber Security team have carried out extensive risk reviews and put in place additional precautionary measures in line with National Cyber Security Centre (NCSC) advice.

Pandemic risk

Throughout the year, our risk management processes have continued to assess and track the implications of Covid-19 on safety, asset programme, supply chain, employees, IT and Finance.

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, RIIO-GD2 strategic objectives and other external risks.

Our risk profile is relatively stable with no new risks included or removed since last update. However, there have been some upwards movement in trend based on impact after mitigations.

Trend features

In the table below, we have highlighted the trends since the last update.

- Increased risk for Cyber resilience reflecting the increased threat landscape.
- Increased risk for Leadership, People and Culture, particularly considering the challenging job market that currently exists across the UK.
- Increased risk for Licence Conditions until new RIIO-GD2 reporting requirements have been demonstrated as being complied with.

Principal risks – trend/profile compared to 2021 (impact after mitigations)

High

Residual impact to business model

Low

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

Principal risks

1. Future of our network

Oversight:
SGN Board

What is the risk?
The shift towards a decarbonised energy system presents several risks to our business model, funding, regulatory framework and organisational capability as decisions from government on climate change expected to lead to an outcome being one that does not rely on natural gas.

Material influencing factors:
- National programme of R&D established with BEIS, Ofgem, HSE and Gas Distribution networks. Need to deliver the evidentiary requirements for hydrogen to maintain the committed path in energy policy.
- Need to develop 'early mover' hydrogen rollout options to support system transformation.
- On-going political engagement to make progress with UK and Scottish governments Heat and Building Strategies, Hydrogen Strategies and 10 point plans as these decisions will be significant determinants of the future of the network.
- Alongside the evidential requirements there is also a parallel challenge to gain customer, political and social acceptance of hydrogen through the gas network.

Key developments in 2021/22:
- Achieved a 'committed path' in policy, i.e. the Heat and Building strategies and Hydrogen strategies (UK and Scottish governments), 10-point plan (UK) and Hydrogen action plan (Scotland).
- Achieved de-risked funding mechanisms with Ofgem for development of evidence to support UK Heat policy decisions.
- Submitted a competitive bid for LTS Futures.
- MoU partnerships entered with hydrogen production developments in both Scotland (Acorn) and Southern (Exxon/GIG).
- Changes to the Gas Safety management regulations evidence submitted.
- Primary legislation to support live trials for village public consultation.
- Energy futures directorate expansion, development of industry leading competence.
- BEIS and HSE entered a memorandum of understanding to support the Hydrogen programme.
- H100 Project achieved key milestones with 4 of 6 funding conditions met.

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 BEIS Programme Management Board and the Gas Goes Green Pathway supported by the Energy Networks Association.
- Delivering the SGN evidentiary framework and developing plans for heat decarbonisation rollout including hydrogen and biomethane.
- Utilising innovation funding and working with others to test and deliver evidence for potential decarbonisation pathways.
- Developing a heat network diversification option.

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 Business Continuity Management (BCM) plans. Loss of IT services could result in interruption or disruption to our core business operations.

Material influencing factors:
- Cyber actors are targeting utility assets, especially operational technology (OT) environments.
- A historical pattern of cyber-attacks against Ukraine with international consequences.
- Exponential increase in data breaches and increasing threat landscape due to pandemic and disparate new ways of working.
- 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 2021/22:
- Increase in regulatory scrutiny including formal audits and reporting (Cyber Assurance Framework).
- Following Russia's attack on Ukraine, the National Cyber Security Centre called on organisations in the UK to bolster their online defences.

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.
- Raising staff security awareness through training and awareness campaigns.

Principal risks and uncertainties (cont)

Principal risks (cont)

3. Financing

Oversight:
Finance Committee

What is the risk?
The Group is unable to, or will cost 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 RIIO-GD2 price control is a more challenging price control environment with significant reductions in allowances and returns, which will impact investors' appetite for investment and credit metrics.
- The future of the gas network may have an impact on credit ratings and the appetite equity and debt investors have for investing in SGN. This will be a material influencing factor on financing risk until a clear future is understood.
- Fluctuations/volatility in interest rates, inflation and credit spreads may impact investor appetite for investment and expected returns.
- Ofgem intervention on shipper/supplier support may have an impact on credit ratings and the appetite that equity and debt investors have for investing in distribution networks.

Key developments in 2021/22:
- The ownership structure changed, with SSE, ADIA and OMERS having sold their shares. Jointly ownership is with Ontario Teachers' Pension Plan (37.5%), Brookfield (37.5%) and Global Infrastructure Partners (GIP) (25%).
- Following appeal to the Competition and Markets Authority (CMA) against Ofgem's RIIO-GD2 Final Determination, the CMA determined the outperformance wedge and innovation efficiency uplift should be removed. Ofgem's 4.55% allowed cost of equity and approach to the efficiency benchmark were retained.
- The three credit rating agencies, which provide ratings for Southern Gas Networks plc and Scotland Gas Networks plc, moved outlooks from 'negative' to 'stable'.
  - Fitch reaffirmed both entities ratings at BBB issuer default rating and BBB+ senior unsecured rating;
  - Moody's reaffirmed both entities ratings at Baa1; and
  - S&P downgraded both entities to BBB.
- Scotland Gas Networks plc has a further £100m of committed bank facilities across two tranches, £50m maturing in 2029 and £50m in 2032. Both have interest rates linked to CPI.

Key mitigations:
- The Group has a treasury policy 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.
  - A proportion of direct or synthetic inflation debt liabilities.
- Regular internal monitoring and reporting of key credit metrics and financial covenants to the Board.
- A flexible dividend distribution policy, linked to maintaining credit metrics.

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, a leadership failure to recognise the changing external and internal environment with indifference to business risks.

Material influencing factors:
- Rebuilding post Covid-19 Company culture and employee relations/experience.
- Higher employee turnover due to changing attitudes and reduced loyalty.
- Appropriate succession planning and career development covering future skills gaps.
- Promoting the value and benefits of an inclusive and diverse workforce.
- Difficult current job market with candidates difficult to source.
- Uncertain future for gas, so employees and recruits need to understand the purpose vision and values.
- Having a culture where employees are confident to speak up and follow an ethical approach.

Key developments in 2021/22:
- Challenges maintaining employee relations as well as responding to external events such regulator expectations.
- Additional resource has been engaged within our recruitment team to support line managers and ensure we get the best candidates as quickly as possible.
- Hybrid work trial in place and working with a third party to consider potential solutions to ways of working.

Key mitigations:
- Continuous development of our people with right skills and knowledge to deliver business objectives.
- Training and development for all employees including talent management programmes.
- Developing change management practices and training to support faster and more cost-effective operations.
- Responding to regulatory, supplier and technology developments which may impact on Company strategy.
- Recruitment review to attract people from a wide and diverse pool.
- Three-year pay deal protecting employees against inflationary pressures, as well attracting and retaining new people.
- Retrain and recruit in synchrony with the hydrogen transition.

5. Political and public policy

Oversight:
Stakeholder and ESG 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:
- UK and Scottish government decisions to deliver net zero don't align to timings for technology pathway and business model development, reducing the potential for SGN to play a full role in decarbonised energy system.
- New legislation and regulatory framework present risk of reduced market opportunities.
- Labour party policy of nationalising utilities remains in place. In the event of re-nationalisation, the business could be acquired below fair value.
- SNP push for a second independence referendum. An independent Scotland will create uncertainty due to potential changes to the regulatory system, price controls and net zero targets.

Key developments in 2021/22:
- Local Authority plans in some areas are advanced and favour solutions that are currently available to market (i.e. electrification).
- Scottish First Minister's announcement that in the course of 2022, she will initiate the process necessary to enable a referendum before the end of 2023.
- The Ukraine conflict and the uncertain impact this may have on approaches to achieving net zero.

Key mitigations:
- Contributing to development of UK and Scottish government policy.
- Continue to build capability within the Company to promote our brand and explain our role.
- Communications campaign to build political and public awareness of SGN net zero solutions and their advantages.
- Targeted engagement with Local Authorities to develop decarbonisation plans.
- Accelerated pathway developed for hydrogen transition.
- Assessment of Scottish independence risk/opportunity to SGN.

6. Environment and climate adaptations

Oversight:
Stakeholder and ESG 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 climate change impacts, zero-carbon legislation and policy, market and investor requirements and technological change.

Material influencing factors:
- Changes in our social licence to operate and our reputation.
- Climate change impacts could cause harm to people, our community and the environment.
- New policy, legislation, and targets.
- Climate change impacts could cause harm to our network resulting in damage to assets and property.
- Attractiveness to shareholders and investors.

Key developments in 2021/22:
- Increased focus on operational carbon footprint and environmental impacts due to heightened societal awareness, significant reports (Intergovernmental Panel on Climate Change), international events (COP26) and climate change impacts, such as supply chain disruption due to flooding and interruptions in energy supply due to increased weather events.
- Heightened awareness also includes the importance of improved biodiversity and the intrinsic links between biodiversity and climate change.
- Enhanced focus on ESG reporting from investor community will bring opportunities for SGN. The SGN Board has decided to adopt the World Economic Forum framework (Measuring Stakeholder Capitalism) for reporting on ESG, and this also includes reporting in alignment with the Taskforce for Climate Related Disclosures (TCFD).

Key mitigations:
- Delivering the Environmental Action Plan and Environmental Sustainability Strategy by decarbonising the network and operations.
- Engaging with the supply chain to support their journey of decarbonisation and environmental improvement.
- Delivering regular interaction with stakeholders and customers to create a pull for a hydrogen future, including continuous collaboration with the SGN Environment Advisory Panel.
- Engaging with peers and other companies in the energy and infrastructure sectors to enable a best practice approach, e.g. through the ENA, and industry groups Scottish Infrastructure Circular Economy Forum (SICEF) and Major Infrastructure Resources Optimisation Group (MI-ROG) on circular economy.
- Full implementation of behavioural and cultural improvement aligned with our safety culture approach.
- Maintaining our ISO14001 accreditation.
- Understanding and assessing climate risk to occupied sites.
- Pilot projects to demonstrate the safe, efficient and effective transport, storage and use of hydrogen.

Principal risks and uncertainties (cont)

Principal risks (cont)

7. 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.

Key developments in 2021/22:
- Continued work to embed safety culture with employees, and contractors.
- Regularly meeting Safety process metrics set by the Regulator.

Key mitigations:
- We have a continued focus on safety across all assets and operations, including in relation to any changes in requirements associated with the transition to hydrogen.
- 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.
- Continued focus on SGN's safety culture.

8. Supply chain

Oversight:
Audit Committee/Stakeholder and ESG 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 2021/22:
- Implemented new online sourcing system to drive improved efficiencies, reporting and compliance.
- Phased migration of Procurement activities away from SSE.
- The Ukraine crisis and the impacts this has had on various supply chains.

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.
- Online sourcing system.
- Ukraine Working Group set up to monitor potential supply chain impacts and mitigating measures.
- Developing and harnessing new suppliers consistent with the decarbonisation of the network

9. 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.
- Interpretation of legislation by judiciary and regulators.
- Speaking Up culture.
- Training and communication.
- Compliance.
- Speed and complexity of business change/developments.

Key developments in 2021/22:
- Continued embedding risk-based bespoke training and awareness around key business responsibilities and rules.
- Ongoing compliance work, including Data Transfer Impact Assessments.

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 confidentiality, conflicts of interests, gifts and hospitality, money laundering, anti-bribery and data protection.
- Our contracts include anti-bribery, anti-facilitation of tax evasion, confidentiality, modern slavery and data protection clauses.
- We have rules and training to guide and support our people to meet legal and regulatory requirements.
- Ongoing assessments to help the business manage compliance risks associated with business change/developments.
- Annual Compliance Report.

10. Licence conditions

Oversight:
Audit Committee/Stakeholder and ESG Committee

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

Material influencing factors:
- Transition into RIIO-GD2 price control, including new guidance.
- Changes in business process and support systems.
- Ofgem intervention/failure in other gas network companies.

Key developments in 2021/22:
- Focus on first year of RIIO-GD2 – embedding the RIIO-GD2 licence into the business.
- Ensuring appropriate governance and assurance is in place for new processes feeding into regulatory reporting.

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.

11. Customer interests

Oversight:
Stakeholder and ESG 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 2021/22:
- Several customer centric award wins during the year.
- Commenced implementation of the Vulnerable Customer Strategy and CXGD2 (Customer Experience RIIO-GD2) Project.
- New telephony platform has allowed home working to be part of our operational function and will be continued as we return to the offices as part of flexible working arrangements, meaning we are also now more robust in BCM situations.

Key mitigations:
- CXGD2 (Customer Experience GD2) project.
- Vulnerable Customer Strategy 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.
- Contribute, together with all stakeholders, to the development of a fair and affordable transition.

12. 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.
- Maintenance of a sufficient number of competent resources.

Key developments in 2021/22:
- Commenced RIIO-GD2 Investment programme.
- Successfully completed ISO55001 audit.
- Recruitment plan approved and recruitment process commenced for graduates and apprentices to work in asset management roles.

Key mitigations:
- Clear asset investment strategy out to March 2026.
- 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.
- Take lessons from incidents within SGN and externally.

Environment, Social and Governance (ESG) report

"The world is changing. An organisation's success is no longer measured by its financial performance alone. Customers, employees, investors, rating agencies and regulators are all demanding companies consider how their business impacts the world, how they conduct themselves and how they contribute to society. Environmental, Social and Governance (ESG) factors are critical to business success.

We believe that change is good. We believe it's right to be transparent about what a business is doing to support sustainability and social equity. ESG reporting is an opportunity for us to demonstrate how we operate for the good of society that's not reflected in financial metrics alone.

Starting this year, we're committing to reporting our environment, social and governance performance in line with the World Economic Forum's (WEF) Stakeholder Capitalism Metrics framework. Although we're only at the beginning of our ESG reporting journey, I'm extremely proud to share our first report."

Rob Gray
Director of Stakeholder Relations and Communications

"It is more important than ever to make sure SGN is at the forefront of responsible business practice. In 2020, SGN constituted a Stakeholder, Environment and Customer Committee (SECC) but we are now going further by implementing a rigorous ESG strategy.

It brings together a wide range of environmental, social and governance policies and metrics to measure what truly matters. The ESG strategy also underpins how the Company operates and behaves as we look to help shape the UK's energy future.

To reflect the importance of SGN's ESG commitments, the SECC will be replaced by a new ESG Board committee, a move which can only benefit our stakeholders."

Laura Sandys
Non-Executive Director

Our ESG policy

While we're safely and reliably keeping the gas flowing to 5.9 million homes and businesses today, we're also a driving force behind the UK's transition to a net-zero energy future, as we work towards hydrogen replacing the natural gas in our pipes.

Being an integral part of so many people's everyday lives up and down the country, we have a responsibility to operate in a way that's responsible and sustainable. We consider ESG factors in how we operate now and how we plan to operate in the future.

We will report annually on our ESG performance using a selection of key non-financial metrics. We will align our reporting with the WEF's Stakeholder Capitalism Metrics, which is a globally recognised framework of 21 core metrics based on four core pillars: **Principles of Governance**, **People**, **Planet** and **Prosperity**.

Materiality assessment

We undertook a materiality assessment to understand which elements of ESG and the WEF Stakeholder Capitalism Metrics are most important to our organisation and our people.

We held a series of qualitative in-depth interviews with colleagues from across the business, all with different levels of service, responsibility and experience. We combined the interview data with findings from our Purpose, Vision and Values survey of over 1,000 colleagues to determine the ESG-related issues of most material significance within each of the four WEF pillars. By material significance, we mean issues that are important, relevant and/or critical to long-term value creation and our wider environmental, social and governance responsibilities.

Our ESG priorities

Our most significant ESG priorities based on our materiality assessment include:

Principles of Governance
- Delivering an excellent service for customers and stakeholders
- Creating an ESG strategy that reflects and underpins our Company culture

Planet
- Decarbonising the gas grid and innovating to provide our customers with cleaner energy
- Tackling the carbon impact of our business today, including emissions from leakage
- Responding to the physical risks of climate change through adaptation and improvement

People
- Making sure SGN is a great and inclusive place to work, where all people thrive and develop careers
- Securing the safety and wellbeing of all customers and colleagues
- Recruiting and retaining a diverse range of talented people excited about shaping the UK's energy future

Prosperity
- Creating a sustainable future for our business while providing a safe, reliable and affordable service
- Maintaining an attractive and flourishing business respected by a wide range of stakeholders

Environment, Social and Governance (ESG) report (cont)

Our ESG commitments

From our materiality assessment, we have been able to clearly understand the ESG elements of most importance to our organisation and our colleagues.

With this insight, we have determined our Company ESG commitments, aligned to the four core pillars that make up the WEF reporting framework.

Principles of Governance

We conduct all our business activities in an honest, ethical and socially responsible manner, in line with our values. We are committed to acting professionally, fairly and with integrity in all of our business dealings and relationships with consideration for the needs of all stakeholders including employees, suppliers, investors, regulators, customers and the wider communities we serve. We're committed to:

- Adhering to all relevant legislation, regulations and codes of practice that apply, including requirements related to environmental and social impacts.
- Implementing and enforcing effective policies and procedures to reflect our zero-tolerance approach to bribery and corruption.
- Measuring our performance and promoting continuous improvement through quality stakeholder engagement, setting annual objectives and undertaking internal and external audits.
- Setting high ESG standards for our business and supply chain, including around safety, human rights, carbon emissions and the physical and financial wellbeing of employees.
- Operating a Stakeholder and ESG Committee, comprising of senior leadership from across the business and chaired by a Non-Executive Director, who is also the accountable Director for ESG matters at Board level. The Stakeholder and ESG Committee reports into the Board and its core remit is to agree and uphold our ESG policy whilst providing challenge and approving initiatives aimed at delivering our commitments.
- Reviewing our ESG policy and targets annually to ensure continuing suitability and effectiveness according to the nature and scale of our operations.

Planet

We're committed to building a shared net-zero future by accelerating decarbonised energy solutions and improving our environmental impact. This involves:

- Working with UK and Scottish governments to create a clean energy pathway using hydrogen and other renewable sources to decarbonise the gas grid and meet national net zero targets.
- Reducing our business carbon footprint to achieve net-zero emissions by 2045, and setting appropriate interim carbon reduction targets in advance of this date.
- Managing the risks of climate change and the impact this has on our operations and assets.
- Maintaining our environmental management system to the requirements of ISO 14001.
- Using resources sustainably, through reusing, recycling and considering a circular economy process.
- Managing our operations and any land we own in a responsible manner.
- Providing biodiversity net gain on land we manage and striving to enable carbon sequestration.

People

We aim to conduct business in a socially responsible manner; with a diverse and inclusive workplace where all can thrive; to contribute to the communities we operate in; provide a safe, welcoming workplace for our employees and deliver high-quality services and support for our customers. To do this, we're committed to:

- Making a positive impact on society by supporting our customers and vulnerable communities, providing excellent service, and providing the opportunity to decarbonise energy using lower cost and disruption options.
- Promoting diversity, inclusivity and equal opportunity for all people in relation to recruitment, selection and career development.
- Ensuring a high-quality working environment is in place for employees, including financial wellbeing by being a living wage employer, and providing opportunities to undertake further training and professional development.
- Working to reduce stigma and misunderstanding by encouraging open conversations about mental health and wellbeing, and ensuring that wellbeing support services are easily accessible for all employees.
- Respecting human rights and not tolerating modern slavery and child labour in our business or supply chain.
- Ensuring all employees are kept safe and are responsible for the promotion of, and adherence to, health and safety measures as set out in our Safety, Health, Environment & Sustainability Policy.
- Always prioritising the health and safety of our customers and the communities in which we work.

Prosperity

We are committed to creating value and growing our services. We can do this by:

- Creating value for customers and stakeholders by accelerating commercial opportunities which complement our core business and support our net-zero ambitions.
- Maximising the value from our existing asset base and increasing investment to ensure we continue to provide a safe and reliable gas network now and in the future.
- Investing in opportunities for the sustainability of our network including developing hydrogen as a safe and effective solution for providing clean heat, keeping us at the forefront of heat delivery for the benefit of our customers.
- Continuing to invest in innovative products and services, such as clean heat alternatives that benefit wider society, provide high quality career opportunities, and give customers the ability to choose a safe, efficient and convenient low carbon future.

Our ESG report 2021/22

Over the next few pages, we have mapped the environmental, social and governance disclosures that are material to our business and operations to the WEF's Stakeholder Capitalism Metrics framework for ESG reporting.

Principles of Governance

WEF framework requirement: **Governing purpose**	
Metric/disclosure: **Setting purpose** The Company's stated purpose, as the expression of the means by which a business proposes solutions to economic, environmental and social issues. Corporate purpose should create value for all stakeholders, including shareholders.	**For more information from SGN** • Purpose, vision and values – pages 4 and 50 • Our RIIO-GD2 business plan – www.sgnfuture.co.uk • Additional services – pages 26 to 63

Key developments in 2021/22

This year we have reviewed and redefined our purpose, vision and values, having undertaken an extensive programme of engagement with around 1,300 of our people working across our business, including our Board. Our new purpose, vision and values are as follows:

Our purpose

Serving our communities by keeping everyone safe and warm.

Our vision

To give our customers the best clean energy experience.

Our values

Safety, innovation, reliability, openness, respect.

As outlined in our RIIO-GD2 business plan, 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 five strategic pillars:

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 improving 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 our core business; 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.

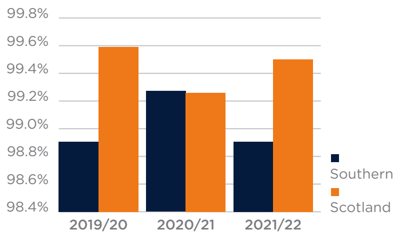
We pride ourselves on our exemplary track record of keeping the gas flowing through our network safely and reliably. This year we have achieved excellent performance in relation to our emergency response service and network reliability, and this strong performance is reflected in our customer satisfaction scores.

We're particularly proud of our activity to support vulnerable communities use gas safely, reliably and efficiently this year, as demonstrated by an increase in employees referring vulnerable customers for our additional support services and the number of customers we've helped to join the Priority Services Register.

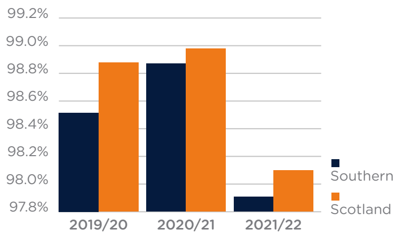
Environment, Social and Governance (ESG) report (cont)

Principles of Governance (cont)

Emergency response service



Controlled gas escapes

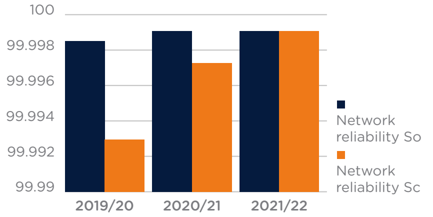


Uncontrolled gas escapes

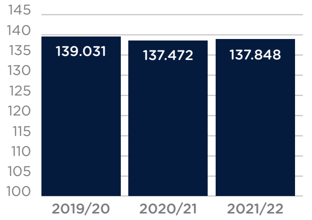
Notes on metrics

- 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. In a controlled gas escape, the person reporting it has confirmed that the gas emergency control valve for the premises (normally found next to the gas meter) has been turned off and the smell of gas has gone. An uncontrolled gas escape covers all others types of gas escape.
- This year we have once again exceeded our regulatory standard of 97% in both networks for both uncontrolled and controlled gas escapes, demonstrating the excellent performance of our emergency response service.

Network reliability



Network reliability (as % of full availability)

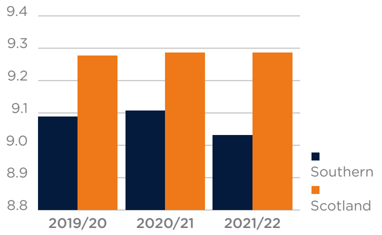


Gas transported (in TWhs)

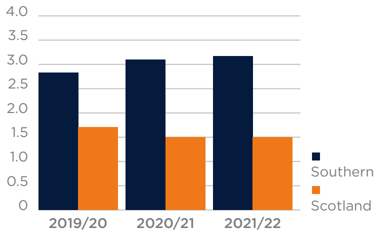
Notes on metrics

- The reliability of our gas network is measured against a target of total reliability 100% of the time.
- Our network remains extremely resilient, with our customers currently experiencing an interruption only once every 50 years on average. We continue to provide excellent customer service and seek ways to further reduce the inconvenience of being without supply.
- Gas continues to play a dominant role in providing domestic and industrial heat energy. And in electricity generation many forecasts indicate gas demand will decline as more renewables enter the energy system and government policy creates the necessary frameworks to incentivise the transition to low carbon alternatives, including hydrogen.

Customer satisfaction



Customer satisfaction

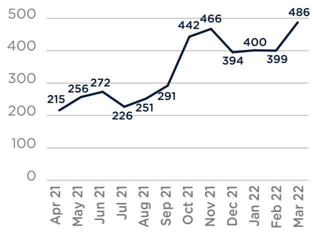


Complaints metric

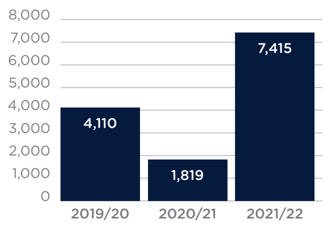
Notes on metrics

- We measure customer satisfaction using Ofgem's RIIO-related metrics, scored out of 10.
- For the sixth year running our Scotland network was ranked the UK's number one for customer service. Both our networks achieved overall customer satisfaction scores in excess of nine out of 10.

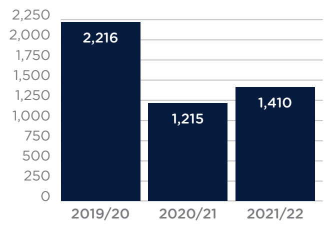
Our additional services for customers



Additional services referrals (2021/22)



Priority Services Register (PSR)



Fuel poor gas connections (FPNES)

Notes on metrics

- Our engineers told us they didn't want to walk away from a customer in need. In response, we developed a range of additional services – provided by us and our expert partners – to help the most vulnerable members of our communities stay safe and warm at home.
- In 2021/22 our engineers provided 4,098 referrals to customers in need of additional support through our Careline App – a 585% increase from the previous year. Using our Careline App and working through our 28 funded charity and community partnerships, we supported 52,139 households access 86,017 additional services, exceeding our annual Ofgem-monitored target of 50,000 households.
- One of the services we offer through our additional services initiative is registering customers for their supplier's Priority Services Register. This is a free service for customers who would need a little extra help from energy companies in a power cut or gas emergency. This year we helped a total of 7,415 customers register with the PSR through engineer Careline App referrals and our project partnerships.
- We have an important role to play in combating 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. We have 26 partners signed up to support our fuel poverty network extension scheme (FPNES). We face many challenges around support for fuel poor households, in particular in relation to sourcing funding for in-home measures. The 1,410 households connected this year constitutes 39% of our overall target but it is still a good achievement considering the uncertainty all gas distribution networks have faced over the last year in relation to the FPNES (which has driven a downward trend in number of connections provided).

WEF framework requirement: **Quality of governing body**	
Metric/disclosure: **Governance body composition**	**For more information from SGN**
Composition of the highest governance body and its committees by: competencies relating to economic, environmental and social topics; executive or non-executive; independence; tenure on the governance body; number of each individual's other significant positions and commitments, and the nature of the commitments; gender; and membership of under-represented groups.	• Board composition and experience – page 84

Key developments in 2021/22

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.

Our Board composition is detailed from page 84 of our annual report, including:

- Roles and responsibilities
- Skills and experience
- Other significant positions and commitments
- Board tenure

Our Stakeholder and ESG Committee, chaired by Laura Sandys, ensures we have Board-level oversight of our ESG performance. This year, we have included information relating to the Board's membership and biographies on pages 85 to 90. These outline the extensive and varied experience of the Board, including in ESG-related topic areas including diversity and decarbonisation. The Board remains committed to improving its diversity in terms of gender, ethnicity, disability and age in line with best practice.

Principles of Governance (cont)

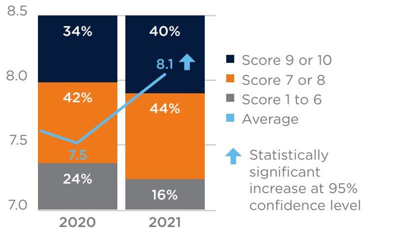
WEF framework requirement: Stakeholder engagement

Metric/disclosure: **Material issues impacting stakeholders**	**For more information from SGN**
A list of the topics that are material to key stakeholders and the Company, how the topics were identified and how the stakeholders were engaged.	• Principal risks and uncertainties – page 51 • Materiality assessment – page 59

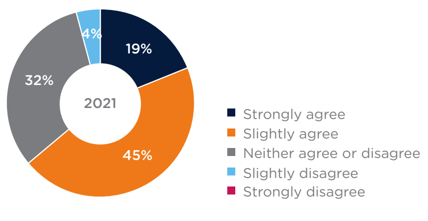
Key developments in 2021/22
Our materiality assessment consisted of a series of in-depth interviews with colleagues from across the business and findings from a survey of over 1,000 colleagues as described on page 59.

In our annual external stakeholder satisfaction survey, we saw high levels of relationship satisfaction and agreement that we focus on material issues that stakeholders care about. This survey was completed by 204 of our external stakeholders, many of whom we have engaged via workshops, events, partnership working and meetings. Our external satisfaction survey focuses on relationship satisfaction, the relative importance of our strategic priorities, stakeholders' perceptions of our performance against these priorities, stakeholders' comms and engagement satisfaction (including how we listen and act on feedback), and their comms and engagement preferences.

The topics identified as having the highest materiality through our internal engagement were reflected in the results of our external stakeholder engagement, with topics such as safety, supporting vulnerable customers, decarbonisation and improving environmental impact of particular importance to our external stakeholders. A quarter of our surveyed stakeholders have a national role/remit, with 46% being Southern based and 29% Scotland based. Overall, 65% of stakeholders were from the public sector, 18% from the private sector, 15% from charity/third sector organisations, and 2% classed as 'other'.



As a stakeholder of SGN, how satisfied are you with the overall relationship that you have with them on a scale of 1-10, where 1 is very dissatisfied and 10 is very satisfied?



SGN focuses on material issues stakeholders care about

Relationship satisfaction

WEF framework requirement: Ethical behaviour

Metric/disclosure: **Anti-corruption**

1. Total percentage of governance body members, employees and business partners who have received training on the organisation's anti-corruption policies and procedures, broken down by region.
   a) Total number and nature of incidents of corruption confirmed during the current year, but related to previous years; and
   b) Total number and nature of incidents of corruption confirmed during the current year, related to this year.

2. Discussion of initiatives and stakeholder engagement to improve the broader operating environment and culture, in order to combat corruption.

Key developments in 2021/22
An organisation's culture is a critical element in its long-term success. We're committed to fostering an open and honest culture that drives good ethical behaviour. Our Group-wide policies, together with our training and awareness programme, help ensure the right expectations and culture across the Company.

Training and awareness

Compliance area	Number of sessions Target 2021/22	Number of sessions Actual 2021/22
Privacy	3,770	2,808
Business separation	3,770	3,406
Business ethics	3,770	4,461
Modern slavery	3,770	2,757
Total training delivered	15,080	13,432

Notes on metrics
- We have continued to make excellent use of our online training platforms to deliver SGN-specific compliance training this year, achieving 89% of our targeted number of training sessions (with outstanding sessions being completed by October 2022).
- Our Group-wide policies include:
  - Anti-bribery and corruption
  - Conflicts of interest
  - Data Protection
  - Modern Slavery
  - Safe to Speak Up
  - Corporate Hospitality and Gifts
  - Anti-Money Laundering
  - Confidential Information
  - Business Separation Procedure
- We monitor the number and proportion of corruption incidents and have robust processes in place to deal with such occurrences. We treat the number and proportion of corruption incidents as confidential Company information.

WEF framework requirement: Ethical behaviour

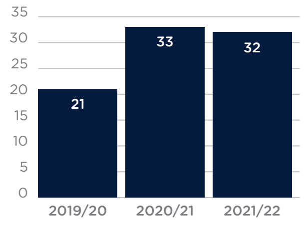
Metric/disclosure: **Protected ethics advice and reporting mechanisms**

A description of internal and external mechanisms for:

1. Seeking advice about ethical and lawful behaviour and organisational integrity; and

2. Reporting concerns about unethical or unlawful behaviour and lack of organisational integrity.

Key developments in 2021/22
Empowering people to speak up against wrongdoing is a central element of our approach to doing the right thing. This can be done through an independent whistleblowing channel, called Speak Up Hotline, as well as through various internal channels. We promote this mechanism to our people through our Safe to Speak up campaign.



Speak Up reports

Notes on metrics
- A breakdown of these reports, including how they were made, what they related to and the outcomes of the investigation are reviewed by our Audit Committee to ensure the effectiveness of actions taken in response to concerns raised.
- For employees who have personal grievances, as opposed to concerns about a suspected wrongdoing that affects others, we have an internal Grievance Procedure and a Policy against Harassment at Work if an employee's grievance involves allegations of harassment against their manager. The four stage Grievance Procedure involving HR, independent management and Trade Union, culminates in an appeal to the Joint Secretaries of the National Joint Consultative Committee, if not satisfactorily resolved at stages one to three.

Environment, Social and Governance (ESG) report (cont)

Principles of Governance (cont)

WEF framework requirement: **Risk and opportunity oversight**	
Metric/disclosure: **Integrating risk and opportunity into business process**	**For more information from SGN**
Company risk factor and opportunity disclosures that clearly identify the principal material risks and opportunities facing the Company specifically (as opposed to generic sector risks), the Company appetite in respect of these risks, how these risks and opportunities have moved over time and the response to those changes. These opportunities and risks should integrate material economic, environmental and social issues, including climate change and data stewardship.	• Principal risks and uncertainties – page 51

Key developments in 2021/22
We acknowledge risk management is a critical aspect of good governance. Our enterprise risk framework ensures we have a consistent approach to identifying, assessing, managing and monitoring risks and uncertainties to the successful delivery of our strategic objectives.

Our principal risks and uncertainties are set out in full on pages 51 to 57 of this annual report. There is a high degree of overlap between our principal risks and the ESG topics which have higher materiality for our business, including future of gas networks, leadership, people and culture, environment and climate adaptations, safety and health, and customer interests.

Planet

WEF framework requirement: **Climate change**	
Metric/disclosure: **Greenhouse gas emissions**	**For more information from SGN**
For all relevant greenhouse gases (e.g. carbon dioxide, methane, nitrous oxide, F-gases etc.), report in metric tonnes of carbon dioxide equivalent (tCO_2e) GHG Protocol Scope 1 and Scope 2 emissions. Estimate and report material upstream and downstream (GHG Protocol Scope 3) emissions where appropriate.	• Principal risks and uncertainties – page 51 • Our Environment Strategy – available at sgn.co.uk

Key developments in 2021/22
We have a comprehensive environment strategy and established targets for reducing our greenhouse gas emissions.

The Science Based Targets initiative (SBTi) is yet to publish its methodology for the oil and gas sector, meaning we can't verify our targets with this body. However, we have developed emissions targets for Scope 1 and 2 emissions on trajectories necessary for us to meet the Paris agreement target of limiting global warming to 1.5 degrees Celsius. We have undertaken a screening of our Scope 3 carbon emissions and identified where we have gaps in our reporting. Our plan for improving Scope 3 data will see us deliver a better picture of our total carbon footprint over the coming years.

Greenhouse gases (GHG) emissions and energy use data

Scope 1 and 2 (Direct emissions)	Reporting year 2021/22	Comparison reporting year 2020/21
Scope 1: Gas usage from our occupied/operational sites[1] (tCO_2e)	5,106	808
Scope 1: Natural gas shrinkage (leakage + theft of gas + own use of gas) (tCO_2e)	721,448	740,826
Scope 1: Business mileage Company owned/controlled vehicles (tCO_2e)	17,140	12,529
Scope 2: Purchased electricity for own use (market based) (tCO_2e)	128	280
Total Scope 1 and 2 (tCO_2e)	743,822	754,443
Scope 1 and 2 energy consumption (kWh)	666,885,940	732,416,002
Intensity metric: Total Scope 1 and 2 per £m turnover (tCO_2e/£m)	667	643
Intensity metric: Total Scope 1 and 2 per km gas pipe in network (tCO_2e/km)	10.3	10.5
Intensity metric: Total Scope 1 and 2 per energy throughput (tCO_2e/GWh)	5.3	5.4
Scope 2: Purchased electricity (location based) (tCO_2e)	2,127	3,174

Scope 3 (Indirect emissions)	Reporting year 2021/22	Comparison reporting year 2020/21
Business travel[2] (rail, air, ferry, car hire, grey fleet) (tCO_2e)	420	18
Transmission and distribution losses from purchased electricity and gas WTT (tCO_2e)	1,235	20
Embodied carbon purchased goods, services, capital goods[3] (tCO_2e)	8,748	4,992
Contractor emissions (tCO_2e)	7,825	5,783
Waste generated in operations[4] (tCO_2e)	1,075	N/A
Total Scope 3 emissions (tCO_2e)	19,303	10,813

Total emissions (Scope 1, 2 and 3)	Reporting year 2021/22	Comparison reporting year 2020/21
Total annual net emissions (tCO_2e)	763,125	765,256
Intensity metric: Total emissions per £m turnover (tCO_2e/£m)	684	652
Intensity metric: Total emissions per km network length (tCO_2e/km)	10.6	10.6
Intensity metric: Total emissions per energy throughput (tCO_2e/GWh)	5.5	5.5

All data is for the period 1 April 2021 to 31 March 2022 and relates to the regulated business only for Southern and Scotland networks. The SGN total is for these two networks combined.

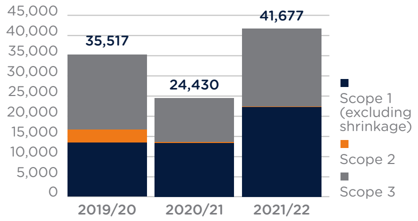
Methodology: Data provided here is in line with annual business carbon footprint reporting to Ofgem using DEFRA conversion factors. Conversion factors are updated annually. Additional lines and information showing Scope 3 emissions have been added here for full disclosure and in line with annual returns to Ofgem (for further information see notes on business carbon footprint metric on page 68). 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 with the Energy Networks Association (ENA).

[1] Data now includes gas consumption by CHP associated with our Turbo Expander (which produces renewable electricity).
[2] Business travel is no longer restricted by Covid-19 restrictions.
[3] Now includes reinstatement materials and water consumption, in addition to the embodied carbon from PE pipe reported on in previous years.
[4] New data now included in 2021/22 – includes waste from reinstatement, depots, offices, Major Projects and holder demolition.

Environment, Social and Governance (ESG) report (cont)

Planet (cont)

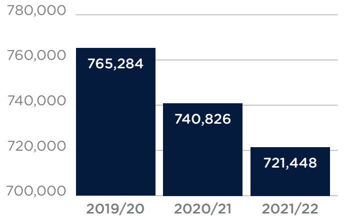
Business carbon footprint



Business carbon footprint (tCO_2e)

Notes on metrics
- Our business carbon footprint includes Scope 1, 2 and 3, excluding shrinkage. It is reported in tonnes of CO_2e (tCO_2e). All data is SGN total.
- As an absolute number our carbon footprint has increased compared to financial year 2020/21. This is driven by several factors including some improvements in data accuracy, the inclusion of additional Scope 3 emissions data (water, waste, embodied carbon of purchased goods and services) and amendments to the carbon conversion factors we use in order to ensure we align with best practice reporting. Including additional Scope 3 data and continuously reviewing and improving our reporting is helping us to achieve greater transparency of our carbon footprint.
- A return to more normal business operations after the pandemic has also contributed to an increase in our business carbon footprint. However, the majority of our building electricity supply is certified renewable electricity.
- We have a target to reduce our Scope 1 and 2 emissions (excluding shrinkage) by 25% over the five years of RIIO-GD2. This year our carbon reduction progress has been hindered by global supply chain issues in vehicle markets, delaying the roll-out of low emission fleet vehicles. We will be increasing the proportion of electric vehicles in our fleet over the remaining years of RIIO-GD2.

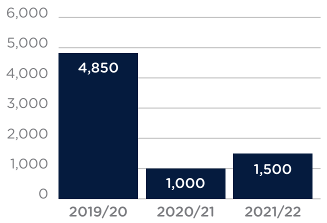
Gas shrinkage



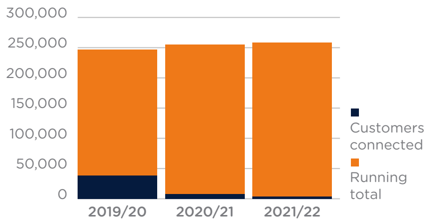
Gas shrinkage (tCO_2e)

Notes on metrics
- 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.
- Environmental emissions for shrinkage have reduced by 3% since last year. Activities that reduce shrinkage include our iron mains replacement programme (repex), improved pressure management and innovation.
- Our projected shrinkage for 2021/22 was 718,808 tCO_2e, and actual was 721,448 tCO_2e (0.4% above forecast). This was driven by undertaking slightly less gas mains replacement works than anticipated, and elevating the pressures in our network during the winter months to safeguard security of supply for our customers.

Greening the gas



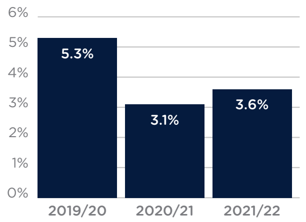
Annual volume of new biomethane in the network (scm/h)



Growth in biomethane (equivalent households supplied)

Notes on metrics
- 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.
- We have connected two new biomethane plants in 2021/22, both of which are in Scotland.
- 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 the Covid-19 impact. A new green gas support scheme was initiated at the end of November 2021, and we have subsequently seen an upswing in enquiries from biomethane producers in both our Scotland and Southern networks. It is anticipated that should these biomethane plants proceed, they would begin to feed biomethane into the gas network towards the end of the current price control period (by 2025/26).

Reducing waste



Spoil to landfill (in % of total tonnes)

Notes on metrics
- For 2021/22 we have started to capture the carbon emissions associated with waste generated in operations as per the Greenhouse Gas Protocol.
- This data includes waste streams from all our key activities such as reinstatement, depots, offices, Major Projects and holder demolition.
- We are continuing to measure our sustainable resource use by monitoring progress against targets for spoil sent to landfill and have set a target of sending <2% spoil to landfill across our two networks.
- We have carried out a Circular Economy review which explored ways of improving waste management, including spoil to landfill, and will be implementing a road map for improvement in 2022/23.
- We also measure our sustainable resource use by considering the use of virgin aggregate in our reinstatement projects. By 2026, we're aiming to use no more than 0.1% virgin aggregate for reinstatement works in our Southern network and no more than 20% virgin aggregate 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 our access to recycled material.

WEF framework requirement: **Climate change**	
Metric/disclosure: **TCFD implementation**	**For more information from SGN**
Fully implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). If necessary, disclose a timeline of at most three years for full implementation.	• Our 2021 CDP report – available at cdp.net

Key developments in 2021/22
Identified gap: This being our first year of ESG reporting, we're not yet able to publish a fully TCFD-aligned report.

However, we have completed Carbon Disclosure Project (CDP) reporting since 2018 and received a grade of B in 2021 (exceeding the oil and gas storage and transportation sector average of B-). Much of the information used in our CDP disclosure will be utilised to complete our TCFD reporting. In addition, we incorporate climate-related risks into our principal risks and uncertainties, which are overseen by the Board.

We have created a delivery plan to align our financial disclosures to the TCFD framework, with the publication of the data planned for inclusion in our 2022/23 annual report.

Environment, Social and Governance (ESG) report (cont)

Planet (cont)

WEF framework requirement: **Nature loss**	
Metric/disclosure: **Land use and ecological sensitivity**	**For more information from SGN**
Report the number and area (in hectares) of sites owned, leased or managed in or adjacent to protected areas and/or key biodiversity areas (KBA).	• Our Environment Strategy – available at sgn.co.uk

Key developments in 2021/22
Our environment strategy is built around five pillars that demonstrate our long-term commitment to reducing our carbon footprint. One of these pillars is 'boosting biodiversity' by creating more healthy green areas on our land, helping to generate biodiversity net gain and striving to enable carbon sequestration.

We have five active biodiversity projects ongoing on our sites in 2021/22.

Identified gap: While we maintain a portfolio list of all our owned and leased properties, we do not currently hold data pertaining to these sites' proximity to KBAs, as is required by the WEF framework. We are investigating whether we can capture and report on this level of data in the coming years.

WEF framework requirement: **Freshwater availability**
Metric/disclosure: **Water consumption and withdrawal in water-stressed areas**
Where material, report for operations: megalitres of water withdrawn, megalitres of water consumed and the percentage of each in regions with high or extremely high baseline water stress, according to World Resources Institute (WRI) Aqueduct water risk atlas tool. Estimate and report the same information for the full value chain (upstream and downstream) where appropriate.

Key developments in 2021/22
At present, water consumption and withdrawal in water-stressed areas is a very low-risk activity for us, given that the majority of our business activities do not require significant volumes of water extraction, and as such has a very low materiality.

However, we do monitor our water consumption on our depots and offices, which is included in our Scope 3 carbon emissions data.

People

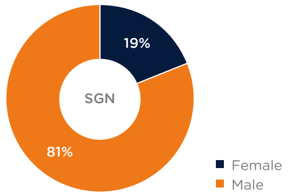
WEF framework requirement: **Dignity and equality**	
Metric/disclosure: **Diversity and Inclusion (%)**	**For more information from SGN**
Percentage of employees for each employee category, by age group, gender and other indicators of diversity (e.g. ethnicity).	• Our Diversity Pay Gap Report – available at sgn.co.uk

Key developments in 2021/22
We want all our employees to enjoy their time with us and feel fulfilled by their careers. We measure employee engagement using the Sustainable Engagement Index from Willis Towers Watson.

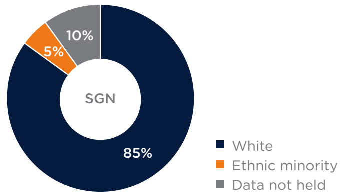
	2019	2021
Employee engagement index	79%	79%
Inclusion index	68%	67%

SGN remains committed to diversity and inclusion, and we have a robust action plan across three strategic pillars – educate, embed and engage – to deliver on our D&I ambition. Last year, all hiring managers attended **inclusive recruitment training**, which highlighted the impact of bias on decisions, as well as ways to mitigate bias from recruitment. Resources from the **bias awareness campaign** (video, managers resources and eLearning), were made available for all employees via our learning management platform. Throughout the year, we continued to develop a wealth of **D&I resources**, with a bias in talent management eLearning pack ready for launch, and mandated D&I videos and action plan set as a target for all senior managers.

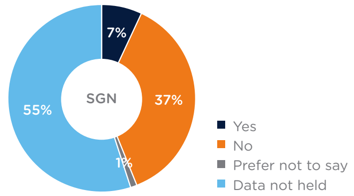
We measure workforce representation across different diversity strands including ethnicity, age, gender and disability.



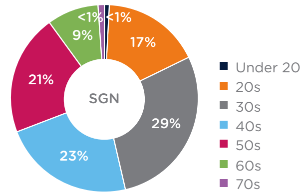
Gender



Ethnicity



Disability



Age ranges

Notes on metrics
- 2,424 employees completed our 2021 employee engagement survey (as response rate of 61%).
- During the peak of the 2020/21 pandemic we issued three Covid-19 specific surveys, each of which also attracted a response rate between 61-66%.
- Our headcount as at April 2022 was 3,743 employees.

Overview
Strategic Report
Governance
Financial Statements

Environment, Social and Governance (ESG) report (cont)

People (cont)

WEF framework requirement: Dignity and equality

Metric/disclosure: Pay equality (%)

Ratio of the basic salary and remuneration for each employee category by significant locations of operation for priority areas of equality: women to men, minor to major ethnic groups, and other relevant equality areas.

For more information from SGN
- Our Diversity Pay Gap Report – available at sgn.co.uk
- Our Diversity and Inclusion Ambition – available at sgn.co.uk

Key developments in 2021/22

We want our workforce to reflect the communities we serve and for our people to feel welcome, valued and encouraged to do their best. Our Diversity and Inclusion Ambition sets out how we're aiming for a more diverse and inclusive workplace with inclusive leadership.

In 2018, we published our first annual Gender Pay Gap report. The report tracks progression through the Company, detailed statistics and what we're doing to improve our performance. From 2020 onwards, we've expanded that report to become our annual Diversity Pay Gap report, also disclosing our ethnicity pay gap.

SGN business entity with 250 employees or more	Proportion of males and females in business entity	Mean hourly pay difference between male and female employees	Median hourly pay difference between male and female employees	Proportion of men/women in upper quartile pay band	Proportion of men/women in upper middle quartile pay band	Proportion of men/women in lower middle quartile pay band	Proportion of men/women in lower quartile pay band	Mean bonus pay difference between male and female employees	Median bonus pay difference between male and female employees	Proportion of men/women receiving bonus pay
2020 full group results, by legal entity										
SGN Group	Male 83 Female 17	11.7%	17.8%	Male 86 Female 14	Male 91 Female 9	Male 87 Female 13	Male 68 Female 32	44.5%	81.6%	53% of men 64% of women
Southern Gas Networks plc	Male 91 Female 9	-0.5%	9.0%	Male 94 Female 6	Male 98 Female 2	Male 88 Female 12	Male 86 Female 14	-135.1%	6.1%	100% of men 100% of women
Scotland Gas Networks plc	Male 91 Female 9	9.2%	8.0%	Male 92 Female 8	Male 93 Female 7	Male 93 Female 7	Male 85 Female 15	-61.4%	0%	100% of men 100% of women
SGN Contracting Ltd	Male 81 Female 19	8.2%	16.0%	Male 85 Female 15	Male 89 Female 11	Male 85 Female 15	Male 66 Female 34	10.4%	-40.0%	38% of men 59% of women

Notes on metrics
- The above data tables extract is an extract from our Diversity Pay Gap Report, published in 2020/21.
- We are a Living Wage employer.
- We monitor the progress of people moving through the organisation to ensure fair and equal representation at all levels.
- We've been awarded the Inclusive Employers Standard: Bronze Award, for our commitment to inclusion in the workplace.
- We hold British Standard BS 18477 accreditation for our inclusive service provision.
- All our hiring managers have undertaken inclusive recruitment training, highlighting the impact bias can have on their hiring decisions and ways they can mitigate the effect.
- To assist we have a wide range of resources being used from our bias awareness campaign including videos and eLearning materials.

WEF framework requirement: Dignity and equality

Metric/disclosure: Wage level (%)

Ratios of standard entry-level wage by gender compared to local minimum wage.

Ratio of the annual total compensation of the CEO to the median of the annual total compensation of all its employees, except the CEO.

Key developments in 2021/22

Identified gap: We have seen a high degree of changeability in the UK economy and job market in the wake of a series of geopolitical events in recent years, including Brexit, the coronavirus pandemic and the conflict in Ukraine.

We do not currently have access to robust up-to-date data for gauging local minimum wage that would allow for comparison against our own data and don't anticipate this data will become readily available in the short to medium term. However, where necessary and relevant, we benchmark salaries for roles within our organisation using an external consultancy to ensure we are paying a fair market rate. We are a living wage employer, meaning we pay salaries that exceed statutory minimum wage and help our people meet their everyday cost of living. The CEO salary/compensation ratio is currently under review.

WEF framework requirement: Dignity and equality

Metric/disclosure: Risk for incidents of child, forced or compulsory labour

An explanation of the operations and suppliers considered to have significant risk for incidents of child labour, forced or compulsory labour. Such risks could emerge in relation to:

a) type of operation (such as manufacturing plant) and type of supplier; and
b) countries or geographic areas with operations and suppliers considered at risk.

For more information from SGN
- Modern slavery statement – available at sgn.co.uk

Key developments in 2021/22

We publish our modern slavery statement and have implemented training internally to 2,757 of our people to help them to understand and identify the risks of modern slavery as part of an ongoing training programme, with a target to reach 100% of the workforce by October 2022.

This year, we've engaged with 72 of our key suppliers, representing approximately 80% of our supplier spend, and received data from 64 of our main suppliers, representing around 75% of our annual spend. We've confirmed 96% of respondents comply with our requirement to publish a modern slavery statement, indicating the measures they have in place to manage this risk.

Through continuous engagement with our suppliers and issuing our supplier code, we're striving to hold our entire supply chain to the same high standards, regardless of the type of supplier/operation and country of operation. We received a supplier engagement score of A- from the CDP, which is in the 'Leadership' band. This is higher than the Europe regional average of B-, and higher than the oil and gas storage and transportation sector average of B-.

WEF framework requirement: Health and wellbeing

Metric/disclosure: Health and safety (%)

The number and rate of fatalities as a result of work-related injury; high-consequence work-related injuries (excluding fatalities); recordable work-related injuries; main types of work-related injury; and the number of hours worked.

An explanation of how the organisation facilitates workers' access to non-occupational medical and healthcare services, and the scope of access provided for employees and workers.

For more information from SGN
- Safety and wellbeing performance – page 26

Key developments in 2021/22

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

This year we appointed a new partner to provide our Employee Assistance Programme (EAP), which has yielded positive results. The service has a utilisation rate of 10%, which falls in the middle of the industry benchmark we aim for of 8-12%.

Additionally, we have over 75 Mental Health Supporters embedded throughout our business, providing colleagues with further opportunities to ask for support via confidential and impartial means.

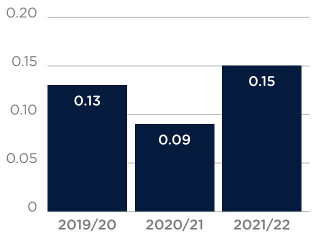
One measure of our safety performance is our reporting of 'Safe Days'. A 'Safe Day' is achieved where there are: (i) no lost time injuries to colleagues or our contractors; (ii) there are no road traffic collisions; (iii) no cable strikes; and (iv) no injuries to members of the public.

In the year to 31 March 2021 we recorded 194 Safe Days, 18 better than we had targeted. This compares very favourably to the 194 Safe Days recorded in the previous year, and we have set a target of 210 Safe Days for the year to March 2023.

To ensure visibility and transparency among all our operatives, we publish local daily statistics on safety boards around our offices and depots.

Environment, Social and Governance (ESG) report (cont)

People (cont)



Total recordable injury rate
(employees and contractors)

Notes on metrics
- Total recordable injury rate is the number of HSE reportable, lost time and medical treatment injuries multiplied by 100,000 hours and divided by employee and contractor numbers. The slight increase on the previous year was partially the result of the removal of Covid-19 restrictions and works resuming as normal.

WEF framework requirement: **Skills for the future**
Metric/disclosure: **Training provided (#, £)**
Average hours of training for each person that the organisation's employees have undertaken during the reporting period, by gender and employee category (total number of hours of training provided to employees divided by the number of employees). Average training and development expenditure per full-time employee (total cost of training provided to employees divided by the number of employees).

Key developments in 2021/22
Our learning management system ensures we can deliver training and development to make our Company a success.

Identified gap: We do not currently track training delivery by measures such as gender and employee category. We are examining whether we can make changes to our training systems and reporting to provide this data in future years.

Our total investment in training in 2021/22 was £4.4m (excluding training and development staff costs/salaries), which equates to over £1,100 for each employee on average.

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

Prosperity

WEF framework requirement: **Employment and wealth generation**
Metric/disclosure: **Absolute number and rate of employment**
1. Total number and rate of new employee hires during the reporting period, by age group, gender, other indicators of diversity and region. 2. Total number and rate of employee turnover during the reporting period, by age group, gender, other indicators of diversity and region.

Key developments in 2021/22
We believe there's never been a more exciting time for people to join us and become part of a dedicated and highly professional workforce, who are proud to work in the energy industry and deliver for the communities we serve.

In 2021/22, 297 new employees joined our organisation. Of these:

- 22% identified as female and 78% identified as male.
- 89% were white and 10% were ethnic minorities (with the remaining 1% undisclosed).
- 72% of our new employees were aged between 21-40, 22% were aged 40-60, 5% were aged under 21 and 1% were over 60.

Our turnover rate comprises retirements, resignations and contract terminations. In 2021/22 our total turnover rate was 13%.

WEF framework requirement: **Employment and wealth generation**	
Metric/disclosure: **Economic contribution**	**For more information from SGN** • Financial review – page 38
1. Direct economic value generated and distributed (EVG&D), on an accruals basis, covering the basic components for the organisation's global operations, ideally split out by: – Revenues – Operating costs – Employee wages and benefits – Payments to providers of capital – Payments to government – Community investment 2. Financial assistance received from the government: total monetary value of financial assistance received by the organisation from any government during the reporting period.	

Key developments in 2021/22
Within this annual report, we detail our financial key performance indicators that demonstrate our economic contribution to society. These are included on page 38 onwards, with additional information provided under the Notes to the financial statements on pages 111 to 139.

WEF framework requirement: **Employment and wealth generation**	
Metric/disclosure: **Financial investment contribution**	**For more information from SGN** • Financial review – page 38
1. Total capital expenditures (CapEx) minus depreciation, supported by narrative to describe the Company's investment strategy. 2. Share buybacks plus dividend payments, supported by narrative to describe the Company's strategy for returns of capital to shareholders.	

Key developments in 2021/22
Capital expenditures
The total network investment in replacement and capital expenditure was £349.1m (down from £370.3m in 2020/21). 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 £229.2m (down from £242.9m in 2020/21) due to the types of replacement works undertaken being relatively cheaper to complete than those in the previous year. During the year we replaced 849km of metallic pipe. Other capital expenditure excluding replacement also decreased to £119.9m (down from £127.4m in 2020/21) as a result of the timing of expenditure within the RIIO-GD2 price control. 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.

Environment, Social and Governance (ESG) report (cont)

Prosperity (cont)

Distributions
During the financial year Scotia Gas Networks Ltd paid scheduled shareholder loan interest distributions totalling £30.7m (2021: £28.7m). A dividend distribution of £84.0m was paid before year end (2021: £115m). At 31 March 2022 Scotia Gas Networks Ltd had £722.6m (2021: £956.3m) of available distributable reserves.

WEF framework requirement: **Innovation of better products and services**	
Metric/disclosure: **Total R&D expenses (£)**	**For more information from SGN** • Chief Executive Officer's report – page 12 • Our 2021 CDP report – available at cdp.net
Total costs related to research and development.	

Key developments in 2021/22
In our CDP response, we describe where and how climate-related risks and opportunities have influenced our strategy by committing to a number of R&D projects, including biomethane, biogas, and hydrogen trials, that will reduce carbon emissions. We are also committed to trialling the 'Climate Risk and Opportunities toolkit' for new/early-stage projects.

We have requested funding from Ofgem in this price control period (2021-26) for £10 million to support the transition to a low-carbon energy network through the use of biomethane and we requested £65.9m for our Energy Futures and decarbonisation of heat work over the same period. A number of our innovation investments and R&D projects are detailed on pages 6 to 11 of our annual report, and in the Chief Executive Officer's report on page 12 onwards. The combined impact of our programme to upgrade old metallic mains to PE, and our continued investment in innovation and R&D are key to helping demonstrate the suitability of hydrogen as a means of providing clean, safe and convenient heat in the future.

WEF framework requirement: **Community and social vitality**	
Metric/disclosure: **Total tax paid**	**For more information from SGN** • Financial review – page 38
The total global tax borne by the Company, including corporate income taxes, property taxes, non-creditable VAT and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the Company, by category of taxes.	

Key developments in 2021/22
We are committed to paying our full and fair tax contributions. Our tax contributions in the year amounted to £371.9m. These consist of the following contributions:

- Corporation tax of £38.3m paid on our taxable profits.
- VAT of £146.5m.
- Business rates of £121.9m paid to local authorities.
- Employment taxes of £65.2m paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

Looking ahead

We have created a delivery plan for 2022/23 that will help us address any gaps in our ESG report, with a particular focus on TCFD implementation.

While we have outlined our initial policy commitments under each of the pillars of the WEF framework, we will seek to set quantified targets and commitments where possible.

We will also ensure our assessment of materiality remains valid by periodically repeating this activity.

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
The Board continued to closely consider the impact of Covid-19 on our business. Our main focus has been to ensure the safety of our employees, our customers and the general public while continuing 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. 2021/22 was the first year of the five-year regulatory period covering 2021 to 2026 known as RIIO-GD2. SGN has formulated a comprehensive and robust business plan for RIIO-GD2 carefully reflecting the views of many stakeholders and in particular customers.

In February 2021 the Board took the decision to refer four elements of Ofgem's December 2020 Final Determination of our GD2 Business Plan to the Competition and Markets Authority (CMA).

In its conclusions announced in October 2021, the CMA found in our favour on factors relating to two of the elements we appealed.

As we move forward with RIIO-GD2, we are committed to delivering operational excellence and outstanding service for all our customers while also working with Ofgem, the UK and Scottish governments and other industrial partners to establish the role that hydrogen and biomethane can play in meeting the net zero target.

Shareholder divestment
The sale of their shareholdings by SSE, ADIA and OMERS, in two separate transactions completed in March 2022, brought two new investors into the Company namely Canadian global asset manager Brookfield, taking on a 37.5% share and US based Global Infrastructure Partners, a leading global, independent infrastructure fund manager, now with a 25% share. As part of these transactions, Ontario Teachers' Pension Plan, our third original investor, increased its ownership from 25% to 37.5%.

Board appointments
Following the share sale, the Directors from SSE, ADIA and OMERS stepped down from the Board in March 2022. I am pleased to welcome the incoming Directors nominated by the new shareholders: Michael Botha, Becky Lumlock, Felipe Ortiz, Martin Catchpole, Paul Trimmer and Christian Fingerle.

Details of all Directors along with the alternate Directors can be found on page 86 from which it can be seen we have a Board with a broad range of relevant experience and expertise.

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.

Wates and compliance with code

SGN, under the Companies (Miscellaneous Reporting) Regulations 2018, has applied the Wates Corporate Governance Principles for Large Private Companies. This report sets out how the Wates Principles were applied.

For the year ended 31 March 2022, 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 79 to 81 summarise the six Wates Principles and indicate where more information can be found in the strategic and the governance reports. Throughout FY 2022/23, 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 which 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 43 and Directors' Report on page 97).
2. **Stakeholder Engagement** – A statement on how Directors have engaged with stakeholders and how Directors have had regard to stakeholder interests (see pages 42 to 50 and Directors' Report on page 97).
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 46).
4. **Corporate Governance** – A statement on the Company's Corporate Governance Arrangements and how these have been applied (see pages 77 to 84).

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.

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 purpose is to serve our communities by keeping everyone safe and warm. It's why we exist. Our values are safety, innovation, reliability, openness and respect. Our vision is to give our customers the best clean energy experience.

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

What we did in FY 2021/22 and what we plan to do in FY 2022/23
During the financial year, SGN's employees, the Executive Committee and the Board were engaged to establish the new purpose, vision and values as represented above. More than 1,300 colleagues were involved in this engagement programme. Throughout we have worked with our stakeholders to ensure we are delivering our business plan in RIIO-GD2. Looking ahead to FY 2021/22, we will embed our new purpose, vision and values and make sure our workplace culture is consistent with these values and our developing ESG reporting framework.

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 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 FY 2021/22 and what we plan to do in FY 2022/23
Towards the end of financial year, and as a result of the share sale by SSE, ADIA and OMERS, six new Directors have been appointed to the Board who bring a wealth of experience and come from a range of background. All new Directors have undertaken a comprehensive induction programme led by each executive team member to introduce them to SGN.

For FY 2022/23 the Board remains committed to improving diversity throughout the Company in terms of gender, ethnicity, disability and age, and its People and Reward Committee and is actively engaging with the Shareholders to ensure that diversity and inclusion remains a key objective for the selection and appointment of shareholder appointed Directors.

Where you can find further information
Further details of the Board composition and experience can be found on pages 86 to 89.

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Wates and compliance with code (cont)

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 FY 2021/22 and what we plan to do in FY 2022/23

The Board continues to be supported by the work of the Board Committees. During the year, a review of the Board Reserved Matters was completed and continues to be rolled out, 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.

In FY 2022/23, once the new Board has become fully embedded, a Board effectiveness review, will be undertaken. A review of the Board training schedule is also planned to ensure the training provided to the Board remains robust and relevant for each year and will also be aligned with any training needs identified following the outcome of the Board effectiveness review.

Where you can find further information

Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 96 and 97.

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 and Resilience Committee and financial risks by the Audit Committee.

What we did in FY 2021/22 and what we plan to do in FY 2022/23

The Board formally reviewed and challenged the key strategic risks both at the half and full year point. This encompassed a formal review of emerging risks taking insights from independent sources to help shape this discussion. The Board reviewed the risk appetite and target risks in FY 2021/22 to ensure these reflect the RIIO-GD2 plan and pathway to decarbonisation. The Board also reviewed key investment opportunities. In FY 2022/23 key strategic risks are again on the Board Agenda at both the half and full year points and key investment opportunities will continue to be reviewed by the Board throughout the year. The Group risk management framework is being reviewed in 2022/23 and any key changes proposed to the framework will be considered and agreed by the Board.

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 12 to 76. Details of the key investment opportunities reviewed by the Board can be found on page 90.

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 FY 2021/22 and what we plan to do in FY 2022/23

In FY 2021/22, the Board (following a recommendation from PARCO) approved the annual salary review of all employees for cost of living and agreed to proposed changes to both the short-term and long-term incentive plan framework for the Financial Year ensuring these measured both the financial and non-financial performance. The Board also approved a thank you payment to all employees (excluding the Executive) for their commitment and hard work during Covid-19.

In FY 2022/23 with the support of PARCO the Board is committed to ensure the talent and succession 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. A Talent Review is planned and will be combined with diversity and inclusion data. This will then be used to feed into the review of the remuneration for key talent.

Where you can find further information

Details of activities undertaken by PARCO can be found on page 84.

The gender pay gap report can be found on page 72.

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 priorities.

What we did in FY 2021/22 and what we plan to do in FY 2022/23

Our priority during this year has been our continuing focus on our core purpose, to keep everyone safe and warm, with the carbon impact of the gas network and creating a sustainable future for the business also becoming increasingly important priorities. Regular two-way engagement with our stakeholders has been central to this, and their feedback continues to shape our decision-making.

Our Stakeholder, Environment and Customer Committee (SECC) continued to meet during the year, taking account of stakeholder feedback and insight as they continued in their commitments to decarbonise the gas network and further develop our ESG strategy and reporting framework.

We will continue to build our engagement by agreeing a formal, but dynamic, Board stakeholder engagement plan to ensure we continue to foster relationships and put stakeholders at the heart of how we deliver our business.

Where you can find further information

Further details on Engaging with Stakeholders section and Section 172 (1) statement can be found on pages 42 to 50.

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

Our Board is led by our Chair, Nick Salmon, who was appointed on 1 March 2021 and is responsible for the effective running and management of the Board.

The roles of Chair and Chief Executive Officer are separate, with clear divisions of responsibilities.

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

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

Each of the Non-Executive Directors are chosen for their diversity of skills and experience.

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 85 followed by their biographies on pages 86 to 89.

Board Committees

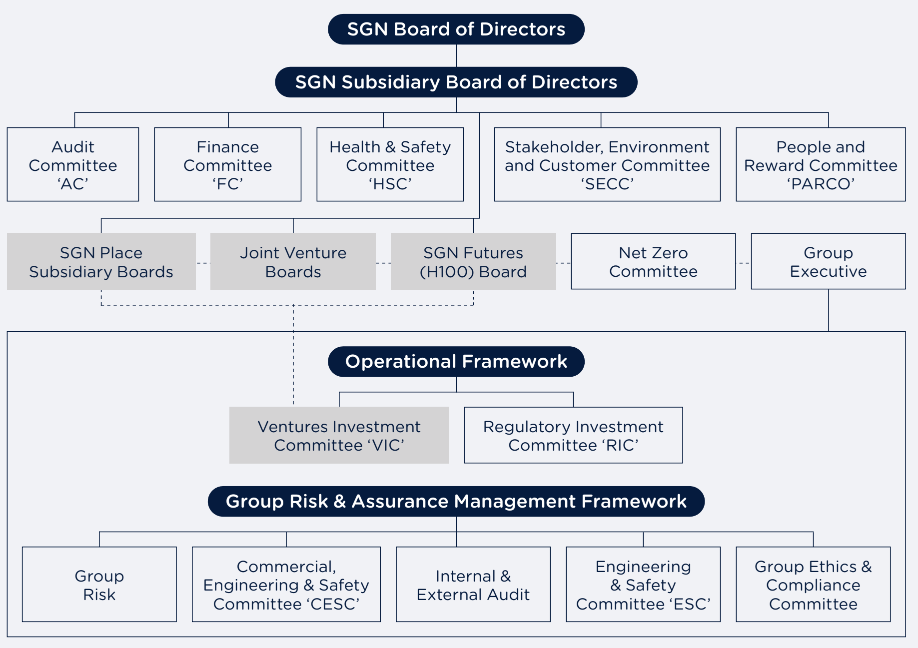
During the year the Board was directly assisted in the discharge of its duties by five Board Committees and dedicated RIIO-GD2 Board meetings, whose remit, authority and composition are monitored to ensure continued and appropriate Board support.

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 on pages 91 to 95.

Board Committees hierarchy



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 89.

Board and Executive reporting cycle

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 89.

Conflicts of interest

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

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

Shareholders

SGN has three 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 six scheduled meetings of the Board and an additional three Board calls in 2021/22 in line with the agreed plan of business for the year, and details of Director attendance can be found on page 84.

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 9 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, however the Board was able to undertake an employee engagement session with a number of employees towards the end of the year. The Board plans to resume stakeholder engagement sessions going forward. Full details of distanced Board engagement with stakeholders can be found on pages 82 to 84.

SGN governance structure (cont)

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 (see page 90). 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 as the outcome of the CMA appeal was awaited.

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 2021/22 are set out on the following pages.

Meeting attendance, April 2021 to March 2022

	Board meetings	Audit Committee meetings	People and Reward Committee (PARCO) meetings	Health & Safety Committee meetings	Stakeholder, Environmental & Customer Committee (SECC) meetings	Finance Committee meetings
Directors						
Gregor Alexander[1]	7	2	4	N/A	N/A	4
Charlotte Brunning	9	N/A	5	N/A	3	4
Michael Botha[2]	1	1	N/A	N/A	N/A	N/A
Martin Catchpole[3]	1	1	N/A	N/A	N/A	N/A
Adam Friedrichsen[4]	6	1	N/A	N/A	1	3
Paul Jeffery	8	3	N/A	N/A	N/A	4
Guy Lambert[5]	5	2	4	1	0	1
Rebecca Lumlock[6]	1	N/A	1	1	N/A	N/A
Robert McDonald[7]	8	N/A	N/A	3	2	N/A
Michael McNicholas[8]	8	N/A	4	3	2	N/A
Felipe Ortiz[9]	1	N/A	N/A	N/A	N/A	N/A
Nicholas Salmon	9	3	5	4	N/A	N/A
Laura Sandys	8	N/A	N/A	4	3	N/A
Paul Trimmer[10]	1	N/A	N/A	1	N/A	N/A
Delphine Voeltzel[11]	1	1	N/A	N/A	N/A	1
Alternate Directors						
Charles Thomazi[12]	0	0	0	0	0	0
Henrik Onarheim[13]	2	1	0	0	3	2

1. Gregor Alexander resigned from the Board and stepped down from the Audit Committee, Finance Committee, and PARCO on 22 March 2022
2. Michael Botha was appointed to the Board, Audit Committee and Finance Committee on 22 March 2022
3. Martin Catchpole was appointed to the Board, Audit Committee and Finance Committee on 23 March 2022
4. Adam Friedrichsen resigned from the Board and stepped down from the Audit Committee, Finance Committee and SECC on 23 March 2022
5. Guy Lambert resigned from the Board and stepped down from the Audit Committee, Finance Committee, Health & Safety Committee and PARCO on 22 March 2022
6. Rebecca Lumlock was appointed to the Board, Health & Safety Committee, People and Reward Committee and Stakeholder, Environment & Customer Committee on 22 March 2022
7. Robert McDonald resigned from the Board and stepped down from the Health & Safety Committee and SECC on 22 March 2022
8. Michael McNicholas resigned from the Board and stepped down from the Health & Safety Committee, PARCO and SECC on 23 March 2022
9. Felipe Ortiz was appointed to the Board on 22 March 2022
10. Paul Trimmer was appointed to the Board, Health & Safety Committee, People and Reward Committee and Stakeholder, Environment & Customer Committee on 23 March 2022
11. Delphine Voeltzel resigned from the Board and stepped down from the Audit Committee and Finance Committee on 1 July 2021
12. Charles Thomazi is an alternate Director to Charlotte Brunning
13. Henrik Onarheim is an alternate Director to Guy Lambert and resigned from the Board on 22 March 2022

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.

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Board of Directors

as at 31 March 2021

Chair

Nick Salmon

Board and Committee membership: Board; Audit Committee; Health & Safety Committee

Date of appointment: 14 March 2019

Biography: Nick joined the Board in March 2019 and was appointed the Chair of SGN in March 2021. He is also the Chair of Pressure Technologies plc. Previously he was Chair to South East Water Ltd, 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.

Key external appointments and changes during the period: Chair of Pressure Technologies Ltd

Shareholder Non-Executive Directors

Charlotte Brunning

Board and Committee membership: Board; People & Reward Committee; Finance Committee; Stakeholder, Environment & Customer Committee

Date of appointment: 2 May 2018

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, ADNOC, SGI and SGN Smart. Charlotte holds a BSc from the London School of Economics and an MBA from the London Business School.

Key external appointments and changes during the period: Director Apple Newco Limited; Director of Galaxy Pipeline Assets Topco Limited; Director of SGI

Christian Fingerle

Board and Committee membership: Board

Date of appointment: 27 May 2022

Biography: Christian joined the Board in May 2022 and is a Senior Managing Director with the StepStone Group. Previously, he was a Member of the Management Board and Chief Investment Officer for Infrastructure at Allianz Capital Partners, responsible for a significant direct and indirect infrastructure investment programme and where he also held various board roles in portfolio companies. Prior to this, Christian worked in various roles within the Allianz Group and Technische Universität München.

Key external appointments and changes during the period:

Martin Catchpole

Board and Committee membership: Board; Audit Committee; Finance Committee

Date of appointment: 23 March 2022

Biography: Martin joined the Board in March 2022 and is a Principal at Global Infrastructure Partners (GIP) focusing on its energy and utility infrastructure investments across EMEA. Previously, he spent 16 years at Credit Suisse where he most recently was Co-Head of the Energy Group and Investment Banking. Martin is also a Chartered Accountant, qualifying with EY prior to his career in investment banking.

Key external appointments and changes during the period: Director of Galaxy Pipeline Assets HoldCo Limited

Paul Trimmer

Board and Committee membership: Board; People & Reward Committee; Health and Safety Committee; Stakeholder, Environment & Customer Committee

Date of appointment: 23 March 2022

Biography: Paul joined the Board in March 2022 and is a Senior Advisor to Global Infrastructure Partners (GIP) focusing on its energy sector. He has been a Board Director of FluxSwiss, CLH-PS and Interconnector UK and is an Advisory Board Member for Carbon Connect (an entity supporting the UK's transition to Net Zero). Previously, Paul spent 32 years at Shell, including as an Executive Director of Comgas and Transredes.

Key external appointments and changes during the period: Member of the Advisory Board of Carbon Connect; Partner in Atosú

Rebecca Lumlock

Board and Committee membership: Board; People & Reward Committee; Health & Safety Committee; Stakeholder, Environment & Customer Committee

Date of appointment: 22 March 2022

Biography: Becky joined the Board in March 2022 and is an Operating Partner in Brookfield. Prior to this she was the Group Transformation Director for Network Rail and before that, the Managing Director for the Wessex Route, including London Waterloo. She was also their Group executive sponsor for gender. Becky has worked in the oil and gas industry for over 20 years across four continents, most recently as Managing Director of Dragon LNG, importing liquefied natural gas from around the world to help satisfy the UK's gas demand.

Key external appointments and changes during the period: Director of UK Gas Distribution 2 Limited; Director of Galaxy Pipeline Assets Holdco Limited; Director of PD Ports Limited

Felipe Ortiz

Board and Committee membership: Board

Date of appointment: 22 March 2022

Biography: Felipe joined the Board in March 2022 and is a Managing Director in Brookfield's Infrastructure Group. Since joining Brookfield in 2009, he has led multiple infrastructure investments in utilities globally. Previously Felipe worked in a New York investment bank, providing advisory to infrastructure investors. Felipe holds an MSc from the Stanford Graduate School of Business and a BEng from Universidad de los Andes.

Key external appointments and changes during the period: Director of UK Gas Distribution 2 Limited; Director of Galaxy Pipeline Assets Holdco Limited; Director of Brookfield Infrastructure Limited UK

Michael Botha

Board and Committee membership: Board; Audit Committee; Finance Committee

Date of appointment: 22 March 2022

Biography: Michael joined the Board in March 2022 and is a Managing Director in Brookfield's Infrastructure Group overseeing operations, risk management and asset management activities. He has held senior positions across the organisation, including the Chief Risk Officer in Brookfield's Infrastructure Group, COO and CFO of Brookfield's private infrastructure funds business. Prior to joining Brookfield, Michael worked in the audit practice of a Big Four accounting firm.

Key external appointments and changes during the period:

Board of Directors (cont)

as at 31 March 2021

Statutory Independent Non-Executive Directors

	Paul Jeffery	Laura Sandys
Board and Committee membership	Board; Audit Committee; Finance Committee	Board; People & Reward Committee; Health & Safety Committee; Stakeholder, Environment & Customer Committee
Date of appointment	28 January 2014	1 October 2018
Biography	Paul joined the Board in January 2014. Previously he ran the European Power, Utility and Infrastructure Investment Banking Sector team for Barclays. Paul is also a non-executive Director for UK Power Networks.	Laura joined the Board in October 2018. She was a member of the Energy and Climate Change Select Committee and co-founder of POWERful Women which promotes the role of women in the energy sector. She has been appointed a member of the Government's CCUS Council and is a Member of Imperial College's Centre for Carbon Capture and Storage Advisory Group.
Key external appointments and changes during the period	Non-executive director of London Power Networks Ltd; Non-executive Director of South-Eastern Power Networks Ltd; Non-executive Director of Eastern Power Networks Ltd; Non-executive Director of UK Power Networks (IDNO) Ltd (all forming part of the UK Power Networks group)	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 Highview Power

Alternate Directors

	Charles Thomazi	Michael Smart	Jeff Rosenthal
Date of appointment	26 October 2017	27 May 2022	14 June 2022
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.	Michael is a member of the infrastructure and real assets team at StepStone. Prior to joining StepStone, Michael was a Director in KPMG's Infrastructure Advisory Group, where he led the Energy Transition Strategy team. Michael was previously at National Grid in a variety of roles across operations, strategy, investor relations and M&A.	Jeff Rosenthal is a Managing Director and Operating Partner in Brookfield's Infrastructure Group. He also provides risk management, capital expenditure and ESG oversight as the Group's Chief Risk Officer.
Key external appointments and changes during the period	Director of Ontario Teachers' Pension Plan (OTPP); Director of Apple NewCo Limited; Director of Galaxy Pipelines Asset TopCo Limited; Sauna HoldCo Limited and related entities; Western TopCo Limited		

Senior Management Team

	John Morea Chief Executive Officer	Mick Carmedy Chief Financial Officer	Nicola Graham-Shand Director of Legal Services (Group Company Secretary)
Date of appointment	1 June 2008	22 January 2018	Company Secretary since July 2011
Biography	John joined the Company in June 2005 from SSE plc. He has over 43 years' experience in the energy industry. John is a companion of the Institute of Gas Engineers and Managers, a member of the Institute of Engineering and Technology and holds an MBA.	Mick joined the Company in January 2018. Mick was CFO of Southern Water, the regulated water business, for five years prior to joining. Mick has also worked at United Utilities and Thames Water in variety of financial, commercial and regulatory roles.	Nicola joined the Board as Company Secretary in July 2011. At the time of publication Nicola is on maternity leave and Sharmila Sylvester is the Interim Group Counsel and Group Company Secretary.
Key external appointments and changes during the period	Non-Executive Director of Thames Water Utilities Limited; Director of Energy Networks Association Limited; EU Skills Council Member	Director of Murphy Asset Services Limited	Non-Executive Director, FYLD Limited

	Sharmila Sylvester Deputy Company Secretary and Interim Group Company Secretary
Date of appointment	1 December 2021
Biography	Sharmila joined the Company in 2016 and the Board as Deputy Company Secretary and interim Group Company Secretary in December 2021. Prior to joining the Company, Sharmila was at Bombardier Transportation and held various positions including Company Secretary for the UK entities.
Key external appointments and changes during the period	

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 2021/22

The SGN Board held six scheduled meetings and three further Board calls during the year ended 31 March 2022. 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	
Strategy	• Development and decision to appeal the 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. • Stakeholders: review of engagement with energy policy holders on various topics. • People and Culture: consideration and approval of the Group's refreshed purpose, vision and values, including a review of the summarised research (Executive team workshops, employee focus groups, one to ones and online surveys). • Cyber Security and IT resilience: reviewed IT resilience across the business and approved the cyber security policy, assessment framework and investment programme. • Commercial strategy: reviewed the commercial strategy covering the strategic framework, non-regulated activities, delivery of strategy and future developments. • ESG reporting framework: review and approval of adopting the World Economic Forum's Stakeholder Capitalism Metrics as the Company's ESG reporting framework (further details on pages 58 to 76). • Decarbonisation of heat strategy: reviewed the Group's strategy and progress with decarbonisation of heat. Approved various energy futures and net-zero projects connected with the development of the strategy. • Supplier of last resort and tariffs: consideration and approval of the supplier of last resort strategy and tariffs. • Customer: review and support of the RIIO-GD2 customer strategy to ensure ability to meet RIIO-GD2 business plan requirements and maintain positive customer experience. • Property: reviewed the progress with the property strategy and development of the new head office (plans for the site to be classified as a green office with BREEAM accreditation). • Non-regulated growth: consideration and approval of the unregulated strategy and new investments in property (SGN Place), technology (FYLD Limited), MUA, energy transition (heat networks and biomethane) and opportunities which complement the core. • Share sale: review of the transaction progress against the project timeline, process and approval of the sale transaction.
Performance	• Financial: review of long-term financial outlook and performance including consideration of dividend proposals, sufficient resources and approval of annual budget. • Regulatory: continued Board focus and review of regulatory performance and initiatives and close out of RIIO-GD1. • Safety performance: continued Board focus and review of safety performance and initiatives, including Board site visits. • Stakeholder: continued Board focus and review of stakeholder performance and initiatives, including employee engagement session. • Operations and network: deeper review of Southern and Scotland operations and network performance and initiatives. • Large project and investment: review of progress against significant projects and investments, including, Mogden (Thames Water), FYLD, LTS Futures, H100 Fife, Gas to the West, 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 51 to 57) 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. • Annual Report & Accounts: approval of annual report and accounts prior to submission to the annual general meeting. • Governance: review of Board committee membership, effectiveness, reporting, priorities and planning and compliance with the corporate governance requirements.

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**, **Michael Botha** and **Martin Catchpole**

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

Chief Financial Officer
Head of Internal Audit, Risk and 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 carrying value of goodwill and the assessment of impairment indicators.

External audit
- Reviewed and considered the re-appointment of 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 Special Condition A33 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.
- Received regular reports on Ofgem filings made.

Looking forward
The Committee's priorities for FY 2022/23 are continuing to develop and improve our internal controls and assurance processes, with input from our internal and external auditors and with consideration to the BEIS proposals for UK audit reform (if and when these are progressed by the Government). An annual internal audit to assess the new RIIO-GD2 reporting requirements is also planned for 2022/23.

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**, **Martin Catchpole** and **Michael Botha**

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 five meetings during the financial year of which two were additional. 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 Inflation and Interest Rate risk management plans for the Group and confirmed support for execution of CPI-linked swaps and liability management of existing interest rate swaps to manage these risks.
- Reviewed Funding plans for the Group and confirmed support for execution of a new £100m CPI-linked loan facility.
- Received regular updates on the proposed changes to the Company’s defined pension scheme, including feedback received from Ofgem.

Governance
- Reviewed plan for transitioning LIBOR based instruments to SONIA and recommended the same for approval by the Board.
- Considered a 12-month extension to the DSR Facility and recommended the same for approval by the Board.
- Reviewed the Company’s Financial Risk Management strategy and recommended the same for approval by the Board.
- Reviewed the Funding Strategy and distribution proposals and recommended the same for approval by the Board.
- Reviewed defined benefit scheme valuation and engagement and recommended the same for the approval by the Board.

Looking forward
The Committee’s priorities for FY 2022/23 are to monitor the implementation of funding and financial risk management strategies approved in FY 2021/22 to ensure the Group has appropriate management of financial risk and that credit ratings are maintained within target levels. The Committee will also be focused on the refinancing of the upcoming funding maturities within the Group to ensure that these are managed to maintain an appropriate funding profile and liquidity position.

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.”

Charlotte Brunning
People and Reward Committee Chair

Appointment: March 2022

Membership
The current members of the People and Reward Committee are **Charlotte Brunning** (Committee Chair), **Rebecca Lumlock**, **Paul Trimmer** and **Laura Sandys**

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 role of the Committee 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 to create an inclusive and high performance culture.

What the Committee has done this year
The Committee held five 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 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.

Performance
- Approved the performance assessments for STIP and LTIP for the prior Financial Year.
- Considered impacts and adjustments to the LTIP for the year given the ongoing impact of Covid-19.
- Reviewed and approved personal objectives for the Chief Executive Officer and Chief Financial Officer and assessed prior year performance.
- Reviewed the succession plan for Executive Directors and other critical roles.

Governance
- Reviewed the Diversity & Inclusion Strategy.
- Received an update regarding the pay deal to be discussed with the Trade Unions.
- Reviewed the Committee’s effectiveness and terms of reference.
- Monitored the recruitment process and appointment of the new Director of Operations (South).

Looking forward
The People & Reward Committee was renamed the Remuneration Committee as of 25 May 2022. The Committee’s priorities for FY 2022/23 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 has undertaken a review of its roles and responsibilities to reflect the structural changes at Board Committee level and will be implementing any changes accordingly for FY 2022/23. 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

"It was a challenging start to the year coupled with Covid-19, and we saw an increasing trend in the number of injuries. However, a number of focussed initiatives across the business delivered significant improvements."

Nick Salmon
Health and Safety Committee Chair

Appointment: March 2022

Membership
The current members of the Health and Safety Committee are **Nick Salmon** (Committee Chair), **Laura Sandys**, **Rebecca Lumlock** and **Paul Trimmer**

Attendees
The following members of Management attend the Health and Safety Committee:

Chief Executive Officer
Network & Safety Director
Group Head of Safety & Environment

The role of the Committee and principal responsibilities
The Health and Safety Committee (HSC) is a sub-committee of the Board, and acts as a scrutineer to ensure the processes for managing health and safety risks are robust. This is delivered through four principles for effective leadership in health and safety; Plan, Do, Check and Act.

- Plan – set the direction through approving effective health and safety policies; and set health and safety targets across a range of metrics covering members of public, staff and operational activities.
- Do – monitoring the execution of those policy statements; reviewing and challenging performance against targets; and reviewing compliance and assurance plans, monitoring progress against key safety programmes.
- Check – comprehensive health and safety report for the Committee; safety performance review and key updates in the CEO report; and significant incident notifications from the CEO.
- Act – annual review of health and safety at the Committee; Board members and Executive team site safety visits; and update on external audit reports to provide the Committee with assurance.

What the Committee has done this year
The Health and Safety 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 continued impact of Covid-19 on safety performance.
- Reviewed the project to update and transform the safety management framework.

Performance
- Reviewed and approved the Health and Safety targets across a range of metrics.
- Monitored and challenged performance and progress against the Health and Safety targets and scrutinised delivery plans.
- Reviewed compliance and assurance plans, including external assurance activity.
- Reviewed the Group's winter readiness and road traffic improvement plan.
- Received an update on the three-yearly review of the safety case.
- Received and reviewed the safety assurance for the H100 project and provided feedback.

Governance
- Reviewed and approved the Safety, Health and Environment Policy statement for FY 2021/22.
- Reviewed and agreed changes to the Committee terms of reference.

Looking forward
The Committee has undertaken a review of its roles and responsibilities to reflect the structural changes at Board Committee level and will be implementing changes accordingly for FY 2022/23. The Committee's priorities for FY 2022/23 are continuing to drive health and safety improvements ensuring that the Group achieves its commitment to getting everyone home safe and well. FY 2022/23 will continue to see increased focus on safety culture and a drive in reporting and performance improvements for mental health and wellbeing. A commitment across the Group for visible leadership through site engagements post the Covid-19 pandemic will also be implemented.

Stakeholder, Environment and Customer Committee

"Our stakeholders including our customers and the environment are key to how and what we do as a business and always inform all our decision making."

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), **Rebecca Lumlock**, **Paul Trimmer** and **Charlotte Brunning**

Attendees
The following members of Management attend the Stakeholder, Environment and Customer Committee:

Chief Executive Officer
Director of Stakeholder Relations and Communications

The role of the Committee and principal responsibilities
The Stakeholder, Environment and Customer Committee is a sub-committee of the Board. The 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, 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 and recommended to the Board the approval of the Company's revised Purpose, Vision and Values.
- Reviewed and recommended to the Board the approval of the Company's adoption of the World Economic Forum's Stakeholder Capitalism Metrics ESG Framework (WEF).
- Received an overview of the political environment and the Company's planned activities for the calendar year and provided feedback.
- Received the customer engagement strategy for the H100 Fife project and provided feedback.

Performance
- Reviewed performance of the Company's stakeholder, environment and customer engagement activities and provided feedback.
- Reviewed the progress against the Company's Vulnerable Customer Ambition.
- Reviewed performance against the ESG reporting programme.
- Received an overview on the role of the Stakeholder Advisory Panel and an update of matters discussed at the Vulnerability Stakeholder Group.
- Reviewed performance against the RIIO-GD2 reporting requirements and close out of RIIO-GD1.
- Received oversight and assurance on the strategic risks falling within the Committee's remit.
- Discussed the Board and Employee Engagement session conducted.

Governance
- Reviewed the Committee's effectiveness and terms of reference.

Looking forward
The Stakeholder, Environment and Customer Committee was renamed the Stakeholder and ESG Committee as of 25 May 2022. The Committee has undertaken a review of its roles and responsibilities to reflect the structural changes at Board Committee level and will be implementing changes accordingly for FY 2022/23. The Committee's priorities for the next financial year will include a review of ESG risks which fall within the Committee's remit, select and recommend to the Board a cohesive set of ESG related reporting metrics.

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.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 86 to 89 confirm that, to the best of their knowledge:

- the Group and Company Financial Statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Company; and
- the Directors' report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.
- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

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

Nick Salmon
Chair
25 July 2022

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2022.

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 12 to 76.

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 2022 and up to the date of signing can be found on pages 86 to 89.

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 51 to 57.

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.

Stakeholder engagement

Details of how the Directors have engaged with stakeholders can be found in the section 172 (1) statement on pages 46 to 50.

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 and ESG reporting. Further detail is set out in the Strategic Report on pages 58 to 76.

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 6 to 11 and page 20.

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 105. The Group paid final dividends of £84.0m (March 2022).

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. Further detail on financial risk management is set out in the Strategic Report on pages 38 to 40.

Interest rate risk and inflation 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 inflation-linked. The Group uses interest rate swaps and inflation-linked 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 and inflation 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.

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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 12 to 76. 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 of the financial statements, to finance the current and future operations.

The Covid-19 pandemic, the rise in gas prices, and the conflict in Ukraine have 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 would 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 12 months following the approval of the Annual Report & Accounts (i.e. until 31 July 2023). 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.

S.V. Sylv.

Sharmila Sylvester
Deputy Company Secretary and
Interim Group Company Secretary
25 July 2022

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 2022 and of the Group's loss 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 2022 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2022	Balance sheet as at 31 March 2022
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 31 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 31 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 and parent company 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 2023, 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;
- Challenging key assumptions within the forecasts with the assistance of our specialist teams and with reference to the GD2 regulatory regime;
- Challenging management's forecasts with reference to the audited results for the year ended 31 March 2022;
- Evaluated how these forecasts have been revised to reflect any impact of COVID-19, climate change and the war in Ukraine;
- 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;
- 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
- Reviewing the going concern disclosures in the annual report to ensure that they are in accordance with the reporting standards.

Report of the Independent Auditor (cont)

to the members of Scotia Gas Networks Limited

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 a period of 12 months (to 31 July 2023) from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. 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 5 components. In addition, we performed specified audit procedures on specific balances for a further 11 components. • The components where we performed full, specific or specified audit procedures accounted for 100% of normalised and adjusted profit before tax, 100% of Revenue and 100% of Total assets.
Key audit matters	• Valuation of the defined benefit obligation.
Materiality	• Overall Group materiality of £8.8m which represents 5% of the Group's normalised and adjusted profit before tax. The profit before tax is normalised and adjusted to exclude the accounting impacts of: – Incremental shrinkage costs due to exceptionally high wholesale gas prices; and – New inflation swap derivatives entered into during the year.

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 29 reporting components of the Group, we selected 20 components which represent the principal business units within the Group. For these 20 components, all audit procedures were undertaken by the Group audit team. The remaining 9 components were holding companies, dormant companies or property companies which no longer hold any properties.

Of the 20 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 5 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 11 components ('specified procedures components'), we performed audit procedures on specific accounts within those components in response to specific risk factors.

The reporting components where we performed audit procedures accounted for 100% (2021: 100% of Group's Profit before tax) of the Group's normalised and adjusted Profit before tax, 100% (2021: 100%) of the Group's Revenue and 100% (2021: 100%) of the Group's Total assets.

For the current year, the full scope components contributed 100% (2021: 99%) of the Group's normalised and adjusted Profit before tax, 97% (2021: 98%) of the Group's Revenue and 98% (2021: 97%) of the Group's Total assets.

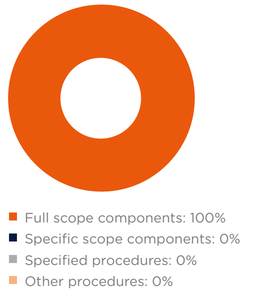
The specific scope component contributed 0% (2021: 0%) of the Group's normalised and adjusted Profit before tax, 2% (2021: 1%) of the Group's Revenue and 1% (2021: 2%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

For 11 components we performed specified procedures over the valuation of inventory, the valuation of investments, the measurement of revenue, the completeness of accruals and the completeness and valuation of provisions.

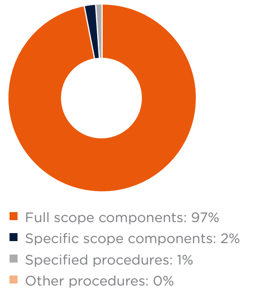
The remaining 9 components that together represent 0% of the Group's normalised and adjusted Profit before Tax. For these components, we performed other procedures, including analytical review, as well as testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

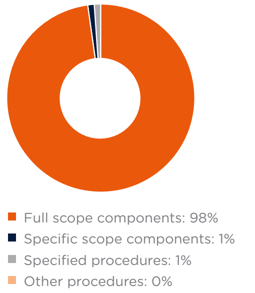
Normalised and adjusted profit before tax



Revenue



Total assets



Changes from the prior year

The number of selected components increased to 20 from 17 in the prior year due to new legal entities incorporated in the year.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Company. The Company has determined that the most significant future impacts from climate change on its operations will be from the impact of the shift towards a decarbonised energy system on the future of the gas network and managing changes as we move to a zero-carbon economy. These are explained on pages 53 to 57 in the principal risks section, which form part of the 'Other information'. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the key source of estimation uncertainty section of the financial statements on page 117, climate risks have been considered in the preparation of the financial statements where management consider it appropriate. The principal areas of consideration by management include the useful economic life of the networks and impairment of fixed assets.

Our audit effort in considering climate change was focused on evaluating management's assessment of the impact of climate risk and ensuring that the effects of material climate risks have been appropriately reflected by management in reaching their judgements in relation to the useful economic life of the networks and the impairment of fixed assets. We also challenged the Directors' considerations of climate change in their assessment of going concern and associated disclosures.

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.

Report of the Independent Auditor (cont)

to the members of Scotia Gas Networks Limited

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of the defined benefit obligation (£858.7m, PY comparative £937.3m) *Refer to the Audit Committee Report (page 10); Accounting policies (page 114); and Note 27 of the Consolidated Financial Statements (page 136)* The Group operates a defined benefit pension scheme. Significant estimates and judgements are made in valuing the Company'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 pension 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, to determine whether the assumptions were in an appropriate range. This included pension salary increases, the mortality rate, the discount rate, and the 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; • Made inquiries of management and read the minutes of the meetings with Trustees, to confirm the completeness of accounting for any pension scheme transactions that have occurred in FY 2022; and • Assessed the 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 2022 to be appropriate. All assumptions used in valuing the obligation were within an acceptable EY range. We consider the disclosures to be appropriate and in accordance with FRS 102.

In the prior year, our auditor's report included a key audit matter in relation to the valuation of goodwill. In the current year, there were no impairment indicators identified for the year ended 31 March 2022 and so no impairment assessment was required. The effect of this matter on the overall audit strategy, the allocation of resources in the audit and the direction of the engagement team was therefore reduced relative to the prior year, where an impairment assessment was required. Therefore the valuation of goodwill is not considered a key audit matter for the current year audit.

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 £8.8 million (2021: £13.2 million), which is 5% (2021: 4%) of normalised and adjusted profit before tax (2021: profit before tax) so to exclude the accounting impacts of incremental shrinkage costs due to exceptionally high wholesale gas prices and the new inflation swap derivatives entered into during the year . We believe that normalised and adjusted 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. The significant year on year reduction in our materiality is due to a reduction in Group profit, driven by the commencement of the new regulatory regime (RIIO-GD2) from 1 April 2021.

We determined materiality for the Parent Company to be £19.6 million (2021: £16.1 million), which is 0.9% (2021: 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 £1.3m was applied.

Starting basis	• **Profit before tax of £71.1m**
Adjustments	• **Add back shrinkage costs of £33.5m** • **Add back losses on derivatives of £74.2m**
Materiality	• **Normalised and adjusted profit before tax of £178.8m** • **Materiality of £8.8m (5% of materiality basis)**

During the course of our audit, we reassessed initial materiality and changed our materiality basis from FY 2022 forecast profit before tax to FY 2022 normalised and adjusted profit before tax. We changed our basis to exclude the impact of transactions which are caused by fluctuating market conditions and infrequent material transactions.

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 75% (2021: 50%) of our planning materiality, namely £6.6m (2021: £6.6m). We have set performance materiality at this percentage following a quantitative and qualitative assessment of prior year misstatements and our assessment of the Group's overall control environment. The performance materiality was set at 50% in the 2021 to take into account 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 £5.9m (2021: £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 £0.4m (2021: £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 98, 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.

Report of the Independent Auditor (cont)

to the members of Scotia Gas Networks Limited

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 96, 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.

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 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 testing journal entries that met our defined risk criteria based on our understanding of the business, testing a sample of batch journals which include a posting to revenue, 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.

Steven Dobson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

25 July 2022

Consolidated profit and loss account

for the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Turnover	3,4	**1,115.9**	1,227.4
Net operating costs[i]	4	**(751.6)**	(700.9)
Operating profit	4	**364.3**	526.5
Interest receivable and similar income	8	**8.8**	9.3
Interest payable and similar expenses	9	**(226.4)**	(198.7)
Fair value movements on derivatives	6	**(74.2)**	(2.2)
Share of (loss) of investments in JV entities		**(1.4)**	(1.0)
Profit before tax	5	**71.1**	333.9
Tax	10	**(258.3)**	(66.9)
(Loss)/profit for the year	24	**(187.2)**	267.1

(i) Included within operating costs are exceptional items to the sum of £30.8m (2021: £nil), see note 6 for more details.

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 2022

	Notes	2022 £m	2021 £m
(Loss)/profit for the financial year	24	**(187.2)**	267.1
Cash flow hedges:			
– Profit arising on cash flow hedges	24	**15.5**	11.5
Remeasurement on net pension asset	27	**57.1**	(68.9)
Deferred tax movement relating to components of other comprehensive income:			
– Cashflow hedges	24	**0.6**	(2.5)
– Pension asset		**(19.6)**	13.1
Other comprehensive income/(loss) for the year		**53.6**	(46.8)
Total comprehensive (loss)/income		**(133.6)**	220.3

The accompanying notes form part of these financial statements.

Balance sheets

as at 31 March 2022

		Group		Company	
	Notes	2022 £m	2021 £m	2022 £m	2021 £m
Fixed assets					
Intangible assets	13	**347.5**	362.0	**–**	–
Tangible assets	14	**7,022.5**	6,869.4	**–**	–
Investments	15	**10.5**	6.9	**2,030.7**	2,029.7
		7,380.5	7,238.3	**2,030.7**	2,029.7
Current assets					
Inventories	16	**49.6**	46.8	**–**	–
Debtors	17	**167.1**	171.4	**80.5**	92.4
Short term deposits		**95.5**	151.1	**–**	–
Cash at bank and in hand		**27.1**	137.5	**0.9**	0.7
		339.3	506.8	**81.4**	93.1
Creditors: amounts falling due within one year	18	**(602.8)**	(439.5)	**(10.4)**	(15.9)
Net current (liabilities)/assets		**(263.5)**	67.3	**71.0**	77.2
Total assets less current liabilities		**7,117.0**	7,305.6	**2,101.7**	2,106.9
Creditors: amounts falling due after more than one year	19	**(5,015.0)**	(5,189.4)	**(356.3)**	(356.3)
Provisions for liabilities	21	**(1,111.6)**	(870.7)	**–**	–
Deferred income	22	**(471.2)**	(444.9)	**–**	–
Net assets excluding pension asset		**519.2**	800.6	**1,745.4**	1,750.6
Defined benefit pension asset	27	**362.5**	298.7	**–**	–
Net assets including pension asset		**881.7**	1,099.3	**1,745.4**	1,750.6
Capital and reserves					
Called up share capital	23	**200.0**	200.0	**200.0**	200.0
Hedging reserve		**(40.9)**	(57.0)	**–**	–
Profit and loss account		**722.6**	956.3	**1,545.4**	1,550.6
Shareholders' funds	24	**881.7**	1,099.3	**1,745.4**	1,750.6

The accompanying notes form part of these financial statements.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. The Company's profit for the year amounted to £78.8m (2021: £118.0m).

The financial statements of Scotia Gas Networks Limited, registered number 04958135, were approved by the Board of Directors and authorised for issue on 25 July 2022.

Signed on behalf of the Board of Directors

Nick Salmon
Director

Consolidated statement of changes in equity

for the year ended 31 March 2022

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	**Total £m**
Group:					
At 1 April 2020		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	12	–	–	(115.0)	**(115.0)**
At 31 March 2021		200.0	(57.0)	956.3	**1,099.3**
(Loss) for the financial year		–	–	(187.2)	**(187.2)**
Cash flow hedges		–	15.5	–	**15.5**
Remeasurement of net defined benefit pension asset		–	–	57.1	**57.1**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	0.6	–	**0.6**
– Pension asset		–	–	(19.6)	**(19.6)**
Total comprehensive (loss)		–	16.1	(149.7)	**(133.6)**
Transactions with owners, recognised directly in equity					
Dividends paid	12	–	–	(84.0)	**(84.0)**
At 31 March 2022		200.0	(40.9)	722.6	**881.7**

The accompanying notes form part of these financial statements.

Company statement of changes in equity

for the year ended 31 March 2022

	Notes	Called up share capital £m	Profit and loss account £m	**Total £m**
Company:				
At 1 April 2020		200.0	1,547.6	**1,747.6**
Profit for the financial year	11	–	118.0	**118.0**
Total comprehensive income		–	118.0	**118.0**
Transactions with owners, recognised directly in equity				
Dividends paid	12	–	(115.0)	**(115.0)**
At 31 March 2021		200.0	1,550.6	**1,750.6**
Profit for the financial year	11	–	78.8	**78.8**
Total comprehensive income		–	78.8	**78.8**
Transactions with owners, recognised directly in equity				
Dividends paid	12	–	(84.0)	**(84.0)**
At 31 March 2022		200.0	1,545.4	**1,745.4**

The accompanying notes form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 March 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Operating profit	4	**364.3**	526.5
Depreciation and software amortisation	13, 14	**195.5**	185.5
Goodwill amortisation	13	**9.6**	9.5
Amortisation of deferred income	22	**(10.7)**	(10.3)
Loss on disposal of fixed assets		**4.7**	5.6
(Increase)/decrease in inventories	16	**(4.7)**	4.1
Decrease in debtors	17	**9.6**	114.0
(Decrease)/increase in creditors and employee benefits	18, 19	**(9.8)**	10.9
Decrease in provisions	21	**1.5**	(16.3)
Cash generated by operations		**560.0**	829.5
Interest paid		**(144.8)**	(154.4)
Tax paid		**(38.2)**	(68.9)
Net cash inflow from operating activities		**377.0**	606.2
Cash flows from investing activities			
Interest received		**0.3**	0.3
Purchase of fixed assets		**(342.0)**	(368.0)
Purchase of intangible fixed assets		**(7.8)**	(4.7)
Sale of tangible fixed assets		**0.7**	2.0
Customer contributions received		**37.0**	32.3
Fixed asset investment additions		**(5.0)**	(5.4)
Sale of subsidiary		**–**	0.2
Net cash outflow from investing activities		**(316.8)**	(343.3)
Cash flows from financing activities			
Shareholder loan interest paid		**(30.7)**	–
Issue of debt		**30.0**	250.0
Dividend paid	12	**(84.0)**	(115.0)
Repayment of debt		**(122.1)**	(219.8)
Payments of mirror swaps	30	**(27.8)**	(9.6)
Payments of interest rate swaps		**(4.4)**	(4.3)
Receipts from inflation-linked swaps		**12.8**	–
Net cash outflow from financing activities		**(226.2)**	(98.7)
Net (decrease)/increase in cash and cash equivalents		**(166.0)**	164.2
Cash and cash equivalents at beginning of the year		**288.6**	124.4
Cash and cash equivalents at the end of the year[(i)]		**122.6**	288.6

(i) Cash and cash equivalents of £122.6m includes £25.5m of cash which has specific restrictions over its use. See note 1 for further details.

The accompanying notes form part of these financial statements.

Notes to the financial statements
for the year ended 31 March 2022

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 2022. The comparative period presented is the year ended 31 March 2021.

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 2022 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, 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 12 months following the approval of the Annual Report & Accounts (i.e. until 31 July 2023). A significant proportion of the Group's revenue is fixed by the regulatory charging methodology improving the predictability of cash flows and mitigating risks. The base case scenario assumes that there will be no new debt issuance in the forecast period that has not been secured before the reporting date, but it includes £280m of debt due for repayment in October 2022. The base case scenario also considers the increase in wholesale gas prices and the large-scale shipper failures this could result in, together with the expected impact this has on the Group's cash flows in the forecast period.

The considerations made by the Directors include severe but plausible downside scenarios that the aftermath of 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 regulatory 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.

Notes to the financial statements (cont)

for the year ended 31 March 2022

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 12 months following the approval of the Annual Report & Accounts (i.e. until 31 July 2023) and consequently have prepared the financial statements on a going concern basis.

The UK Government's commitment to reduce greenhouse gas emissions to net zero by 2050 has a profound impact on the future of our gas network. As outlined in the Chief Executive's report, the Group is taking considerable steps to ensure that our network can be repurposed to transport greener gases, for example hydrogen, thereby extending the life of our network to 2050 and beyond.

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 three to ten years, which is their estimated useful economic life. The Group's intangible assets have a remaining useful economic life ranging between one to six 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 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.

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.

Other fixed asset investments are held at cost.

Investments in joint ventures

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

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 (inclusive of the associated provision for the expected future cost to demolish any gas holders and remediate land to a statutory level) and net realisable value.

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.

Goodwill impairment

The recoverable amount of goodwill is the higher of the value in use or the fair value less cost to dispose. This 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 cost generating units (CGUs) for the purpose of goodwill impairment: Southern Gas Networks plc and Scotland Gas Networks plc. Goodwill impairment is not reversed.

Other non-financial assets

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.

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 arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

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

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

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

Turnover

Turnover is stated net of value added tax and is attributable to the continuing activity of transportation of natural gas and the provision of related services. Turnover is recognised to the extent that there is a right to consideration and is recorded at the value of the consideration due.

Notes to the financial statements (cont)
for the year ended 31 March 2022

1. Principal accounting policies (continued)

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.

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. The corresponding asset is capitalised within fixed assets and is depreciated over its useful economic life. Customer contributions which have been received by the end of the financial year, for which the corresponding asset has not yet been delivered, are treated as creditors due within one year.

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. Change in estimates are recognised in profit or loss unless they are related to inventory, in which case such changes are recognised in inventory. No provision is required for the repair of gas pipes as these are replaced on an agreed basis with the regulator.

Financial instruments
FRS 102 sections 11 and 12 give an accounting policy choice for financial instruments. The Group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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

The Group's funding, liquidity and exposure to interest rate risks are managed within a framework of policies and guidelines authorised by the Board of Directors. In accordance with these policies financial derivative instruments are used to manage interest rate and currency exposure.

Where appropriate these instruments are recorded at fair value and accounted for as described below.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets designated as at 'fair value through profit or loss' (FVTPL).

Financial assets
Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL, which are initially measured at fair value.

Financial assets at the balance sheet date are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Impairment of financial assets
For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Trade debtors
Trade debtors are initially recognised at fair value. The carrying amount is reduced through the use of provision. Appropriate provision for estimated irrecoverable amounts are recognised where 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. The Group receives monies in the form of grants and contributions towards innovation projects. The use of this cash is restricted by the specific terms and conditions of each project.

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

Notes to the financial statements (cont)
for the year ended 31 March 2022

1. Principal accounting policies (continued)

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
The Group uses derivative financial instruments to reduce exposure to inflation and interest rate movements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Hedge accounting
Where the derivative is designated as a hedging instrument, 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.

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.

Exceptional items
Management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is considered to be one-off in nature. In determining the facts and circumstances, management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets and inventories, significant changes in provisions, gains or losses on disposals of businesses or investments, or other one-off material events.

Fair value movements on derivatives
Fair value movements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it is not effective.

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 impacting the goodwill on the CGUs.

c. Exceptional items – The categorisation of certain items as exceptional follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is considered to be one-off in nature. See note 6.

d. Supplier of last resort – Management have given consideration to the Supplier of Last Resort (SoLR) mechanism under the Group's regulatory transportation licences. The Group accounts for SoLR payments as levies, and as such will only be obliged to pay the costs when reciprocating incremental revenue will be generated from 1 April 2022. There is no material impact of the SOLR mechanism to the financial statements in the current or prior year.

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 27 and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Group takes advice from independent actuaries on the appropriateness of these assumptions.

c. Valuation of financial instruments – Where financial instruments are recognised at fair value there are uncertainties in forward yield curves used in discounted cash flow calculations.

d. Environmental and demolition provision – In assessing the degree of contamination at the various sites estimation is required where elements of the contamination are underground. Additional uncertainty exists for the costs to demolish the gas holders. In these cases, it is difficult to assess with any certainty the extent of the contamination and demolition required. The discount rate is also a source of estimation. See note 20.

e. Climate change – In assessing the impact of climate change on the Group, management have considered two key areas being useful economic life and impairment of fixed assets. Management believe the role of hydrogen in the UK's energy transition will support both the UEL of the networks and the recoverable amount of the respective CGUs. Therefore the Group assesses there is currently limited exposure to climate related risks.

Notes to the financial statements (cont)
for the year ended 31 March 2022

3. Turnover

The Board and Chief operating decision maker view the Group as one operating segment. Analysis of turnover by class of business:

	2022 £m	2021 £m
Transportation of natural gas and the provision of related services	**1,055.4**	1,187.6
Gas asset services	**17.8**	12.5
Gas to the West construction contract	**7.0**	11.8
Property sales	**30.2**	6.3
Managed service income	**5.0**	9.0
Other income	**0.5**	0.2
Total turnover	**1,115.9**	1,227.4

Gas to the West construction contract revenue is recognised with reference to stage of completion based on costs incurred as a proportion of total forecasted expenditure.

Other income relates to property rental income.

Turnover arises 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.

4. Operating profit and net operating costs

	2022 £m	2021 £m
Turnover	**1,115.9**	1,227.4
Cost of sales	**(48.9)**	(40.8)
Operational and administrative expenses	**(503.6)**	(470.5)
Depreciation	**(182.8)**	(172.9)
Amortisation	**(22.3)**	(22.1)
Loss on disposal of fixed assets	**(4.7)**	(5.6)
Other operating income	**10.7**	11.0
Total net operating costs	**(751.6)**	(700.9)
Operating profit	**364.3**	526.5

5. Profit before taxation

Group profit before taxation is stated after charging/(crediting):

	2022 £m	2021 £m
Auditor's remuneration	**0.6**	0.5
Amortisation of goodwill	**9.6**	9.5
Amortisation of intangible assets	**12.7**	12.6
Depreciation of tangible fixed assets	**182.8**	172.9
Amortisation of customer contributions	**(10.7)**	(10.3)
Loss on disposal of fixed assets	**4.7**	5.6
Rental under operating leases	**8.9**	5.0

Auditor's remuneration for the Group comprises:

- Audit of these financial statements £22,320 (2021: £18,000)
- Audit of financial statements of subsidiaries of the Company £463,280 (2021: £367,000)
- Audit-related assurance services £99,200 (2021: £80,000)
- Other assurance services £37,200 (2021: £30,000)

6. Exceptional items and fair value movements on derivatives

	2022 £m	2021 £m
Exceptional items included within operating costs:		
Cost impact of increase in gas wholesale prices [(i)]	**30.8**	–
Fair value movements on derivatives:		
Net losses on derivative financial instruments [(ii)]	**74.2**	2.2
Total included within profit before tax	**105.0**	2.2
Included within taxation:		
Tax on cost impact of increase in gas wholesale prices	**(5.9)**	–
Tax on fair value movements	**(16.4)**	(0.4)
Total included within taxation	**(22.3)**	(0.4)
Total exceptional items and fair value movements after tax	**82.7**	1.8
Analysis of total exceptional items and fair value movements after tax		
Total exceptional items after tax	**24.9**	–
Total fair value movements after tax	**57.8**	1.8

(i) As a result of the sharp increase in gas wholesale prices, the cost of shrinkage gas for the year ended 31 March 2022 was £33.5m, which exceeded the forecast value included in the tariff charges by £25.5m. Additionally, the high gas prices resulted in the insolvency of shipper CNG, resulting in a bad debt recognised in 2022 of £5.3m. Management consider the impact of the rise in wholesale gas prices to be material in value, one off in nature, and as such consider it appropriate to disclose as an exceptional item. These costs will be recovered in the next financial year under the regulatory mechanism and so the corresponding revenue will be disclosed as exceptional in the subsequent period. There was a cash outflow as a result of exceptional costs of £25.5m (2021: £nil).

(ii) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the Statement of Profit and Loss. These exclude gains and losses for which hedge accounting has been effective, which has been recognised directly in other comprehensive income. Included within net losses on derivative financial instruments is £35.6m (2021: £nil) of accretion on CPI-linked swaps. There was nil impact (2021: £nil) to the cash flow as a result of the fair value movements on financial derivatives.

7. Employee information and Directors' emoluments

The Group had 3,698 full time equivalent employees as of 31 March 2022 (2021: 3,835). The average monthly number of full time equivalent employees during the year was 3,710 (2021: 3,870).

	2022	2021
Field based staff	**1,958**	2,053
Office and other administrative staff	**1,741**	1,782
Total	**3,698**	3,835

The Independent Directors received aggregate remuneration of £198,648 (2021: £125,906) for their services to the Group during the year. There are seven 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, do not specifically receive any remuneration in respect of the Company, and the time spent working as a Board member on SGN was deemed immaterial.

Staff costs for the Group during the year are as follows:

	2022 £m	2021 £m
Staff costs		
Wages and salaries	**166.9**	175.3
Social security costs	**18.6**	19.2
Pension costs (see note 25)	**35.7**	31.7
Total	**221.2**	226.2

The Company had five employees as of 31 March 2022 (2021: 5).

8. Interest receivable and similar income

	2022 £m	2021 £m
Net defined benefit pension income (see note 25)	**6.0**	8.4
Other interest receivable	**2.8**	0.9
Total	**8.8**	9.3

Notes to the financial statements (cont)

for the year ended 31 March 2022

9. Interest payable and similar expenses

	2022 £m	2021 £m
Interest payable on fixed rate instruments	**107.4**	130.3
Interest payable on floating rate instruments	**2.9**	3.7
Interest payable on inflation-linked instruments	**73.3**	30.4
Shareholder loan	**30.7**	29.5
Other interest payable	**11.0**	4.0
Unwinding of discount	**1.1**	0.8
	226.4	198.7

During the year, the Group incurred borrowing costs of £nil which were included in the carrying amount of the issued bond (2021: £2.2m). Included within interest payable on inflation-linked instruments is £57.9m of accretion on RPI-linked debt instruments (2021: £10.2m).

In March 2022, the Group agreed to settle outstanding fees due in relation to certain guarantees provided by Ambac Assurance UK Limited that were previously in place over certain outstanding public bond instruments, but which were removed in November 2020. The cash settlement amount of £4.3m included within the interest paid line of the cash flow statement.

10. Tax charge on profit

a) Analysis of the tax charge on profit

	2022 £m	2021 £m
Current tax		
UK corporation tax on profits for the year	**34.4**	76.1
Adjustment in respect of previous years	**0.1**	(2.2)
Total current tax charge	**34.5**	73.9
Deferred tax		
Origination and reversal of timing differences	**(13.0)**	(8.3)
Adjustments in respect of previous years	**(5.4)**	1.2
Effect of change in tax rate	**242.2**	–
Total deferred tax charge/(credit)	**223.8**	(7.1)
Total tax charge on profit	**258.3**	66.8

b) Factors affecting the total tax charge for the year

	2022 £m	2021 £m
Profit before tax	**71.1**	333.9
Profit multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	**13.5**	63.4
Effects of:		
Expenses not deductible for tax purposes	**0.5**	2.1
Non deductible goodwill	**1.8**	1.8
Depreciation of non qualifying assets	**0.9**	0.6
Deferred tax not recognised	**5.6**	–
Adjustment in respect of prior years	**(5.3)**	(1.0)
Permanent benefit of capital allowances super deduction	**(0.9)**	–
Research & Development (tax credit) taxed in prior year	**–**	(0.1)
Effect of change in tax rate	**242.2**	–
Total tax charge on profit	**258.3**	66.8

The standard rate of tax applied to reported profit on ordinary activities is 19% (2021: 19%). Finance Bill 2021 increased the main rate of corporation tax from 19% to 25% from 1 April 2023. 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 2022 by £242.2m (2021: £nil). There is no expiry date on timing differences, unused tax losses or tax credits.

Movements in deferred tax take into account the effects of changes in the fair value liability of the Company's inflation-linked swap portfolio. Increases or reductions in the fair value liability of the Company's inflation linked swap portfolio represent an increase or reduction in the present value of the future cash flows that will be payable/receivable on those inflation-linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the interest payments/receipts are actually accrued. The increase in the fair value of the inflation-linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the cash flow is accrued and therefore creates a timing difference. The fair value of the inflation-linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

11. Profit of the Company for the financial year

The Company's profit for the year amounted to £78.8m (2021: £118.0m). The intercompany interest receivable during the year ended 31 March 2022 amounted to £0.8m (2021: £1.2m) 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.

12. Dividends

	2022 £m	2021 £m
Equity shares		
Interim dividends paid of 17.8704p (2021: 24.4655p)	**84.0**	115.0

The dividends paid in the current year of £84.0m were paid in March 2022.

13. Intangible fixed assets

	Goodwill £m	Software £m	Total £m
Group			
Cost			
At 1 April 2021	477.6	190.9	668.5
Additions	–	7.8	7.8
Disposals	–	–	–
At 31 March 2022	**477.6**	**198.7**	**676.3**
Amortisation			
At 1 April 2021	151.5	155.0	306.5
Charge for the year	9.6	12.7	22.3
Eliminated on disposal	–	–	–
At 31 March 2022	**161.1**	**167.7**	**328.8**
Net book value			
At 31 March 2022	**316.5**	**31.0**	**347.5**
At 31 March 2021	326.1	35.9	362.0

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 33 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:

	2022 £m	2021 £m
Southern Gas Networks plc	**216.5**	223.1
Scotland Gas Networks plc	**100.0**	103.0
	316.5	326.1

The carrying value of goodwill was reviewed at the reporting date and assessed for any indicators of impairment. Where indicators of impairment are identified, a full impairment test of goodwill is required. As at 31 March 2022, following management's assessment of internal and external impairment indicators, no such indicators were noted. As such no impairment charge has been recorded for the current year (2021: £nil).

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 2022

14. 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 2021	0.7	139.4	8,414.1	134.7	8,688.9
Additions	–	7.0	319.1	15.2	341.3
Disposals	–	–	(10.1)	(0.6)	(10.7)
At 31 March 2022	**0.7**	**146.4**	**8,723.1**	**149.3**	**9,019.5**
Depreciation					
At 1 April 2021	0.2	46.0	1,683.3	90.0	1,819.5
Charge for the year	0.1	5.4	165.6	11.7	182.8
Disposals	–	–	(4.7)	(0.6)	(5.3)
At 31 March 2022	**0.3**	**51.4**	**1,844.2**	**101.1**	**1,997.0**
Net book value					
At 31 March 2022	**0.4**	**95.0**	**6,878.9**	**48.2**	**7,022.5**
At 31 March 2021	0.5	93.4	6,730.8	44.7	6,869.4

There is no security held against the fixed assets.

The Company had no tangible fixed assets in either year.

15. Fixed asset investments

	Group		Company	
Cost	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Shares in Group undertakings				
At 1 April	**–**	–	**2,028.4**	2,028.4
At 31 March	**–**	–	**2,028.4**	2,028.4
Investments in joint ventures				
At 1 April	**5.5**	2.3	**–**	–
Additions(1)	**4.0**	4.2	**–**	–
Share of losses in joint venture	**(1.4)**	(1.0)	**–**	–
At 31 March	**8.1**	5.5	**–**	–
Other investments(2)				
At 1 April	**1.4**	0.2	**1.3**	–
Additions	**1.0**	1.2	**1.0**	1.3
At 31 March	**2.4**	1.4	**2.3**	1.3
Total investments	**10.5**	6.9	**2,030.7**	2,029.7

(1) Additions relates to additional funding requirements in Murphy Asset Services Limited.
(2) Other investments are investments in companies over which the Group is not considered to have significant influence.

Subsidiary undertakings, joint ventures and other investments

The undertakings in which the Company's interest at the year-end is 20% or more as follows:

Name	Description of shares held	% of shareholding	Country of registration	Principal activities
Subsidiaries – directly held				
SGN PledgeCo Limited	2,517,000,001 ordinary shares of £0.01	100%	England & Wales	Holding company
SGN Place Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Connections Limited	1 ordinary share of £1	100%	England & Wales	Supply of gas connection services
SGN Commercial Services Limited	1 ordinary share of £1	100%	England & Wales	Meter asset manager and supply of commercial services
SGN Smart Limited	1 ordinary share of £1	100%	England & Wales	Supply of managed services
SGN Lessona Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Futures Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Heat Networks Limited	1 ordinary share of £1	100%	England & Wales	Holding company
Subsidiaries – indirectly held				
Southern Gas Networks plc	160,174,771 ordinary shares of £1	100%	England & Wales	Development, administration, maintenance and operation of regional gas distribution system and supply of transportation services
Scotland Gas Networks plc	49,392,787 ordinary shares of £1	100%	Scotland	Development, administration, maintenance and operation of regional gas distribution system and supply of transportation services
SGN Contracting Limited	1 ordinary share of £1	100%	England & Wales	Supply of contracting services
SGN Natural Gas Limited	1 ordinary share of £1	100%	England & Wales	Development, administration, maintenance and operation of regional gas distribution system and supply of transportation services
SGN Midco Limited	2,815,000,001 ordinary shares of £1	100%	England & Wales	Holding company
SGN Property Holdings Limited	18,022,565 ordinary shares of £1	100%	England & Wales	Property development
SGN Property Services Limited	340,856 ordinary shares of £1	100%	England & Wales	Property development
SGN Belvedere Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Brighton Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Southampton Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Epsom Limited	373,414 ordinary shares of £1	100%	England & Wales	Property development
SGN Greenwich Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Motspur Park Limited	1,539,420 ordinary shares of £1	100%	England & Wales	Property development
SGN Old Kent Road Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Rotherhithe Limited	1 ordinary share of £1	100%	England & Wales	Property development
Tonbridge Riverside Regeneration Limited (previously SGN Kennington Limited)	1 ordinary share of £1	100%	England & Wales	Property development
SGN Rotherhithe Holdco Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Croyden Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Futures (H100) Limited	1 ordinary share of £1	100%	England & Wales	Property development
Joint ventures				
Murphy Asset Services Limited	250 ordinary shares of £1	50%	England & Wales	Operation of utility distributions systems
SGN Mitheridge Limited	1 ordinary share of £1	50%	England & Wales	Property development
Other fixed asset investments				
XoServe Limited	23,020 ordinary shares of £0.01	23.02%	England & Wales	Provision of transportation services on behalf of all the major gas network transportation companies
FYLD Limited	13,262,643 ordinary shares of £0.0001	10%	England & Wales	

Notes to the financial statements (cont)

for the year ended 31 March 2022

15. Fixed asset investments (continued)

The registered address of Scotland Gas networks plc is Axis House, 5 Loanhead Drive, Newbridge, Edinburgh, EH28 8TC. The registered address of all other subsidiaries above is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ.

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 31 March 2022 was £10.5m. Its loss for the year then ended was £2.5m.

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 31 March 2022 was £4.5m. Its loss for the year then ended was £2.6m.

Other fixed asset investments are held at cost.

The address of the registered office of XoServe Limited is Lansdowne Gate, 65 New Road, Solihull, B91 BDL. The XoServe Limited operating results for the year ended 31 March 2022 are not considered material to the Group's financial statements.

16. Inventories

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Work in progress	**49.1**	46.1	**–**	–
Finished goods	**0.5**	0.7	**–**	–
	49.6	46.8	**–**	–

Included within work in progress is £42.8m (2021: £36.7m) of land.

The amount of inventory recognised as an expense in the year amounted to £1.2m (2021: £0.2m).

17. Debtors

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Trade debtors	**119.8**	135.1	**–**	–
Prepayments and accrued income	**39.0**	31.7	**–**	–
Deferred tax asset	**–**	–	**6.0**	5.8
Amounts owed by Group undertakings	**–**	–	**74.5**	86.6
Other debtors	**2.3**	2.2	**–**	–
Corporation tax	**6.0**	2.4	**–**	–
	167.1	171.4	**80.5**	92.4

Included in trade debtors are amounts falling due after more than one year of £4.4m (2021: £12.3m).

Included in prepayments and other debtors is accrued income on the Gas to the West project of £16.8m (2021: £10.9m).

Amounts owed by Group undertakings for the Company include intercompany loans due from SGN Commercial Services Limited amounting to £57.2m (2021: £65.2m); due from SGN Place Limited amounting to £6.7m (2021: £6.7m); and due from SGN Lessona Limited amounting to £11.0m (2021: £6.9m). The loans bear interest at the Bank of England Base Rate plus 1% per annum and are repayable on demand. Also included in the balance are intercompany trade balances due to the SGN Group of £0.4m (2021: £7.8m).

18. Creditors: amounts falling due within one year

	Group		Company	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Inflation-linked debt: £165m 2.127% RPI-linked note due 2022[(1)]	**266.2**	–	**–**	–
Floating-rate debt: Bank facility	**30.0**	122.0	**–**	–
Trade creditors	**51.2**	35.0	**0.1**	5.7
Other taxation and social security	**25.2**	41.7	**–**	–
Other creditors	**17.9**	15.9	**–**	–
Accrued interest	**51.5**	54.8	**10.3**	10.2
Accruals	**108.6**	126.0	**–**	–
Deferred income	**52.2**	44.1	**–**	–
	602.8	439.5	**10.4**	15.9

(1) Listed on the London Stock Exchange.

The Group held three committed bank facilities at 31 March 2022:

- £235m revolving credit facility at Scotland Gas Networks plc maturing in March 2025, this facility was undrawn at 31 March 2022 (2021: undrawn);
- £125m revolving credit facility at Southern Gas Networks plc maturing in March 2025, £30m was drawn at 31 March 2022 (2021: undrawn);
- £25m debt service reserve facility at SGN MidCo Ltd maturing in January 2023, this facility was undrawn at 31 March 2022 (2021: undrawn).

In addition to the above, in March 2022, Scotland Gas Networks plc signed a £100m CPI-linked term loan facility to part refinance the Group's £165m RPI-linked bond maturing in October 2022. The loan facility is split into two tranches, with a £50m 7-year tranche, maturing in September 2029, carrying a CPI-linked interest rate of -0.8818%; and a £50m 10-year tranche, maturing in September 2032, carrying a CPI-linked interest rate of -0.4465%. On both tranches, principle and accretion is payable at the respective maturity dates and both have a 6 month delayed draw feature, meaning they were undrawn as at 31 March 2022.

Notes to the financial statements (cont)

for the year ended 31 March 2022

19. Creditors: amounts falling due after more than one year

	Group		Company	
Borrowings	2022 £m	2021 £m	2022 £m	2021 £m
Fixed rate debt				
£300m 4.875% fixed rate note due 2023[1]	299.6	299.3	–	–
£350m 2.5% fixed rate note due 2025[1]	348.9	348.3	–	–
£35m 2.407% fixed rate loan due 2025	35.0	35.0	–	–
£250m 3.25% fixed rate note due 2027[1]	248.7	248.2	–	–
£375m 4.875% fixed rate note due 2029[1]	374.4	374.1	–	–
£100m 2.9% fixed rate note due 2030	99.0	98.9	–	–
£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]	248.1	247.8	–	–
£75m 1.98% fixed rate note due 2032	74.8	74.7	–	–
£50m 2.04% fixed rate note due 2033	49.8	49.8	–	–
£185m 3.02% fixed rate note due 2033	183.0	182.8	–	–
£75m 2.87% fixed rate note due 2033	74.8	74.8	–	–
£75m 2.87% fixed rate note due 2033	74.8	74.8	–	–
£100m 2.27% fixed rate note due 2034	99.6	99.6	–	–
£225m 4.875% fixed rate note due 2034[1]	224.7	224.6	–	–
£400m 3.1% fixed rate note due 2036[1]	397.9	397.5	–	–
£15m 3.11% fixed rate note due 2038	14.8	14.8	–	–
£225m 6.375% fixed rate note due 2040[1]	224.2	224.0	–	–
	3,221.7	3,218.6	–	–
Inflation-linked debt				
£165m 2.127% RPI-linked note due 2022[1]	–	255.1	–	–
£150m 2.066% RPI-linked note due 2025[1]	242.1	231.8	–	–
£83.3m 2.013% RPI-linked note due 2025[1]	134.4	128.7	–	–
£15m 2.580% RPI-linked loan due 2028	21.9	20.9	–	–
£37.5m 0.11% RPI-linked note due 2033	43.1	39.8	–	–
£83.3m 2.013% RPI-linked note due 2035[1]	134.4	128.7	–	–
£87.5m 0.28% RPI-linked note due 2038	100.5	92.9	–	–
£125m 2.317% RPI-linked note due 2039[1]	185.0	171.8	–	–
	861.4	1,069.7	–	–
Floating rate debt				
£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	4,527.8	4,733.0	–	–
Shareholders' loans[2] (see note 28)	356.3	356.3	356.3	356.3
Derivative financial liabilities – Mirror swaps (see note 20)	–	28.7	–	–
Derivative financial liabilities – inflation swaps (see note 20)	74.2	–	–	–
Derivative financial instruments – Hedging interest rate swaps (see note 20)	56.7	71.4	–	–
Total creditors falling due after more than one year	5,015.0	5,189.4	356.3	356.3

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 £nil (2021: £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.

Maturity of borrowings

	Group	
	2022 £m	2021 £m
Due within one year	296.2	122.0
Between one and five years	1,673.3	1,503.2
After five years	3,210.8	3,586.1
	5,180.3	5,211.3

The Company's borrowings all fall due by 9 April 2043.

Scotland Gas Networks plc and Southern Gas Networks plc debt instruments are unsecured, while MidCo's debt instruments are secured, and all are stated after the deduction of unamortised issue costs of £16.1m (2021: £19.2m). These costs together with the interest expense are allocated to the profit and loss account over the term of the debt. Interest is calculated using the effective interest rate method.

Certain interest costs in respect of RPI-linked bonds are not payable until the principal amount of the bond is repaid and are included within the carrying value of the debt stated above. Certain interest costs in respect of CPI-linked swaps are not payable until the maturity of the swap. The amount in relation to the RPI-linked bonds included in the carrying value of the debt at 31 March 2022 is £384.2m (2021: £325.6m). The amount in relation to the CPI-linked swaps included in the carrying value of the debt at 31 March 2022 is £35.6m (2021: £nil).

Interest Rate Benchmark Reform
During the 12 months to 31 March 2022 the Company transitioned its debt and other financial instruments carrying a floating rate of interest with a GBP London Interbank Offer Rate (LIBOR) benchmark to a new benchmark, the Sterling Overnight Index Average (SONIA). In order to maintain an equal economic relationship before and after transition, and in line with best industry practice, the terms of these financial instruments were also amended to include a credit adjustment spread. There was no material impact on the financial statements as a result of the change from LIBOR to SONIA.

20. 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 licence 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 (including the 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: £143.6m inflation-linked private placements; and £300.0m fixed rate private placements;
- Scotland Gas Networks plc: £475.0m fixed rate bonds; £80.0m floating rate bonds; £451.3m inflation-linked bonds; £275.0m fixed rate private placements; £100.0m EIB loans; £235.0m (undrawn) bank RCF; and £100.0m (undrawn) inflation-linked bank term loan facility; and
- Southern Gas Networks plc: £1,900.0m fixed rate bonds; £532.7m inflation-linked bonds; £250.0m fixed rate private placements; and £300.0m EIB loans; and £125.0m (£30m drawn as at 31 March 2022) bank RCF.

Notes to the financial statements (cont)
for the year ended 31 March 2022

20. Financial instruments and risk management (continued)

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) (including interest) 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.

2022

	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)	(91.9)	(857.5)	(1,010.6)	654.3	(356.3)
Bank facility	(30.0)	–	–	–	–	(30.0)	–	(30.0)
Bonds	(80.3)	(366.6)	(433.8)	(1,369.0)	(4,368.3)	(6,617.9)	1,823.9	(4,794.0)
	(125.6)	(381.9)	(464.4)	(1,460.9)	(5,225.8)	(7,658.5)	2,478.2	(5,180.3)
Derivative financial liabilities								
Inflation swaps	(9.8)	(11.8)	(21.9)	(67.4)	250.9	140.0	(214.2)	(74.2)
Hedging interest rate swaps	2.2	2.1	4.3	12.9	68.6	90.1	(146.8)	(56.7)
	(7.6)	(9.7)	(17.6)	(54.5)	319.5	230.1	(361.0)	(130.9)
Other financial liabilities								
Trade creditors	(54.9)	–	–	–	–	(54.9)	–	(54.9)
Total financial liabilities	(188.1)	(391.6)	(482.0)	(1,515.4)	(4,906.3)	(7,483.3)	2,117.2	(5,366.1)

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 2021 were as follows:

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 contract 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)

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:

	2022 £m	2021 £m
Net trade receivables	**119.8**	135.1
Other debtors	**2.3**	2.2
Short term deposits	**95.5**	151.1
Cash	**27.1**	137.5
	244.7	425.9

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 £18.3m of security in respect of its trade counterparties (2021: £15.8m). 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 2022 non-transportation debtors (£50.0m) were 41.7% (2021: 39.8%) of net trade debtors (£119.8m). An impairment allowance has been set aside according to the Group's impairment policy.

The largest transportation debtor is £20.0m (2021: £21.8m). There is no material credit exposure to any one customer.

The ageing of trade debtors net of impairment allowance is:

	2022 £m	2021 £m
Not past due	**94.6**	126.4
Past due 0-30 days	**14.9**	0.9
Past due 31-90 days	**1.1**	1.0
Past due over 90 days	**9.2**	6.8
	119.8	135.1

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 with all counterparties 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.

Notes to the financial statements (cont)

for the year ended 31 March 2022

20. Financial instruments and risk management (continued)

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 £31.9m (2021: £1.0m). £31.9m (2021: £0.3m) was charged to the profit and loss account. £nil (2021: £0.7m) was charged to other comprehensive income. A discounted cash flow method was used. At 31 March 2022 the Group was holding collateral with a fair value of £nil (2021: £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
- New and existing borrowings and financial instruments 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.

	2022 £m	2021 £m
Impact on profit and loss account		
Floating rate instruments	**(3.9)**	(3.7)
Fixed to floating swaps	**–**	–
	(3.9)	(3.7)
Impact on equity		
Floating to fixed swaps	**0.8**	0.8

Inflation risk:
The Group's inflation risk arises as a result of three primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses;
- Impact on controllable and non-controllable costs; and
- New and existing borrowings and financial instruments net of cash and cash equivalents

with the primary exposures arising from fluctuations in Sterling CPIH, CPI and 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.

Certain of the Group's inflation-linked borrowings and financial instruments, including interest liabilities are exposed to a risk of changes in the carrying value due to changes in the UK Retail Price Index (RPI) and UK Consumer Price Index (CPI). The movements in these forms of liability offer a correlation to the movements in the Group's regulatory asset value which in the RIIO-GD2 price control is linked to CPIH due to the pricing mechanism imposed by the Regulator. The turnover capacity charges are also linked to CPIH. There is currently limited capacity in capital and financial markets to provide borrowings or financial instruments that are linked to CPIH.

By matching liabilities and assets in this way, inflation-linked borrowings and financial instruments partially hedge the exposure to changes in inflation.

The following table shows the illustrative effect on the profit and loss account that would result from a 1% movement in CPIH, CPI and RPI before the effects of tax.

	2022 £m	2021 £m
Impact on profit and loss		
Inflation-linked bonds accretion	**17.2**	9.3
Transportation income	**(10.1)**	(11.3)
Total	**7.1**	(2.0)

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 £5,331.6m (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 Standard & Poor's (S&P), 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 noteholder has transacted a derivative financial instrument to hedge the USD exposure into Sterling and as a result the Group does not have 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 2022 the unamortised hedge loss balance in equity was £nil.

The movement before deferred tax taken to equity in respect of cash flow hedges in the year was a £15.4m gain (2021: £16.8m gain). 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 2022 was £80.0m (2021: £80.0m).

At 31 March 2022 the fixed interest rate is 6.57% and floating rate 1.21%, three month SONIA plus 100bp.

Notes to the financial statements (cont)

for the year ended 31 March 2022

20. Financial instruments and risk management (continued)

Categories of financial instruments

The categories of financial assets and liabilities held by the Group were as follows:

	Book value 2022 £m	Book value 2021 £m
Financial assets held at amortised cost		
Trade debtors[1]	**119.8**	135.1
Short term deposits[1]	**95.5**	151.1
Other debtors	**2.3**	2.2
Cash	**27.1**	137.5
Total financial assets	**244.7**	425.9

(1) The carrying amount of financial assets approximates to their fair value.

	Book value 2022 £m	Book value 2021 £m
Financial liabilities held at amortised cost		
Trade creditors	**51.2**	35.0
Accrued interest	**51.5**	54.8
Other accruals	**108.6**	126.0
Bank facility	**30.0**	122.0
Borrowings	**4,794.0**	4,733.0
Shareholder loans	**356.3**	356.3
	5,391.6	5,427.1
Financial liabilities at fair value		
Financial derivatives – inflation-linked swaps	**74.2**	–
Derivative financial instruments in designated hedging relationships	**56.7**	71.4
Financial derivatives – mirror swaps	**–**	28.7
	130.9	100.1
Total financial liabilities	**5,522.5**	5,527.2

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.

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 2022 is as follows:

2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
At fair value through profit and loss				
– Financial derivatives – inflation-linked swaps	–	74.2	–	74.2
Financial derivatives – hedging swaps	–	56.7	–	56.7
	–	130.9	–	130.9

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
At fair value through profit and loss				
– Financial derivatives – mirror swaps	–	28.7	–	28.7
Financial derivatives – hedging swaps	–	71.4	–	71.4
	–	100.1	–	100.1

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 2022 the mirror swap loss was £nil (2021: £28.7m).

In March 2022 both sides of the Group's mirror swaps were terminated with the mark to market value cash settled for a total consideration of £21.5m. The debit has been taken to the financial instruments liability in the balance sheet and a difference of £0.9m between the carrying mark to market value of the swaps compared to the settlement value has been written off within the interest receivable and similar income line in the profit and loss account. This will result in the elimination of any liability for the mirror swaps on the Group's balance sheet. The £21.5m cash settlement has been recognised in the 'payments of mirror swaps' line of the cash flow statement, within cash flows from financing activities.

Inflation-linked swaps

During the 12 months to 31 March 2022 the Group transacted £670m of CPI-linked swaps that economically convert some or all of the notional principal of the following existing fixed rate debt instruments into CPI-linked debt instruments:

- £150m fixed rate notes maturing in 2030;
- £250m fixed rate notes maturing in 2031;
- £130m fixed rate notes maturing in 2033;
- £100m fixed rate notes maturing in 2034; and
- £40m of the £400m fixed rate notes maturing in 2036.

Fair values

The Group's financial instruments recorded at amortised cost are shown below together with their fair values:

	31 March 2022 Book value £m	31 March 2022 Fair value £m	31 March 2021 Book value £m	31 March 2021 Fair value £m
Borrowings	**4,794.0**	**5,702.7**	4,733.0	5,949.3
Bank facility	**30.0**	**30.0**	122.0	122.2
Shareholder loans	**356.3**	**638.9**	356.3	685.1
	5,180.3	**6,371.6**	5,211.3	6,756.6

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.

Notes to the financial statements (cont)

for the year ended 31 March 2022

21. Provisions for liabilities

	Environmental and demolition £m	Deferred tax £m	Other provisions £m	Total £m
Group				
At 1 April 2021	52.0	803.3	15.4	870.7
Reassessments during the year	(0.3)	–	2.6	2.3
Utilised during the year	(4.9)	–	(0.2)	(5.1)
Net movement in deferred tax	–	243.0	–	243.0
Amortisation of discount	0.7	–	–	0.7
At 31 March 2022	**47.5**	**1,046.3**	**17.8**	**1,111.6**

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 1.45% (2021: 1.0%) 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 four 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 1.45% (2021: 1%) to the present value of the estimated expenditure to settle the obligation. They are expected to be utilised over the next four 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 £224.0m (2021: £7.1m) is recorded as a debit (2021: credit) to the profit and loss account and £19.0m (2021: £10.6m) is recorded as a gain (2021: loss) 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	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Accelerated capital allowances	**(990.7)**	(777.4)	**–**	–
Deferred tax on cash flow hedges	**14.2**	13.5	**–**	–
Deferred tax on inflation-linked swaps	**9.6**	–	**–**	–
Retirement benefit obligations	**(90.7)**	(57.0)	**–**	–
Other timing differences	**11.3**	17.6	**6.0**	5.8
	(1,046.3)	(803.3)	**6.0**	5.8

Other timing differences relate to elimination of intergroup profits, deferred tax on corporate interest restriction and the unwinding of discount on provisions.

Movements in deferred tax take into account the effects of changes in the fair value liability of the Company's inflation-linked swap portfolio. Increases or reductions in the fair value liability of the Company's inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation-linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid. The increase in the fair value of the inflation-linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the interest is paid and therefore creates a timing difference. The fair value of the inflation-linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

The movement in provision for deferred tax is as follows:

	Group	
	2022 £m	2021 £m
At 1 April	**(803.3)**	(821.0)
(Debited)/credited to profit and loss account	**(224.0)**	7.1
(Charged)/credited to other comprehensive income	**(19.0)**	10.6
At 31 March	**(1,046.3)**	(803.3)

The Group is not expecting a reversal of deferred tax in the next financial year.

The Group has not recognised deferred tax assets in respect of £235.0m (2021: £235.3m) of unutilised tax losses, £67.0m (2021: £67.0m) of capital losses and £29.6m (2021: nil) of corporate interest restriction disallowances. These assets have not been recognised as the Group is uncertain that there will be sufficient future taxable 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).

The Company has not recognised deferred tax on £235.0m (2021: £235.3m) of unutilised tax losses.

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 three years.

22. Deferred income

Group	Connections £m	Replacement £m	Other £m	**Total 2022 £m**	Total 2021 £m
Customer contributions					
Customer contributions brought forward	264.0	173.2	0.8	438.0	415.2
Customer contributions deferred in the year	19.4	17.6	–	37.0	33.1
Amortisation in year	(7.3)	(3.4)	–	(10.7)	(10.3)
Total customer contributions	**276.1**	**187.4**	**0.8**	**464.3**	**438.0**
Government grants					
Government grants brought forward	–	–	6.9	6.9	–
Government grants deferred in the year	–	–	–	–	6.9
Total government grants	**–**	**–**	**6.9**	**6.9**	**6.9**
Total deferred income	**276.1**	**187.4**	**7.7**	**471.2**	**444.9**

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 related to contributions received from fellow gas distribution networks and the Scottish Government towards the funding of the Group's H100 Fife project. At the balance sheet date, no contributions had been received in relation to the LTS project.

The deferred income is released to the profit and loss account over the estimated lives of the related assets.

The Company has no deferred income.

23. Share capital

	31 March 2022		31 March 2021	
	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.

Notes to the financial statements (cont)
for the year ended 31 March 2022

24. Reconciliation of movements in Group shareholders' funds

	2022 £m	2021 £m
(Loss)/profit for the financial year	**(187.2)**	267.1
Dividend paid on equity shares (see note 12)	**(84.0)**	(115.0)
Cash flow hedges (net of deferred tax)	**16.1**	9.0
Actuarial gain/(loss) on defined benefit pension scheme (net of related deferred tax)	**37.5**	(55.8)
Movement in shareholders' funds	**(217.6)**	105.3
Opening shareholders' funds	**1,099.3**	994.0
Closing shareholders' funds	**881.7**	1,099.3

25. Operating lease commitments

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

	Other		Land and buildings	
	2022 £m	2021 £m	2022 £m	2021 £m
Within one year	**2.2**	2.5	**1.0**	1.4
Within two to five years	**3.3**	2.2	**3.7**	4.2
After five years	**–**	–	**14.4**	15.6
Total	**5.5**	4.7	**19.1**	21.2

The Company has no operating lease commitments in either year.

26. Capital commitments

Capital projects contracted for by the Group but not provided in the financial statements amounted to £32.8m at 31 March 2022 (2021: £14.4m). The Company has capital commitments of £nil at 31 March 2022 (2021: £nil).

27. 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 H&C LLP at 31 March 2022 using the projected unit method.

The following financial assumptions have been used:

As at 31 March	2022	2021	2020	2019
Discount rate	**2.75%**	2.0%	2.3%	2.3%
Retail price inflation	**3.75%**	3.5%	2.8%	3.4%
Consumer price inflation	**3.35%**	3.1%	1.8%	2.4%
Rate of increase of salaries	**3.55%**	3.3%	2.6%	3.2%
Rate of increase of pensions payment	**3.75%**	3.5%	2.8%	3.4%

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:

	2022		2021		2020	
	Male	Female	Male	Female	Male	Female
As at 31 March						
Members currently aged 65	**22.8**	**24.4**	22.7	24.3	23.7	24.2
Members currently aged 45	**24.5**	**27.0**	24.4	26.9	24.3	26.4

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.	17.6
	+ 0.1% p.a.	(17.2)
Price inflation (RPI measure) (1)	– 0.1% p.a.	(16.6)
	+ 0.1% p.a.	17.0
Life expectancy	– 1 year	(35.1)
	+ 1 year	36.6

(1) These movements have been calculated assuming that changes in the inflation assumption affect all inflation linked assumptions.

The fair value of the assets in the scheme and the present value of the liabilities in the scheme were:

As at 31 March	2022			2021		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**126.5**	**–**	**126.5**	134.7	–	134.7
Government bonds (1)	**535.2**	**–**	**535.2**	461.5	–	461.5
Corporate bonds	**189.8**	**110.3**	**300.1**	208.8	139.4	348.2
Property	**–**	**1.1**	**1.1**	–	0.7	0.7
Cash	**–**	**11.0**	**11.0**	21.0	–	21.0
Insurance contracts	**–**	**247.3**	**247.3**	–	269.9	269.9
Total market value of assets	**851.5**	**369.7**	**1,221.2**	826.0	410.0	1,236.0
Actuarial value of liabilities			**(858.7)**			(937.3)
Surplus in scheme			**362.5**			298.7

(1) Including LDI repurchase agreement liabilities.

The fair value of scheme assets at 31 March 2022 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 2022 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.

Notes to the financial statements (cont)
for the year ended 31 March 2022

27. Pension commitments (continued)

Movement in fair value of scheme assets

	2022 £m	2021 £m
At 1 April	1,236.0	1,138.1
Interest income	24.5	25.9
Contributions from the Group	20.9	21.8
Remeasurement of scheme assets	(15.8)	90.7
Benefits paid	(42.7)	(39.2)
Administration costs	(1.7)	(1.3)
As at 31 March	1,221.2	1,236.0

Movement in fair value of scheme liabilities

	2022 £m	2021 £m
At 1 April	(937.3)	(783.9)
Current service cost	(18.5)	(15.0)
Past service cost	-	(0.4)
Interest cost	(18.5)	(17.6)
Actuarial gains/(losses)	72.9	(159.6)
Benefits paid	42.7	39.2
At 31 March	(858.7)	(937.3)

Employer contributions for the period ending 31 March 2022 were 37.3% of monthly salary roll, before allowing for any salary sacrifice contributions. Deficit contributions were also payable at the rate of £12.5m p.a. from 1 April 2021 to 31 March 2022.

The actual loss on scheme assets was £15.8m (2021: £99.0m gain).

The cumulative amount of actuarial gains/losses recognised in the statement of comprehensive income since adoption is £20.3m (2021: £98.6m loss).

Analysis of the amounts recognised in the profit and loss account

	2022 £m	2021 £m
Amount charged to operating profit:		
Current service cost	(18.5)	(15.0)
Administration cost	(1.7)	(1.3)
Past service cost	-	(0.4)
Analysis of the amount credited/(charged) to finance income/expense:		
Interest income on pension scheme assets	24.5	25.9
Interest cost on pension scheme liabilities	(18.5)	(17.6)
Net finance income	6.0	8.3
Net charge to the profit and loss account	(14.2)	(8.4)

Analysis of the amount recognised in other comprehensive income

	2022 £m	2021 £m
Actual (losses)/gains on scheme assets	(15.8)	90.7
Actuarial gains/(losses)	72.9	(159.6)
(Loss) recognised in other comprehensive income	57.1	(68.9)

b) Defined contribution schemes
The amounts recognised in the profit and loss account are as follows:

	2022 £m	2021 £m
Amount charged in respect of defined contribution schemes	17.2	16.7

28. Related parties

During the year, the Company underwent an ownership change. The Company is owned by a consortium consisting of Apple Newco Limited (37.5%) which is indirectly wholly-owned by Ontario Teachers' Pension Plan Board, UK Gas Distribution 2 Limited (37.5%), which is indirectly owned by Brookfield Super-Core Infrastructure Partners, and Speyside Bidco Limited (25.0%) which is wholly-owned by Global Infrastructure Partners (GIP).

Previously, the Company was 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 £5.1m (2021: £5.4m). Directors are also deemed to be key management personnel and their remuneration is disclosed in note 7.

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

	Group	
	2022 £m	2021 £m
Shareholders' loans:		
UK Gas Distribution 2 Limited[4]	133.6	–
Speyside Bidco Limited[5]	89.1	–
SSE plc	-	118.8
Borealis SGN Holdings BV[1]	-	89.1
Apple Newco Limited[2]	133.6	89.1
Blue Atlas ZA 2014 Limited Partnership	-	59.3
	356.3	356.3
Interest owed to shareholders:		
UK Gas Distribution 2 Limited[4]	3.9	–
Speyside Bidco Limited[5]	2.5	–
SSE plc	-	3.4
Borealis SGN Holdings BV[1]	-	2.5
Apple Newco Limited[2]	3.9	2.5
Blue Atlas ZA 2014 Limited Partnership[3]	-	1.7
	10.3	10.1
Other amounts owed to shareholders:		
SSE plc	-	15.5

(1) Borealis SGN Holdings BV is an affiliate of Borealis Infrastructure Europe (UK) Limited.
(2) Apple Newco Limited is wholly owned by OTPPB.
(3) Blue Atlas ZA 2014 Limited Partnership is owned by Abu Dhabi Investment Authority.
(4) UK Gas Distribution 2 Limited is indirectly owned by Brookfield Super-Core Infrastructure Partners.
(5) Speyside Bidco Limited is wholly owned by Global Infrastructure Partners.

The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £30.7m (2021: £29.5m). 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 £nil (2021: £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).

	2022 £m	2021 £m
Sales of goods and services	10.1	13.2
Purchase of goods and services	(43.0)	(29.6)

Sales of goods and services to SSE primarily represent gas transportation services. At 31 March 2022 an amount of £nil (2021: £nil) was owed by SSE in relation to these services.

Notes to the financial statements (cont)

for the year ended 31 March 2022

28. Related parties (continued)

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
In the year the Group also invested £4.2m in a Joint Venture, Murphys Asset Services Limited. The Group also accounted for a share of the loss to the year ended 31 March 2022 of £1.4m.

The Company contributed £20.9m (2021: £21.8m) to Scotia Gas Networks Pension Scheme during the year.

29. Analysis of changes in net debt

Analysis of changes in net debt	2021 £m	Cashflow £m	Other non-cash movements £m	2022 £m
Net cash and cash equivalents				
Cash at bank	137.5	(110.4)	–	**27.1**
Short term deposits	151.1	(55.6)	–	**95.5**
	288.6	(166.0)	–	**122.6**
Financial liabilities, loans and borrowings				
Debt due within one year (note 17)	(122.0)	(92.1)	(82.1)	**(296.2)**
Debt due after one year (note 18)	(5,189.4)	–	100.1	**(5,089.3)**
	(5,311.4)	(92.1)	18.0	**(5,385.5)**
Total	5,022.8	(258.1)	18.0	**(5,262.9)**

Other non-cash movements in borrowings relate to movements in the fair value of financial instruments and the amortisation of borrowing fees.

30. Other notes to the cash flow statement

Included within the amount disclosed on the Cash Flow Statement under interest paid for 2022 is £4.3m in relation to the settlement of fees due to a prior guarantor of certain public bonds held by the Group (see note 9 for further details).

Included within the amount disclosed on the Cash Flow Statement under payments of mirror swaps for 2022 is £21.5m in relation to the termination of the Group's mirror swaps (see note 20 for further details).

31. Subsequent events

In June 2022, the Group agreed to settle outstanding fees due in relation to guarantees that remain in place over certain of the Group's outstanding public bond instruments. The cash settlement amount of £8.8m will be included within the 'interest paid' line of the cash flow statement for the year ended 31 March 2023. The guarantees over the Group's bonds remain in place.

Alternative performance measures

When assessing and discussing the Group's reported financial performance, financial position and cash flows, management makes reference to Alternative Performance Measures (APMs) that are not defined or specified under UK GAAP.

APMs are presented to enhance the reader's evaluation of ongoing performance and to facilitate meaningful comparison of results between reporting periods. The APMs used in this report are consistently applied across reporting periods.

Management use these APMs to evaluate ongoing operations and in reporting to investors and regulatory bodies.

Group APM	Closest equivalent UK GAAP measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Cashflow after investing activities	Operating cashflow	Excluding interest paid and including net cash flow from investing activities.	Due to the nature of the business cash flow from core activities are considered to be operating activities and investment in our gas infrastructure.
Net debt to Regulated Asset Value (RAV)	Borrowings	Net debt (before issue costs) excluding shareholders' loans and liabilities arising from derivative financial instruments and net of cash and cash equivalents. RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Governed by specific licence conditions and covenants imposed on us due to the nature of the business.
Capital expenditure	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions excluding replacement expenditure.	This is an Ofgem driven performance measure. Due to the nature of the business replacement expenditure is material to the financial statements and thus it should be disclosed separately.
Revenue expenditure	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions excluding capital expenditure.	

Glossary

AC – Audit Committee
ADIA – Abu Dhabi Investment Authority
AFS – Available-for-Sale
AI – Artificial Intelligence
APMs – Alternative Performance Measures
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
CCA – Customer Contract Association
CCUS – Carbon Capture, Usage and Storage
CDP – Carbon Disclosure Project
CEG – Customer Engagement Group
CEO – Chief Executive Officer
CESC – Commercial Engineering Safety Committee
CFO – Chief Financial Officer
CGUs – Cost Generating Units
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
CSEG – Customer and Stakeholder Engagement Group
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
EAC – Environmental Audit Committee
ECC – Ethics and Compliance Committee
ECO – Energy Company Obligation
EMEA – Europe, the Middle East and Africa
ENA – Energy Networks Association
ESC – Engineering and Safety Committee
ESG – Environmental, Social and Governance
EVG&D – Economic Value Generated and Distributed
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
GIP – Global Infrastructure Partners
GLA – Greater London Authority
HGV – Heavy Goods Vehicle
HMRC – Her Majesty's Revenue and Customs
HP – High Pressure
HR – Human Resources
HSE – Health and Safety Executive
I&C – Industrial and Commercial
IGEM – Institution of Gas Engineers & Managers
IP – Intermediate Pressure
ISSB – International Sustainability Standards
IT – Information Technology
JV – Joint Venture
KBA – Key Biodiversity Area
KPI – Key Performance Indicator
LCV – Locking Cooker Valve
LDI – Liability Driven Investment
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
LTIP – Long-term Incentive Plan
LTS – Local Transmission System
MI – Machine Intelligence
MOU – Memorandum of Understanding
NCSC – National Cyber Security Centre
NEA – National Energy Action
NGM – National Grid Metering
NGO – Non-government Organisation
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
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 ran from 1 April 2013 to 31 March 2021; the first gas distribution price control that used the RIIO framework for setting allowances
RIIO-GD2 – The price control period that will run from 1 April 2021 to 31 March 2026
RISE – Resilient, Influential, Strong, Empowered
RPI – Retail Price Index
RRES – Robotic Roadworks and Excavation System
RRP – Regulatory Reporting Pack
RTN – Real Time Network
SAP – Stakeholder Advisory Panel
SBTi – Science Based Targets initiative
SCM – Stakeholder Capitalism Metrics
SECC – Stakeholder, Environment and Customer Committee
SIF – Strategic Innovation Fund
SIUs – Scottish Independent Undertakings
SoLR – Supplier of Last Resort
SONIA – Sterling Overnight Index Average
SRM – Stakeholder Relationship Management
STIP – Short-term Incentive Plan
TCFD – Taskforce on Climate-related Financial Disclosures
TfL – Transport for London
The Group – The Company and its subsidiary undertakings (together the Group)
TNI – Total Network Investment
TSA – Transition Service Agreement
UKPOA – United Kingdom On-shore Pipeline Operators Association
UN – United Nations
UREGNI – Utility Regulator for Northern Ireland
Vac ex – Vacuum excavation
VCMA – Vulnerability and Carbon Monoxide Allowance
VEST – Vac Ex Soft Touch
VSG – Vulnerable Stakeholder Group
WASH – Warm and Safe Homes Advice Service
WEF – World Economic Forum
WHO – World Health Organisation

Designed and produced by Thunderbolt Projects

SGN
St Lawrence House
Station Approach
Horley, Surrey
RH6 9HJ

0800 912 1700

customer@sgn.co.uk

sgn.co.uk

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**