

Scotland Gas Networks plc

Unaudited interim financial information

for the six-month period ended 30 September 2023

Scotland Gas Networks plc

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Profit and loss account

for the six-month period ended 30 September 2023

		Unaudited		Audited
		Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
	Notes			
Turnover ¹		213	204	416
Net operating costs	3	(127)	(117)	(255)
Operating profit		86	87	161
Interest receivable and similar income	5	4	2	5
Interest payable and similar expenses	6	(36)	(51)	(89)
Fair value movement on derivatives	9	(4)	3	6
Profit before taxation	4	50	41	83
Tax charge on profit	7	(13)	(9)	(20)
Profit for the financial period		37	32	63

¹ There are no exceptional items included within Turnover for the period ended 30 September 2023 (30 September 2022: £5m and 31 March 2023: £9m). See note 9 for more details.

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Statement of comprehensive income for the six-month period ended 30 September 2023

	Notes	Unaudited		Audited
		Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Profit for the financial period		37	32	63
Other comprehensive income/(loss)				
Gain arising on cash flow hedges	19	12	37	27
Remeasurement on net pension asset	19	(10)	(27)	(47)
Income tax relating to components of other comprehensive income/(loss)	19	-	(2)	5
Other comprehensive income/(loss) for the financial period net of income tax		2	8	(15)
Total comprehensive income for the period		39	40	48

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Balance sheet as at 30 September 2023

		Unaudited	Audited
	Notes	30 September 2023 £'m	31 March 2023 £'m
Fixed assets			
Intangible assets	10	99	102
Tangible assets	11	2,268	2,224
Non-current financial assets	12	3	5
		2,370	2,331
Current assets			
Debtors	13	86	93
Cash at bank		25	38
		111	131
Creditors: amounts falling due within one year	14	(176)	(134)
Net current liabilities		(65)	(3)
Total assets less current liabilities		2,305	2,328
Creditors: amounts falling due after more than one year	15	(1,410)	(1,472)
Provisions for liabilities	16	(344)	(343)
Deferred income	17	(186)	(183)
Pension assets	18	90	98
Net assets		455	428
Capital and reserves			
Called up share capital		49	49
Hedging reserve		(12)	(21)
Profit and loss account		418	400
Shareholders' funds	19	455	428

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Statement of changes in equity as at 30 September 2023

	Notes	Called up share capital £'m	Hedging reserve £'m	Profit and loss account £'m	Total £'m
Balance at 1 April 2023		49	(21)	400	428
Profit for the financial period		-	-	37	37
Other comprehensive income/(loss)		-	9	(7)	2
Total comprehensive income		-	9	30	39
Dividends paid	8	-	-	(12)	(12)
Balance at 30 September 2023		49	(12)	418	455

	Notes	Called up share capital £'m	Hedging reserve £'m	Profit and loss account £'m	Total £'m
Balance at 1 April 2022		49	(41)	395	403
Profit for the financial period		-	-	32	32
Other comprehensive income/(loss)		-	28	(20)	8
Total comprehensive income		-	28	12	40
Dividends paid		-	-	-	-
Balance at 30 September 2022		49	(13)	407	443

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Cash Flow Statement as at 30 September 2023

		Unaudited	Unaudited	Audited
		Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
	Notes			
Cash flows from operating activities				
Cash generated from/(used in) operations	21	84	(26)	200
Interest paid		(15)	(11)	(41)
Tax paid		(1)	(7)	(14)
Net cash from/(used in) operating activities		68	(44)	145
Cash flows from investing activities				
Purchase of intangible fixed assets		(1)	(2)	(3)
Purchase of tangible fixed assets		(75)	(52)	(123)
Customer contributions received		5	5	11
Net cash used in investing activities		(71)	(49)	(115)
Cash flows from financing activities				
Issue of debt		-	100	283
Repayment of debt		-	-	(279)
Payments of interest rate swaps		(3)	(2)	(3)
Receipts from inflation-linked swaps		5	2	5
Dividends paid		(12)	-	(23)
Net cash (used in)/from financing activities		(10)	100	(17)
(Decrease)/Increase in cash and cash equivalents		(13)	7	13
Cash and cash equivalents at beginning of financial period	22	38	25	25
Cash and cash equivalents at end of the financial period	22	25	32	38

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Notes to the financial information for the six-month period ended 30 September 2023

1 Basis of preparation

This interim report for Scotland Gas Networks plc (“the Company”) presents the unaudited financial information of the Company for the six-month period ended 30 September 2023. Unaudited profit and loss account comparative figures have been presented for the six-month period ended 30 September 2022. Comparative figures for the year ended 31 March 2023 have also been presented which have been derived from the audited statutory accounts of the Company.

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

The accounting policies used are consistent with those as set out in the statutory accounts of the Company for the year ended 31 March 2023, and these accounts are therefore prepared under FRS 102.

2 Segmental reporting

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

3 Net operating costs

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Net operating costs	127	117	255

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4 Profit before taxation

The profit is stated after charging/ (crediting):

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Depreciation	31	30	60
Loss on disposal of fixed assets	-	1	-
Goodwill amortisation	1	1	3
Computer software amortisation	3	2	4
Amortisation of customer contributions	(2)	(2)	(4)

5 Interest receivable and similar income

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Net defined benefit pension income	2	2	4
Other interest receivable	2	-	1
	4	2	5

6 Interest payable and similar expenses

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Interest payable on fixed rate instruments	20	15	34
Interest payable on floating rate instruments	4	2	5
Interest payable on inflation-linked instruments	12	34	50
	36	51	89

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6 Interest payable and similar expenses - continued

Included within interest payable on inflation-linked instruments is £8m of accretion on RPI-linked debt instruments (30 September 2022: £24m and 31 March 2023: £37m) and £4m of accretion on CPI-linked debt instruments (30 September 2022: £7m and 31 March 2023: £10m).

In June 2022, the Company agreed to settle outstanding fees due in relation to certain guarantees provided by Assured Guarantee UK Limited that were previously in place over certain outstanding public bond instruments. The cash settlement amount of £0.2m is included within the "interest paid" line of the cash flow statement for the comparative period.

7 Tax charge on profit on ordinary activities

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Total tax charge for the period	13	9	20

8 Dividends

	Six-month period ended 30 September 2023 £'m	Year ended 31 March 2023 £'m
Equity shares		
Interim dividend paid 24.30 pence per share (31 March 2023: cash dividend of 47.17 pence per share)	12	23

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9 Exceptional items and fair value movements

	Six-month period ended 30 September 2023	Six-month period ended 30 September 2022	Year ended 31 March 2023
	£'m	£'m	£'m
Exceptional items included within Turnover:			
Incremental turnover from recovery of costs due to increase in gas wholesale prices*	-	(5)	(9)
Included within taxation:			
Tax charge on cost impact of increase in gas wholesale prices	-	1	2
Fair value movements:			
Net losses/(gains) on derivative financial instruments**	4	(3)	(6)
Included within taxation:			
Tax charge on net losses/gains on derivative financial instruments	1	1	2

* In the six-month period ended 30 September 2022 and the year ended 31 March 2023, the Company recorded incremental turnover as a result of recovering incremental costs charged in the previous periods of £5m and £9m respectively, which were associated with the rise in wholesale gas prices through the Company's regulated tariffs.

These incremental costs were disclosed as exceptional items in the year ended 31 March 2022 and as such the associated income received in the consecutive periods were also disclosed as such.

In the six months ended 30 September 2023 there are no such exceptional items included within turnover.

** Net losses/(gains) 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 the statement of comprehensive income. Included within net losses on derivative financial instruments is £5m of accretion on CPI-linked swaps (30 September 2022: £9m and 31 March 2023: £14m).

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10 Intangible fixed assets

	Goodwill	Software	Total
	£'m	£'m	£'m
Cost			
At 1 April 2023	143	37	180
Additions	-	1	1
At 30 September 2023	143	38	181
Accumulated amortisation			
At 1 April 2023	(51)	(27)	(78)
Amortisation for the period	(1)	(3)	(4)
At 30 September 2023	(52)	(30)	(82)
Net book value			
At 30 September 2023	91	8	99
At 31 March 2023	92	10	102

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11 Tangible fixed assets

	Freehold property £'m	Plant and machinery £'m	Motor vehicles and office equipment £'m	Total £'m
Cost				
At 1 April 2023	44	2,812	55	2,911
Additions	1	72	3	76
Disposals	-	(1)	-	(1)
At 30 September 2023	45	2,883	58	2,986
Depreciation				
At 1 April 2023	(14)	(638)	(35)	(687)
Charge for the period	(1)	(28)	(2)	(31)
Eliminated on disposal	-	-	-	-
At 30 September 2023	(15)	(666)	(37)	(718)
Net book value				
At 30 September 2023	30	2,217	21	2,268
At 31 March 2023	30	2,174	20	2,224

12 Non-current financial assets

	30 September 2023 £'m	31 March 2023 £'m
Derivative financial instruments - interest rate swaps	3	5

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13 Debtors

	30 September 2023 £'m	31 March 2023 £'m
Trade and other debtors	30	41
Amounts owed by group undertakings	46	34
Prepayments and accrued income	6	3
Corporation tax	4	15
	86	93

Amounts owed by group undertakings includes:

- an intercompany loan due from Southern Gas Networks plc of £66m (31 March 2023: £67m). The loan is repayable on demand and it bears interest at the Bank of England Base Rate.

This is partially offset by:

- intercompany trade balances due to the Group of £20m (31 March 2023: £33m).

14 Creditors: amounts falling due within one year

	30 September 2023 £'m	31 March 2023 £'m
Floating rate debt	65	-
Trade creditors	40	44
Other creditors	4	5
Social security and other taxes	5	7
Accrued interest	22	12
Accruals	25	46
Deferred income	15	20
	176	134

In September 2023, the Company submitted a notice of its intention to repay early some of its floating rate notes amounting to £65m (31 March 2023: £nil), therefore as at 30 September 2023 these debt instruments are held as Amounts falling due within one year (31 March 2023: amounts falling due after more than one year).

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15 Creditors: amounts falling due after more than one year

	30 September 2023 £'m	31 March 2023 £'m
Derivative financial liabilities – interest rate swaps	17	28
Derivative financial liabilities - inflation-linked swaps	14	14
Inflation-linked debt	332	319
Fixed rate debt	967	966
Floating rate debt	80	145
	1,410	1,472

The Company has a total revolving credit facility of £120m (31 March 2023: £20m) and expires in March 2025. This facility was undrawn at 30 September 2023 (31 March 2023: undrawn).

Interest rate swaps

In October 2022, Scotland Gas Networks plc entered into three interest rate swaps totalling £90m that convert a portion of the £184m fixed rate notes, entered into within the same month, into floating rates based on SONIA:

- £30m of the £34m notes due 2032 converted from fixed to SONIA plus 2.115%, effective October 2022;
- £30m of the £30m notes due 2035 converted from fixed to SONIA plus 2.373%, effective March 2023;
- £30m of the £50m notes due 2035 converted from fixed to SONIA plus 2.2695%, effective October 2022.

In February 2023, May 2023 and August 2023, the Company entered into £30m individual interest rate swaps to 're-fix' hedging on fixed rate notes due in 2023, 2035 and 2037 respectively. In each case, the new swap's floating receive leg exactly offsets the original swap's floating pay leg, ensuring a net fixed exposure.

In June 2022 the mandatory break on the Company's £80m IRS was extended by 10 years to March 2033. As part of this exercise, the swap was novated to another of the SGN Group's relationship banks and the fixed rate payable leg was increased by around 0.5%. The floating rate receivable was unchanged and remains the same as the floating rate payable on the hedged £80m floating rate bond due 2043.

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16 Provisions for liabilities

	Environmental £'m	Deferred tax £'m	Other provisions £'m	Total £'m
At 1 April 2023	7	327	9	343
Movement during the period	-	1	-	1
At 30 September 2023	7	328	9	344

The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Company has a legal obligation to restore sites at the balance sheet date.

The provision has been discounted and is stated at the present value of the expenditure expected to be required to settle the obligation. The provision is expected to be utilised over the next 2.5 years in line with anticipated regulatory output requirements for land remediation.

Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks, including an Operational target provision. 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 28.5 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next 1.5 years.

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

17 Deferred income

Customer contributions

The Company has received customer contributions relating to plant and machinery. In accordance with the Company's accounting policy the assets are capitalised within fixed assets and the contributions are recognised as deferred income in the balance sheet. The connections contributions are from customers being connected to the network and replacement contributions are related to the diversion of gas mains.

The deferred income is released to the profit and loss account over the estimated lives of the related assets.

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17 Deferred income - continued

The amount deferred under this policy was as follows:

	Connections	Replacement	Total
	2023	2023	2023
	£'m	£'m	£'m
Customer contributions as at 1 April 2023	110	73	183
Customer contributions deferred in the period	2	3	5
Amortisation in year	(1)	(1)	(2)
	<u>111</u>	<u>75</u>	<u>186</u>

Customer contributions exclude Deferred income presented as part of Creditors: Amounts falling due within one year, as those amounts relate to unfinished projects, where the associated asset is not yet completed.

18 Pension assets

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited which operates the Scotia Gas Networks Pension Scheme ('the Scheme'), a defined benefit scheme. A significant proportion of the Company's employees are members of this 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 is operated by Scotia Gas Networks Limited 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 2021. 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 Broadstone Corporate Benefits Limited at 30 September 2023 using the projected unit method.

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18 Pension assets – continued

The fair value of the assets in the scheme and the present value of the liabilities in the scheme were:

Fair value

	30 September	31 March
	2023	2023
	£'m	£'m
Government bonds	138	162
Corporate bonds	90	95
Cash	5	4
Insurance contracts	<u>71</u>	<u>79</u>
Total market value of assets	304	340
Actuarial value of liabilities	<u>(214)</u>	<u>(242)</u>
Net pension asset	<u>90</u>	<u>98</u>

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

	30 September	31 March
	2023	2023
	£'m	£'m
Opening balance	(242)	(343)
Current service cost	(1)	(6)
Interest cost	(6)	(9)
Actuarial gains	31	101
Benefits paid	<u>4</u>	<u>15</u>
Closing balance	<u>(214)</u>	<u>(242)</u>

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

	30 September	31 March
	2023	2023
	£'m	£'m
Opening balance	340	488
Interest income	8	13
Contributions from the Company	2	3
Remeasurement of scheme assets	(41)	(148)
Benefits paid	(4)	(15)
Administration costs	<u>(1)</u>	<u>(1)</u>
Closing balance	<u>304</u>	<u>340</u>

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18 Pension assets – continued

The actual loss on plan assets was:

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Loss on plan assets excluding interest income	(41)	(141)	(148)
Interest income on plan assets	8	7	13
Actual loss on plan assets	<u>(33)</u>	<u>(134)</u>	<u>(135)</u>

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

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Current service cost	(1)	(3)	(6)
Administration costs	(1)	-	(1)
Total charged to net operating costs:	(2)	(3)	(7)
Expected return on scheme assets	8	7	13
Interest charge on scheme liabilities	(6)	(5)	(9)
Net interest credit	<u>2</u>	<u>2</u>	<u>4</u>
Total charge to the profit and loss account	<u>-</u>	<u>(1)</u>	<u>(3)</u>

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Actuarial losses on scheme assets	(41)	(141)	(148)
Actuarial gains on scheme obligations	31	114	101
Losses recognised in other comprehensive income	<u>(10)</u>	<u>(27)</u>	<u>(47)</u>

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19 Reconciliation of movements in shareholders' funds

		Six-month period ended 30 September 2023 £'m	Year ended 31 March 2023 £'m
Profit for the period		37	63
Gain arising on cash flow hedges		12	20
Remeasurement on net pension asset		(10)	(35)
Dividends paid	8	(12)	(23)
Net increase in shareholders' funds		27	25
Opening shareholders' funds		379	354
Closing shareholders' funds		406	379

20 Subsequent events

On 6 November 2023, Simon Kilonback succeeded Michael Carmedy as the Company's Chief Finance Officer.

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21 Reconciliation of profit before taxation to cash generated from operations

	Six-month period ended 30 September 2023 £'m	Six-month period ended 30 September 2022 £'m	Year ended 31 March 2023 £'m
Profit before tax	50	41	83
Depreciation charges	31	30	60
Amortisation charges	4	3	7
Loss on disposal of fixed assets	-	1	-
Amortisation of deferred income	(2)	(2)	(4)
Decrease in provisions	(1)	(2)	(1)
Interest payable and similar expenses	36	51	89
Fair value movement on derivatives	4	(3)	(6)
Interest receivable and similar income	(4)	(2)	(5)
	118	117	223
Increase in trade and other debtors	(2)	(162)	(59)
(Decrease)/Increase in trade and other creditors	(32)	19	36
Cash generated from operations	84	(26)	200

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22 Analysis of changes in net debt

	At 1 April 2023 £'m	Cash flow £'m	Other non-cash changes £'m	At 30 September 2023 £'m
Cash				
Cash at bank	<u>38</u>	<u>(13)</u>	<u>-</u>	<u>25</u>
	<u>38</u>	<u>(13)</u>	<u>-</u>	<u>25</u>
Debt				
Debts falling due within 1 year	-	(65)	-	(65)
Debts falling due after 1 year	<u>(1,430)</u>	<u>65</u>	<u>(14)</u>	<u>(1,379)</u>
	<u>(1,430)</u>	<u>-</u>	<u>(14)</u>	<u>(1,444)</u>
Derivative financial instruments				
Derivative financial assets	5	-	(2)	3
Derivative financial liabilities	<u>(42)</u>	<u>-</u>	<u>11</u>	<u>(31)</u>
	<u>(37)</u>	<u>-</u>	<u>9</u>	<u>(28)</u>
Total	<u><u>(1,429)</u></u>	<u><u>(13)</u></u>	<u><u>(5)</u></u>	<u><u>(1,447)</u></u>

Cash and cash equivalents contain £25m (31 March 2023: £38m) of cash which is contractually restricted to be used on designated innovation projects only and is not available for general use.

23 Major non-cash transactions

Other non-cash movements in borrowings relate to the amortisation of borrowing fees and loan accretion accruals.

24 Other notes to the cash flow statement

In June 2022, the Company agreed to settle outstanding fees due in relation to certain guarantees provided by Assured Guarantee UK Limited that were previously in place over certain outstanding public bond instruments. The cash settlement amount of £0.2m is included within the "interest paid" line of the cash flow statement for the comparative period.