

Southern Gas Networks plc
Unaudited interim financial information
for the six-month period ended 30 September 2023

Southern 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		443	404	821
Net operating costs	3	(273)	(248)	(530)
Operating profit		170	156	291
Interest receivable and similar income	5	8	4	10
Interest payable and similar expenses	6	(89)	(73)	(155)
Fair value movement on derivatives	9	3	18	(7)
Profit before taxation	4	92	105	139
Tax charge on profit	7	(24)	(23)	(35)
Profit for the financial period		68	82	104

¹ There are no exceptional items included within Turnover for the period ended 30 September 2023 (30 September 2022: £13m and 31 March 2023: £22m). See note 9 for more details.

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

		Unaudited		Audited
	Notes	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		68	82	104
Other comprehensive loss				
Remeasurement on net pension asset	18	(15)	(41)	(70)
Losses arising on cash flow hedges	18	2	-	(6)
Income tax relating to components of other comprehensive loss/ (income)	18	3	10	19
Other comprehensive loss for the financial period net of income tax		(10)	(31)	(57)
Total comprehensive income for the period		58	51	47

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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	197	202
Tangible assets	11	5,072	4,990
		5,269	5,192
Current assets			
Debtors	12	86	100
Short term deposits		680	207
Cash at bank		4	4
		770	311
Creditors: amounts falling due within one year	13	(862)	(564)
Net current liabilities		(92)	(253)
Total assets less current liabilities		5,177	4,939
Creditors: amounts falling due after more than one year	14	(3,089)	(2,924)
Provisions for liabilities	15	(762)	(763)
Deferred income	16	(303)	(300)
Pension assets	17	135	148
Net assets		1,158	1,100
Capital and reserves			
Called up share capital		160	160
Hedging reserves		(3)	(4)
Profit and loss account		1,001	944
Shareholders' funds	18	1,158	1,100

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Statement of changes in equity as at 30 September 2023

	Notes	Called up share capital £'m	Hedging reserves £'m	Profit and loss account £'m	Total £'m
Balance at 1 April 2023		160	(4)	944	1,100
Profit for the financial period		-	-	68	68
Other comprehensive income/(loss)		-	1	(11)	(10)
Total comprehensive income		-	1	57	58
Dividends paid	8	-	-	-	-
Balance at 30 September 2023		160	(3)	1,001	1,158

	Notes	Called up share capital £'m	Hedging reserves £'m	Profit and loss account £'m	Total £'m
Balance at 1 April 2022		160	-	940	1,100
Profit for the financial period		-	-	82	82
Other comprehensive loss		-	-	(31)	(31)
Total comprehensive loss		-	-	51	51
Dividends paid		-	-	-	-
Balance at 30 September 2022		160	-	991	1,151

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Cash Flow Statement as at 30 September 2023

		Unaudited	Unaudited	Audited
		Six-month period ended 30 September 2023	Six-month period ended 30 September 2022	Year ended 31 March 2023
	Notes	£'m	£'m	£'m
Cash flows from operating activities				
Cash generated from operations	21	242	372	488
Interest paid		(48)	(47)	(106)
Tax paid		(18)	(23)	(28)
Net cash from operating activities		176	302	354
Cash flows from investing activities				
Purchase of intangible fixed assets		(2)	(2)	(5)
Purchase of tangible fixed assets		(155)	(125)	(265)
Customer contributions received		7	11	22
Interest received		4	-	2
Net cash used in investing activities		(146)	(116)	(246)
Cash flows from financing activities				
Issue of debt		436	-	116
Repayment of debt		-	(30)	(30)
Payments of cross currency swaps		(2)	-	-
Receipts from inflation-linked swaps		9	8	17
Dividends paid		-	-	(47)
Net cash from/(used in) financing activities		443	(22)	56
Increase in cash and cash equivalents		473	164	164
Cash and cash equivalents at beginning of the financial period	22	211	47	47
Cash and cash equivalents at end of the financial period	22	684	211	211

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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 Southern 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	273	248	530

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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	65	62	125
Loss on disposal of fixed assets	2	2	4
Goodwill amortisation	3	3	6
Computer software amortisation	4	4	8
Amortisation of customer contributions	(4)	(3)	(7)

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	3	3	6
Deposit account interest	5	1	2
Other interest receivable	-	-	2
	8	4	10

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	43	39	78
Interest payable on floating rate instruments	8	3	2
Interest payable on inflation-linked instruments	31	20	62
Other interest payable	7	11	13
	89	73	155

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6 Interest payable and similar expenses - continued

Included within interest payable on inflation-linked instruments is £33m of accretion on RPI-linked debt instruments (30 September 2022: £22m and 31 March 2023: £67m).

In June 2022, the Company agreed to settle outstanding fees due in relation to certain guarantees provided by Assured Guarantee Corp. (as agent for Syncora Guarantee Inc.) and Assured Guarantee UK Limited that were previously in place over certain outstanding public bond instruments. The cash settlement amount of £9m 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	24	23	35

8 Dividends

	Six-month period ended 30 September 2023 £'m	Year ended 31 March 2023 £'m
Equity shares		
Interim dividends paid nil pence per share (31 March 2023: 29.03 pence per share)	-	47

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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*	-	(13)	(22)
Included within taxation:			
Tax charge on cost impact of increase in gas wholesale prices	-	2	4
Fair value movements:			
Net losses/(gains) on derivative financial instruments**	(3)	(18)	7
Included within taxation:			
Tax charge on net losses on derivative financial instruments	1	7	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 £13m and £22m 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 £22m of accretion on CPI-linked swaps (30 September 2022: £38m and 31 March 2023: £57m).

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10 Intangible fixed assets

	Goodwill	Software	Total
	£'m	£'m	£'m
Cost			
At 1 April 2023	288	62	350
Additions	-	2	2
At 30 September 2023	288	64	352
Accumulated amortisation			
At 1 April 2023	(103)	(45)	(148)
Amortisation for the period	(3)	(4)	(7)
At 30 September 2023	(106)	(49)	(155)
Net book value			
At 30 September 2023	182	15	197
At 31 March 2023	185	17	202

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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	101	6,238	88	6,427
Additions	4	140	5	149
Disposals	-	(4)	-	(4)
At 30 September 2023	105	6,374	93	6,572
Depreciation				
At 1 April 2023	(41)	(1,344)	(52)	(1,437)
Charge for the period	(3)	(58)	(4)	(65)
Eliminated on disposal	-	2	-	2
At 30 September 2023	(44)	(1,400)	(56)	(1,500)
Net book value				
At 30 September 2023	61	4,974	37	5,072
At 31 March 2023	60	4,894	36	4,990

12 Debtors

	30 September 2023 £'m	31 March 2023 £'m
Trade debtors	66	83
Other debtors	-	1
Prepayments and accrued income	13	7
Corporation tax	7	9
	86	100

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13 Creditors: amounts falling due within one year

	30 September 2023 £'m	31 March 2023 £'m
Fixed rate debt	300	300
Floating rate debt	300	-
Trade creditors	22	32
Social security and other taxes	16	15
Other creditors	7	11
Accrued interest	45	34
Accruals	69	88
Deferred income	30	34
Amounts owed to group undertakings	73	50
	862	564

Amounts owed to group undertakings includes an intercompany loan due to Scotland Gas Networks plc of £66m (31 March 2023: £67m), and to SGN Evolve Network Ltd (formerly known as SGN Natural Gas Limited) of £1m (31 March 2023: £2m). The loans are both repayable on demand and both bear interest at the Bank of England Base Rate. Also included are intercompany trade balances due to the Group of £6m (31 March 2023: £19m).

In September 2023, the Company submitted a notice of its intention to repay early its floating rate notes amounting to £300m (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).

In June 2023, Southern Gas Networks plc entered into a £550m committed bridging loan with three of its relationship banks. The bridging loan has an initial tenor of 12 months and the Company has the option to extend for a further 6 months thereafter. It has a floating drawn rate of interest based on SONIA plus a time-dependent margin. The bridge is intended to provide additional liquidity for Southern Gas Networks plc's upcoming refinancing requirements. On 15 September 2023, the commitment under the bridging loan was mandatorily reduced to £116m following receipt of the proceeds from the bond issuance process discussed in Note 14.

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14 Creditors: amounts falling due after more than one year

	30 September 2023 £'m	31 March 2023 £'m
Derivative financial liabilities - inflation-linked swaps	56	59
Derivative financial liabilities – cross-currency swaps	13	15
Inflation-linked debt	634	601
Fixed rate debt	2,386	1,949
Floating rate debt	-	300
	3,089	2,924

In September 2023, to meet the SGN Group's financing requirements for October 2023, the Group has secured a £500m capital markets issuance, split between £300m new bond issuance and a £200m bond tap. As at 30 September 2023, Southern Gas Networks plc has a £250m bond (maturing in December 2031) that carries a low coupon rate of 1.25%, which is significantly lower than a 10-year tenor public bond would price, therefore SGN has "tapped" this bond. The bond currently trades at a cash price of £68, so the Company raised £200m, in order to receive £136m of proceeds.

The Company has a total revolving credit facility of £240m (31 March 2023: £340m) and expires in March 2025. This facility was undrawn at 30 September 2023 (31 March 2023: undrawn).

Cross-currency swaps

In October 2022, Southern Gas Networks plc issued a total of \$132m in private placement notes, for which drawing occurred in March 2023:

- \$66m 5.63% fixed rate notes due 2033;
- \$66m 5.73% fixed rate notes due 2035.

In line with the Company's hedging policy, the entire principal amounts and interest payments under these notes have been hedged using cross currency-swaps with effective dates matching the drawdown profiles of the notes. Under these cross-currency swaps, the Company receives a USD upfront payment and fixed USD payments equal to the principal amounts and coupons under the notes respectively, and pays fixed GBP amounts:

- \$41m converted to £36m with fixed 6.2440% GBP interest payable, due 2033, effective March 2023;
- \$25m converted to £22m with fixed 6.2485% GBP interest payable, due 2033, effective March 2023;
- \$66m converted to £59m with fixed 6.2800% GBP interest payable, due 2035, effective March 2023.

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15 Provisions for liabilities

	Environmental £'m	Deferred tax £'m	Other provisions £'m	Total £'m
At 1 April 2023	6	737	20	763
Movement during the period	-	1	-	1
Reassessments during the period	-	-	(2)	(2)
At 30 September 2023	6	738	18	762

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.

16 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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16 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	175	125	300
Customer contributions deferred in the period	5	2	7
Amortisation in period	(2)	(2)	(4)
	<u>178</u>	<u>125</u>	<u>303</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.

17 Pension asset

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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17 Pension asset – 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	207	242
Corporate bonds	135	145
Cash	8	6
Insurance contracts	<u>107</u>	<u>119</u>
Total market value of assets	457	512
Actuarial value of liabilities	<u>(322)</u>	<u>(364)</u>
Net pension asset	<u>135</u>	<u>148</u>

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

	30 September	31 March
	2023	2023
	£'m	£'m
Opening balance	(364)	(515)
Current service cost	(2)	(10)
Interest cost	(9)	(14)
Actuarial gains	46	152
Benefits paid	<u>7</u>	<u>23</u>
Closing balance	<u>(322)</u>	<u>(364)</u>

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

	30 September	31 March
	2023	2023
	£'m	£'m
Opening balance	512	733
Interest income	12	20
Contributions from the Company	2	5
Remeasurement of scheme assets	(61)	(222)
Benefits paid	(7)	(23)
Administration costs	<u>(1)</u>	<u>(1)</u>
Closing balance	<u>457</u>	<u>512</u>

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17 Pension asset – 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	(61)	(211)	(222)
Interest income on plan assets	<u>12</u>	<u>10</u>	<u>20</u>
Actual loss on plan assets	<u>(49)</u>	<u>(201)</u>	<u>(202)</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	(2)	(5)	(10)
Administration costs	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Total charged to net operating costs:	(3)	(6)	(11)
Expected return on scheme assets	12	10	20
Interest charge on scheme liabilities	<u>(9)</u>	<u>(7)</u>	<u>(14)</u>
Net interest credit	<u>3</u>	<u>3</u>	<u>6</u>
Total charge to the profit and loss account	<u>-</u>	<u>(3)</u>	<u>(5)</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	(61)	(211)	(222)
Actuarial gains on scheme obligations	<u>46</u>	<u>170</u>	<u>152</u>
Losses recognised in other comprehensive income	<u>(15)</u>	<u>(41)</u>	<u>(70)</u>

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18 Reconciliation of movements in shareholders' funds

	Six-month period ended 30 September 2023 £'m	Year ended 31 March 2023 £'m
Profit for the period	68	104
Remeasurement on net pension asset	(11)	(53)
Movement in cash flow hedges	1	(4)
Dividends paid	8	(47)
Net increase in shareholders' funds	58	-
Opening shareholders' funds	940	940
Closing shareholders' funds	998	940

19 Contingent liabilities

Through the ordinary course of operations, the Company is party to various litigation, claims and investigations.

In relation to the incident at Galpin's Road on 8 August 2022, the Company is continuing to support the police and Health and Safety Executive with their investigation. Due to the early stage of the investigation, it is not possible for management to reliably estimate the financial impact or timing of any future obligation as at 30 September 2023.

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	92	105	139
Depreciation charges	65	62	125
Amortisation charges	7	7	14
Loss on disposal of fixed assets	2	2	4
Amortisation of deferred income	(4)	(3)	(7)
(Decrease)/increase in provisions	(1)	1	12
Interest payable and similar expenses	89	73	155
Fair value movement on derivatives	(3)	(18)	7
Interest receivable and similar income	(8)	(4)	(10)
	239	225	439
(Decrease)/increase in trade and other debtors	12	(16)	(24)
(Decrease)/increase in trade and other creditors	(9)	163	73
Cash generated from operations	242	372	488

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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	4	-	-	4
Short term deposits	<u>207</u>	<u>473</u>	<u>-</u>	<u>680</u>
	<u>211</u>	<u>473</u>	<u>-</u>	<u>684</u>
Debt				
Debts falling due within 1 year	(300)	(300)	-	(600)
Debts falling due after 1 year	<u>(2,850)</u>	<u>(136)</u>	<u>(34)</u>	<u>(3,020)</u>
	<u>(3,150)</u>	<u>(436)</u>	<u>(34)</u>	<u>(3,620)</u>
Derivative financial instruments				
Derivative financial liabilities	<u>(74)</u>	<u>-</u>	<u>5</u>	<u>(69)</u>
Total	<u><u>(3,013)</u></u>	<u><u>37</u></u>	<u><u>(29)</u></u>	<u><u>(3,005)</u></u>

Cash and cash equivalents contain £1m (31 March 2023: £3m) 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, loan accretion accruals and foreign exchange variances.

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 Corp. (as agent for Syncora Guarantee Inc.) and Assured Guarantee UK Limited that were previously in place over certain outstanding public bond instruments. The cash settlement amount of £9m is included within the "interest paid" line of the cash flow statement for the comparative period.