Annual Report and Financial Statements 2024

A dedicated leader in keeping everyone safe and warm
Our team is focused on providing a seamless experience for our millions of customers

Live document links
This Annual Report is available as an online pdf only and not printed. We have therefore included live links on the contents list and primary accounting statements (to aid navigation) and elsewhere throughout the document (to signpost extra related information elsewhere).

Contents

SGN in numbers

Our 2023/24 Annual Report brings together the key elements of the year. It incorporates a wide-ranging overview of the Company, statement from the Chair and an introduction from the CEO.

The Strategic Report section contains our operational review for the year, plus the financial review along with our ESG report and the TCFD report.

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.

Network investment[1] in 2023/24
£491.3m
20.0% increase on 2022/23

Vulnerable households offered assistance or advice in 2023/24
232,847
96.1% increase on 2022/23

Turnover in 2023/24
£1,375.3m
11.9% increase on 2022/23

Total carbon footprint for 2023/24
724,741tCO_2e
3% decrease on 2022/23

Cash flow after investing activities[1] in 2023/24
£237.1m
20.8% decrease on 2022/23

2023/24 network gas mains replacement
795km
4.3% decrease on 2022/23

Regulatory Asset Value as at 31 March 2024
£7.28bn
4.2% increase on 2022/23

External awards in 2023/24
5
2022/23: 10

[1] Defined in Alternative Performance Measures (APMs) on page 149.

SGN at a glance

The SGN Group owns one of the UK's largest and most innovative gas distribution networks, operating across Scotland, southern England and Northern Ireland.

Our purpose

Serving our communities by keeping everyone safe and warm.

Our vision

To play our part in a fair and affordable energy transition.

Our values

Innovation
We think differently and welcome change

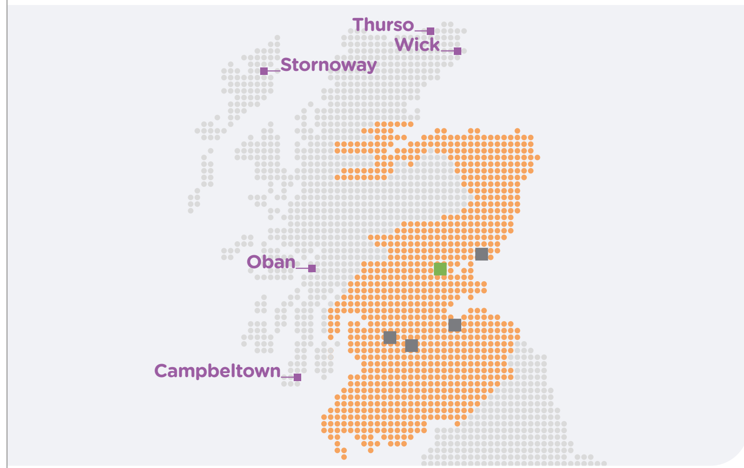
Openness
We share our knowledge and expertise to help others

Safety
We look after each other and our customers

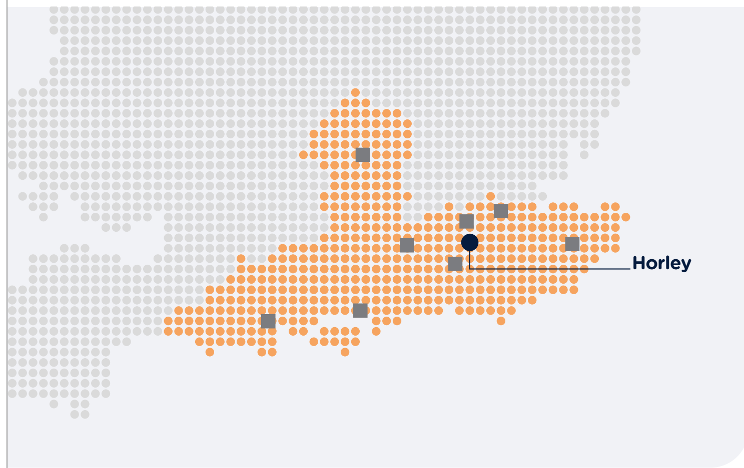
Respect
We make sure everyone feels like they belong

Reliability
We aim never to let people down

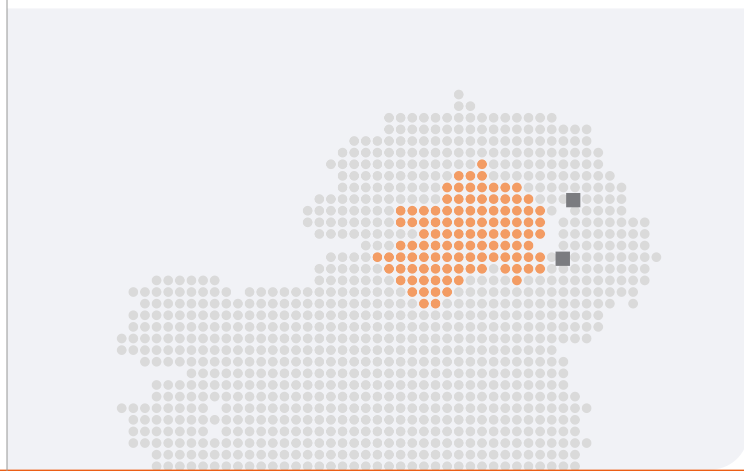
Operations throughout the UK



Scotland
Our network distributes gas across Scotland to 75% of households (1.85 million customers). This includes remote areas through the five Scottish Independent Undertakings (SIUs).



Southern England
Stretching from Milton Keynes in the north, to Dover in the east, and Lyme Regis in the west, including London boroughs south of the River Thames, our Southern network distributes gas to 4.15 million customers.



Northern Ireland
The network in Northern Ireland delivers gas to 4,500 customers across nine towns in the west. Our Evolve business has ambitions of fully decarbonising this network by 2030.

Key
- SGN network areas
- SIUs
- Head office
- Customer service centre
- Offices/depots

The SGN brand portfolio

As our business expands so does our portfolio 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.

Non-regulated businesses
Beyond our regulated operations, we engage in complementary business ventures, leveraging expertise and diversifying the Group's portfolio.

Chair's statement

With an enhanced leadership team, a strengthened frontline and a clear strategy, I am confident that SGN is well positioned for the future.

This year we have laid the foundations for the transformation of SGN.

We welcomed the appointment of a new Chief Financial Officer, Chief Operating Officer and Future of Energy Director. They complete a formidable leadership team focused on our core purpose of serving our communities by keeping customers safe and warm while helping to build a secure and resilient energy system which underpins a net zero economy.

A year of investment

Our network and frontline operations are the priority of everyone in the business. To that end, over the past year we have further strengthened our frontline and addressed labour shortages in the south by recruiting and training up hundreds of new colleagues. We are also renewing our fleet with almost 280 new vans delivered and several hundred more on order.

A core requirement of our Regulator is that we deliver key service standards with respect to controlled and uncontrolled gas escapes. We take our responsibilities in this area extremely seriously and we achieved these standards with improvements in performance across both our regions.

Safety is our number one priority. This year we have launched a series of initiatives to enhance our safety culture.

Supporting our customers

SGN provides an essential service to six million households as well as thousands of industrial and commercial businesses. Our communities are as diverse as the geography we cover. We have some of the most deprived populations of any gas network. As the cost-of-living crisis continued, this year we worked with more than 100 national and local charities and organisations to provide support and advice for some of the most vulnerable in our communities.

Thanks to the award-winning expertise and dedication of our customer service teams, we again achieved 9/10 in customer satisfaction scores across both our networks.

Enabling net zero

We see enormous potential for the gas network to be an enabler of net zero. We were pleased that the Government took the strategic decision to support blending of up to 20% hydrogen by volume into the GB gas distribution network. Our world-first hydrogen projects are providing some of the core evidence that will be needed to build out a hydrogen economy. We also believe biomethane can help decarbonise gas grids. This year we completed a number of gas-to-grid projects and we are stepping up our plans for biomethane in the future.

A fair price control

We are a regulated business. Our planning for our next five-year price control (RIIO-GD3) is at an advanced stage and we continue to engage with our customers and stakeholders to ensure we remain aligned with their priorities. The outcome must be fair and balanced to ensure continued investment into the network as we near the completion of the 30-year mains replacement programme in 2032.

Board

This year we welcomed Joanna Whittington as an independent Non-Executive Director. Her track record in energy and regulation includes senior roles at Ofgem and BEIS. I'd like to express my appreciation to Laura Sandys who stepped down after serving for five years.

My Board colleague Becky Lumlock will take over from me as Chair later this year, while I will remain on the Board as a Non-Executive Director and Chair of the Health & Safety Committee.

Our CEO Mark Wild will also be moving to a new role in the coming year having been asked by the Government to lead the high-speed rail project HS2. SGN is in a strong position thanks to Mark's energy, vision and leadership over the past two years. The search for his successor is under way.

I am grateful to all colleagues throughout SGN for their hard work and commitment during a year of significant change. With an enhanced leadership team, a strengthened frontline and a clear strategy, I am confident that SGN is well positioned for the future.

Nick Salmon
Chair
25 July 2024

Introduction from the Chief Executive

This year we have focused our business to support our frontline colleagues and the vital work they do keeping our six million households and business customers safe and warm.

We have strengthened the frontline, recruiting more than 600 people and expanding our apprenticeship and trainee programmes to deliver a pipeline of talent for years to come.

We have elevated safety across SGN with the creation of a new safety programme, face-to-face briefings for all frontline colleagues and a continued commitment to making safety our number one priority. We strive for zero-harm for colleagues, contractors and our customers. We have also further strengthened the frontline, recruiting more than 600 people and expanding our apprenticeship and trainee programmes to deliver a pipeline of talent for years to come.

Delivering for our customers

We achieved Ofgem's 97% Emergency Standard of Service in both our Scotland and Southern networks. We continue to strive for 100%. We also care deeply about the role we play in communities and the support we provide to vulnerable customers. This year we supported 232,847 vulnerable households, working with 110 charities and community organisations. Both our networks achieved customer satisfaction scores of over 9/10.

New team and new plan

Simon Kilonback's arrival as Chief Financial Officer is already making a difference. He brings a wealth of experience spanning the public and private sectors and is driving financial controls. With Simon's appointment I'd like to thank Mick Carmedy for his service over the past six years and wish him well for his retirement. I am delighted that Darren Elsom also joined the senior team to lead an enhanced Chief Operating Officer function, bringing focus and consistency to our frontline operations in both Scotland and southern England. With the appointment of Tony Green from National Gas, we also have a recognised industry leader at the helm of our Future of Energy directorate.

In March, the Board approved our new strategy – our blueprint for future success – which focuses on Safety, People, Productivity and the Future. Our immediate priority is supporting our frontline colleagues and creating an intelligent planning-led organisation. With a refreshed Executive team and the new strategic plan, SGN is well positioned for the future.

In May it was announced that I will be joining HS2 as CEO. While I am looking forward to the challenge of leading Britain's biggest infrastructure project, for now the Executive team and I are solely focused on our mission of delivering an enduring and thriving business in service of our customers.

This includes rolling out the first stages of our transformation plan and stepping up our cyber security preparedness with a long-term and substantial investment programme.

In August we marked a year since the gas explosion at Galpins Road in South London where a young girl lost her life and several people were injured. We are co-operating fully with the ongoing police investigation to ensure everyone learns lessons from this tragic incident. Our thoughts remain with everyone affected by these events.

Our plans for the future

We know from working in our communities that the path to net zero must be affordable and offer choice to millions of households struggling with their energy bills. For many industrial and commercial businesses that choice will be hydrogen. That's why we are progressing our live trial to demonstrate that we can carry hydrogen in our local transmission system. We are also opening the UK's first hydrogen training facility at Fife College for Gas Safe Registered engineers. They will play a key role in our world-first H100 Fife project which will see up to 300 households heat their homes with green hydrogen in 2025. We see an increasing role for biomethane too. Last year our Evolve subsidiary undertook the first gas-to-grid biomethane injection in Northern Ireland. We also completed our second gas-to-grid project with Thames Water which will supply up to 4,000 households in south-west London with renewable biomethane.

Preparing for RIIO-GD3

As a regulated business, SGN is subject to five-year price controls. Our planning for the next period (RIIO-GD3) which starts in April 2026 is at an advanced stage. I'm grateful for the hard work of our RIIO-GD3 planning team and to our Independent Stakeholder Group which provides challenge and feedback on our proposals. Stakeholder and customer insight is crucial at this stage to ensure our plan meets the expectation of stakeholders across our network areas. Gas networks are the backbone of our energy system, providing flexibility and resilience. The RIIO-GD3 price control must recognise this and enable investment for the future.

It's been an honour to lead SGN. I'm immensely proud of all our brilliant and passionate people and what we've accomplished together.

Mark Wild OBE
Chief Executive Officer
25 July 2024

Keeping the gas flowing

Day or night, rain or shine, our frontline teams are constantly working, innovating and supporting our customers to stay safe and warm.

We're on hand 24 hours a day to keep gas flowing to homes and businesses.

24/7 **365**

We manage **74,000km** of UK gas pipe network which provides natural and green gas to **six million** domestic, industrial and commercial customers.

A further **1,700** people are now connected to gas after we extended our network by 27km to villages near Falkirk.

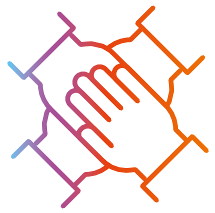
We connected **6,381** domestic properties to our network in 2023/24, including services to **268** fuel poor households.

We attended over **177,700** gas escapes across our Scotland and Southern network areas during 2023/24.

Our Gas Control Centre forecasts demand, stores the gas required to meet it and responds to any alerts.

Our engineers recorded increases in service standards response times in 2023/24 compared with 2022/23 to help make these emergency situations safe quickly.

	Scotland		Southern	
	Uncontrolled	Controlled	Uncontrolled	Controlled
	99.49%	99.80%	98.39%	98.91%
	↑2.33%	↑3.19%	↑6.55%	↑5.98%



An efficiency trial in London to help us meet our service standards has generated engineer initiatives providing an annual saving of over **15,000 hours.**

We are midway through a transformation programme of initiatives to optimise performance prior to RIIO-GD3.

Keeping the gas flowing

We're upgrading our pipes in key towns and cities for safety and to future-proof our network.

This year, we replaced

795km

of old metal mains with new plastic pipe.

Our mobile Safe & Warm Hubs operate in communities where engineers are upgrading our network.

Our dedicated in-house Careline service team helps build trusted relationships with vulnerable people while working in these locations.

14 core services

are provided through our Careline, including:

- Energy efficiency advice
- Charity partner referrals
- Priority Service Register registrations
- Support fitting CO alarms
- Funding boiler repairs

We've installed a new

14km-long

pipe along the A9 and B898 to replace a key piece of Scotland's gas network infrastructure threatened by riverbank erosion.

Our commitment to bringing in apprentices and trainees is greater than ever.

150

apprentices joined our business this year.

379

colleagues are on programmes designed for early careers or upskilling.

We've given a 40-year-old key network transmission asset a makeover. We fitted it with modern features and regulator technology that is a first-of-its-kind in Scotland.

UK-first

We're opening a training facility in Fife to prepare our engineers to work with hydrogen.

A record

860

new starters joined across our business.

Keeping the gas flowing

Customers are at the heart of everything we do. We strive to be an authentic leader in customer care and won five awards in 2023/24.

2023 Gas Industry Awards:
Customer Service Award

2023 CCA Global Excellence Awards:
Team of the Year

2023 CCA Global Excellence Awards:
Innovation in Customer Service

2023 UK Customer Experience Awards:
Best Customer Centric Culture

2023 UK Customer Experience Awards:
Vulnerable Health and Wellbeing

First

Our Scotland network remains top for customer satisfaction for the eighth consecutive year.

Our Southern network jumped three places to fifth in 2023/24.

232,847

vulnerable customers supported.

456,283

unique support services provided.

7,433

Highest-ever 'extra care Additional Service referrals'.

"Our awards success is down to the hard work and commitment of our people who strive to give a 10/10 service every day. We never walk away from someone in need and do everything we can to support our most vulnerable customers."

Maureen McIntosh
Director of Customer Experience, SGN

We've delivered

£20.5m

of social value through our 100+ Safe & Warm partnership network.

49%

Almost half of customer queries are resolved at first contact.

Our award-winning tech supports video on meter alteration applications: avoiding at-property surveys and saving

11 days.

"We're committed to maintaining a safe and reliable network for our customers, while also pioneering solutions for a sustainable future. From providing free gas safety devices to offering diverse career opportunities, we're proud of what we do."

Darren Elsom
Chief Operating Officer, SGN

SGN action on net zero

We recognise the urgency of the global climate crisis and we're committed to delivering a greener future by sustainably providing heat for our customers and reducing emissions from our operations.

Decarbonising our network
Gas networks have a key role to play today and tomorrow. They are critical national infrastructure which ensures the UK's energy security is maintained and enables a transition to net zero.

We think our customers deserve the best clean energy experience. We're committed to delivering decarbonisation without sacrificing what customers need and want from their energy supply: resilience, reliability and minimum disruption.

The scale and complexity of this challenge is vast, and we recognise there isn't a one-size-fits-all approach to decarbonisation. There is no silver bullet to achieve net zero and that's why we're going to need every tool in the box and an energy system comprising hydrogen, biomethane, heat networks and electrification.

450,000 homes

Our ambition is to fuel 450,000 homes in our network with green gas by 2026.

30km pipeline

We're conducting a live hydrogen trial involving 30km of decommissioned pipeline.

Delivering green gas through our existing infrastructure

We're increasing the renewable energy flowing in our network through ready-now technologies like biomethane injection which has the potential to heat 20% of UK homes.

Biomethane is fully compatible with existing gas network infrastructure and there is no impact on the end user. This means we can deliver decarbonisation without sacrificing what customers want and need from their energy supply: resilience, reliability and minimum disruption.

It represents a heat solution tackling the geographical constraints and intricacies of decarbonising right in the heart of major cities where transitioning to heat pumps may be difficult.

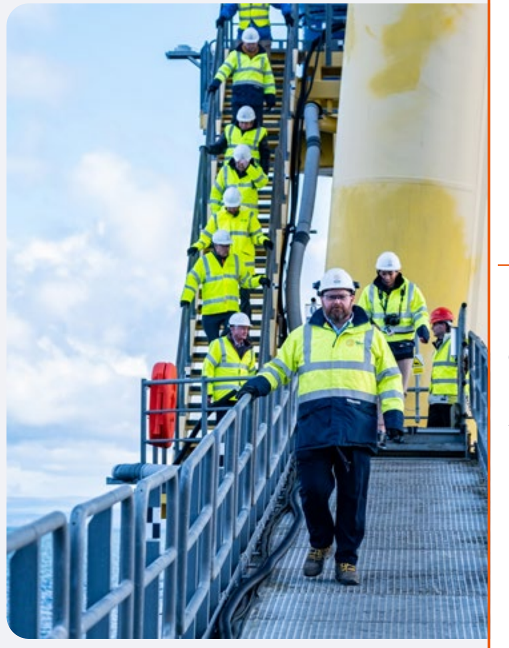
And it's not just in urbanised areas where biomethane can decarbonise heat! Areas rich in surplus agricultural waste could allow whole regions to be powered by biomethane. For example, our business in Northern Ireland has ambitions to capitalise on regional production to ensure natural gas is fully replaced with biomethane by 2030.

Building on our expertise
We've been pioneering the advancement and use of biomethane in the UK since 2010. Our biomethane projects have enabled 289,620 homes to have green heating so far and our ambition is to fuel 450,000 homes in our network with green gas by 2026.

We're increasingly working with water companies to turn sewage into biomethane. Our most recent gas-to-grid installation at Thames Water's Mogden site is another important step on the journey to net zero: heating 4,000 Twickenham homes and offsetting 8,000 tonnes of CO_2 annually.

Biomethane plant in Coupar Angus, Scotland.

Engineers and stakeholders visit wind turbine at our H100 Fife project in Scotland.



Repurposing the local transmission system to carry hydrogen

The Local Transmission System (LTS) is the backbone of our energy network, delivering gas from the National Transmission System to towns and cities across the country.

If the LTS could carry hydrogen instead of natural gas, it would be a major step to decarbonising the UK's gas network and industrial sector. Our LTS Futures project is testing the compatibility of the LTS to transport hydrogen. In 2025 we will undertake a live hydrogen trial on a 30km decommissioned pipeline that runs from Grangemouth to Granton on the outskirts of Edinburgh.

Providing evidence for home heating

We're working to prove hydrogen's viability to replace natural gas and heat UK homes.

Our flagship, world-first H100 Fife green hydrogen project will see up to 300 homes in Scotland switch from natural gas to hydrogen in 2025.

The trial is helping to provide evidence for the Government's heat policy decision due in 2026.

Understanding regional characteristics and working with local authorities

Subtle geographical differences will be key to identifying the best approach and ideal opportunities to deliver decarbonisation.

Our recent studies in areas like Edinburgh and Tayside demonstrate the role low-carbon hydrogen can play in unlocking a green future at a regional level.

They pinpoint the clear role for hydrogen within a whole-system approach uniting the gas network, its users and other key stakeholders.

Making the most of renewables going to waste

We want to ensure we can recover and maximise clean energy.

Increasing renewables deployment ahead of the significant investment required to upgrade electricity transmission network capacity has made curtailed wind energy generation a pressing issue.

We're looking to maximise primary energy recovery to produce green hydrogen and ensure carbon-free power is not wasted.

Meeting the needs of all our customers

We're preparing our network to connect hydrogen infrastructure with domestic, industrial and commercial customers.

We're accelerating work to develop a hydrogen transmission system in Scotland and southern England. Our H2 Caledonia and H2 Connect projects are exploring how existing networks and new pipelines can support the development of the Scottish and Solent clusters, as well as connecting the national transmission system to create a UK hydrogen backbone joining production facilities with end users.

We also need to support our industrial and commercial customers to decarbonise their operations. These consumers represent roughly 40% of network demand and cover sectors critical to the UK economy including distilleries, cement making and the manufacturing of household goods.

Overview
Strategic Report
Governance
Financial Statements

SGN action on net zero

Reducing our operational emissions
We take responsibility for our environmental impacts and the effects these have on both our climate and the communities in which we operate. We are committed to making progress to reduce emissions and waste from our operations.

Natural gas leakage from our old pipes represents the biggest impact on the environment. And, that's why we continue to invest in replacing these with more reliable plastic pipe alternatives.

This section demonstrates our measures to reduce our impact on the environment and our projected performance.

Progress indicator key
- Unlikely to meet 2025/26 target (red)
- Off track but likely to meet 2025/26 target (amber)
- On track to meet 2025/26 target (green)

Performance against our key environmental KPIs

Environmental strategy pillar	KPI	2022/23 actual	2023/24 actual	2025/26 target	Progress	Comments
Net zero business carbon emissions	**Business carbon footprint (Scope 1 and 2) excl. shrinkage** Annual reduction in business carbon footprint excluding shrinkage	19,845 tCO_2e (7% reduction on 2021/22)[1]	18,210 tCO_2e (8% decrease on 2022/23)	17,395 tCO_2e	Amber	Find out more below on how we are decarbonising our fleet, and our property on page 60.
	Shrinkage emissions reduction Annual reduction in total shrinkage	696,634 tCO_2e (3% reduction on 2021/22)	671,481 tCO_2e (3.6% reduction on 2022/23)	618,583 tCO_2e	Amber	Find out more about how we are reducing leakage below.
Engaging with our supply chain, working towards a net zero commitment	**Suppliers meeting sustainable procurement code** Proportion of suppliers meeting the environmental supplier code or equivalent	85%[2]	85%[2]	85%[2]	Green	We are now receiving carbon emissions data from our suppliers enabling us to baseline performance, build specific training programmes and ultimately set targets to improve.
Transitioning towards a circular economy	**Waste to landfill** Zero depot waste to landfill	6%	2.3%	0%	Red	While we are unlikely to meet our ambitious 2025/26 target, we have made improvements in the year and are conducting analysis to identify future focus areas to improve our performance. We will also extend out our zero waste to landfill target beyond 2025/26.
	Waste to landfill Zero spoil waste to landfill	3%	4.3%	0%	Red	
Biodiversity net gain on land we manage	**Biodiversity studies** Number of biodiversity baseline studies carried out at our sites	50	78	128	Green	Find out more about our biodiversity programme on page 58.

[1] 2022/23 number has been updated following external assurance.
[2] By spend, to align with Ofgem.

Mains replacement programme – we're replacing our old metal gas pipes with new PE pipes.

Reducing shrinkage – how we can help prevent gas escaping from our network

The biggest contributor to our organisational carbon emissions is shrinkage. This includes leakage from our network, theft of gas and our own gas use.

With leakage making up 93% of our carbon footprint, minimising how much gas is lost from our network is essential for us to achieve our net zero targets.

We're investing in initiatives to help prevent gas escaping from our network, with the aim of reducing shrinkage by approximately 18% over RIIO-GD2.

Mains replacement

Our Ofgem-approved mains replacement programme is the key intervention we can make to reduce leakage. By implementing innovative new technologies such as CISBOT and Core and Vac, we're also able to reduce the carbon emissions of our operations.

We've replaced 795km of gas mains this year, which has contributed towards our shrinkage emissions reduction of approximately 25,000 tCO_2e. Our Scotland network is now 85% polyethylene (PE) pipe and our Southern network 79% PE pipe.

Pressure management

Reducing gas pressure in the network can reduce leakage. However, we need to balance reducing pressures with safely maintaining customer supplies. Our new remote pressure control and management system Utonomy is one initiative that is already contributing significantly towards reducing shrinkage. With funding from Ofgem's Strategic Innovation Fund (SIF), we're able to expand this technology through our Intelligent Gas Grid project.

Electric vehicle roll-out – trialling vans in Scotland

We're reviewing our fleet and transitioning to emission-free vehicles to reduce our operational impact on the environment.

We had plans to transition up to 50% of our commercial fleet to zero emissions vehicles by 2026.

However, progression has been impeded by global infrastructure availability challenges. We're working hard to deliver on our electric vehicle ambitions, but it is crucial our fleet continues to meet our specific operational needs.

25 small electric vans have been delivered so far and we've trialled a larger electric van in Scotland to evaluate how the battery range is affected by the type of work we do.

The trial of a 3.5-ton fully electric van, currently assigned to a First Call Operative (FCO) engineer, is approaching its final stages. The vehicle was loaded with dead weight to accurately simulate the typical load carried by a fully equipped FCO van.

Next steps

Data from this trial is currently being evaluated. Additional trials are scheduled to gain further insights into the operational challenges associated with fully electric vans, and a collaborative review with the Operations team is underway to understand and the changes necessary to support the transition to battery-powered electric vehicles.

Trialling a larger electric vehicle to evaluate suitability and progress our transition.

Business model and regulatory framework

What we do

SGN is an award-winning company delivering gas safely and efficiently to our customers.

We are one of the largest gas distribution companies, managing the network of 74,000km that transports and distributes natural and green gas to almost six million homes and businesses across Scotland, southern England and the west of Northern Ireland.

Gas flows into our network from National Gas's high pressure National Transmission System. We reduce the pressure as gas travels through our network to homes and businesses.

We provide several essential services:

- We transport gas to 6.0 million homes and businesses across our extensive gas distribution networks.
- We provide the National Gas Emergency Service, day and night, responding to reports of gas leaks to keep everyone in our communities safe and warm.
- We can connect households and businesses to the gas network, move your meter and pipework, or disconnect you from the gas network.
- We're also committed to upgrading the gas network. Gas networks in Great Britain have a reliability rate of 99.9%, with customers on average experiencing an interruption in supply only once every 40 years.

We do not extract, produce or supply gas. Neither do we own or sell the gas that travels through our network. This means we are not exposed to wholesale gas prices. We do not send gas bills to our customers or repair gas appliances in homes or businesses. The cost of our services is included in customers' gas bills.

The implications of regulation on our business model

Gas distribution networks are natural monopolies in their regions. They are regulated by Ofgem under a stable and predictable regulatory regime. The current price control (RIIO-GD2) began in April 2021 and lasts until 31 March 2026.

Networks generate revenue under the RIIO-GD2 price control framework through a combination of regulated revenue streams, incentives and efficiency savings. The framework is set out in the formula below and is designed to ensure a stable revenue stream with incentives to improve services, innovate, and operate efficiently for the benefit of consumers and the environment.

Revenue for Gas Distribution Networks (GDNs) comes from charges for using the gas network. These charges are paid by gas shippers and suppliers, who then pass them on to customers in their gas bills. The charges are set by Ofgem. They are designed to cover the cost of maintaining and operating the gas network, as well as providing a return on the capital invested.

The framework also incentivises companies to meet certain performance targets. These targets can include customer service, reliability, and safety. Companies can earn extra revenue if they exceed these targets. Failing to meet targets can result in financial penalties.

If companies are able to innovate to reduce costs and improve service quality any savings can also be shared between the Company and its customers.

The framework requires companies to deliver specific outputs, such as environmental or infrastructure improvements. Delivering these outputs can result in additional revenue mechanisms set by Ofgem.

In addition, companies can keep some of the savings made against Ofgem's allowances by operating more efficiently and reducing costs. RIIO-GD2 also includes mechanisms to adjust revenues due to unforeseen events.

Customer bill impact

SGN's impact on a domestic customer annual energy bill is typically between £150 and £170.

RIIO-GD2 revenue building blocks

Revenue
Majority of revenues earned from shippers who collect tariffs via consumer bills

=

Incentives
Incentivised to perform better than our peers, penalised if we don't

+

Innovation
SGN can bid (i.e. via reopeners) to invest in innovation to help improve efficiency and customer experience

+

Outputs
These are things we've committed to do as part of the RIIO-GD2 price control

Our business strategy – transforming SGN

SGN is focused on meeting our obligations under RIIO-GD2 and ensuring we are well placed to thrive in the future under the next price control.

Safety is our number one priority and has been elevated across the business.

We are investing in people and equipment to support our frontline colleagues and enhance delivery.

We are also seeking to transition towards a centralised and intelligent planning-driven organisation by leveraging our workforce, data, technology and innovation.

Non-regulated activities

SGN's non-regulated activities are separate but closely aligned with its core businesses.

SGN Place regenerates brownfield (gas holder and former sites) into prosperous sustainable residential and commercial developments to optimise the value of redundant land.

SGN Heat Networks is targeting the development, ownership and operation of heat networks to support government ambitions and meet decarbonisation goals.

Commercial Services provides metering, MAP and MAM services to clients and our Green Gas Solutions team leverages our leadership in biomethane, providing expertise in the development of biomethane gas-to-grid plants and associated green gas production.

SGN Place
SGN Commercial Services
SGN Heat Networks
FYLD
mua

Our 50:50 joint venture (mua) with J Murphy & Sons supports developers in the adoption of new electricity and gas connections and is also entering the water and wastewater connections market. It's one of the fastest growing independent network owners (IDNO/IGT) in the UK.

SGN is a minority shareholder and customer of FYLD, a frontline mobile platform which makes field work safer and more productive. It was developed with SGN's frontline employees' views and experiences.

Planning for the RIIO-GD3 price control period

The next five-year price control (RIIO-GD3) will commence in April 2026. Our RIIO-GD3 planning is at an advanced stage and we will be delivering our final business plan to Ofgem by December 2024.

We believe gas networks will provide energy security, resilience and choice in the energy system for years to come. As set out by our Chairman at the start of this report, the next price control must be fair and balanced, providing the opportunity for a fair return to ensure continued investment into the network including the completion of the 30-year mains replacement programme.

Gas networks are the backbone of our energy system, providing flexibility and resilience. The RIIO-GD3 price control must recognise this and enable us to invest for the future.

The future of gas – implications for our business model

We see a long-term role for our network and believe it can be a cornerstone of decarbonisation efforts in the decades to come.

Today the UK has one of the highest gas penetration levels in Europe with some 74% of households using mains gas central heating. It also has some of the worst insulated housing in Europe.

We have a key role to play in ensuring a fair and affordable energy transition for customers. We believe customers will need choice in how they decarbonise their heating.

Our pipeline at one of our offtake sites.

For some that choice will be a heat pump. However, many industrial and commercial industries require temperatures that currently can only be reached by burning gas. Those I&C customers account for around 40% of the gas demand through our network.

The scale and complexity of shaping a net zero future for the UK is so big that we believe every tool in the box will be needed to achieve it including hydrogen, biomethane, heat networks and electrification. Our network can facilitate hydrogen blends of at least 20% and we see a growing role for biomethane, with an ambition to provide biogas to up to 450,000 customers by April 2026.

We are also helping to build the evidence base needed by the UK Government to make a heat policy decision in 2026 by delivering a programme of Future of Energy projects that demonstrate the role our network could play in a decarbonised future.

This includes pursuing a number of world leading projects which will give us a stake in the net zero future including our green hydrogen neighbourhood H100 Fife.

Our operating environment

In the dynamic landscape of our industry, understanding the factors influencing our business is paramount.

This section explores the key role gas networks play in our energy security, how they can accelerate the path to net zero, the challenges of operating our networks and the important role of regulation.

Signage around our pipe replacement project in Edinburgh.

How the gas networks deliver energy security and resilience to the UK energy system

Delivering energy today
The UK's gas network has kept millions of households safe and warm for decades. It transports natural gas via a world-class, largely invisible network which powers our homes, businesses, and public services.

Gas is the UK's primary energy source. It's reliable, can be stored and can keep the grid topped up during times of peak demand to prevent blackouts. Without gas, the country would quickly grind to a halt.

Around 25 million households are connected to the gas grid, relying on it for heating and cooking. Domestic demand amounts to approximately one-third of total gas demand. Industry and power generation accounting for the other two-thirds. Many industries rely on the intense heat that gas alone can generate in order to operate.

The key role of gas networks is to move significant quantities of energy at scale in a reliable, efficient and cost-effective manner. The gas network not only physically moves energy over long distances, but also provides energy security and resilience via linepack (the practice of increasing gas pressure in pipelines to act as an energy store) and connection to storage facilities.

The gas network also ensures the lights stay on. It supplies flexible gas-powered electricity generation sites. These kick in to support the power network when demand is high and when renewable generation is intermittent. The gas and electricity networks are heavily integrated, with the gas network helping the power system to balancing supply and demand.

Ready to deliver the UK's energy tomorrow
Our gas network is an essential and critical national infrastructure asset and will remain so for the foreseeable future. It will also be a cornerstone of the UK's journey to net zero.

We are already transitioning away from fossil fuels to cleaner gases which will enable millions of households and businesses to decarbonise without the expense and disruption of expensive new heating systems.

Today across SGN's networks in Scotland, Northern Ireland and southern England we are supplying the equivalent of 289,620 homes with biomethane, a renewable gas made from agricultural and sewage waste. With 14 new schemes due to come online, we are aiming for 450,000 homes by the end of the current price control period in April 2026.

Longer term, we also see a compelling role for hydrogen. These green gases will ensure gas networks will play a vital role for our customers by offering in a cost-effective and less disruptive transition to net zero.

We see a major role for heat pumps too. Widespread deployment will however require extensive upgrades to the regional electricity distribution infrastructure with knock on impacts for consumers' energy bills.

For the gas network, that upgrade work has been ongoing for more than two decades.

The Iron Mains Risk Replacement Programme was launched in 2002. It involves the replacement of old metallic gas mains with new yellow polyethylene (PE) pipes. It was launched to ensure the gas network remained a safe and reliable asset but has the added benefit that these new PE mains and services are 'hydrogen-ready'. Investing in replacing the iron gas mains with new zero-carbon gas ready pipes also significantly reduces methane natural gas leakage from gas networks, reducing the UK's carbon emissions.

Around 75% to 80% of low-pressure gas distribution pipelines have now been upgraded to PE, with the iron mains replacement programme set to be completed in 2032.

Investing for the future
Over this period gas networks are forecast to have invested £28bn upgrading the network. As we plan for the next price control period RIIO-GD3 it is vital that this investment continues and we finish the job.

Gas networks now have the potential to transport green gasses including hydrogen, via both the repurposing of current pipelines and the construction of new pipelines.

At a time of growing geopolitical tensions and rapid technological change, we can ensure that consumers and businesses continue to benefit from a secure and resilient energy system for decades to come.

To do this we must continue to support the network replacement programme to ensure the network remains safe and reliable, reduce greenhouse gas emissions, and maintain optionality for hydrogen in the future.

Through Ofgem's regulatory framework, gas networks must remain investable against a backdrop of an uncertain future in order to preserve the essential operation the gas network provides today and tomorrow.

Gas networks must also be regulated in a manner that means they remain attractive to investors, ensuring we maintain the very high levels of safety and reliability we enjoy today while keeping bills down for customers.

Around 25 million households are connected to the gas grid, relying on it for heating and cooking.

284,000km

Great Britain is home to 284,000km of gas network infrastructure.

830TWh

That network delivers 830TWh of energy every year via the transportation of natural gas.

40% of energy demand

This accounts for over 40% of energy demand, more than four times the contribution of electricity.

Six times more energy

On a cold winter's day, there is around six times the amount of energy going through the UK's gas network than its electricity grid.

99.9% reliability

Gas networks are also safe and reliable. The GB gas networks have a reliability rate of 99.9%, with customers on average experiencing an interruption in supply only once every 40 years.

Our operating environment

The geographic implications of our network footprint

The challenge of delivering for customers across our network regions

SGN operates gas networks in Scotland, southern England and Northern Ireland. Some of our six million customers are located in densely populated areas of central London while others live in some of the most sparsely populated regions of Scotland.

The diverse geographical attributes, differences in terrain, infrastructure and climate can change the nature of the work that we undertake, while policy and legal requirements set by the Scottish and UK parliaments create differences in how we deliver on a day-to-day basis within each region.

This diversity becomes more pronounced at the local level with greater variability on issues such as project planning, project delivery, and operating constraints imposed by councils. These varying factors impact the cost and time to deliver each project. In addition availability of the highly skilled labour we require to deliver our projects varies according to region. This means there can be significant regional cost differences between the two regions we serve.

The diverse geographical attributes, differences in terrain, infrastructure and climate can change the nature of the work that we undertake.

By way of example, extreme labour shortages persist within the skilled and semi-skilled workforce in southern England. This has impacted our ability to deliver important outputs, such as the Iron Mains Replacement Programme, during the first years of the RIIO-GD2 period.

We are also currently working hard to increase the pace of operational delivery in southern England by actively supporting contractors to build delivery capacity and longer term supply chain resilience. While necessary, these challenges are driving additional costs into the Southern business and driving our costs above the allowances that were awarded for the RIIO-GD2 period.

As we project forward, it is clear that in the Southern region there is a longer-term issue associated with high-quality labour availability. This will take time to resolve and is a structural feature of the economy where SGN is just one of many competing points of demand across the utility sector. Accordingly, we anticipate that these cost pressures will increase into the foreseeable future and into the next price control period.

To maintain safe and reliable delivery for our customers we will be working with Ofgem to ensure that the cost of operating efficiently in southern England is accurately reflected in RIIO-GD3.

Regional factors pushing up costs

- Regional wage differences: This is the cost necessary to attract people to work in the South of England compared to other areas of the UK. This needs to accommodate the higher cost of living in the south compared to other parts of the country.
- Regional costs on the supply chain: These are supply chain costs that are incurred due to working within densely populated urban environments. This includes the costs of bring material in further to complete work, to reinstate work or to hire necessary plant and equipment, the cost of holding material on the site or nearby and having constraints on the ability to store material and the additional costs of security.
- Impact of macro factors on the supply chain. Contractor cost pressures are more nuanced than simply wage movements and include an element of risk related to the regional location of the contractors. If a contractor is within a regional area where there is greater demand of work, or lower supply of workers then they will expect an increased return due to the extra risk they may need to take on to meet the demands of any contract they agree to. There is also the wider issue of other industries, including utilities and telecoms firms, all competing to work with the same contractors.
- Productivity impacts due to housing/population density, for example in south London which is part of our Southern region. These include the additional travel time of operating in congested urban areas, restrictions on working times in busy working areas to evening or weekend works with the associated mobilisation and de-mobilisation costs, the ability to locate vehicles close to the site, and the congested street space above ground (with cycle lanes, bus lanes, pedestrian areas etc.) and below ground (crossing water, telecoms, electricity etc.).
- Productivity impacts due to sparsity. In parts of our regions, for example Aberdeenshire and Moray, our teams must cover vast areas to ensure they deliver our key standards of service by dealing with gas escapes within a set timeframe. This inevitably incurs a higher overhead cost than would be seen on average across the rest of the UK.
- In the very remote areas of Scotland, there can also be similar challenges to southern England where there is a lack of highly skilled resource in the local area to deliver the workload. Bringing people into the area can increase the cost of delivery.

We deliver through the most challenging of winter conditions.

We operate across a diverse and dynamic footprint.

Two regions – working together

Despite the physical separation of our regions and the differences in terrain, infrastructure and even climate, we remain one company operating over two footprints.

All our engineers are trained to a very high standard with mirrored apprentice schemes and identical training programmes.

Assets and equipment are common to both which ensures that their skill-sets and professionalism are completely transferable.

Whether they are in Edinburgh or Eastbourne, our engineers will always prioritise high standards of safety and customer service with the sole aim of safeguarding people and property.

Region metrics

	Southern England	Scotland
Network length (km)	50,178	25,058
Land area (km²)	23,857	39,290
Network length/land area (km pipe per km²)	2.10	0.64
Number of customers (millions)	4.15	1.85

We're dedicated to delivering gas efficiently, keeping everyone safe and warm and going above and beyond for our customers.

This section demonstrates the intricate workings of our business and features our core commitments to people, safety and the future.

BISEP® product testing being carried out at DNV's Spadeadam site as part of our LTS Futures programme.

Our purpose, vision and values
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.

They reflect the progress of our business and the evolving societal values surrounding us. We encourage our people to live up to these values every day.

Gas Control Centre
Our Gas Control Centre operates 24/7 and forecasts in-day demand requirements ensuring there is enough gas available for our customers. We also monitor and respond to any alerts received at our high-pressure sites.

The way we operate our network facilitates the import of gas from ships delivering Liquefied Natural Gas (LNG) to UK terminals. And increasingly, we're aiding the transition to net zero by monitoring dozens of biomethane sites connected to our gas networks.

The Centre's LTS Planning team produces a ten-year gas demand forecast and publishes our Long-Term Development Statement each year. They support several internal teams with gas system modelling and analysis, demand change intelligence and regulation for the current natural gas system and the transition to carry biomethane and hydrogen through our pipes.

Operations
In our capacity as the National Gas Emergency Service, we responded to over 177,700 reported gas escapes across our Scotland and Southern network areas during 2023/24.

We aim to attend all reported uncontrolled gas escapes within the hour, and all controlled gas escapes within two hours, in line with Standards of Service response times. In Scotland, we responded to 99.49% of uncontrolled escapes within the hour and 99.80% of controlled escapes within two hours. While we responded to 98.39% of uncontrolled and 98.91% of controlled escapes within the standards in our Southern network.

We invested £312.5m in delivering our replacement policy mains, non-policy mains, risers and other replacement projects.

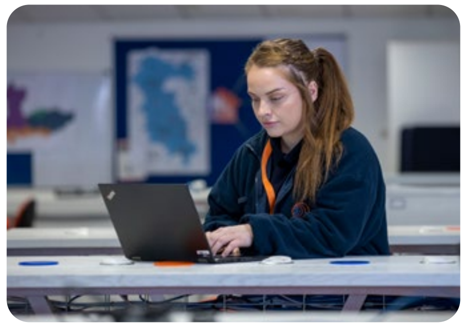
Our Operational teams replaced a total of 795km of old iron and steel pipes as part of our 30-year programme to upgrade our network. The newly inserted plastic pipe will ensure we can continue to deliver gas safely and reliably for many years to come.

To help keep a safe and secure supply to thousands of homes, we've been installing a new 14km-long pipe between Birnam and Logierait along the A9 and B898 to replace a key piece of Scotland's gas network infrastructure threatened by riverbank erosion.

Using innovative techniques and technologies such as CISBOT and Core and Vac, we were able to complete replacement jobs with minimal disruption as we only need to excavate a small section of carriageway to complete our work.

We already distributed gas to six million homes and businesses, and in 2023/24, we connected a further 1,729 domestic properties in Scotland plus 4,652 in southern England to our gas network. This includes connecting services to 268 fuel poor households in the UK.

We're also extending our network to connect villages in the Falkirk area to natural gas. This work will see 27km of new pipe laid and offering 1,700 people a route out of fuel poverty and the option of lower energy bills.



In the field, or behind the scenes, we're working to keep everyone safe and warm.

We recorded improvements in all four Standards of Service gas escape response time categories.

Major projects
We consistently completed complex large-scale pipe replacement projects under challenging circumstances in record time across our network areas.

Routine maintenance
Most of our pipes are stored underground, but we carry out regular inspections and maintenance on our high-pressure transmission system on all our above-ground crossings where our pipes cross railways, roads or rivers.

One project carried out in 2023/24 was to remove an abandoned main spanning 280 metres across Durnsford Bridge in Wimbledon and over the main railway lines running out of Clapham Junction.

This pipe was showing signs of disrepair and could also be easily accessed by the public raising significant safety concerns. It was imperative our team removed this quickly and under significant financial constraints. We also needed to demonstrate to Network Rail we were taking all the necessary precautions to prevent material falling onto the tracks and ensure the safety of our engineers working above the line.

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Our engineer exits a van with newly standardised setup.

Optimising performance

We're continually empowering service excellence to improve our performance and deliver better outcomes for our customers.

In August 2023, we selected our London region to run a trial designed to ensure we meet and exceed our standards. This 12-week trial focused on supporting several business functions to release team manager capacity. Our colleagues collectively identified six key initiatives in Lean programme training sessions which has resulted in an estimated 10% of additional time benefits for team managers.

It was deemed a success and the momentum is continuing in London and the incubator model has been rolled out to all other regions in our Southern network. Regions are building on the initiatives first identified in London and are developing their own initiatives to help foster increased projected efficiencies across the communities we serve.

One initiative in particular assessed our fleet of vehicles. Our engineers rely on a diverse fleet of vans, each possessing unique qualities, rack configurations, accessibility and size. We evaluated our fleet and introduced a standardisation initiative to ensure all our vans are organised and clean to enhance performance.

Initiative steps:

- **Sort:** Streamline vans by clearing unnecessary items
- **Straighten:** Arrange tools, equipment and materials in a logical and accessible manner
- **Shine:** Regularly clean and inspect vans to maintain a safe working environment
- **Standardise:** Establish standardised maintenance procedures and schedules
- **Sustain:** Implement checks to maintain organisation
- **Safety:** Prioritise and implement safety measures

Initiative outcomes:

- Organised vans and engaged engineers
- Reduced equipment retrieval time
- Safety and compliance assurance
- Fewer depot returns for tools and equipment

Van standardisation will now be rolled out across our Southern network. A scoring matrix will be introduced to establish and uphold a standardisation benchmark and ongoing evaluation will drive continuous improvement and excellence in van setup.

Our engineers rely on a diverse fleet of vans, each possessing unique qualities, rack configurations, accessibility and size.

Spotlight on safety

Safety is not just a value; it is a way of life at SGN. We care about our people, our customers and our communities.

New programme and branding to inspire zero-harm

Safety excellence is a key component of a high-performing organisation and we launched PROTECT to improve our safety culture.

We recognise that it takes a shared commitment and individual ownership to deliver safety excellence and that is why PROTECT was co-created with our colleagues by listening and understanding what is important to them.

The new programme and branding articulates SGN's commitment to zero-harm and is underpinned by the lifesaving rules and high-risk activities. PROTECT resonates through the business, is enduring and can be linked to other initiatives to help foster safe working environments for everyone.

PROTECT
ZERO HARM DONE.
ZERO EXCEPTIONS.

PROTECT is built on the foundation of three core principles:

- We work together to achieve zero-harm because we care
- Everyone has the right to go home safe and well each day
- All harm to people, property and the environment is preventable

Monthly PROTECT safety briefings were launched at the same time as the lifesaving rules and high-risk activities for all operations, maintenance and transmission frontline staff. 98.69% of relevant staff having received face-to-face briefings or crib sheet alternatives helping us to develop a more mature, robust and lasting safety culture at SGN.

Committed to improving colleague wellbeing

We recognise our people are our greatest asset. We're committed to their wellbeing and introduced multiple impactful initiatives this year.

A rolling programme of wellbeing health checks across all our major depots was launched. These health checks covered both operational and non-operational staff, and our dedicated teams identified several colleagues with previously undiagnosed health conditions. All identified individuals are receiving long-term support and specialised care tailored to their needs.

We introduced wellbeing apprenticeships aimed at equipping starters with the knowledge and skills needed for a successful career while emphasising their own wellbeing. By combining classroom learning with hands-on experience alongside seasoned professionals, we're nurturing the next generation of wellbeing advocates.

To foster a supportive environment, we re-energised our wellbeing champions networks across our locations. These champions play a crucial role in promoting wellbeing awareness, providing peer support and directing colleagues to appropriate resources. Their dedication ensures every member of SGN feels valued and cared for.

We've also partnered with various departments to deliver a wellbeing webinar series. Webinar topics included: educating our workforce on identifying signs of mental health challenges, raising awareness about suicide prevention and its impact on colleagues, plus equipping our teams with strategies to build resilience in the face of adversity.

We continue to encourage everyone to engage with these and more wellbeing resources and participate actively in their own self-care journey. Our colleagues' wellbeing is imperative to creating a positive impact in our local and regional communities.

Cyber security

We continue to be active and vigilant in identifying and mitigating 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 globally who are motivated by financial gain or political activism, and possibly funded by hostile nation states.

Our long-term and substantive cyber security investment programme is in place to help minimise the risk of attack. We regularly update Ofgem and senior stakeholders on its progress.

Cyber security is regarded as one of our highest enterprise risks and is being treated as an Executive and Board matter. We recognise this is a constantly evolving threat requiring rigorous attention and action.

Resilience

We participate in a range of external resilience meetings and exercises each year. These involve various emergency services, voluntary organisations, and local authorities.

Our relationships with these partners across our networks are extremely valuable – uniting to always protect and look after our most vulnerable customers.

Energy theft

We launched a dedicated toolkit to help our field-based colleagues spot and report signs of energy theft in the community.

We installed a 14km-long pipe along the A9 in Scotland to replace key infrastructure threatened by riverbank erosion.

Energy theft is a complex societal matter and has been exacerbated and brought into focus by the current cost-of-living crisis. Consumers tampering with gas pipework and meter installations presents a significant safety risk.

A recent Retail Energy Code Company study found the scale of the issue to be costing the UK between an estimated £93m and £155m each year. These losses end up being added to the paying customer through increased energy bills and result in more people being pushed into fuel poverty.

Our toolkit contains learning tools to raise awareness of energy theft within the business and enables modernised electronic reporting that streamlines the process to support Operations. Since its introduction, 132 unique reports of potential theft and illegal connections have been reported by our Operations teams.

Damage prevention

We continue to work with partners to raise awareness and actively prevent third parties from damaging our network.

Preventative measures include alerts to us of construction work taking place near our pipes as well as services enabling contractors, farmers and homeowners to search for underground assets close to where they plan to dig.

This mitigates against pipe strikes which could cause injuries and inconvenience customers by losing their gas supplies.

This year we commissioned a third-party planning application system to ensure a proactive approach to protecting our plant. The Glenigan system is managed by our Health & Safety team and has been created to seamlessly review all construction planning applications above a certain threshold and allow us to intervene at the earliest opportunity if located near our pipes.

Glenigan software tracks every UK and Ireland local authority, major public tender portals and has a media monitoring service to guarantee every major project is mapped on the system. Its web portal includes mapping software allowing us to visualise the locations of all major developments to mitigate any issues relating to our network.

This has given SGN greater awareness of work being undertaken near our assets and enabled us to step in at the right stage of a development project to avoid legal bills and pipe diversion costs.

Our Managing Director in Scotland, John Lobban, liaising with colleagues and stakeholders on site.

Spotlight on people

Our unwavering dedication to customers drives everything we do. From innovative products to exceptional service, we prioritise their needs and deliver value. Behind every success story are our incredible employees, fuelling our progress.

First-class for satisfaction

We're here to provide a seamless service for our customers: offering reassurance and an explanation of next steps, while considering their needs.

For the eighth consecutive year, our Scotland network has top-scored for customer satisfaction among UK gas distribution networks. We're proud of our rankings and it is down to engineers like Shoib who drive our industry-leading scores with the excellent feedback they receive while working in the community.

Shoib received an incredible 12 nominations in just two months for providing a 10/10 service. Here's some of the customer feedback:

"Shoib was friendly, thorough and reassuring. He didn't mind spending time to make sure everything was safe."

"I appreciated Shoib's quick response to our low gas pressure problem. He adjusted the supply and showed me the results. He also explained the benefits of a carbon monoxide alarm and who to contact in an emergency."

Enhancing support for vulnerable customers

We've forged strong partnerships to safeguard vulnerable customers and prioritise crucial in-home support for those in need.

Our collaborations with regional Fire and Rescue Services (FRS) are designed to align with local funding and cater to diverse customer demographics. Together, we've tailored solutions to support communities and extended our resources to 12 languages because accessibility matters.

These partnerships are truly two-way. The FRS plays a pivotal role by conducting home visits for individuals living in unsafe conditions, such as hoarding or self-neglect. In return, we equip frontline teams with vital training on vulnerability and carbon monoxide (CO) awareness.

In recent years, we've funded 46,495 CO alarms, including 3,060 accessible alarms for people who are deaf or hard of hearing. These alarms are installed during proactive home fire safety visits by FRS teams, who also engage customers in CO safety discussions.

We're proud to lead a collaboration beyond our network borders. Alongside Dorset and Wiltshire FRS, we're ensuring consistent services are being provided in other gas distribution network regions to make homes safer and warmer for all.

Passionate about PPE

Embracing varied perspectives, backgrounds and talents, helps us create an enhanced and more vibrant workplace.

Our six employee networks increasingly promote diversity and inclusion ensuring our organisation thrives. One in particular has driven action to tackle the industry-wide challenge of providing PPE suitable for females.

The Women's network has collaborated to deliver appropriately fit clothing, narrower shoes and sleeve adjustments for field-working women.

The new range opens up more opportunities for women and keeps them safer on site. Our bespoke maternity range of PPE also enables pregnant women to do their jobs safely for longer.

We're exploring further PPE range innovations including hijabs and clothing suitable for our transgender colleagues.

Operating review

Recruitment
Collaborative efforts to organise recruitment days, facilitating smooth onboarding processes and ensuring positive initial experiences for our new hires have resulted in a highly successful recruitment drive of 860 new hires this financial year.

Our bulk hiring was conducted through recruitment days featuring assessments and opportunities for candidates to interact with managers and learn about SGN. Offers were promptly extended to secure top talent. By leveraging advertising campaigns and headhunting internally, we reduced agency spend to zero.

Onboarding was supported by cross-functional collaboration to accommodate the high intake. We developed a comprehensive onboarding template for managers to ensure a smooth first-week experience, minimising early dropouts.

This year we introduced CV-less hiring for early-career roles to promote diversity and reduce bias. Instead, we implemented a task-based assessment platform, yielding in more diverse applications, improved talent pool quality, reduced time-to-hire and positive feedback from candidates.

Leading customer care
Keeping our six million customers safe and warm is at the heart of everything we do.

For the eighth consecutive year, 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 who are focused on providing a 10/10 service every time and always putting our customers first.

Our Scotland network recorded an impressive score of 9.33 out of 10.

Our Southern network scored 9.19 out of 10 and has jumped from eighth position to fifth in the process for 2023/24. We're committed to keep climbing and delivering on our commitment to scoring more than 9 as promised in our RIIO-GD2 business plan.

Supporting vulnerable customers
To deliver on our commitment to make a positive impact on society by supporting vulnerable customers and to guide our activity, we have worked with consumer vulnerability and gas safety experts to develop a dedicated vulnerability and carbon monoxide strategy.

This year alone, we have supported 232,847 households with the initiatives we have in place.

Our frontline teams are consistently delivering great customer service to people listed on the Priority Services Register (PSR). We recorded a 9.4 out of 10 performance for the year.

Operational colleagues identify and offer support to vulnerable customers as part of what they do. Our award-winning commitment to never walking away from a customer in need is embedded in our culture.

Approximately 7,000 referrals were made in 2023/24 and this resulted in over 12,500 unique services – both figures greater than last year.

Safe & Warm partnerships and community scheme
A significant number of people live in homes they cannot afford to heat. According to the Department for Energy Security and Net Zero (DESNZ), 36.4% of UK households in 2023 required spending more than 10% of their income on domestic energy.

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.

More than ever, people are seeking out support in the most unlikely of places to keep warm and access support to help keep homes warm.

Our dedicated Safe & Warm community team was brought in-house this year. They work alongside our Operations and Customer Experience teams, as well as partnership managers to ensure that as we go about our work, our customers are supported from notification to restoration with extra support and access to our and partners' additional services.

We launched several high-profile partnerships this year. These 109 organisations work with us in our communities to help vulnerable customers use energy safely, efficiently and affordably.

Our customer service team picked up several team and individual awards during 2023/24.

Our new hires receive group training.

Fuel Poor Network Extension Scheme
This year we have connected a total of 268 customers as part of the FPNES – 37 customers in Southern and 231 customers in Scotland.

This is lower than 2022/23 as we had no large projects carried over from the previous year and the impact of the removal of gas boiler and appliance funding under Eco4, meant fuel poor households do not have access to the financial support they need to install a gas central heating system and boiler.

The impact of net zero and UK Government Policy has impacted gas distribution networks' ability to support fuel poor households connect to the gas network. However, Ofgem agreed networks could repurpose 70% of the funding into the VCMA pot to help amplify the support we can provide customers struggling to maintain a safe and warm home via our community partnerships.

Energy efficiency
As part of our commitment to support customers during the ongoing cost-of-living crisis and lessen home energy impacts on the environment, we launched an online tool to help households use gas and electricity more efficiently.

In partnership with Energy Saving Trust, the tool provides users with a personalised plan on how to use energy more efficiently at home and identifying any renewable investment solutions.

The tool indicates which appliances cost the most to run and suggests implementing subtle changes to help save on energy costs. Users are emailed a tailored action plan identifying cost-effective efficiency and renewable investment solutions.

Since its launch in October 2023, 141 households have benefited from the tool saving an average of £110 a year on their energy bills.

Our Safe & Warm team provide extra support to people in the communities we're working in.

Customers can learn how to save on their energy bills with our new efficiency tool.

Raising CO awareness
We're continuing to lead a GDN partnership to raise awareness of carbon monoxide (CO) and reduce the risk of CO for vulnerable people.

Our print, online and social resources promote safety messaging and highlight the dangers of CO. Our messaging is now available in 11 languages and we're currently designing resources in EasyRead for people with cognitive disabilities.

We've embedded ThinkCO training into our partnership programme, providing over 350 frontline community workers with the training to ensure those who work with vulnerable people in the community are aware of the CO signs, symptoms and safety advice.

In 2023/24, we delivered over 108,000 direct and indirect CO awareness conversations and provided 26,904 CO alarms to install in households without the life-saving device.

A key target audience for life-saving messaging has been young people as research shows 16 to 24-year-olds are at the greatest risk of CO poisoning compared with other groups. To reach these communities, we designed and launched innovative gaming-themed campaigns to engage viewers and listeners. The Game Over campaign reached 1.4 million young people during 2023/24.

We've seen our young people's educational programmes mature, with Bonanza Creative delivering engaging classroom sessions for primary school students reach 9,143 students this year. We've worked with the Scout Association to provide young people with new resources and activities which have now been delivered to 27,782 Scouts. We've also launched bespoke CO e-learning for Scout leaders and adult volunteers to educate them on CO safety and empower them to deliver our programme of CO activities safely and confidently. We also support The Risk Factory in Edinburgh who this year have had 3,959 young people visit their safety centre and be educated on CO risks.

This year through our young people programme we've empowered 41,266 young people to keep themselves and their families safe from carbon monoxide poisoning.

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We're driving the transition to a sustainable future. To help the UK reach net zero emissions by the middle of the century, we're preparing our network and tomorrow's engineers to deliver a decarbonised gas network.

Upskilling our workforce with new hydrogen training facility

We're opening the UK's first hydrogen training facility to upskill hundreds of Gas Safe registered engineers to work with hydrogen.

Alongside our partners at Fife College, and based in its Levenmouth Campus, the training courses will prepare engineers for working on SGN's world-first green hydrogen trial, H100 Fife. The project will supply green hydrogen to local homes through a new hydrogen network.

Training will be delivered by experienced coaches and industry professionals, and enable engineers to safely install, test and commission the hydrogen supply system in people's homes including newly developed hydrogen boiler, hob and meter appliances.

Fife College Principal Jim Metcalfe said: "We're at the forefront of training the vital future workforce the country so desperately needs to make the transition to clean energy. Together with SGN we are proud to be shaping a cleaner, greener future for our local communities."

"It's so important to prepare gas engineers today, for the skills they'll need tomorrow. They are the guardians of our gas network, on the frontline making sure communities are safe, warm and have access to the critical services they need. They'll also play a key role in the years to come ensuring our industry is at the heart of the UK's ambitions to achieve net zero."

Antony Green
Future of Energy Director, SGN

Green gas from sewage to power West London homes

Thousands of West London homes are now being heated and powered by green gas thanks to the latest gas-to-grid facility commissioned under a partnership between SGN Commercial Services and Thames Water. Biomethane created from sewage at Thames Water's Mogden plant is being exported through the gas network and delivering green energy to 4,000 local homes. It's another important step towards a net zero future as the project will offset 8,000 tonnes of CO_2 annually.

This ready-now green heating solution is fully compatible with existing gas network infrastructure meaning we can deliver decarbonisation without sacrificing energy resilience, reliability and disruption to customers.

The new biomethane gas-to-grid plant follows a similar installation at Thames Water's Deephams site in 2021, which delivers green gas to 3,500 homes in Enfield.

Thames Water's Mogden Sewage Treatment Works that feeds our new biomethane plant.

Commercial Services and ventures

Commercial Services and ventures covers our non-regulated business activities.

We maintain strict business separation principles between our regulated and unregulated activities.

Green Gas Solutions

Our activities relating to our regulated water clients yielded positive results in 2023/24 as we seek to increase the amount of green gas flowing through the gas network.

We're now operating two biomethane gas-to-grid plants under our partnership with Thames Water at its Sewage Treatment Works sites in north and west London.

During the 2023/24 financial year, the plant at Deephams in north London exported 19 GWh of green gas into the local gas network, supplying heat to hundreds of Enfield homes. We surpassed our plant availability target of 95% in the process.

We also signed two 15-year contracts with Yorkshire Water to design, build, finance, operate and maintain biomethane gas-to-grid plants at its Knostrop and Blackburn Meadows sites. Design, procurement and construction activities are under way, and commissioning is planned in mid-2025. We've developed an innovative and optimised commercial model alongside Yorkshire Water to ensure collaboration to help maximise biomethane production over the life of the projects.

Building on our successes with Thames Water and Yorkshire Water, we are pursuing other water sector clients as they consider their biomethane plans for the next regulatory investment cycle. The UK's wastewater sector has the potential to generate enough biogas to heat over 360,000 homes each year.

We continue to track other opportunities with suitable counterparties across the wider anaerobic digestion sector.

Green Gas Solutions has also undertaken a concept design development commission for our regulated business. The primary scope of this was to create a viable technical solution to dynamically control propane quantity when biomethane is injected into the gas networks. This solution was ratified with key stakeholders before applying the design to ten existing biomethane sites. Depending on the ratio of network to biomethane flow, propane savings are forecasted to be as high as 70% and the financial payback could be achieved in less than a year.

We're targeting 450,000 homes in our network to be fuelled by green gas by 2026.

Heat networks

The joint venture with Vital Energi is working to provide a hybrid energy solution for a property development on our former gas holder site in Wandsworth.

A combination of new planning regulations, grid capacity constraints and London's target to reduce carbon emissions, has led to the design of a new technical solution for the 637-home development's district heat network and plans to utilise waste heat sources in the area.

We're exploring two waste heat options under external SIF funding: firstly, utilising waste heat from four transformers situated at a nearby UK Power Networks substation, and alternatively, exploit waste heat from a National Grid headhouse. Phased feasibility studies are ongoing to understand the heat recovery potential as well as the extent of the recovery heat potential can contribute to the development.

The UK Government's Heat Network Zoning programme estimates the heat network market will require a £60bn to £80bn investment and DESNZ is planning pilots expected to commence from 2025.

Commercial services and metering

Additional opportunities on our maintenance and emergency response contracts where we maintain over 500km of high-pressure pipelines for third parties across the UK have been secured.

We've commenced a ten-year contract to control and monitor Mutual Energy's Northern Ireland gas network through our centralised Gas Control Centre.

Our team are working to provide a hybrid heat solution for the property development planned on our former gas holder site in Wandsworth.

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Our joint venture business mua is outperforming its original growth ambition and connection forecasts.

We're providing biomethane connection services across the gas networks in Northern Ireland to coincide with the significant regional increase in biomethane plants to support the Government's decarbonisation efforts.

Our team is also preparing to provide the metering services for the 300 domestic customers in Levenmouth that will be connected to the world-first green hydrogen network under construction as part of the H100 Fife project.

mua

It is now approaching five years since mua, our 50:50 joint venture with Murphy Group, was incorporated. The business has continued to make strong progress, outperforming its original growth ambition and connection forecasts.

Significant milestones have been achieved this year as mua broadens the mix of utility connection assets it adopts. In addition to connecting its first 25MW battery storage energy system site in Dorset and energising its first data centre in west London, mua has expanded into the water sector. As a New Appointment and Variation (NAV) company licensed by the water regulator Ofwat, mua can now adopt, own and operate water and wastewater networks on new developments alongside electricity and gas networks.

Given the successful growth of the business to date, a refinancing plan is in place for 2024 to support further expansion, building on the £30m debt funding secured in 2022.

↓

Site of first biomethane connection in Northern Ireland at Granville Eco Park, County Tyrone.

FYLD

This mobile field-force safety and productivity app was developed by SGN to support its frontline operatives.

FYLD is now delivering an Ofgem and UKRI funded, cross-network, innovation project to develop and deploy a predicative, machine-learning model that anticipates high-risk events before they happen. The project has successfully passed the discovery and alpha phases with the current beta phase incorporating many different data sources into the machine learning model, ranging from live access to traffic and weather feeds, through to historic safety information and human factors.

Innovation

Our Innovation team leverages emerging technologies, fosters collaboration and drives forward-thinking policies to shape a more sustainable future for energy.

Scotland's vast renewable energy potential, and its advantageous landscape, provides the foundation for innovative projects and sustainable practices to evidence net zero. In southern England, we have the opportunity to utilise innovative technology and infrastructure improvements to reduce emissions and enhance energy efficiency.

We have continued to collaborate with our peers in the industry and beyond on a mixed portfolio of projects covering AI, operational efficiency, decarbonisation, vulnerable customers and safety to name a few.

While we embed the innovation developed last year into our core businesses, we are now looking at the rest of this price control and beyond to build our insights, network and capability helping deliver more innovation to the sector for a decarbonised whole energy system.

Key for us is strengthening our innovation network, building on academic relationships, finding new partners, and developing our relationships across the sector with our peers. We all face the same massive challenge of achieving a net zero whole energy system via a just transition for all our customers.

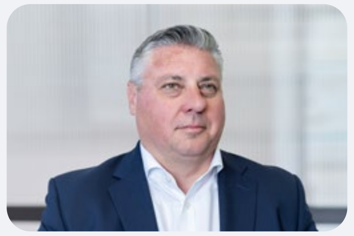
Spotlight on the SGN Executive Team

Meet our team of seasoned leaders driving innovation, strategic vision and operational excellence, and propelling our business towards success.

Executive Team

Mark Wild OBE
Chief Executive Officer

Key responsibilities
As CEO, Mark leads SGN and focuses on the strategy and overall direction of the Group.



Simon Kilonback
Chief Financial Officer

Key responsibilities
Simon is responsible for overseeing the financial health of SGN and ensuring compliance with financial regulation and requirements.

Darren Elsom
Chief Operating Officer

Key responsibilities
Darren oversees the day to day operations, asset management and customer service after joining the Company in December 2023.

Andrew Quail
Chief Transformation & Information Officer

Key responsibilities
Andrew is leading the Company's Transformation programme as well as holding responsibility for cyber security measures and IT services.

Kate Naylor
Chief People Officer

Key responsibilities
Kate leads the people agenda with a focus on recruiting, developing and retaining our skilled resources and continually enhancing the employee experience.

Nicola Graham-Shand
Chief Legal Officer

Key responsibilities
Nicola leads the Legal, Compliance and Governance team within SGN and is responsible for overseeing and managing legal affairs of the Company.

Rob Gray
Chief of Staff

Key responsibilities
Rob's role aims to ensure the efficient operation of the Chief Executive's office and relationships with SGN's Board, shareholders and wider stakeholders.

Antony Green
Future of Energy Director

Key responsibilities
Antony brings focus to the transformational plan of SGN to deliver our net zero ambitions.

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Financial review

Throughout the year we invested over £490m on capital and replacement expenditure, underscoring an ongoing commitment to providing safe and efficient networks for our customers.

Replacement expenditure[1]

2024 £312.5m

2023 **£256.7m**

2022 **£229.2m**

Capital expenditure[1]

2024 £178.8m

2023 **£152.7m**

2022 **£119.9m**

Regulatory asset value[1]

2024 £7.28bn

2023 **£6.97bn**

2022 **£6.38bn**

[1] Defined in Alternative Performance Measures (APMs) on page 149.

I joined SGN as Chief Financial Officer in September 2023 to collaborate with Mark and the rest of the SGN team to drive the transformation of the Group and enhance performance for our customers. During my initial six months my primary focus has been on understanding the challenges we face, and developing a revised business plan for the current regulatory period. This plan is designed to significantly recover our operational efficiency following a challenging 2022/23, deliver on our regulatory obligations, address additional cost pressures, and bolster our resilience to provide safe networks for our customers. I am excited about guiding the Company through the remainder of RIIO-GD2 and into the upcoming regulatory cycle, as well as shaping our role in defining the future of energy in the UK.

Operating financial performance

During the year the Group generated revenues of £1,375.3m (2023: £1,288.5m), delivering £520.7m (2023: £439.5m) of operating profits, and enabling £491.3m (2023: £409.4m) to be invested on new and existing assets.

The majority of our revenue, 94.7% (2023: 93.3%), is generated from charges to gas shippers for transporting gas through our network, with prices regulated by our governing bodies, Ofgem and the Utility Regulator (NI). Our annual revenues are predominantly fixed in accordance with the profile outlined by our price control settlement, which dictates the pricing of our services to gas shippers. The regulatory revenue increase from the prior year was predominately as a result of increased allowances due to inflationary increases, and the inclusion of the Government's 'super tax' deduction scheme. These and other allowances, such as totex and non-operational costs are recovered through SGN's capacity and commodity charges.

Meanwhile, non-regulatory revenue has decreased during the year predominantly due to the phasing of property disposals. In alignment with the Group's strategic plan, we have continued to capitalise on opportunities in our unregulated businesses, divesting and developing redundant brownfield sites held within the SGN Place Group. The 2023/24 fiscal period has witnessed the sale of several surplus gasholder sites, including land in Gillingham and Crawley. The SGN Place Group also remains committed to exploring opportunities to develop other strategic sites through joint venture arrangements.

The financial year presented challenges, particularly with cost pressures, notably in our Southern region. Financial performance was affected by some non-recurring expenses related to additional contractor support for replacement and emergency works, the recruitment of workforce trainees and apprentices, and increased overtime. These initiatives were undertaken successfully to drive substantial improvements in meeting the Group's operational targets. Our focus has now shifted to optimising performance across the Group while upholding our established high service standards.

Investment in the safety and reliability of our networks

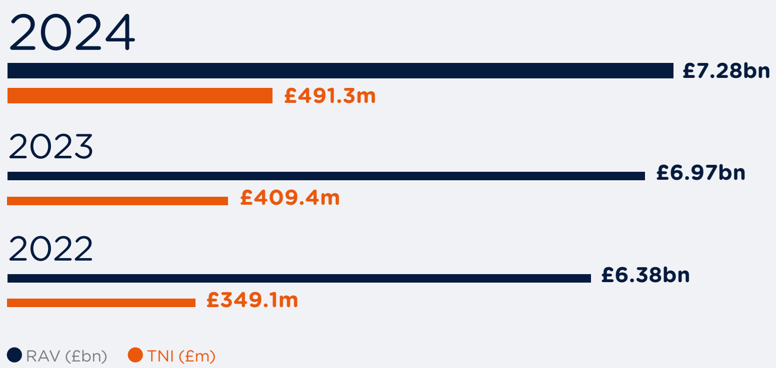
Our balance sheet is dominated by our tangible fixed assets, and associated borrowings utilised to finance our capital investment programme. Throughout the year we invested £491.3m (2023: £409.4m) towards our networks, as part of a projected investment totalling £2.2bn over the five-year regulatory price control, underscoring our ongoing commitment to providing a safe and efficient network for our customers.

Replacement expenditure, linked to the ongoing replacement of predominantly cast-iron pipes with polyethylene pipes, amounted to £312.5m (2023: £256.7m). The year on year movement was due to an increase in contractor costs. These replacement initiatives resulted in 795km of metal pipes being replaced (2023: 831km).

Other capital expenditure (excluding replacement) increased to £178.8m (2023: £152.7m). This increase was driven by the purchase of new vehicles to upgrade our aged fleet as well as phasing other investments across the RIIO-GD2 period.

The total Regulatory Asset Value (RAV) for Southern Gas Networks plc and Scotland Gas Networks plc (GB Network) saw a 4.2% increase during the year, rising from £6.97bn to £7.28bn. The RAV of our GB Network is determined by Ofgem through periodic reviews and is adjusted for sharing of out/underperformance against allowances and inflation indexation. Similar methodologies are employed by the Utility Regulator (NI) to determine the RAV of our network in Northern Ireland, which stood at £40.2m as of the regulatory reporting date of 31 December 2023 (2022: £37.9m).

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



The future of energy

As we consider the future of energy in the UK and the transition of our networks towards achieving net zero targets, we maintain our dedication to decarbonisation while ensuring the resilience and reliability of the network remain uncompromised for our customers. We understand that there is no singular solution to decarbonising energy, which is why we are allocating our resources across various initiatives.

A significant portion of our investment is directed towards our pioneering hydrogen project, to connect up to 300 homes in Fife to hydrogen from 2025. The outcome of this project will play a crucial role in determining the potential of hydrogen in heating UK homes in the future.

Furthermore, we have been at the forefront of leveraging biomethane as an alternative energy source. Since 2010, we have utilised biomethane to promote sustainable heating practices. More recently, we have collaborated with water companies to produce biomethane for heating homes in proximity to gas-to-grid installations. In Northern Ireland, we have made strides in blending biomethane into the gas network, with plans under way to increase the proportion of green gas in the network in the years ahead.

Treasury and financial management

Net debt and gearing

A key financial performance indicator for the Group is the net debt to RAV[1], or gearing, ratio, which the Group monitors at both an individual network level and at a consolidated MidCo group level. At 31 March 2024, net debt including accretion on inflation-linked liabilities but excluding amortised issue costs, shareholder loans and other liabilities arising from derivative financial instruments, amounted to:

- MidCo group: £5.11bn (2023: £4.95bn)
- Southern: £3.23bn (2023: £3.10bn)
- Scotland: £1.42bn (2023: £1.39bn)

With RAV at:

- MidCo group: £7.28bn (2023: £6.97bn)
- Southern: £4.96bn (2023: £4.79bn)
- Scotland: £2.28bn (2023: £2.18bn)

As such, the net debt to RAV ratios were:

- MidCo group: 70.2% (2023: 71.0%)
- Southern: 65.2% (2023: 64.8%)
- Scotland: 62.2% (2023: 63.8%)

Covenants

The Group is bound by specific financial covenants with regards to its debt agreements and banking facilities. The event of default levels for which are:

- Net debt to RAV ratio (95% for Midco Group, Southern and Scotland)
- Interest cover ratio (1.5:1.0 for Midco Group)

Management has assessed the above throughout the year and has confirmed there have been no breaches; and that no breaches are forecast over the going concern period (i.e. until the end of July 2025).

Debt issuance

During the financial year Southern had a £300m fixed rate public bond that matured in October 2023. In addition, Southern and Scotland prepaid £300m and £65m respectively of outstanding EIB loans in October 2023. The maturity and prepayments were part-refinanced by capital markets activity undertaken by both entities in the 2022/23 year, and by further capital markets issuance in September 2023, whereby Southern raised £500m in fixed rate public

Financial review

Turnover

2024 **£1,375.3m**

2023 **£1,288.5m**

2022 **£1,115.9m**

Cash flow after investing activities[1]

2024 **£237.1m**

2023 **£299.5m**

2022 **£205.0m**

Operating profit

2024 **£520.7m**

2023 **£439.5m**

2022 **£364.3m**

bonds. Other than the EIB loan prepayments, Scotland Gas Networks plc had no scheduled debt maturities during the financial year.

In the coming financial year, Southern has a £350m fixed rate public bond maturing in February 2025. This has been part-refinanced by £325m (equivalent) of fixed rate private placement notes that were priced in March 2024 and drawn after the balance sheet date in April and June 2024. Scotland has a £35m fixed rate loan maturing in March 2025, which has been refinanced by £50m of fixed rate private placement notes priced in March 2024 and drawn in April and June 2024. MidCo has no scheduled debt maturities in the coming year.

For a detailed list of the committed financing that are in place see notes 20 and 21 to the financial statements.

The debt service reserve liquidity facility held at SGN MidCo Ltd for £25m remained undrawn throughout the year and was extended for a further 364 days to 9 January 2025.

Liquidity

As at 31 March 2024, liquidity within the Group was provided by a combination of cash and cash equivalents and undrawn committed bank facilities. The cash balances (held on current accounts or within bank deposits or money market funds) totalled £106.9m (2023: £289.2m) across the Group (of which £19.7m (2023: £41.4m) was restricted cash); and committed revolving credit facilities totalled £600m, of which £60m was drawn as at 31 March 2024 (2023: undrawn).

The £550m committed bridge facility, arranged in June 2023, was cancelled in full in March 2024 once sufficient alternative funding was secured.

In March 2024 Southern and Scotland refinanced and upsized their Revolving Credit Facilities to £450m and £150m respectively, where the borrowers are able to allocate the total commitments of £600m between themselves at their discretion. At the year end, Southern had £60m drawn on the RCF (2023: undrawn), which was repaid in early April 2024, and Scotland was undrawn (2023: undrawn). For further details, please see note 20 to the financial statements.

Net finance costs

The Group had net finance costs, including accretion on inflation-linked debt and derivatives, of £259.7m during the financial year (2023: £336.8m) excluding interest on shareholder loans, interest relating to the defined benefit pension scheme and movement in the fair value of derivatives. This was primarily comprised of interest on external financing arrangements:

- Scotland Gas Networks plc – interest payable £68.6m (2023: £86.3m)
- Southern Gas Networks plc – interest payable £174.6m (2023: £153.9m)
- SGN MidCo Ltd – interest payable £17.5m (2023: £28.2m)

The Group's effective interest rate (including accretion on inflation-linked liabilities and shareholder loan interest but excluding derivative fair value movements) for the year was 5.5% (2023: 5.7%). The Group's effective cash cost of interest (excluding accretion on inflation-linked liabilities) was 3.5% (2023: 3.2%).

The decrease in effective net interest rate noted above is largely driven by lower inflation over the 2023/24 financial year compared to the prior year.

[1] Defined in Alternative Performance Measures (APMs) on page 149.

Risk management

The following interest rate risk and currency risk management activity was undertaken during the financial year:

- In both May 2023 and August 2023, Scotland entered into £30m pay fixed, receive floating interest rate swaps to re-fix and offset £60m of pay floating, receive fixed interest rate swaps entered into in October 2022, which were originally entered into to convert the economics of the October 2022 debt issuance.
- In March 2024, Southern entered into $202m (£159m equivalent) of cross-currency swaps to fully convert the US Dollar principal and interest payments into Pound Sterling on Southern's March 2024 debt issuance.

More details of these instruments can be found in note 22 to the financial statements.

As at 31 March 2024, the gross debt exposure to fixed interest rates (post derivatives) within the Group was:

- Group (consolidated): 63.5% (including shareholder loans) (2023: 58.6%)
- SGN MidCo Ltd (consolidated): 61.7% (2023: 55.8%)
- Scotland Gas Networks plc: 65.2% (2023: 59.1%)
- Southern Gas Networks plc: 58.7% (2023: 53.1%)

As at 31 March 2024 the gross debt exposure to inflation (post derivatives) within the Group was:

- Group (consolidated): 35.7% (including shareholder loans) (2023: 33.7%)
- SGN MidCo Ltd (consolidated): 38.7% (2023: 36.0%)
- Scotland Gas Networks plc: 34.8% (2023: 32.4%)
- Southern Gas Networks plc: 39.9% (2023: 37.7%)

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

The remaining gross debt exposure was in floating interest rates.

For a more detailed explanation of the Group's approach to risk management see note 22 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 2024:

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

On 20 June 2024, Moody's issued a research update re-affirming the issuer credit rating of both Southern Gas Networks plc's and Scotland Gas Networks plc's public debt instruments at Baa1, and maintained their 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, compliance with applicable regulatory requirements, 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 £30.6m (2023: £30.7m). A dividend distribution of £54.5m was paid in December 2023 (2023: £54.5m). No further dividends were declared for 2023/24. At 31 March 2024 Scotia Gas Networks Ltd had £1,543.0m (2023: £1,580.1m) of available distributable reserves.

Taxation

We have recognised a total tax charge to the statement of profit and loss for the year of £79.9m (2023: £55.6m). Our effective rate of corporation tax for the year is 31% (2023: 37%). The effective tax rate is higher than the standard rate of 25%, the reasons for which are detailed in note 11 to the financial statements.

Recent changes in market conditions arising from high inflation rates resulted in an increase in forecasted interest accretion, the deductibility of which was expected to be limited by the Corporate Interest Restriction (CIR). For the regulated businesses, management opted to make the Public Benefit Infrastructure Exemption (PBIE), a voluntary election which removes certain qualifying UK infrastructure companies from the scope of CIR and effectively grants qualifying companies a full tax deduction for interest expenditure due to third parties, with effect for 2023 and at least four subsequent years.

Financial review

During the year and in accordance with our obligations under Finance Act 2016 Schedule 19, we published our Tax Strategy statement (which can be found on the reports and publications pages of sgn.co.uk). We are committed to being a responsible and compliant taxpayer and the Tax Strategy statement sets out our approach to a number of key tax policies including our approach to compliance, governance and risk management, our attitude towards tax planning, our risk appetite in relation to UK taxation and our approach to dealing with HMRC.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2024 amounted to £394.0m (2023: £416.4m); £233.1m direct taxes (2023: £239.3m) and £160.9m indirect taxes (2023: £177.1m).

Pension commitments

We operate pension arrangements on behalf of our employees. A proportion of our employees are members of a defined benefit pensions scheme, the Scotia Gas Networks Pension Scheme, which was closed to new entrants in 2002. Membership of the defined contribution scheme is offered to all new employees.

In accordance with FRS 102, our balance sheet accounts for any pension asset or liability. As of 31 March 2024, the Group recognised a surplus of £218.2m (2023: £246.0m) in relation to the defined benefit pension scheme, a decrease of £27.8m from the previous year. The decrease compared to the prior year position was driven by a decrease in the value of scheme assets as a result of the negative impact on LDI funds of increasing yields, as well as adverse market movements in the year.

The Group contributed £5.2m to the scheme in the year (2023: £7.7m). See note 29 to the financial statements for further details.

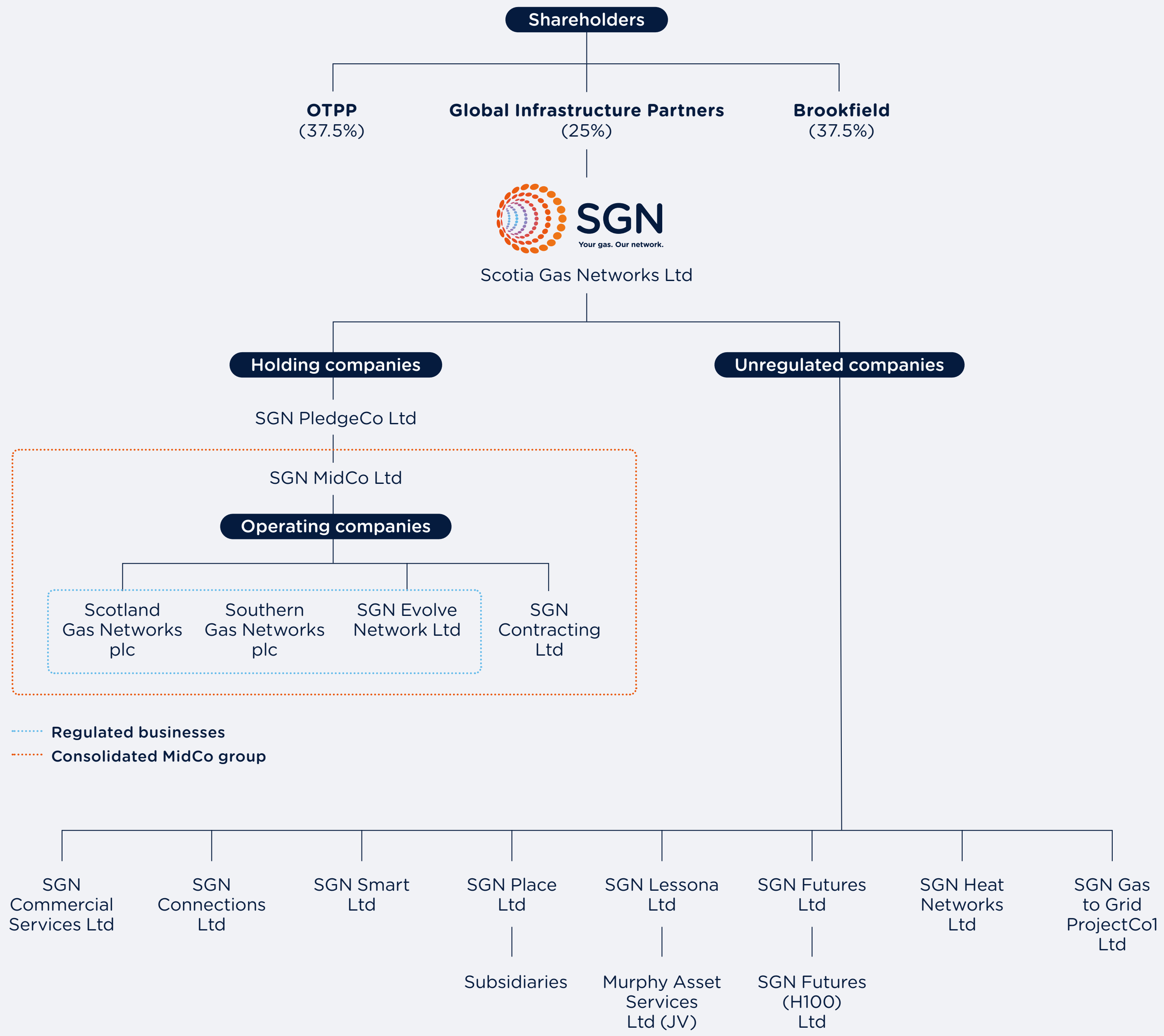
Supply chain

We remain steadfast in our commitment to treating all our supply chain partners fairly, which is why we maintain our status as a signatory to the Prompt Payment Code. This code commits us to ensuring that we settle 95% of all invoices within 60 days, with a 30-day payment window for small businesses, while also avoiding any practices detrimental to the supply chain. Our most recent reporting underscores our consistency in paying 99% (2023: 98%) of all invoices within 60 days, and average days to pay at 14 days (2023: 15 days). We continue to monitor and assess our processes for improvements, and to further enhance payment transparency for all our suppliers.

Simon Kilonback
Chief Financial Officer
25 July 2024

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 147, note 30.

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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

Cash flow after investing activities[1]

Cash flow after investing activities is the operating cash flow (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.

2024 **£237.1m**

2023 **£299.5m**

2022 **£205.0m**

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

2024 **70.2%**

2023 **71.0%**

2022 **75.6%**

Regulated businesses

2024 **64.4%**

2023 **64.5%**

2022 **68.8%**

[1] Defined in Alternative Performance Measures (APMs) on page 149.

Turnover

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

2024 **£1,375.3m**

2023 **£1,288.5m**

2022 **£1,115.9m**

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

2024 **£520.7m**

2023 **£439.5m**

2022 **£364.3m**

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.

2024 **£178.8m**

2023 **£152.7m**

2022 **£119.9m**

Replacement expenditure[1]

Replacement expenditure represents the investment in 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.

2024 **£312.5m**

2023 **£256.7m**

2022 **£229.2m**

The sum of capital expenditure and replacement expenditure equal the total additions of intangible and tangible fixed assets as reported in notes 14 and 15 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.

2024 **0.20**

2023 **0.07**

2022 **0.06**

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 115,300 uncontrolled and 62,400 controlled gas escapes during the year ending 31 March 2024.

Scotland Gas Networks

2024 **99.5%**

2023 **97.2%**

2022 **98.1%**

Southern Gas Networks

2024 **98.4%**

2023 **91.8%**

2022 **97.9%**

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.

2024 **9.0**

2023 **9.0**

2022 **9.1**

Customer satisfaction (score out of 10): unplanned interruptions

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

2024 **9.6**

2023 **9.5**

2022 **9.4**

Business carbon footprint

Our business carbon footprint includes Scope 1, 2 and 3 emissions, excluding shrinkage, reported in tonnes of CO_2e. This is an absolute number and therefore shows an increase as we are capturing more Scope 3 data than the previous year. Further details can be found on page 59.

2024 **53,260 tCO_2e**

2023 **51,703 tCO_2e[2]**

2022 **41,677 tCO_2e**

[2] Updated following external assurance.

Principal risks and uncertainties

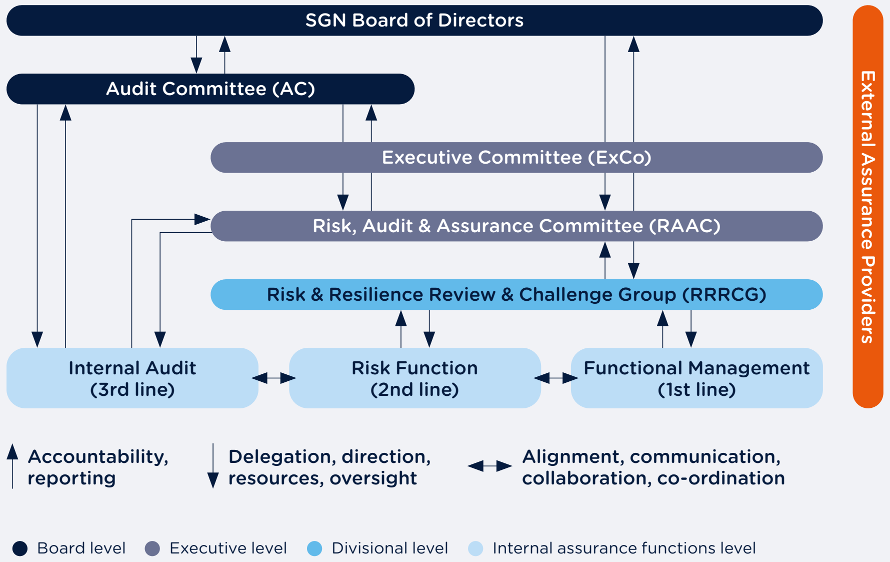
The aim of our enterprise risk framework is to enable a consistent approach to how we identify, assess, manage, and monitor risks and uncertainties to the successful delivery of our strategic and operational objectives.

Enhancing our risk framework
In 2022/23 we partnered with a specialist provider to conduct a risk maturity assessment and commenced a programme of work to reach the next level of maturity, in service of achieving our future strategic and operational objectives. In 2023/24 we agreed a risk philosophy and updated our scoring matrix and risk categories.

Our plan for an enduring and thriving SGN was also created, to play our part in a fair and affordable energy transition, delivered by making our network and frontline operation everyone's responsibility. Our enterprise risk register was updated to reflect this, including target scores.

Following the onboarding of new Executive Committee members and changes to that team, our governance framework was also updated to include a Risk, Audit and Assurance Committee (RAAC) comprised of the full Executive, enabling a co-ordinated and less siloed approach to risk and assurance activities.

SGN governance framework



- The **Board** has overall accountability for risk management. Our most significant risks are reported to the Board quarterly, with progress against interventions. Twice a year, the Board carries out a review of the full Enterprise Risk Register, makes decisions on how these should be managed and also considers new or emerging risks. They will also be considering risk appetite in 2024/25.
- The Board is supported by the **Audit Committee**, who oversees internal controls within the Company.
- The **Executive Committee** owns and oversees the Enterprise Risk Management Framework. They delegate risk management to the dedicated **Risk, Audit and Assurance Committee** comprising all Executive Committee members. Each Enterprise Risk is assigned to one or more Executive Owners 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. The Risk, Audit and Assurance Committee sits quarterly to discuss, review, and challenge our Enterprise Risks and associated interventions, receive reports on functional risks escalated by the Risk and Resilience Review and Challenge Group, and considers audit and assurance activities.
- The **Risk and Resilience Review and Challenge Group** includes representation from all parts of the business and sits quarterly at divisional level to review and challenge functional risks, interventions, and resilience activities.
- The **risk function** provides expertise, support, monitoring and challenge, on risk related matters.
- **Functional management** is responsible for identifying, responding to, monitoring, and assuring key risks.

SGN enterprise risks
Our current enterprise risk profile consists of 14 risks, which are covered below.

Risk title	Risk description	Key mitigations	More information
Timeframe: Short term (0-2 years)			
Health & Safety	There is a risk of a major health and/or safety incident which impacts upon SGN customers and/or employees or contractors. There is also a risk of ineffective management of mental health in the workforce.	• Safety management framework (SMF) • Safety management system (SMS) • Occupational health control framework • Asset management control framework • Competency and training control framework • New Chief Operating Officer function inc. operational safety	Safety is covered throughout the report but see pages 27, 30, 31, 43, 55, 61 and 94 for some detail on activity during 2023/24.
Cyber	There is a risk that SGN fails to detect, prevent or effectively respond to cyber-attacks.	• Information security control framework • Procurement and supply chain control framework • Cyber security investment programme • Business continuity and disaster recovery procedures	See pages 28, 51, 54 and 90 for some detail on activity during 2023/24.
Recruitment, Competency & Retention	There is a risk that SGN fails to recruit, develop and retain a sufficiently competent and diverse workforce and leadership team resulting in inability to meet business and regulatory requirements.	• Establishment, workforce, and succession plans • Recruitment and reward management • Competency and training control framework • Diversity and inclusion strategy	See pages 30, 49, 61, 62 and 93 for some detail on activity during 2023/24.
Delivery	There is a risk that SGN fails to successfully design and deliver key recovery programmes or projects for the delivery of regulatory outputs and/or SGN's strategic objectives.	• Enterprise programme governance framework • Procurement and supply chain control framework • New Chief Operating Officer function • Future of Energy Directorate	See pages 1, 10, 20-31 and 42 for some detail on activity during 2023/24.
Legal & Regulatory Compliance	There is a risk of SGN failing to comply with legal and regulatory requirements, including licence conditions and regulatory outputs. There is also a risk of losing regulator confidence in SGN's ability to meet these requirements in future.	• Legal and compliance control framework, inc. Speak Up Policy • Regulatory control framework • Procurement and supply chain control frameworks • Safety management framework (SMF) and safety management system (SMS) • Information security control framework	See pages 18-19, 40, 54-56, 64-65 and 90-91 for some detail on activity during 2023/24.
Supply Chain Continuity	There is a risk of significant disruption to supply chain continuity.	• Procurement and supply chain control framework • Supplier relationship management, performance, and compliance monitoring across key areas • Developing and harnessing new suppliers • Online sourcing and contract management system	See pages 22-23, 40 and 50 for some detail on activity during 2023/24.

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Principal risks and uncertainties

Risk title	Risk description	Key mitigations	More information
Timeframe: Short term (0-2 years) (continued)			
IT Resilience	There is a risk of IT Service(s) failure which can be triggered by an internal, external or cyber based event.	• Hardware and network resilience/segmentation in place • Maintenance plan and activities to manage the risk of IT failure • Information security control framework • Business continuity and disaster recovery procedures	See pages 4, 28, 51, 54 and 90 for some detail on activity during 2023/24.
Timeframe: Short term/medium term			
Governance & Controls	There is a risk that SGN's Enterprise Governance framework (including board governance, enterprise risk management, internal controls and quality/ compliance assurance) is not optimal and/or operated in an effective manner.	• Corporate governance framework • Enterprise risk management framework • Safety management framework (SMF) and safety management system (SMS) • Finance manual • Internal audit programme	See pages 44 and 77-99 for some detail on activity during 2023/24.
Leadership & Culture	There is a risk of misalignment between our cultural values with leadership commitment and actions, employee behaviours, or organisational systems. Also, there is a risk of Leadership not being alert, agile & able to react to new cultural challenges as they emerge.	• SGN Vision and Values • Code of Conduct and policies to guide expected behaviours • Diversity and inclusion strategy • Leadership training and development programmes • Speak Up framework	See pages 4-7, 35, 49, 79, 82-83, and 94 for some detail on activity during 2023/24.
Timeframe: Medium term (3-9 years)			
Financial Resilience	There is a risk that SGN is unable to live within its allowances, maintain access to capital markets including investment grade credit ratings, and therefore have sufficient liquidity to service existing debt and contractual obligations as they fall due.	• Treasury management policy and finance manual • Manage external credit ratings • Financial planning cycle and business planning • Daily cash reporting • Relationship management with Ofgem • RIIO-GD3 business planning	See pages 1, 7, 19, 36-43, 90-92, 97-99 and 107-149 for some detail on activity during 2023/24.
Political & Public Policy	There is a risk that SGN is unable to shape or respond to the pace of change in the political and public policy landscape.	• Advocacy plan • Influencing government and industry stakeholders • Creation of and participation in industry coalitions • Contributing to development of UK and Scottish Governments' policy • Engagement with Ofgem and Future System Operation to shape whole systems approach	See pages 48, 51, 53, 55, 71, 73, 95 and 98 for some detail on activity during 2023/24.

Risk title	Risk description	Key mitigations	More information
Timeframe: Medium term/long term			
Climate Change	There is a risk of failing to assess, mitigate and adapt to the impact of climate change on our business.	• Environmental Sustainability Strategy and Environmental Action Plan • Stakeholder engagement including SGN Environment Advisory Panel, supply chain and industry peers • Maintaining ISO 14001:2015 Environmental Management System certification • Assessing climate risk to occupied sites and our network • Hydrogen programme	See pages 14-17, 70-76 and 95 for some detail on activity during 2023/24. Climate related risks and opportunities at pages 72-73.
Timeframe: Long term (10 years +)			
Network Asset Management	There is a risk that SGN will fail to effectively manage its assets and maintain a safe, reliable network and/or fail to respond effectively to an external event which causes significant network disruption.	• Asset management control framework • Asset investment strategy out to March 2026 • Long-term horizon scanning to capture network asset changes • Cyber security investment programme • Repex delivery programme	See pages 1, 10, 11, 20-21, 28, 36-37, 42, 70-71 and 72-74 for some detail on activity during 2023/24.
Future of Energy	There is a risk that the shift towards a decarbonised energy system results in SGN assets becoming stranded without adequate compensation.	• Future of Energy Directorate • Influencing government and industry stakeholders • Utilising innovation funding and working to deliver evidence for potential decarbonisation pathways • Co-ordination of hydrogen programme evidence and activity	See pages 21, 32-33, 37, 71, 72-74, 90 and 95 for some detail on activity during 2023/24.

Engaging with SGN stakeholders

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

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.

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.

"I'm very pleased with the progress we have made in two key areas including our continued focus on our most vulnerable customers and ensuring our programmes are helping, as well as identifying key levers to decarbonisation as we continue on our journey to net zero in support of the UK's aspirations."

Jeffrey Rosenthal
Stakeholder, Environment, Social & Governance Committee Chair

2023/24 activity

Stakeholder engagement takes place at both the operational day-to-day level within the business and at Board level, as part of an extensive engagement programme with our six key stakeholders:

- Customers
- Our people
- Communities and the environment
- Suppliers, contractors and partners
- Government and regulators
- Shareholders and debt investors

The Board takes insight from each level of engagement into account in its decision-making process.

The panels that follow set out some of the most notable ways in which we engaged with each of our six key stakeholder groups and, where relevant, the impact of that engagement on our strategy.

←

Stakeholder feedback is integral to our decision-making.

1. Customers

We keep gas flowing safely and reliably to 6.0 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

- Customer forums, focus groups and research panels
- Customer satisfaction surveys
- Our Customer and Stakeholder Engagement Group (CSEG)
- Our Vulnerability Steering Group
- Our website and social media channels

Stakeholder issues raised

- Regulatory requirements pertaining to customer satisfaction performance, guaranteed standards of service and support for customers in vulnerable circumstances.
- Customer experience is impacted by behaviours of our people, quality of communication, information quality, and efficiency of processes and timescales for delivery.

Outcomes of engagement on key decisions

- We have further invested in customer experience and to ensure the key areas of importance are focused on.
- Increase in vulnerable customer assistance programmes and renewed commitment to keeping everyone in our communities safe and warm.
- Utilisation of digital channels including live chat and two-way SMS has enabled more efficient resolution, and improvements in service.

Key Board decisions

- Continuation of vulnerable customer assistance programme.
- Continuation of a tailored customer service strategy to further enhance responsiveness, proactive measures and improve data and insight to predict where issues might occur in the future.

2. Our people

We employ approximately 4,500 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, upskill, and retain the best talent and develop a flexible, motivated, efficient, diverse and engaged team.

How we engage

- Employee Engagement sessions and informal discussions with employees and management
- SGNapp, Energy FM, Viva Engage and Future Proof digital magazine
- Town hall sessions, Team Talk and safety briefings
- Trade union and pension trustee engagement
- Diversity and inclusion networks
- Annual employee engagement survey

Stakeholder issues raised

- Employee compensation and review of LTIP, STIP and KPIs of Executive.
- Availability of resources, vans and equipment.
- Diversity throughout the Company in terms of gender, ethnicity, disability and age.

Outcomes of engagement on key decisions

- Continued promotion of, and encouragement to use, the 'Safe to Speak Up' mechanism across the business, greater focus on recognition and appreciation of great work, increased focus on people management within the organisation and provision of more development opportunities for our people.
- Remuneration benchmarking exercise and approval of strategy to implement recommendations.
- Additional investment in resourcing and procurement of essential tools and equipment, including operational vehicles.

Key Board decisions

- Communication and cascading of key insights and actions to SGN leadership team.
- Transformation Plan to improve ways of working throughout the business.
- Approval of strategic architecture to deliver excellence today and assist in the transformation of SGN for a decarbonised future.

Engaging with SGN stakeholders

3. 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 locally, regionally and nationally 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 tangible benefits to those most in need of help to stay safe and warm at home.

How we engage

- Community liaison groups
- Drop-in community events and virtual workshops
- School assemblies and hydrogen education workshops
- Our Environmental Advisory Group
- Our Vulnerability Steering Group

Stakeholder issues raised

- Carbon impact associated with operating our business.
- The role of green gases in the transition to net zero carbon emissions.
- ESG performance.

Outcomes of engagement on key decisions

- There are over 150 biomethane sites connected, or in the process of connecting, to the GB gas network, with over 14.5TWh of green gas capacity – which is enough energy to heat 1.2 million homes.

Key Board decisions

- Continuation of H100 Fife Project.
- Development of relationship and entry into contract for the design and build of a biomethane injection hub at Banbury site.
- Approval of continuation of LTS Futures Project.

4. Suppliers, contractors and partners

We're supported by a significant number of suppliers and contractors to keep our customers safe and warm, while our joint venture partners enable us to develop new technologies and alternative heat solutions.

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

- Operational contractor roadshows
- Supplier checkpoint review meetings
- Supplier Relationship Management (SRM) programme
- Sustainability Supply Chain School

Stakeholder issues raised

- The conclusion of existing contracts including fleet and IT services.
- Contractors and suppliers' ability to provide ESG-related information.
- Resourcing crisis – recruitment and retention.

Outcomes of engagement on key decisions

- The development and launch of SGN's Sustainable Procurement Code has introduced a new requirement for suppliers we contract with to adhere to the code, including greater provision of ESG-related data and information.
- Introduction of a new fleet framework contract approved for provision of operational vehicles.

Key Board decisions

- Approval of Modern Slavery Statement.
- Approval of new PE pipe framework agreement.
- Approval of a new supplier for the delivery of Service Desk, End User Computer and IT Service Management processes.

5. Government and regulators

We work constructively and collaboratively with both UK and Scottish Governments as well as regulatory bodies such as Ofgem, UREGNI 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

- Senior government and regulatory engagement is led by the CEO on behalf of the Board. The type of engagement includes:
  - Bilateral meetings
  - Attendance at round tables
  - Government/industry working groups
- The CEO also has oversight of formal government and regulatory consultations that has material impact on our operations and customers

Stakeholder issues raised

- Price controls.
- Decarbonisation of gas.
- Cyber security.
- Operational resilience and security of supply.

Outcomes of engagement on key decisions

- Continued investment in our Cyber Security Programme to put in place additional precautionary measures to mitigate increasing threat levels and provision of deep dive with the Board from external expert.
- Provision of wider support for the Company for increased political engagement on decarbonisation.

Key Board decisions

- Approval of continuing investment in our Cyber Security Programme.
- Approval to increase political engagement on key issues such as decarbonisation and consumer vulnerability.
- Approval to improve various policies supporting compliance throughout the year.

6. Shareholders and debt investors

We have a solid shareholder base, made up of large infrastructure and pension funds, and a large and diverse debt investor base across public bonds, private placements and bank lending.

Why we engage

Understanding our shareholders' and debt investors' needs helps us 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

- Annual General Meeting (AGM)
- Board representation and dedicated sub-committees
- Regular and ad-hoc bilateral meetings with shareholders and debt investors
- Annual results presentations for debt investors
- Regular and ad-hoc meetings with our three rating agencies

Stakeholder issues raised

- AGM and Annual Report.
- Rating Agency Reports.
- Financial Reports, Dividends and credit ratings.
- Energy Futures and Pathway to decarbonisation.
- ESG.

Outcomes of engagement on key decisions

- 2023 AGM attended by the Board with new shareholders. All resolutions were passed.
- New Board Director appointment.
- New Independent Non-Executive Director Appointment.
- Awareness 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.

Key Board decisions

- Appointment of new Board Directors.
- Dividend arrangements.
- Investment performance reviews and updates.
- Update to Revolving Credit Facility.

Engaging with SGN stakeholders

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 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.

On the following page, we have set out an example 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 77 to 96.

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

SGN's VCMA strategy to provide support to the most vulnerable customers and ensure access to a safe heat network

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	Following the cost-of-living crisis, there has been more need than ever to provide support to the most vulnerable members of society. SGN is committed to taking care of our customers and making a positive impact on the communities we serve. There is a strategy in place to identify vulnerable households and ensure they are able to access energy safely, efficiently and affordably for the foreseeable future and beyond.
Impact on employees	SGN is committed to being a company our employees can be proud to work for. Taking action to support vulnerable people in the community encourages a caring culture and also allows employees an opportunity to be part of making a positive impact. More information on how we engage with our people can be found on page 49.
Nurturing business relationships	SGN continues to collaborate and work alongside industry peers, the government, local authorities, key charities and Ofgem to support communities and ensure a collaborative effort to provide effective assistance where its needed.
Impact on community and environment	Providing support to vulnerable customers improves the lives of not just those SGN assists directly, but also those around them. Part of the commitment of SGN is to ensure that energy is accessed safely minimising risk to the community and the environment.
Enhanced corporate reputation	SGN campaigns to ensure those who need support most are prioritised and are committed to reviewing the strategy of meeting vulnerable customers' needs. Allocating business funds to support those in need demonstrates that SGN has more than just profit in focus and is committed to providing safe access also.
Acting fairly between members	SGN has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally, including ensuring that adequate procedures are in place to address any conflicts of interests that could arise and ensuring equal access to information. With this in consideration, the SGN's Board acknowledges the support from its members and also support the ongoing development of the vulnerable customer programme and activities to ensure the safety of the network and those that use it.

Engaging with SGN stakeholders

Board decision

Supporting the development of SGN's commitment to cyber resilience and digitisation

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	SGN has an approved programme of works to improve mitigation of Cyber Risk and has a strategy for upgrading this plan and adopting more efficient digital solutions to improve the ways of working for employees and a smoother customer experience.
Impact on employees	SGN is committed to providing job security for our colleagues and a safe environment for them work within. As cyber risks grow and technology advances, it is important that all mitigations are taken to ensure the cyber safety of SGN colleagues and make improvements to the digital tools they use in completing their roles. More information on how we engage with our people can be found on page 49.
Nurturing business relationships	SGN continues to collaborate and work alongside industry peers, the government, experts and Ofgem to make improvements to cyber security and the digital tools available within the industry. Third-party experts are particularly key to this area and have been involved in providing information and assurance to both the management teams and the Board of Directors.
Impact on community and environment	An extreme cyber event could prevent us from distributing gas to our 6.0 million customers. 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	SGN endeavours to provide efficient and effective service to customers and the wider community and a cyber attack or the use of sub-standard digital tools could cause significant disruption to doing so.
Acting fairly between members	SGN has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally, including ensuring that adequate procedures are in place to address any conflicts of interests that could arise and ensuring equal access to information. With this in consideration, the SGN's Board acknowledges the support from its members and also support the ongoing development of the strategy to improve cyber resilience and upgrade digital tools and software.

Board decision

Supporting the continued prioritisation of Safety with the development and introduction of the PROTECT framework, underpinned by SGN's Life Saving Rules

Section 172 Factors	Directors' consideration of Section 172 Factors
Long-term impact	Safety is critical. It's SGN's number one priority to ensure we have a zero-harm business and that everyone goes home safe and well every day. It's an integral value and is central to all our decision making and our drive for business excellence. To continue this prioritisation, SGN has introduced the PROTECT framework and Life Saving Rules which is used in all aspects of our work, now and for the future. Further information on PROTECT and the Life Saving Rules story can be found on page 27.
Impact on employees	PROTECT and the Life Saving Rules was created in partnership by direct interaction and input from employees on what matters to them (as well as our other stakeholders). Achieving zero-harm is a commitment shared by all employees where each takes individual ownership of Safety. To further ensure the success of this approach and keeping our people in mind, SGN provides regular PROTECT updates and training to ensure our people are kept informed and can confidently make their commitment visible on a daily, even hourly basis, through their actions and words. Helping to ensure that the right option and the safe option is always chosen for every job and task. More information on how we engage with our people can be found on page 49.
Nurturing business relationships	SGN continues to collaborate and work alongside industry peers, the government, local authorities and our regulators to ensure safety is at the top of our agenda.
Impact on community and environment	One of three core principles of PROTECT is that any and all harm to people, property and the planet is preventable. Therefore our Life Saving Rules aim to ensure that all SGN's activities are harm free for our customers, communities and the environment by making the appropriate risk assessments, using the right tools for the job, being competent and by following policies and procedures.
Acting fairly between members	SGN's has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally. With this in consideration, the SGN's Board acknowledges the support from its members and also supports our safety value being SGN's top priority along with achieving zero-harm through the PROTECT initiative and Life Saving Rules.

Environmental, Social and Governance (ESG) report

Our purpose and vision enable us to play a critical role in the transition to net zero while creating a positive impact on our people and local communities.

Our 2023/24 performance at a glance

3%
reduction in carbon emissions*

98.5%
of depots and offices using 100% certified renewable electricity

9
biodiversity enhancement projects implemented

232,847
vulnerable households supported

0.26
total recordable injury rate

59
reports through Speak Up Hotline

15,541
anti-corruption, compliance training sessions

* Scope 1, 2 and 3 including shrinkage.

About this report

For the third year running we present our ESG report. To demonstrate our commitment and show progress against the ESG issues material to our business and our stakeholders, we continue to report in alignment with the World Economic Forum's (WEF) Stakeholder Capitalism Metrics framework.

Our progress
On the following pages we disclose performance for financial year 2023/24, in comparison with last year's disclosure and any relevant targets. Where a metric within the WEF framework is not relevant to the business, we have explained this. As a business we are also committed to demonstrating how we are contributing to the United Nations Sustainable Development Goals (SDGs), and therefore we show how the pillars of the WEF framework, and our material issues, link to the SDGs.

For the second year running we are reporting against the recommended disclosures of the Task Force on Climate Related Financial Disclosures (TCFD) Framework (see pages 68 to 76).

Next steps
As the regulatory reporting requirements on ESG continue to expand, and stakeholder needs change over time, we will continue to assess, align and mature our reporting approach and climate-related disclosures.

Our ongoing commitment to sustainability

"Climate change is one of the greatest challenges facing society. It requires everyone, everywhere to act. As a gas distribution network, we have a critical role to play in the transition of the energy system to a more sustainable whole systems approach in a net zero economy.

Our Environment Strategy, aligned with the United Nations Sustainable Development Goals, is our business blueprint for reaching net zero greenhouse gas emissions. It sees us contributing to the decarbonisation of the energy network, reducing the carbon footprint of our business and ensuring our networks are resilient to an ever-changing climate.

In this Annual Report, we are presenting our TCFD disclosures. Using the structure of the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets, we explain how climate change may impact our business, the risk of the transition to a low-carbon economy and how we can adapt to a world impacted by climate change."

Jeffrey Rosenthal
Non-Executive Director and Chair of SGN's Stakeholder and ESG Committee

"We're well-placed to make a real difference, from our role in the transition to net zero, to creating an inclusive and diverse team to ensure we achieve this, and in supporting those in our communities who need it most.

2023 was a year of great progress against many of our key ESG priorities. We reduced our business carbon footprint by 8% as a result of several initiatives including the installation of direct-feed solar photovoltaic (PV) systems at four of our depots.

It was also an exciting year for our people with the launch of a further five employee-led networks, to foster a culture where everyone feels welcome, valued and they belong.

I'm extremely proud of the impact made across our vulnerability portfolio in 2023. We supported well over 200,000 vulnerable households, exceeding our original RIIO-GD2 target significantly, helping those most in need with targeted action resulting in real and meaningful outcomes for our customers. Since the start of RIIO-GD2 over 400,000 vulnerable households have accessed over 765,000 unique support services, creating over £34m in social value."

Rob Gray
Chief of Staff

External initiatives and benchmarks

CDP

For the past seven years we have reported through CDP. In 2023 we received a 'B' score (Management level) on climate change and 'B-' score (Management level) on Supplier Engagement, both exceeding the sector average score.

CARBON TRUST

In February 2023 we achieved the Carbon Trust Route to Net Zero standard, Taking Steps tier which acknowledges the emissions reductions and processes we have in place as part of our Environmental Action Plan to drive change.

S&P Global

For the past two years we have submitted to S&P's Corporate Sustainability Assessment.

Our January 2024 submission puts us in the 68th percentile in the Gas Utilities sector.

Environmental, Social and Governance (ESG) report

Environmental

We impact the environment through our operations and supply chains and through the way our networks are used. Our impacts on the environment can result in significant societal harm unless we manage our impacts well and aim to reduce and improve across our business activities.

WEF pillar:

Planet

Contributing to UN SDGs:

7 AFFORDABLE AND CLEAN ENERGY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
15 LIFE ON LAND

SGN material aspect	Non-financial KPI	Target/tracking	2023/24	2022/23
Decarbonising the gas grid and innovating to provide our customers with cleaner energy[1]	Volume of new biomethane in the network	Tracking	170,689 scm/h	0 scm/h
	Growth in biomethane	450,000 households supplied with biomethane	289,620	259,000
Tackling the carbon impact of our business today, including emissions from leakage	Greenhouse gas emissions	See our Streamlined energy and carbon reporting (SECR) table on page 59. We have a net zero by 2045 target which includes greenhouse gas Scope 1, 2 and 3. We also have an interim target for Scope 1 and 2, excluding shrinkage, to reduce by 25% by end of financial year 2026. We are developing interim targets by 2030 for all our scope 1 and 2. See pages 16 and 17 for more detail on our we are decarbonising our operations.		
Nature loss[2]	Land use and ecological sensitivity • Biodiversity studies completed • Improvement projects	128 Tracking	78 9	50 6
Conservation of water	Water consumption and withdrawal in water-stressed areas: This metric, part of WEF framework, is not material to our business.			
Responding to the physical risks of climate change through adaptation and improvement	TCFD implementation	See our TCFD report on pages 68 to 76.		

1 We had a strong year in biomethane. Across 2023/24 we had 109 enquires from biomethane project developers for potential new sites and also 21 detailed capacity studies which points to very buoyant biomethane connections market.

2 Our biodiversity programme focusses on improving the biodiversity on the sites that we own and manage, starting with surveying these sites to identify the baseline biodiversity condition then setting site specific improvement strategies to ensure biodiversity net gain. The suggested WEF measurement of sites adjacent to protected areas or key biodiversity areas is not material to the business.

Streamlined energy and carbon reporting

	2023/24	2022/23[3]	% change
Scope 1 and 2 (Direct Emissions)			
Scope 1: Gas usage from our occupied/operational sites (tCO_2e)	**975**	3,144	-69%
Scope 1: Natural gas shrinkage (Leakage + Theft of Gas + Own use of gas) (tCO_2e)	**671,481**	696,634	-4%
Scope 1: Business mileage Company owned/controlled vehicles (tCO_2e)	**14,731**	14,079	5%
Scope 2: Purchased electricity (Location based) (tCO_2e)	**2,504**	2,622	-5%
Scope 2: Purchased electricity (Market based) (tCO_2e)	**85**	32	166%
Total Scope 1 and 2 (tCO_2e)	**689,691**	716,479	-5%
Scope 1 and 2 Energy consumption (kWh)	**633,404,148**	691,158,678	-4%
Intensity metric: Total Scope 1 and 2 per £m turnover (tCO_2e/£m)	**518**	579	-10%
Intensity metric: Total Scope 1 and 2 per km gas pipe in network (tCO_2e/km)	**9.6**	9.9	-3%
Intensity metric: Total Scope 1 and 2 per energy throughput (tCO_2e/GWh)	**5.5**	5.4	2%
Scope 3 (Indirect Emissions)			
Business travel (Rail, Air, Ferry, Car Hire, Grey Fleet) (tCO_2e)	**1,085**	709	35%

Methodology

Data provided here is in line with annual regulatory reporting of carbon footprint to Ofgem using Defra conversion factors. Greenhouse gas emissions are calculated in alignment with the Greenhouse Gas Protocol, operational control. It includes data from our Southern and Scotland networks. Conversion factors are updated annually. 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).

Commentary on changes

Scope 1 gas usage from occupied/operational sites is significantly lower this financial year compared to last year. This is due to our single biggest gas consumption item having been off due to maintenance for a period of time, hence generating no emissions. We have seen a slight increase in our Scope 1 business mileage due to the significant number of operational vehicles which were added to our fleet in 2023/24.

We are now powering approximately 98% of our offices with certified renewable electricity. This is shown through the very low market based emissions for our Scope 2. Note that due to lack of invoicing data we have estimated our market based emissions as per previous years. We have a programme in place to install direct feed renewables which will reduce our location based emissions Scope 2 over the coming years.

Natural gas shrinkage, Scope 1, which is the biggest contributor to our carbon footprint, is continuing to reduce as we are progressing with our replacement works (replacing old metal main pipes with new polyethylene pipes), effectively managing pressures and reducing gas escapes through innovation.

Our business travel has again increased this financial year compared to last, as travel has resumed with lifting Covid-19 restrictions. It is worth noting that our business travel emissions are still much lower than they were pre-pandemic. Using technology and video calls have become more embedded in our ways of working. We know that the biggest impact of our Scope 3 comes from products and services that we procure. We are working towards capturing material Scope 3 categories and provide full disclosure.

3 The 2022/23 numbers have gone through an external assurance process so are different from what was reported in last year's Annual Report.

Environmental (continued)

Installing photovoltaic (PV) cells at our sites to help reduce our CO_2 emissions

Installing solar panels at our depots and offices reduces our reliance on electricity from the grid, reduces the amount of power we buy and reduces our carbon emissions.

In February 2024, we installed 600 PV cells on the three south-facing aspects of the warehouse roof at our Walton Park depot. These solar panels have a combined generation output of 298.08 kWp.

Radically reducing grid reliance
The solar PV system is designed to reduce both our electricity consumption purchase from the grid, and our carbon emissions, by a target of up to 40%. The system is projected to reduce site electricity usage up to approx. 338,352.57 kWh per annum, which is approx. 152.57 tonnes of CO_2e.

Driving down CO_2 emissions
To put it into perspective, the CO_2 saving we expect from our Walton Park solar panels every day is the same amount of emissions that would be released if you drove a passenger car for 3,867km – that's about the same as driving from Glasgow, Scotland to Quebec, Canada.

Our depot at Epsom was the first depot to have solar panels installed and surpassed our initial expectations of a 40% reduction, and we anticipate the same at Walton Park. We plan to install further solar PV systems at 12 of depots and offices by 2025.

The daily CO_2 saving expected from our Walton Park panels is equivalent to the emissions released by driving a car from Glasgow, Scotland to Quebec, Canada.

Solar power at Epsom
We're installing PV cells at our sites to help reduce our CO_2 emissions.

[1] Employees hired before 2019 were not required to disclose protected characteristics such as disability, thus the data held is by employees who have self-reported their disability status or were hired after 2019. We are working to improve the collection of this data.

Social

People are at the front and centre of SGN. Safety is our number one priority. To continue this prioritisation we introduced the PROTECT framework underpinned by SGN's Life Saving Rules. We also remain committed to attracting, developing and retaining key talent and championing equality.

WEF pillar:

People

Contributing to UN SDGs:

SGN material aspect	Non-financial KPI	Target/tracking	2023/24	2022/23
Making sure SGN is a great and inclusive place to work, where all people thrive and develop careers	Diversity and inclusion – gender	Tracking	81% Male 19% Female	81% Male 19% Female
	Diversity and inclusion – ethnicity	Tracking	87% White 6% Ethnic minority 7% Data not held	86% White 3.6% Ethnic minority 9.6% Data not held
	Diversity and inclusion – disability	Tracking	5% Yes 27% No 1% Prefer not to say 67% Data not held[1]	8% Yes 38% No 2% Prefer not to say 52% Data not held
	Diversity and inclusion – age group	Tracking	<1% Under 20 17% 20s 32% 30s 22% 40s 19% 50s 8% 60s <1% 70s	<1% Under 20 15% 20s 32% 30s 22% 40s 20% 50s 9% 60s <1% 70s
Recruiting and retaining a diverse range of talented people excited about shaping the UK's energy future	Pay equality	Please refer to our Gender Pay Gap report on our website: • Scotland Gas Networks • Southern Gas Networks • SGN Contracting		
	Wage level	We are a living wage employer. We do not 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. 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.		
	Training provided: Total investment	Tracking	£8.6m	£4.9m
Securing the safety and wellbeing of all customers and colleagues	Modern slavery training	Training 100% of our workforce by end of FY 2023/24	83.9%	76.7%
	Health and safety – number of fatalities as a result of work related injury	0	0	0
	Injury rates: total recordable injury rate	0.08	0.26	0.13
	Safe days	210	142	169
	Utilisation rate of employee assistance programme (new service started June 23)	8-12%	4.6% (over 9 month period)	8% (over 12 month period)

Environmental, Social and Governance (ESG) report

Social (continued)

Creating a workplace where everyone can develop and thrive

We recognise the importance of encouraging an inclusive workforce and the value of differing perspectives in helping to bring new ideas to the business.

Fostering inclusion
Since 2022, SGN has launched six employee-led networks to foster a culture of inclusion and belonging with over 650 members joining these networks so far. These networks provide a safe space for colleagues to come together and share experiences, give advice and support in career development. They play a key role in SGN's Equity, Diversity and Inclusion agenda, raising awareness of the areas needed for improvement.

"I feel honoured to represent SGN's Race Equality Network. Having the opportunity to ensure that SGN's performance in diversity and inclusion is exceptional and meets the needs of the historically under-represented."

Tara Bridges
Chair of Race Equality Network

Women@SGN:
A network for women from all roles, departments and regions

Ability@SGN:
A network for colleagues with health conditions and disabilities and their allies

Armed Forces Network:
For Armed Forces veterans and reservists

SGN Pride:
A network for LGBTQ+ colleagues and their allies

Race Equality Network:
For people of colour and those from minority ethnicities

Parents and Carers Network:
A network for colleagues who have children or provide care

Attracting diverse talent
Our industry has traditionally been a male-dominated field and as such there has been a long standing issue with gender diversity in the sector. Female representation in SGN during 2023/24 was 19.1%. This is above the GDN average of 14%.

While female representation has increased, we recognise we still have more to do and we have implemented several initiatives aimed at attracting and retaining diverse talent. An area we are particularly passionate about is attracting early career talent to SGN as this brings new ideas, perspectives and thinking. It helps build our talent pipeline and is a key enabler to achieving our diversity aspirations. Our apprenticeship programme offers an excellent grounding for a career in the sector and of the apprentices hired into Operations during 2023/24, 8% were female.

"I am really enjoying my time so far at SGN, I have had lots of opportunities to develop both my technical knowledge of gas, and soft skills crucial to my role such as confidence in managing projects and communication; all whilst progressing through the course. This apprenticeship has definitely given me a massive career boost and I'm looking forward to my future at SGN."

Ashlyn Wilcox
Apprentice Project Manager, North Construction

Governance

At SGN we are committed to creating a sustainable future for our business which supports economic growth and attracts diverse talent.

WEF pillar: Prosperity

Contributing to UN SDGs: 8 Decent work and economic growth; 9 Industry, innovation and infrastructure

SGN material aspect	Non-financial KPI	Target/tracking	2023/24	2022/23
Creating a sustainable future for our business while providing a safe, reliable and affordable service	Economic contribution	Financial review, pages 36 to 40.		
	Financial investment contribution	Financial review, pages 36 to 40.		
	Total R&D expenses[1]	Tracking	£1.6m	£2.6m
Maintaining an attractive and flourishing business respected by a wide range of stakeholders	New employee hires[2]	Tracking	Of a total of 860 new hires, we had the following gender, ethnicity and age split: • 19% identified as female • 81% identified as male • 87% white • 13% ethnic minorities • <1% undisclosed • 67% aged between 21-40 • 24% aged between 40-60 • 7% aged under 21 • 2% aged over 60	Of a total of 771 new hires, we had the following gender, ethnicity and age split: • 20% identified as female • 80% identified as male • 93% white • 7% ethnic minorities • 0% undisclosed • 72% aged between 21-40 • 20% aged between 40-60 • 7% aged under 21 • 1% aged over 60
	Employee turnover	Tracking	9%	11%
	Total tax paid	Financial review, pages 36 to 40.		

1 Our total R&D investment of £1.6m shows the investment we are making in ongoing innovation activities that are primarily supporting decarbonisation and/or protecting the environment. This reflects our commitment to tackling pressing environmental challenges and driving sustainable initiatives. Projects in 2023/24 included robotics solutions that reduce excavation and roadworks. In addition to network innovations that allow us to reduce emissions from our networks.
2 Recruitment of the required number of operational, frontline employees was a Company-wide priority in 2023/24. See page 30 for more details on our recruitment.

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Environmental, Social and Governance (ESG) report

Governance (continued)

By operating ethically as a business, acting with integrity and maintaining the highest standards of governance, we demonstrate the importance of doing things the right way.

WEF pillar:

Principles of Governance

Contributing to UN SDGs:

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Our Speak Up (whistleblowing) policy
Our people are encouraged to report behaviours that do not comply with our high ethical standards through several reporting channels which include internal channels and through a confidential independent whistleblowing channel, called the Speak Up Hotline. The availability of this channel is promoted to colleagues through our Safe to Speak Up campaign. During 2023/24 we received 59 reports through the hotline and are working to improve the top three categories of issues, namely Health & Safety, Theft and Substance Abuse.

SGN material aspect	Non-financial KPI	Target/tracking	2023/24	2022/23
Delivering an excellent service for customers and stakeholders	Emergency response service – controlled gas escapes	Scotland: 97% regulatory standard	99.80%	96.60%
		Southern: 97% regulatory standard	98.90%	92.94%
	Emergency response service – uncontrolled gas escapes	Scotland: 97% regulatory standard	99.49%	97.17%
		Southern: 97% regulatory standard	98.39%	91.86%
	Network reliability (as % of full liability)	Scotland: 100%	99.999%	99.999%
		Southern: 100%	99.999%	99.999%
	Gas transported	Tracking	121.1 TWh	131.8 TWh
	Customer satisfaction	Scotland: 9	9.33	9.30
		Southern: 9	9.19	9.02
	Complaints metric	Scotland: <5.00	1.62	1.71
		Southern: <5.00	3.61	4.74
	Additional services referrals	Tracking	7,433	7,083
	Priority Services Register	Tracking The referrals includes referrals made through partners	32,982	17,153
	Fuel poor connections	Tracking	268	649
Creating an ESG strategy that reflects and underpins our Company culture	Setting purpose	We set our purpose in 2021/22: Serving our communities by keeping everyone safe and warm. See page 2.		
	Quality of governing body	SGN governance structure, pages 82 to 84. SGN Board roles and responsibilities, page 85.		
	Material issues impacting stakeholders	Please refer to our material issues for our ESG reporting on pages 58, 61, 63, and 64 and how we engage with stakeholders on pages 48 to 55.		
	Stakeholder relationship satisfaction	Tracking	8.0	8.2
Ethical behaviour	Anti-corruption, compliance training and awareness sessions	Tracking	15,541	14,867
	Anti-corruption incidents	We treat the number and proportion of corruption incidents as confidential Company information.		
Protected ethics advice and reporting mechanism	Speak Up reports	Tracking	59	44
Risk and opportunity oversight	Integrating risk and opportunity into business process	Principal risks and uncertainties, pages 44 to 47.		

Governance (continued)

Helping vulnerable priority customer groups access energy safeguarding services

Customers are at the heart of what we do. We have a bold ambition to help 500,000 vulnerable customers use energy safely, efficiently and affordably between 2021 and 2026.

Our approach provides support to households most in need across four strategic priority areas:

- Providing direct support services to vulnerable customers as part of our day-to-day operational work.
- Partner with organisations who support priority customer groups to help them maintain a safe and warm home.
- Partner with organisations who deliver support to fuel poor households to help address the underlying causes.
- Partnering with key organisations to help reduce the harmful effects of carbon monoxide.

Safe & Warm partnership network and Safe & Warm community scheme

Our Safe & Warm Partnership Network now extends to over 100 regional charities and community organisations who we work with to help identify and support vulnerable households maintain a safe and warm home. Our Safe & Warm community scheme supports local grass root charities with resources and energy safeguarding training.

SGN continues to lead a number of national partnerships on behalf of the gas networks to reach the most vulnerable customers in our communities including Scope, Age UK and Citizens Advice.

Since December 2022, SGN has led a three-year partnership with end of life charity Marie Curie to help support terminally ill people in the UK facing rising energy costs. Terminally ill people often have energy bills thousands of pounds higher than the average household due to the medical need to stay warm and power medical equipment. This partnership is helping ensure terminally ill people and their loved ones stay safe and warm all year round. In 2023/24, 4,110 people living with a terminal illness were supported through the partnership, and 749 Marie Curie nurses and volunteers were trained on how to identify and support people with energy safeguarding.

"We're committed to never walking away from a customer in need. We're proud of our growing Safe & Warm partnership network, by working closely with others we're able to help the most vulnerable get the help they desperately need."

Maureen McIntosh
Director of Customer Services

Our overall impact across our vulnerability portfolio

£34,800,000	Social Value
403,717	households supported
765,122	unique services provided
1,609	Care & Repair scheme repairs
72,081	energy advice sessions
68,572	crisis funds (food and fuel)
2,362	fuel poor gas connections
39,752	home safety interventions
29,891	carbon monoxide alarms
59,880	PSR customers registered
139,521	income maximisation checks
164,895	carbon monoxide safety sessions

Looking forward

"A key milestone in our ESG journey will be the development and launch of our Sustainability strategy which will influence our growth strategy and our path forward. We are committed to investing in ESG priorities as we recognise the positive impact ESG has on our customers, our people and the planet."

Mark Wild OBE
Chief Executive Officer, SGN

It is our belief that publicly available disclosures have the opportunity to provide positive impact on our reputation.

It gives our stakeholders including customers, new and existing talent, our Regulator and shareholders, lenders and rating agencies among others, information to evidence that SGN has responsibility at its core and is a positive contributor to a just energy transition. However, these metrics and frameworks alone do not provide a strategy and a vision for what SGN wants to achieve in ESG and Sustainability.

Integrating ESG into our business strategy and operations

In early 2024 we started the process of developing a new and coherent Sustainability strategy, aligned to our long-term business strategy. This strategy will consider how SGN impacts the climate, environment and society, as well as how these factors impact on our business.

Throughout 2024 we will continue to progress our Sustainability strategy, engaging with key stakeholders to develop the strategic commitments identified through our materiality assessment.

We will then formalise our ESG initiatives, set our ambition and put in place processes to ensure our ESG objectives are fully integrated into our business strategy and other relevant business processes.

Appropriate internal governance will be implemented to review, monitor and track progress of our non-financial ESG measures to ensure they are treated with the appropriate focus, energy and rigour. This will provide a forum to help drive change within the business and enable us to deliver against our ESG commitments.

We have included several key ESG related questions to our annual 'Great Place to Work' employee survey. This insight will help us understand what colleagues think and feel about our ESG efforts and identify areas for future improvement.

TCFD report

Climate change is one of the greatest challenges facing society. It requires everyone, everywhere to act. As a gas distribution network, we have a critical role to play in the transition of the energy system to a more sustainable whole systems approach in a net zero economy.

We are fully committed to understanding the impacts of climate change on our business and providing transparent information on how we are managing climate-related risks and opportunities, both in terms of the physical risks arising from climate change and the transition risks and opportunities arising from adapting towards a low-carbon economy.

Aligning disclosures
As per the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022, it is mandatory for SGN to disclose climate-related risks and opportunities as part of the Annual Report. We are achieving compliance with the Climate-related Financial Disclosures through our Task Force on Climate Related Financial Disclosures (TCFD). Our TCFD disclosures describe activity to date and future areas of focus to further strengthen and improve our strategic approach and communication of our climate-related issues.

We are compliant with all TCFD disclosure requirements. An area we can improve upon is the quantification of the financial impacts of climate change. Lack of available data means we are currently unable to quantify, however we are working to address this and include more detailed disclosure of the potential financial impacts in next year's Annual Report.

"We are committed to understanding the impacts of climate change on SGN and in sharing how we are managing climate-related risks and opportunities."

Mark Wild OBE, Chief Executive Officer, SGN

TCFD disclosures	Climate-related Financial Disclosure (CFD) Regulations 2022	Section reference	Page
Governance			
(a) Describe the Board's oversight of climate-related risks and opportunities	(a) A description of the company's **governance arrangements** in relation to assessing and managing climate-related risks and opportunities	Principal risks and uncertainties TCFD	44-47 70
(b) Describe management's role in assessing and managing climate-related risks and opportunities		Principal risks and uncertainties TCFD Board Committees hierarchy	44-47 70 82
Strategy			
(a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	(d) a description of: i. the **principal climate-related risks and opportunities** arising in connection with the company's operations, and ii. the time periods by reference to which those risks and opportunities are assessed	TCFD	70
(b) Describe the impact of climate risks and opportunities on the organisation's businesses, strategy and financial planning	(e) a description of the actual and potential **impacts of the principal climate-related risks and opportunities on the company's business model and strategy**	TCFD	71
(c) Describe the resilience of the organisation's strategy taking into consideration different climate-related scenarios, including a 2°C or lower scenario	(f) an analysis of **the resilience of the company's business model and strategy**, taking into consideration different climate-related scenarios	TCFD	72-74
Risk management			
(a) Describe the organisation's processes for identifying and assessing climate-related risks	(b) a description of **how the company identifies, assesses, and manages** climate-related risks and opportunities	Principal risks and uncertainties TCFD	44-47 70
(b) Describe the organisation's processes for managing climate-related risks		TCFD	74-75
(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	(c) a description of how processes for identifying, assessing, and managing climate-related risks are **integrated into the company's overall risk management** process	Principal risks and uncertainties TCFD	44-47 74-75
Metrics and targets			
(a) Disclose the metrics used by the organisation to assess climate-related risk and opportunities in line with its strategy and risk management process	(g) a description of the **targets used by the company** to manage climate-related risks and to realise climate-related opportunities and of performance against those targets	Streamlined energy and carbon reporting TCFD	59 75
(b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks		Streamlined energy and carbon reporting TCFD	59 76
(c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	(h) a description of the **KPIs used to assess progress** against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which the KPIs are based	ESG report TCFD Annual Environmental Report on website	56-67 76

TCFD report

Our climate change governance

Board's oversight of climate-related risks and opportunities

Our Board has a focus on steering and supervising SGN across strategy, performance, and governance in the short, medium, and long term. This is discussed at each meeting of the Board as appropriate. See page 85 for more details on Board roles and responsibilities.

The Board has overall accountability for risk management. Twice a year, the Board carries out a review of the full Enterprise Risk Register, makes decisions on how these should be managed and also considers new or emerging risks. The Executive Committee owns and oversees the Enterprise Risk Management Framework. Each Enterprise Risk is assigned to one or more Executive Owners 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. The current enterprise risk profile consists of 14 risks, of which one is climate change. See page 44 for further details on how the SGN Governance framework works.

Oversight of climate-related risk is also provided by two sub-board committees, the Stakeholder and ESG committee (SESG), and our Health & Safety Committee (HSC) to properly encompass both the physical and transition risks arising from climate change. The SESG is chaired by one of our Non-Executive Directors and Board members and has oversight of environmental risks and opportunities. They meet three times a year and the Chair reports climate-related matters to the Board. The HSC is chaired by the SGN Board Chair and has oversight of the physical risks of climate change. The committee meets six times a year.

Climate-related KPIs are reported at sub-Board committee and Board level. These metrics show performance and progress towards climate and emission reduction targets.

Management's role in assessing and managing climate-related risks and opportunities

Our Environment and Sustainability Policy is signed at Executive Director level and provides an overall framework and principles of action for our approach to managing the impact of our business on the environment and the climate.

The policy provides a commitment to manage the impacts and aspects of climate change associated with our operations and assets.

Overall management level responsibility for sustainability, including the strategic risk of climate change, sits with the Chief of Staff and the Head of Sustainability.

Risks are assessed through a comprehensive risk management system and functional management is responsible for identifying, responding to, monitoring, and assuring key risks. Climate-related risk and opportunity management is devolved to the functional managers through the risk registers, as 'environment' is one of the measures on the risk impact matrix used when measuring the risk impact.

To ensure knowledge is shared throughout the organisation we include climate-related business information and KPIs on a regular basis (monthly) in reports to the Executive team and senior managers:

- Our 'Executive dashboard' includes climate related business information and KPIs. This is shared with all senior managers in the organisation and provided at Executive meetings on a monthly basis.
- Climate related information and metrics are also reported monthly to the Executive team through the Stakeholder Relations and Communications Directorate dashboard.

The information provided to management enable better investment decisions and strategic and financial planning.

Climate change strategy and planning

Climate-related risks and opportunities over time

Climate-related risks and opportunities, at a Group level, have been identified by a cross-functional team of key stakeholders at senior management level. The assessment was supported by a third-party consultant to ensure alignment with global standards.

Our process included the following steps:

- Establishing a long list of risks and opportunities, both current and potential, based on internal workshops and interviews, sector research and climate scenarios.
- Scoring and prioritising the risks and opportunities across selected climate scenarios, time horizons and against our enterprise risk scoring matrix which assesses health and safety, financial, people, operational, change, asset management and process safety, environment, reputation and regulatory impacts. Significant financial impact is defined as:
  - Financial impact between £15m to £50m with an almost certain likelihood i.e. >90%;
  - Financial impact between £50m to £100m with a 50% to 90% likelihood; or
  - Financial impact of more than £100m with a possible impact of 30% to 50%.

A summary of our material climate-related risks and opportunities is available on pages 72 and 73. Materiality in this context is defined as issues that could have a significant impact on operations. These were evaluated up to 2045, across the following time horizons; short term is defined as the immediate one to two years ahead. Medium term is defined as three to nine years, in line with the next Ofgem price control. Long term is defined as the next 10 years +, in line with our net zero goal.

Next steps (2024/25)

- Assess and quantify the potential financial impacts of our climate-related risks and opportunities.
- Standardise climate scenario analysis to enable ongoing regular assessment of climate-related risks and opportunities.

Impact on businesses, strategy and financial planning

Taking into consideration our material risks and opportunities, and climate-related scenario analysis (see pages 70 to 72), we have developed a company strategy that we believe is robust, agile and will deliver value to our customers, shareholders, and other key stakeholders in the long term. This strategy will be evident in the Business Plan we are currently in the process of developing for the next price control period, RIIO-GD3, covering years 2026 to 2030 and which will be submitted to Ofgem in December 2024.

Our Business Plan will include proposed investments for the next price control, which aims to ensure we can continue to provide a safe and efficient network, delivering gas safely and reliably to our customers in the face of increasing physical risks to our network assets.

Climate resilience strategy

Our climate resilience strategy, which is under development, will outline a short and a long-term plan for how we intend to manage climate resilience during RIIO-GD3 and beyond. It will consider different climate scenarios as is also covered in these TCFD disclosures.

In addition to physical risk to our network assets, we recognise the climate-related risks to operational depots and offices across our networks which need to remain functional and accessible for our frontline colleagues to be able to carry out their works efficiently. Activities to manage short, medium and long-term climate-related risks to depots and offices will therefore also be part of our climate resilience strategy. This will include the opportunity to implement Nature-based Solutions such as rain gardens, street trees and sustainable urban drainage systems across the SGN property portfolio.

We are continuously engaging with UK and Scottish Governments to prevent any negative adverse effects and maximise growth opportunities for the business. For example, we have hosted, sponsored, and participated in round tables, fringe events and receptions with key political stakeholders at the Liberal Democrat, Conservative, Labour, and SNP conferences. We also take part in and contribute to government consultations like the Hydrogen Blending Consultation, to inform a strategic policy decision on whether to support blending of up to 20% hydrogen into Great Britain's gas distribution networks. This work is ongoing to mitigate our political/transition risks leading up to the Government strategic decision in 2026 on how significant a role hydrogen will play in decarbonising domestic heat. Our flagship project, H100 Fife will be the first 100% green hydrogen-to-homes zero carbon network in the world and will provide important evidence to help the UK decarbonise home heating.

At SGN we believe that providing a whole system approach to decarbonisation is essential, and we want to give customers a choice in their energy provision. We are developing greater network insights and data-led approaches to better understand key network attributes to help inform propensity for alternative heat technologies and switching risk which could result in losing parts of our customer base.

Opportunities to grow unregulated business streams

While the methodology for seeking verified science-based targets for the oil and gas sector is not yet available from the SBTi, we are exploring what activities we could take to decarbonise the network and what the associated costs with such activities are. We are looking at how emissions reducing activities would set us in alignment with a no more than a 1.5°C global warming and a well below 2°C scenario for our Scope 1 and 2 emissions including a reduction in shrinkage, our biggest source of emissions. We are also taking into consideration that Scope 3 is likely to be part of a future SBTi methodology, including emissions from our customers burning the gas that we distribute (which is currently not part of our carbon footprint according to the Greenhouse Gas Protocol). This is where our strategy and opportunity to grow our unregulated business streams come into play. Providing additional green gas and hydrogen to customers would contribute to the decarbonisation of the energy network as a whole and it is a space where we can play a significant role.

As an example, we recently completed the successful commissioning of the Mogden biomethane plant in collaboration with Thames Water. This is a gas-to-grid plant producing green gas from sewage. Six million cubic metres of biomethane is expected to be produced annually, enough to heat 4,000 homes in the area and offset 8,000 tonnes of CO_2 annually.

Another example comes from Yorkshire where our non-regulated business has signed a 15-year agreement worth £20m with Yorkshire Water to design, develop and operate biomethane gas-to-grid plants at two of its wastewater treatment facilities. SGN Commercial Services' partnership will see sewage treatment process waste converted to biomethane at Yorkshire Water's Knostrop and Blackburn Meadows sites. The biomethane generated will be injected into the local gas network to help sustainably power vehicles, homes and industry.

Opportunities to grow the regulated business

In addition, the regulated part of the business is looking at ways to ease and facilitate biomethane connections to our network. We have a target of achieving new biomethane connections to facilitate the equivalent of 450,000 customers at the end of the current price control in March 2026.

The UK Government has taken a strategic policy decision to support blending of up to 20% hydrogen by volume into GB gas distribution networks. This opportunity of blending hydrogen with natural gas will both reduce the emissions of our customers and support the decarbonisation the energy network, as well as help to reduce the leakage emissions from our network.

TCFD report

Climate-related scenario analysis
To analyse the resilience of our business model and strategy we have considered two greenhouse gas emissions scenarios aligned with the International Panel on Climate Change (IPCC). These are the Representative Concentration Pathways (RCP):

- RCP 2.6 which represents a pathway where greenhouse gas emissions are strongly reduced, aiming to keep global warming likely below 2°C above pre-industrial temperatures, and
- RCP 6, a medium stabilisation pathway, with varying levels of mitigation, this shows a global temperature increase range between 2.0 and 3.7°C.

In addition to global climate scenarios we have also considered national and energy specific scenarios and looked at the Met Office study conducted on behalf of the Energy Networks Association (ENA) in summer 2020 for physical risks due to climate change, and the National Grid Future Energy Scenarios (FES) for transitional risks. We also did a comparison with the international climate-related scenario, Network for Greening the Financial System (NFGS), to sense check level of physical and transitional risks.

The Met Office study involved undertaking a review of UKCP18 data in order to understand changes in potential impact to energy infrastructure assets from climate change.

The Met Office assessment concluded:

- Many of the hazards identified are projected to increase due to future climate change, including, increased frequency of high temperature days, prolonged rainfall events, hourly rainfall extremes, sea level rise, extreme sea level events, increased risk of wildfire and increased extreme diurnal cycle events.
- The frequency of snow and ice days are expected to decrease.
- With regards to societal response to climate change, the assessment considered that impacts of the weather hazards on the energy network are likely to come in the form of an altered dependency between weather and both supply and demand, impacting forecast accuracy. And this turn, is expected to increase the impact of the hazards on the sector.

The FES and NFGS scenarios are summarised in the table below:

Scenario	Scenario name	Temperature increase	Description
FES	Leading the way	1.5–2°C	Fastest credible decarbonisation. Significant lifestyle change. Mixture of hydrogen and electrification for heating. Achieving net zero by 2050.
	Falling short	>3°C	Slowest credible decarbonisation. Minimal behaviour change. Decarbonisation in power and transport but not heat. Does not achieve net zero by 2050.
NFGS	Orderly scenarios	1.5–2°C	Assume that climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.
	Hot house world scenarios	>3°C	Assume that some climate policies are implemented in some jurisdictions, but globally efforts are insufficient to halt significant global warming. The scenarios result in severe physical risk including irreversible impacts like sea level rise.

Material climate-related risks and opportunities

Ref	Material risk or opportunity	Link to Enterprise Risk	Category	Time horizon	Description	Potential impact	How we are responding
1	Increasing extreme weather events	Climate Change and Network Asset Management	Acute Physical Risk	Short	Increase in frequency and severity of extreme weather events such as flooding, resulting in damage to our network, jeopardising safety and security of supply	• Increased capital costs to repair asset damage • Increased insurance costs • Reduced revenue due to network disruption	• Modelling tools and site-specific flood mitigations in place where required • Weather profiling in place to help plan and assess risks to specific assets/sites
2	Government heat policy decision	Future of Energy and Political & Public Policy	Transition Risk (Policy & Legal/Market)	Medium	UK Government reduces hydrogen's role in gas grid for heating homes and buildings and/or change of government following general election leading to full withdrawal of support	• Increased uncertainty regarding future of network • Reduced investor appetite increases costs for consumers • Stranded assets/required decommissioning of the network	• Regularly review emerging legal and regulatory policies • Proactively engaging with government and industry stakeholders to support a role for gas networks in a decarbonised economy
3	Customer switch to alternative heat technologies	Future of Energy	Transition Risk (Policy & Legal/Market)	Medium	Roll out of heat pumps and legislation on gas boilers results in significant number of customers switching from natural gas to alternative heat technologies	• Devaluation of collateral and potential for stranded, illiquid assets	• Proactively engaging with regulators and policy makers to establish the long-term need for the gas network including any revised funding regimes • Developing greater network insights and data-led approaches to better understand risk of customer switching • Proactive biomethane delivery plan to incrementally green the existing network • Collaborative work with DNOs to deliver a system for a net zero future
4	Failure to meet our decarbonisation targets	Climate Change and Future of Energy	Transition Risk (Policy & Legal/Market)	Medium	Failure to decarbonise our business operations to meet our absolute reduction targets for Scope 1 and 2, not being aligned with science-based methodology when this is materialised and/or not having the maturity to report on and meet any Scope 3 reduction targets	• Reputational damage • Decreased access to capital	• Environment programme in place to reduce emissions • Tracking of Scope 1 and 2 emissions including shrinkage • Limited assurance of emissions to enhance credibility • Setting reduction targets • Publicly reporting on emissions and progress • Environment Advisory Panel holding SGN accountable
5	Growth in unregulated business streams which favour low carbon energy such as biomethane, hydrogen and heat networks	N/A	Transition Opportunity	Medium	Opportunity to grow unregulated business streams by establishing initiatives to develop, own and operate low and zero-carbon assets	• Increased revenue	• Proactively seeking opportunities to develop low carbon opportunities emerging through the energy transition and supporting net zero targets
6	Support for hydrogen and biomethane use in the low carbon transition	N/A	Transition Opportunity	Medium	Opportunity to explore distribution of hydrogen blending up to 20% through new and existing networks and increasing the number of biomethane connections to existing networks	• Increased revenue	• Collaborative work with the other GDNs to develop hydrogen blending implementation plan • Proactive biomethane delivery plan to incrementally green the existing network

We have set out how these link to our metrics and targets on page 75.

TCFD report

Using the scenarios as described, we have modelled the effects of climate change on the business. We conclude that our business strategy and business model is resilient and agile, able to respond to either of the climate scenarios we have considered. Whether a scenario with low or high temperature increase, the gas network will be here today and in the foreseeable future to provide some resilience to the UK energy network.

Impact on SGN business model and strategy

Leading the way: less than 2°C global temperature increase

In summary this scenario would result in low to medium physical risk of a similar impact as we are seeing today, and a high transition risk as policy and regulation to reach a net zero economy become stricter.

- Physical risk: Under this scenario there would be a low to medium physical risk to our assets. In 2023, which was the first year where we globally reached and sustained an average temperature increase of 1.5°C, this scenario is not far from the reality we are facing today. Over the last financial year we experienced 12 pipeline washouts, and this was the predominant risk to our assets. With a stable global increase of 1.5 to 2°C would likely lead to similar or slightly higher risks to our network.
- Transition risk: The transition risk would be high with more stringent policies and regulation to achieve a net zero economy by 2050. This would also mean a higher opportunity in new and growing business areas for our non-regulated business, linked to growth in hydrogen, biomethane and carbon capture, usage and storage (CCUS). Increasing electrification on the other hand would pose a risk of decommissioning of parts of the gas distribution network as a result.

Falling short: more than 3°C global temperature increase

In summary this scenario would result in high to very high physical risk to our network with increased, severe risks including irreversible impacts like sea-level rise, and a low transition risk with slow development of decarbonisation technologies, and low or no step change in policies for a net zero economy.

- Transition risk: This scenario reflects a significantly slower transition to a net zero economy caused by lenient carbon polices leaving room for gas demand and supply to remain high. With no strong mandate from the public for strong decarbonisation drive and thus no step change in policy the impacts on our business are low with no driver to depart from a business-as-usual approach.
- Physical risk: While SGN's business is considered relatively comparable to today's model for this scenario, there is a variety of risks related to temperature increase that will impact SGN. We can expect to see more severe weather with increased acute and chronic risk to assets jeopardising safety and security of supply.

Our long-term strategy takes into consideration the potential impacts of the above scenarios as well as some internal SGN specific scenario assumptions to model regulatory asset value and customer numbers. These are considered company confidential and are not disclosed here.

As a result, our business strategy has evolved from a pure focus on hydrogen as a future heat carrier, to a more nuanced whole systems approach. This considers biomethane, hydrogen blending, full hydrogen networks and heat networks. We also recognise that there are areas which would be electrified. Our Future of Energy projects, H100 Fife and LTS Futures, are two of the examples which provide wider opportunities to support the decarbonisation agenda of the Scottish Government in an area where we are also the incumbent gas distribution network. H100 and LTS Futures are informing the UK and Scottish Governments of the opportunities with hydrogen as an energy carrier to provide a resilient energy network.

We believe this nuanced approach sets us up well for the future, bringing our customers with us on the decarbonisation journey and enables a fair transition.

Risk management

Identifying and assessing climate-related risks

At an operational level we identify and assess sources of risks, including climate-related risks, through our Environmental Management System. This is achieved through the determination of significant environmental aspects and impacts. We also use different mapping tools, including maps from the Environment Agency and Scottish Environment Protection Agency to identify and assess physical risks to our networks.

Identifying and assessing the strategic environmental risk to the business is the responsibility of the Stakeholder Engagement and Communications directorate applying the risk impact matrix.

Managing climate-related risks

Functional risk registers are owned by each directorate, where they identify relevant risks within their area of the business. They assess and score risks based on a consistent risk assessment framework used across the business, this is then fed into the enterprise risk management system. Issues and actions against risks are recorded, with timelines and responsible people assigned to risks. This is then used as an action plan to address risks.

Integration into overall risk management

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

Next steps (2024/25)

We will further develop the process for keeping climate-related risks and opportunities updated by incorporating it into business-wide risk management procedures and reporting to the Board on a regular basis. On a quarterly basis all directorates will conduct a review of their Risk Register, supported by the Risk function. These reviews will feed into the newly established Quarterly Risk, Audit and Assurance Committee. The purpose of the Committee is to provide a co-ordinated and less siloed approach to risk and assurance activities and enterprise risk, including climate change, is a standing agenda item. The Chief of Staff attends the RAAC, while the Head of Sustainability is a member of the divisional level Risk and Resilience Review and Challenge Group.

Our metrics, targets and performance

Key climate-related metrics

We use a range of metrics to track and assess progress against our targets. Key climate-related metrics are summarised in the table below, mapped to the most relevant climate-related risk or opportunity covered on pages 72 and 73.
In 2024/25 we will set metrics for all material climate-related risks and opportunities and monitor performance against these.

We also report on several cross-industry metrics and targets recommended by TCFD which we consider are relevant to our operations: GHG Carbon Emissions, Climate-related Opportunities (number of biomethane connections) and Remuneration (proportion of executive management with remuneration linked to climate considerations).

We have a long-term bonus scheme (LTiP) for approx 30 senior executive participants. Our LTiP payable in 2023 included carbon footprint reduction target versus three years previously. For years 2022 to 2025 the bonus incentive is linked to an overall achievement of our environmental programme targets.

In our ESG report (pages 56 to 67) we disclose performance against KPIs on our carbon footprint Scope 1, including shrinkage, and Scope 2, as well as metrics on network leakage, and number of biomethane connections.

Key metric	Relevant climate-related risk or opportunity	Performance
Number of connections of biomethane to the network (equivalent homes supported)	3) Customer switch to alternative heat technologies 6) Support for hydrogen and biomethane use in the low carbon transition	See page 58
Volume of new biomethane in the network (measured in scm/h, standard cubic metres per hour)	3) Customer switch to alternative heat technologies 6) Support for hydrogen and biomethane use in the low carbon transition	See page 58
Scope 1, 2 and 3 emissions	4) Failure to meet our decarbonisation targets	See page 58

TCFD report

Scope 1, Scope 2 and Scope 3 GHG emissions

The biggest contributor to climate change impact we have is through Scope 1 shrinkage and in particular leakage from the network. We have medium-term targets for our Scope 1 and 2 emissions including shrinkage and have committed to net zero by 2045 for Scope 1, 2 and 3 emissions. In February 2023 we achieved the Carbon Trust Route to Net Zero – Taking Steps accreditation, which acknowledges the emissions reductions and processes we currently have in place as part of our Environmental Action Plan to drive change.

Leakage is being reduced through replacing old metal mains with polyethylene pipe, effective pressure management and innovative solutions. See more details on progress on page 16.

We continue to work towards improving our Scope 3 data collection and assessment process through extensive engagement with our supply chain. This is an ongoing journey that will continue throughout the remainder of RIIO-GD2 and into RIIO-GD3. The top table above shows our historic scope 1, 2 and 3 GHG emissions since 2019 baseline.

Targets and performance

We have set a net zero by 2045 target (absolute) for our operations and networks covering all Scope 1, 2 and 3 (standard categories) emissions. This is our long-term greenhouse gas reduction target, aligned with the science-based methodology of the Paris Agreement. The second table above shows progress against our short-term greenhouse gas emissions targets and how we are increasing the availability of biomethane in the networks.

Next steps (2024/25)

- Develop a long-term climate resilience strategy and a Business Plan with ambitious emission reduction targets aligned to our net zero commitment.

GHG Emissions	2023/24	2022/23	2021/22	2020/21	2019/20
Scope 1 (including tCO_2e shrinkage)	687,187	713,857	740,163	759,994	785,292
Scope 1 (shrinkage) tCO_2e	671,481	696,634	721,448	740,826	765,284
Scope 1 (excluding shrinkage) tCO_2e	15,706	17,222	18,715	19,168	20,008
Scope 2 (location based) tCO_2e	2,504	2,622	2,652	3,111	3,274
Scope 2 (market based)[1] tCO_2e	85	32	192	–	–
Scope 3[2] tCO_2e	35,050	31,859	19,303	22,378	35,843

1 We did not have any market based Scope 2 data prior to FY 2021.

2 Scope 3 standard categories included: 1. Purchased Goods and Services, 2. Capital Goods, 3. Fuel and energy related activities, 4. Upstream transportation and distribution, 5. Waste generated in operations, 6. Business Travel. The increase in Scope 3 is due to improvements in data capture from 2021/22 onwards.

3 The numbers presented for 2022/23 and 2021/22 have gone through external assurance, so they are different to those presented in the prior year's Annual Report.

Targets	Target date	2023/24	2022/23
25% reduction in Scope 1 and 2 (excluding shrinkage) emissions compared to 2019 baseline	April 2026	22%	15%
19% reduction in shrinkage emissions compared to 2019 baseline	April 2026	12%	9%
450,000 customers on biomethane	April 2026	289,620	259,000

We have set a net zero by 2045 target for our operations and network.

Chair's introduction to governance

On behalf of the Board, I am pleased to introduce our Corporate Governance report for 2023/24.

This report sets out how we satisfy the high standards of governance that are required of a regulated gas company, and are expected by our shareholders, regulators and wider stakeholders.

Since the changes to the shareholders of the Company, the shareholder-appointed Directors have settled into their roles on the Board and are working cohesively as a Board and as the 'critical friend' to management providing advice and challenge in their respective areas of expertise.

I can confirm that Scotia Gas Networks Limited has complied with the Wates Corporate Governance Principles for Large Private Companies and the way in which the Company has done so are detailed within this section.

Independent Directors

The Board reviewed the requirements of the two Sufficiently Independent Directors (SIDs) on the Board of Scotland Gas Networks Plc and Southern Gas Networks Plc and specifically the criteria set out the in the Standard Special Condition A42 and provision 10 of the Corporate Governance Code 2018. During the financial year, Laura Sandys chose to step down from her position with the Company but we were delighted to welcome Joanna Whittington. The Board assessed the approach and contributions of Paul Jeffery to Board discussions as well as other things, and concluded that he demonstrated ongoing objectivity. It was confirmed that the Board did not consider the tenure of Paul Jeffery to interfere with his ability to act in the best interest of Scotland Gas Networks Plc or Southern Gas Networks Plc.

Board Effectiveness Review

During the year we have conducted a Board Effectiveness Review with the assistance of an independent assessment company. There has been an analysis of the findings and these will be acted on to ensure the highest standards of corporate governance.

Looking forward

I am grateful to the Board, management and employees of SGN for their continued commitment to good standards of service, corporate governance and stewarding of the business. During the coming year, keeping customers safe and warm remains our priority as we move towards RIIO-GD3 and the Future of Energy.

Nick Salmon
Chair

25 July 2024

Wates Corporate Governance Principles

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 2024, 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 2024/25 the Board will support the Company in implementation of its new Corporate Governance Structure.

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 79 and Directors' Report on page 98).
2. **Stakeholder Engagement** – A statement on how Directors have engaged with stakeholders and how Directors have had regard to stakeholder interests (see pages 81 to 97 and Directors' Report on page 98).
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 52).
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

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.

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.

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.

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.

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.

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.

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 the 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 2023/24 and what we plan to do in FY 2024/25

During the financial year, there was a renewed focus on our purpose, vision and values to cultivate a safe, efficient and engaging culture. We have ensured both Directors and management engage with employees via informal sessions with the CEO, CFO and other members of the leadership as well as more formal team meetings.

Looking ahead to FY 2024/25, we will continue to embed our purpose, vision and values and proceed with a renewed focus on our frontline employees.

Where you can find further information

For further information on our purpose, vision and values please refer to page 24.

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 shareholder nominated Non-Executive Directors, including the Chair, plus two independent Non-Executive Directors with specific oversight of the licensed operating companies, 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. There is an intention for the CEO and the CFO to be added to the Board of Directors in 2024. We consider that there is an appropriate combination of skills, backgrounds, experience and knowledge that promotes accountability.

What we did in FY 2023/24 and what we plan to do in FY 2024/25

There has been a focus in ensuring the Directors are fully versed in the activities of the SGN Group following the relatively new appointments. This has included additional meetings regarding specific activities within the business and a continued focus on information quality.

The Board continues to remain committed to improving diversity throughout the Company in terms of gender, ethnicity, disability and age and will continue to champion policies that improve such in the upcoming year. This matter falls within the remit of the Board however its Board sub-committee, the Nomination Committee, actively engages with the shareholders to ensure that diversity and inclusion remains a key objective for the selection and appointment of shareholder appointed Directors.

The Board also appointed a new Independent Non-Executive Director as well as renewing the appointment of one Independent Non-Executive Director for an additional term, following consideration and satisfaction that they continued to meet the criteria set out in Gas Transporter Licence Standard Special Condition A42 and provision 10 of the Corporate Governance Code by demonstrating ongoing objectivity and continuing to provide valuable contribution based on their extensive experience and backgrounds.

Where you can find further information

For further information of the Board composition and experience can be found on pages 86 to 88.

Wates Corporate Governance Principles

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 in 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 2023/24 and what we plan to do in FY 2024/25

The Board continues to be supported by the work of the Board Committees. The Board Reserved Matters continue to be adhered to, to ensure the balance of responsibilities, accountabilities and decision making is maintained between the Executive Committee, Board and subsidiary companies within the Group, as the Group continues to grow and diversify.

In FY 2024/25, a Board effectiveness review has been undertaken and the ways of working by the Board will be led by the feedback received.

Where you can find further information

Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 85 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, Audit and Assurance Committee and financial risks by the Audit Committee.

What we did in FY 2023/24 and what we plan to do in FY 2024/25

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 target risks to ensure these reflect the RIIO-GD2 plan and pathway to decarbonisation as well as engagement with regulators to plan RIIO-GD3. The Board also reviewed key investment opportunities.

For FY 2023/24 the key strategic risks were again on the Board Agenda at both the half and full year points and key investment opportunities continued to be reviewed by the Board throughout the year. In FY 2024/25, the plans for RIIO-GD3 will continue to be developed and include engagement with Ofgem, other GDNs and key stakeholders.

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 44 to 47. 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 Remuneration Committee (previously the People & 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 purpose, vision and values and long-term goals for its existing and future stakeholders.

What we did in FY 2023/24 and what we plan to do in FY 2024/25

In FY 2023/24, the Board (following a recommendation from the Remuneration Committee) approved the annual salary review of all employees and agreed to proposed changes to both the short-term and long-term incentive plan framework for the FY ensuring these measured both the financial and non-financial performance. With the support of the Remuneration Committee the Board is committed to ensure that 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 Remuneration Committee can be found on page 93. The gender pay gap report can be found on page 61.

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 2023/24 and what we plan to do in FY 2024/25

Our priority continues to be 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, Social & Governance Committee (SESG) 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 48 to 55.

SGN governance structure

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

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

Chair
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.

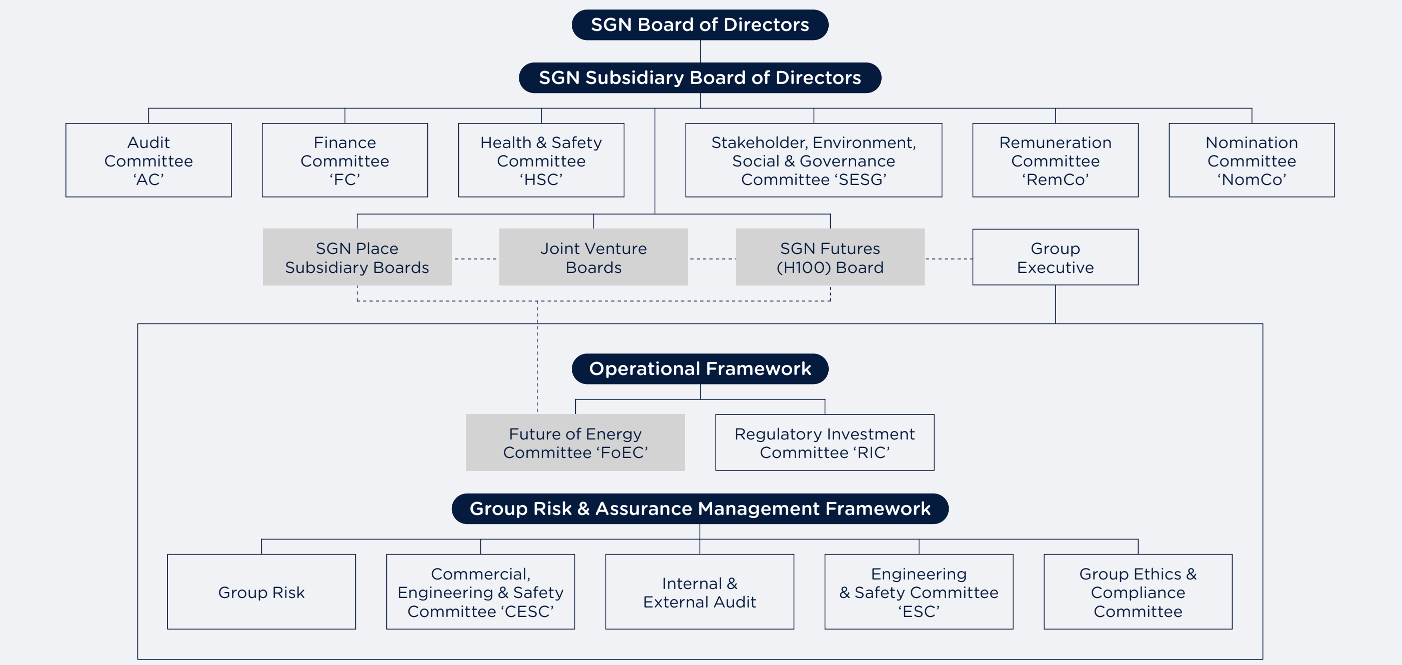
The Board is collectively responsible for the long-term success of the Group and for setting a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders. It provides the leadership necessary for the Group to meet its business objectives 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 (H100) Limited, SGN Lessona Limited and SGN Gas to Grid ProjectCo1, which have their own Board of Directors.

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

Board Committees hierarchy



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 six Board Committees, 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 while 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 96.

Board and Executive reporting cycle

Board effectiveness
Following new additions to the Board of Directors and Executive Team, informal discussion and feedback on corporate governance and the ways of working of the Board have been conducted to understand initial impressions and any suggestions for improvement. As the Directors are now fully embedded in their roles and have experienced a full annual cycle of meetings and transactions, there has been issued a full Board and Committee performance effective review. The findings of such will be analysed and acted upon in order to ensure the highest standards of corporate governance.

Chief Executive Officer and Chief Financial Officer
Below the Board, Executive responsibility rests with Mark Wild, Chief Executive Officer (CEO) and Simon Kilonback, 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 Management Team.

Biographical details for the CEO and CFO are set out on page 89.

Executive Committee
In FY 2022/23 the decision was made to split the Executive Committee into two forums, the Operational Executive Committee, and the Strategic Executive Committee. This was to ensure that the appropriate level of focus was given to Operational Performance and Strategic Planning respectively. The day-to-day management of the Company is delegated to these Committees which meet monthly and is chaired by the Chief Executive Officer and whose membership includes the Chief Financial Officer and leaders of each business unit. Both Committees are in turn supported by their own operational and assurance framework, with defined roles and responsibilities including relevant delegated authorities.

Board and Executive reporting
To ensure all decision making is well-informed, transparent and balanced, careful consideration is given to information provision and flows within the governance framework. Software is used in order to ensure security, consistency and adequate access. There is detailed guidance provided for best practice paper writing to support the provision of high-quality information and therefore facilitate effective decision making.

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. As an entity with Brookfield, a private equity linked firm, as a shareholder, SGN can confirm compliance with the Walker Guidelines for FY 2023/24.

SGN governance structure

Board meetings
There were six scheduled meetings of the Board and an additional six Board calls in 2023/24 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.

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, Chief of Staff 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 undertook site visits and employee engagement sessions with a number of employees. The Board plans to resume stakeholder engagement sessions going forward. Full details of Board engagement with stakeholders can be found on pages 48 to 55.

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.

The Board has also spent a significant time considering its strategy over the next five years with dedicated strategy sessions.

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 2023/24 are set out on the following pages.

Meeting attendance, April 2023 to March 2024

Directors	Board meetings	Audit Committee meetings	Finance Committee meetings	Health & Safety Committee meetings	Remuneration Committee meetings	Stakeholder, Environment, Social & Governance Committee meetings	Nomination Committee meetings
Charlotte Brunning	6/6	–	6/6	–	4/4	3/3	1/1
Michael Botha	6/6	3/3	6/6	–	–	–	1/1
Martin Catchpole	6/6	3/3	6/6	–	–	–	1/1
Christian Fingerle	6/6	–	–	–	–	–	1/1
Paul Jeffery	6/6	3/3	6/6	–	–	–	1/1
Rebecca Lumlock	6/6	–	–	5/5	4/4	2/2	1/1
Jeffrey Rosenthal	6/6	–	–	–	–	1/1	1/1
Nicholas Salmon	6/6	3/3	–	5/5	–	–	1/1
Laura Sandys*	3/3	–	–	2/2	1/1	2/2	–
Paul Trimmer	6/6	–	–	5/5	4/4	3/3	1/1
Joanna Whittington**	3/3	–	–	3/3	3/3	1/1	1/1

* Laura Sandys resigned as a Director on 31 October 2023.
** Joanna Whittington was appointed as a Director on 19 October 2023.

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. • Leading on unregulated activities.
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. • Overseeing relationships with debt investors.
Non-Executive Shareholder Directors	• Providing constructive challenge to the Board's decision-making processes. • Scrutinising, measuring and reviewing the performance of the Group. • Constructively challenging and assisting in the development of strategy. • Reviewing and challenging the performance of the Group's business against stakeholder interest.
Independent Non-Executive Directors	• Same responsibilities as Non-Executive Shareholder Directors, with the addition of: – Bringing independence to the Board and its decision-making process. – Providing independent insight and support based on relevant experience. – Assessing risk and the integrity of the financial information and controls. – Providing independent input into the Group's strategy to reflect stakeholder interests.
Company Secretary	• Compliance with Board procedures and supporting the Chair. • Ensuring the Board has high quality information, adequate time and the appropriate resources. • Advising and keeping the Board updated on corporate governance developments. • Considering Board effectiveness in conjunction with the Chair. • Facilitating the Directors' induction programmes and training. • Providing advice, services and support to all Directors as and when required.

Board of Directors

as at 31 March 2024

Chair

Nick Salmon

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

Statutory Independent Non-Executive Directors

Paul Jeffery

Date of appointment 28 January 2014

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

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)

Joanna Whittington

Date of appointment 30 October 2023

Biography Joanna joined the Board in October 2023 and has held high-profile roles in energy, transport and economic regulation. Joanna was Director General, Energy and Security at the Department for Business, Energy and Industrial Strategy (BEIS) from 2018 to 2022, and previously worked at Ofgem, where she was responsible for regulation of the wholesale gas and electricity markets.

Key external appointments and changes during the period
Non-Executive Director of Payment Systems Regulator

Shareholder Non-Executive Directors

Charlotte Brunning

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 HoldCo Limited; Director of SGI; Director of Scottish Hydro Electric Transmission plc

Christian Fingerle

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.

Martin Catchpole

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

Shareholder Non-Executive Directors (continued)

Paul Trimmer

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

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 worked for Network Rail for five years including as the Managing Director for the Wessex Route, including London Waterloo. She was also their Group executive sponsor for gender. Becky has also 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.

Jeffrey Rosenthal

Date of appointment 24 November 2022

Biography Jeffrey 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.

Michael Botha

Date of appointment 22 March 2022

Biography Michael joined the Board in March 2022 and is an Operating Partner 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.

Board and Committee membership

Nick Salmon	Board; Audit Committee; Health & Safety Committee; Nomination Committee
Paul Jeffery	Board; Audit Committee; Finance Committee; Nomination Committee
Joanna Whittington	Board; Stakeholder, Environment, Social & Governance Committee; Remuneration Committee; Health & Safety Committee; Nomination Committee
Charlotte Brunning	Board; Finance Committee; Remuneration Committee; Stakeholder, Environment, Social & Governance Committee; Nomination Committee
Christian Fingerle	Board; Nomination Committee
Martin Catchpole	Board; Audit Committee; Finance Committee; Nomination Committee
Paul Trimmer	Board; Remuneration Committee; Health & Safety Committee; Stakeholder, Environment, Social & Governance Committee; Nomination Committee
Rebecca Lumlock	Board; Remuneration Committee; Health & Safety Committee; Stakeholder, Environment, Social & Governance Committee; Nomination Committee
Jeffrey Rosenthal	Board; Health & Safety Committee; Stakeholder, Environment, Social & Governance Committee; Nomination Committee
Michael Botha	Board; Audit Committee; Finance Committee; Nomination Committee

Board of Directors

as at 31 March 2024

Alternate Directors

Charles Thomazi

Date of appointment 26 October 2017 (Resigned 12 June 2024)

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

Key external appointments and changes during the period
Director of Ontario Teachers' Pension Plan (OTPP); Director of Apple NewCo Limited; Director of Galaxy Pipelines Asset TopCo Limited; Sauna HoldCo Limited and related entities; Western TopCo Limited; Director of Scottish Hydro Electric Transmission plc

Michael Smart

Date of appointment 27 May 2022

Biography 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.

Felipe Ortiz

Date of appointment 24 November 2022

Biography Felipe joined the Board in March 2022 and is a Managing Director in Brookfield's Infrastructure Group, responsible for leading the origination and execution of European deals for Brookfield's Super-Core Infrastructure fund. Since joining Brookfield in 2009, Felipe has led multiple infrastructure transactions that include global investments in the utilities, transportation and telecom sectors. Prior to joining Brookfield, he worked in an investment bank in New York, providing M&A and capital markets advisory to infrastructure funds.

Antoine Kerrenneur

Date of appointment 29 March 2023 (Resigned 15 April 2024)

Biography Antoine joined the Board in March 2023 and is a Principal at Global Infrastructure Partners (GIP) focusing on its energy, renewables and utility infrastructure investments. Antoine joined GIP at its inception in 2006, prior to which he spent four years in the Investment Banking division of Credit Suisse in London.

Key external appointments and changes during the period
Director of the Board of Suez SA

Matthew Gross

Date of appointment 4 January 2024

Biography Matthew is a Senior Vice President in Brookfield's Infrastructure Group overseeing asset management activities. He has held senior positions across the organisation, including various roles in asset management, financial operations, and sustainable resources. Prior to joining Brookfield, Matthew worked in the audit practice of a Big Four accounting firm.

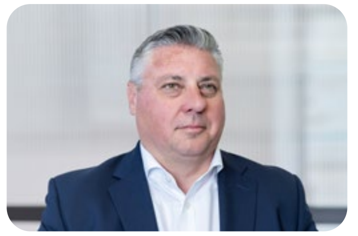
Senior Management Team

Mark Wild OBE
Chief Executive Officer

Date of appointment 15 August 2022

Biography Mark Wild joined SGN in August 2022 and has over 35 years of experience leading complex and critical infrastructure. Mark started his career in the electricity sector, but the majority of his experience has been in transportation, operating and building major infrastructure. Mark is the former Managing Director of Westinghouse Signals and was the CEO of Public Transport Victoria. Mark is the former Managing Director of London Underground and the former CEO of Crossrail, Europe's largest infrastructure programme.

Key external appointments and changes during the period
Independent Chair on the Transpennine Route Upgrade Board



Simon Kilonback
Chief Financial Officer

Date of appointment 18 September 2023

Biography Simon joined the Company in September 2023. Simon has 25 years' experience in senior finance roles including five years in TFL and a full fibre broadband business.

Nicola Graham-Shand
Chief Legal Officer
(Group Company Secretary)

Date of appointment
Company Secretary since July 2011

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

Corporate information

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

Auditor
Ernst & Young LLP
Statutory Auditor
London

Registered number
04958135

Board activities during 2023/24

The SGN Board held six scheduled meetings and six further Board calls during the year ended 31 March 2024. 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

- Company strategy: consideration and approval of Group strategy including the delivery of SGN's vision through strategic goals and change initiatives, helping to deliver net zero with least cost and inconvenience to customers, delivering for our stakeholders and engaging SGN's employees.
- Regulatory: received and reviewed the SSMC submission for RIIO-GD3.
- Customers: received and provided feedback on progress against the customer strategy and RIIO-GD2 customer experience programme to ensure RIIO-GD2 business plan requirements are met and maintain positive customer experience.
- Cyber Security & IT Resilience: continued to review IT resilience across the business and improved the implementation of the ransomware policy.
- Energy Futures: reviewed the Energy Futures strategy covering the strategic framework, non-regulated activities, delivery of the strategy and future developments.
- Biomethane: approved and entry into a contract for the design and build of a biomethane injection hub at Banbury site.
- Continued review of the ESG and sustainability framework.
- Non-regulated growth: consideration and approval of new projects, investments and sales in property (SGN Place), mua, (Yorkshire Water) gas to grid projects and opportunities which complement the core (Fleet, IT and Resourcing suppliers).
- Financial: review of overall financing strategy, credit rating and investment strategy.
- Review of the Repex programme structure including a focus on the Iron Mains Risk Reduction Programme.

Board focus: 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, initiatives and RIIO-GD3 planning.
- Review and approval of the rebrand of SGN Natural Gas Limited and name change to SGN Evolve Networks Limited.
- Safety performance: continued Board focus and review of safety performance and initiatives, including Board site visits and receiving updates HSE interactions.
- Large projects and investments: review of progress against significant projects and investments, including H100 Fife and SGN Lessona Limited (Murphy Utility Assets).
- Stakeholder: continued Board focus and review of stakeholder performance and initiatives, including receiving and reviewing the annual Customer, Stakeholder & Engagement Group report.
- Operations and network: review of Shrinkage and Leakage methodology overview.
- Large projects and investments: review of progress against significant projects and investments, including H100 Fife, Hydrogen Village Trial (now ceased), LTS Programme and SGN Lessona Limited (Murphy Utility Assets).
- Cyber security: received a cyber resilience briefing from external experts.
- Employees: received and provided feedback on STIP, LTIP targets, employee salary benchmarking and proposals and continued focus on engagement with employees through 'Let's chat' sessions and site visits.

Board focus: Governance

- Strategic risks: consideration of strategic risks (further details on pages 44 to 47) 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 the insurance renewal, modern slavery statement, sanctions policy, distributions policy and code of conduct.
- Annual Report and Accounts: approval of annual report and accounts prior to submission to the annual general meeting.
- Governance: review and approval of the changes to the Board committee's membership (following the onboarding of new Directors), terms of references and formation of the Nomination Committee.

Board Committees

Audit Committee

"The Committee maintains its support of the Group by ensuring the integrity of financial reporting, the effectiveness of risk management, the robustness of internal controls, and ethical compliance."

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 following members of Management attend the Audit Committee:

- Chief Financial Officer
- Group Head of Internal Audit, Risk and Compliance
- Finance Director
- Head of Financial Reporting and Tax

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 filings prior to submission to Ofgem and other regulatory bodies.

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 key accounting judgements, interim and financial results and recommended approval by the Board for statutory and regulatory results.
- Reviewed and approved the goodwill impairment and carrying value judgements.
- Reviewed the accounting treatment and provisions for key commercial projects.
- Received and discussed the key outcomes from the Financial Reporting Council's review of the Annual Report and Accounts for the year ending 31 March 2023.
- Received and discussed the outputs from the property impairment review as required under Financial Reporting Standard 102.

External audit

- Monitor the independence and effectiveness of the External Auditor and the process applied as well as considering market trends and impact.
- Considered the accounting, financial control and audit issues from the External Auditor's report.

Internal audit

- Reviewed the outputs from the external quality assessment undertaken on the Internal Audit Function.
- Approved the annual audit plan and received regular updates on the delivery of the plan.
- Appointed Head of Internal Audit to strengthen and provide additional resource to the Internal Audit capability.

Risk management and internal controls

- Approved the annual compliance plan 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.
- Carried out independent review of 'Speak Up' investigations and approved an enhanced 'Speak Up' investigation process.
- Received external compliance report on compliance with standard licence condition A27 concerning business separation and approved submission to Ofgem.

Regulatory filings and governance

- Monitor and approve financial compliance certificates as required across the Group.
- Monitored the level of non-audit fees and approved any new non-audit services.
- Reviewed the Data Assurance Guidelines for SGN.
- Reviewed the Prompt Payment Code return for SGN.

Looking forward
The Committee's for FY 2024/25 are continuing to develop and improve our internal controls and assurance processes, with input from our internal and external auditors. The Committee will also monitor any proposed changes to the accounting standards adopted by the Group, to assess the impact and ensure compliance.

Board Committees

Finance Committee

"The Committee has continued commitment to the strength of SGN's financial position with a focus on compliance with regulatory requirements and managing the impact of the external environment."

Michael Botha
Finance Committee Chair

Appointment November 2022

Membership

The current members of the Finance Committee are **Michael Botha** (Committee Chair), **Paul Jeffery**, **Martin Catchpole** and **Charlotte Brunning**.

Attendees

The following members of Management attend the Finance Committee:

- Chief Financial Officer
- Group Treasurer
- Group Financial Controller

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

What the Committee has done this year

The Finance Committee held six meetings during the financial year scheduled in advance of Board meetings. 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

- Considered and approved financing, loan payment, interest rate hedging and financing issuance strategies.
- Reviewed and approved the mandatory break and inflation swap financial risk management strategy.
- Approved the commissioning of a USPP financing and RCF upgrading.

Governance

- Reviewed and approved an update to the Treasury manual and bank and Treasury mandates.
- Received and discussed the Treasury audit findings.
- Reviewed and approved the amendment to the compliance certificate delivery periods.
- Reviewed and approved the Insurance renewal.

Looking forward

Looking forward the Committee's priorities for FY 2024/25 are to monitor the implementation of funding and financial risk management strategies approved in FY 2024/25 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 upcoming funding maturities within the Group to ensure that these are managed to maintain an appropriate funding profile and liquidity position.

Remuneration Committee

"We are delighted to be joined by an expanded and strengthened management team as we look to continue to deliver operational performance in a challenging environment."

Charlotte Brunning
Remuneration Committee Chair

Appointment March 2022

Membership

The current members of the Remuneration Committee are **Charlotte Brunning** (Committee Chair), **Rebecca Lumlock**, **Paul Trimmer** and **Joanna Whittington**.

Attendees

The following members of Management attend the Remuneration Committee:

- Chief Executive Officer
- Chief People Officer
- Head of Employee Relations, Policy & Reward

The role of the Committee and principal responsibilities

The People and Reward Committee is a sub-committee of the Board. The People and Reward Committee's role is to support the Board by ensuring:

- remuneration policy and practices of the Company reward fairly and responsibly, with a clear link to corporate and Executive performance, having regard to statutory and regulatory requirements;
- talent and succession strategy for the Group's Executive is suitable for the Group's long-term success;
- diversity and inclusion plays a key role across the Group; and
- employee feedback is listened to and acted on.

What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Strategy

- Reviewed development of the Company's resourcing plans designed to reinforce future resilience. These include the recruitment of significant numbers of frontline operational employees (including trainees and apprentices).
- Reviewed the annual salary review of all employees.

Performance

- Reviewed and agreed short-term incentive plan (STIP) targets for the Financial Year, and long-term incentive plan (LTIP) targets for the three-year period ending 2027, ensuring both included a balanced scorecard of financial and non-financial performance.
- Approved the performance assessments for STIP for the prior Financial Year.
- 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 latest internal reward benchmarking results for Executive, senior and critical employees.
- Reviewed the Diversity & Inclusion Strategy.
- Monitored the recruitment process and appointment of the new CFO (Simon Kilonback) and COO (Darren Elsom).

Looking forward

The Committee's priorities for FY 2024/25 are to ensure the success of the Group's resourcing plans designed to reinforce future resilience, that the talent and succession strategy for the Group's Executive is suitable for the Group's long-term success and ensure diversity and inclusion continues to play a key role across the Group.

Board Committees

Health & Safety Committee

"An independent assessment by Tribe confirmed progress in safety culture maturity from Level 2 on the five point Hudson scale to our interim target of Level 3."

Nick Salmon
Health & Safety Committee Chair

Appointment March 2022

Membership

The current members of the Health & Safety Committee are **Nick Salmon** (Committee Chair), **Joanna Whittington**, **Rebecca Lumlock** and **Paul Trimmer**.

Attendees

The following members of Management attend the Health & Safety Committee:

- Chief Executive Officer
- Chief Operating Officer
- Network & Safety Director

The role of the Committee and principal responsibilities

The Health & 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 the compliance and assurance plan, and monitoring progress against key safety programmes.
- Check – Receive a comprehensive health and safety report for HSC committee; safety performance review and key updates in the CEO report and significant incident notifications from the CEO.
- Act – Receive an annual review of health and safety at the HSC; conduct Board member and Executive Team site safety visits; and update on external audit reports to provide HSC assurance.

What the Committee has done this year

The Health & 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 project to update and transform the safety management framework.
- Received and discussed the Safety Improvement Plan.

Performance

- Reviewed and approved the Health & Safety targets across a range of metrics.
- Monitored and challenged performance and progress against the Health & Safety targets and scrutinised delivery plans.
- Reviewed the Fatigue programme performance.
- Reviewed compliance and assurance plans, including external assurance activity.
- Received and discussed the safety benchmarking data compiled by the ENA across GDNs.

Governance

- Reviewed and approved the Safety, Health and Environment Policy statement for FY 2023/24.

Looking forward

The Committee's priorities for FY 2024/25 are continuing to drive health and safety improvements ensuring that the Group achieves its commitment to getting everyone home safe and well. The Committee will continue to encourage focus on safety culture and a further drive in reporting and performance improvements for mental health and wellbeing. Also continued commitment across the Group for visible leadership through site engagements.

Stakeholder, Environment, Social & Governance Committee

"Ensuring active engagement and meaningful dialogue with our key stakeholders means that we will align our strategies in order to create a successful future for SGN and the customers we service."

Jeffrey Rosenthal
Stakeholder, Environment, Social & Governance Committee Chair

Appointment November 2023

Membership

The current members of the Stakeholder, Environment, Social & Governance Committee are **Jeffrey Rosenthal** (Committee Chair), **Charlotte Brunning**, **Rebecca Lumlock** and **Paul Trimmer**.

Attendees

The following members of Management attend the Stakeholder, Environment, Social & Governance Committee:

- Chief Executive Officer
- Director of Stakeholder and Communications

The role of the Committee and principal responsibilities

The Stakeholder, Environment, Social & Governance Committee is a sub-committee of the Board. The Stakeholder, Environment, Social & Governance Committee's principal role is to support the Board in ensuring its Directors and the Company have due regard to:

- Cultural, environmental, social and governance (ESG) issues;
- all stakeholders with an interest or concern in the Company; and
- the Company's impact (including the impact of any principal decisions taken by the Group) on the broader community and environment.

The Committee also supports with Board oversight for the identification of stakeholder, environmental and customer opportunities and risks and emerging Environmental, Social and Governance issues.

What the Committee has done this year

The Stakeholder, Environment, Social & Governance 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

- Received and discussed the ESG disclosure metrics forming part of the ESG reporting framework.
- Received and reviewed SGN's net zero plans.
- Received SGN's long-term community strategy and provided feedback.
- Received and discussed the Company's Community Support Programme for winter FY 2023/24.

Performance

- Continued to monitor and engage with the RIIO-GD2 reporting requirements.
- Reviewed performance of the Company's stakeholder, environment and customer engagement activities and provided feedback.
- Received the Annual Environmental Report project update.
- Received a performance update against SGN's ESG and sustainability approach.
- Received updates to TCFD and SGN's approach to the disclosure requirements.

Governance

- Reviewed Directors' duties under S172 of the Companies Act 2006.
- Re-named the Committee to the Stakeholder, Environment, Social & Governance Committee.

Looking forward

The Committee's priorities for the FY 2024/25 are to provide continuous review of political engagement for the future of energy and to provide oversight of the support for fuel poor customers ensuring a just transition. The committee will also review the ESG & Sustainability vision and strategy including increased focus on science-based aligned interim and long-term greenhouse gas emissions target as well as opportunities and risks associated with climate change. In addition to overseeing progress made across the business on ESG matters it will also consider stakeholder and customer engagement in preparation for business plan submission for the RIIO-GD3 price control.

Board Committees

Nomination Committee

"We were very pleased to welcome Joanna Whittington to the Board as a new Independent Director."

Nick Salmon
Nomination Committee Chair

Appointment November 2022

Membership

The current members of the Nomination Committee are **Nick Salmon** (Committee Chair), **Michael Botha** (as available), **Rebecca Lumlock** (as available), **Jeffrey Rosenthal** (as available), **Martin Catchpole** (as available), **Paul Trimmer** (as available), **Charlotte Brunning** (as available), **Christian Fingerle** (as available), **Paul Jeffery** (as available) and **Joanna Whittington** (as available).

Attendees

The following members of Management attend the Nomination Committee:

- Chief Executive Officer
- Chief People Officer
- Chief Legal Officer

The role of the Committee and principal responsibilities

The Nomination Committee is a sub-committee of the Board. The Nomination Committee's principal role is to support the Board by:

- Ensuring a formal, rigorous and transparent procedure is adhered to in the appointment of any new CEO/CFO or Independent Directors, to lead on the process for such appointments and make recommendations to the Board.
- Ensuring that the Board's composition is regularly reviewed and refreshed so that it is effective and able to operate in the best interests of its stakeholders.
- Reviewing and proposing the appropriate composition of Board committees and selection of Committee Chairs.

What the Committee has done this year

The Nomination Committee held two 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:

Governance

- Approved the appointment of Joanna Whittington as sufficiently Independent Director for Southern Gas Networks PLC and Scotland Gas Networks PLC as required under Standard Special Condition A42 of the Gas Transporters Licence and provision 10 of the Corporate Governance Code 2018.
- Reviewed the Independence and approved the re-appointment of the Paul Jeffery as a Sufficiently Independent Director for Southern Gas Networks PLC and Scotland Gas Networks PLC as required under Standard Special Condition A42 of the Gas Transporters Licence and provision 10 of the Corporate Governance Code 2018.
- Approved the Appointment of Matthew Gross as Alternate Director to the SGN Group Boards.
- Reviewed and agreed minor updates to the Committee terms of reference acknowledging changes to attendees.
- Appointment of Megan Birtwistle as Company Secretary.

Looking forward

The Committee's priority for FY 2024/25 is to consider the appointment of the CEO and CFO to the SGN Group Boards.

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 88 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 2024

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2024.

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 18 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 2024 and up to the date of signing can be found on pages 86 to 88.

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 44 to 47.

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.

The Company gives full and fair consideration and makes every effort to ensure the equal treatment of disabled applicants for all types of vacancy where their disability is not an absolute occupational disqualification and has policies in place for continuing the employment of those who become disabled while employed.

Stakeholder engagement
Details of how the Directors have engaged with stakeholders can be found in the section 172 (1) statement on pages 52 to 55.

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 56 to 66.

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 page 34.

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 107. The Group paid dividends of £54.5m in December 2023. No further dividends were declared.

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 37 to 39.

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 or inflation-linked rates of interest. 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, short-term liquid funds and committed facilities, in order to ensure there are sufficient funds available for the Group's current and planned operations.

Foreign exchange risk
As a matter of policy, all debt denominated in a currency other than Pound Sterling must be fully hedged back to Pound Sterling at issuance.

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. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria. Trade receivables predominantly relate to transportation income from gas shippers. Credit risk arising from the Group's regulated business is managed in accordance with industry standards as set out by the Unified Network Code.

Pricing risk
The Group's gas transportation charges are subject to price control formulae set within the regulatory regime. The Group's maximum allowed revenue in a given price period is dependent upon a number of factors that are not known in advance and, therefore, the maximum allowed annual revenue is not known until the end of the relevant period. However, transportation tariffs are set on a prospective basis, so actual revenue received or receivable in any one year may differ from the maximum allowed revenue. Where revenues received or receivable differ from the maximum allowed annual revenue, adjustments are made to future prices to reflect this over or under recovery.

Going concern
The Group's financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the Group's principal risks and uncertainties are set out in the Strategic Report on pages 44 to 47. 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 21 of the financial statements, to finance the current and future operations.

The cost-of-living crisis has impacted the global economy and, in light of this, the Group has performed additional analysis of its going concern of the Group as a whole, including performing scenario testing and sensitivity analysis.

These forecasts show the Group 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 and Accounts (i.e. until 31 July 2025). Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Disclosure of information to auditors
Each of the Directors at the date of this report confirms:

1) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2) the Director has taken all the steps they ought to have taken as a Director, to make themselves aware of any relevant audit information and to establish the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The auditor, Ernst & Young LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

By Order of the Board.

Nicola Graham-Shand
Company Secretary
25 July 2024

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 2024 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Scotia Gas Networks Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2024 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2024	Balance sheet as at 31 March 2024
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 32 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 32 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 discussing with management to ensure all key factors were taken into account;
- Obtaining management's going concern model and performing mechanical integrity testing thereon. This is for the period to 31 July 2025, and includes details of facilities available, covenant calculations, and the results of management's sensitivity analysis;
- Comparing both the maturity profile of the debt and the covenants that are required to be met within the going concern period to the debt agreements;
- Challenging key assumptions within the forecasts with reference to the RIIO-GD2 regulatory regime;
- Challenging management's forecasts with reference to the audited results for the year ended 31 March 2024;
- Evaluating how these forecasts have been revised to reflect any impact of climate change;
- 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 in the base case and severe but plausible downside scenarios 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 and Accounts to determine whether they are in accordance with the relevant reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of 12 months (to 31 July 2025) 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 3 components. In addition, we performed specified audit procedures on specific balances for a further 11 components. • The components where we performed full or specific audit procedures accounted for 100% of adjusted EBITDA, 100% of revenue and 100% of total assets.
Key audit matters	• Valuation of the defined benefit obligation.
Materiality	• Overall Group materiality of £15.1m which represents 2% of the Group's adjusted EBITDA. • EBITDA is adjusted to exclude the accounting impacts of the non-recurring provision for the H100 contract.

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 determines 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 effectiveness of Group wide controls, changes in the business environment, the potential impact of climate change and other factors such as recent internal audit results when assessing the level of work to be performed at each company.

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 31 reporting components of the Group, we selected 18 components covering entities, which represent the principal business units within the Group. For these 18 components, all audit work performed for the purposes of the audit was undertaken by the Group audit team. The remaining 13 components were holding companies, dormant companies or property companies which no longer hold any properties.

Of the 18 components selected, we performed an audit of the complete financial information of 4 components ('full scope components') which were selected based on their size or risk characteristics. For 3 components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 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% of the Group's adjusted EBITDA (2023: 100% of the Group's normalised and adjusted profit before tax), 100% (2023: 100%) of the Group's revenue and 100% (2023: 100%) of the Group's total assets.

For the current year, the full scope components contributed 99% of the Group's adjusted EBITDA (2023: 96% of the Group's normalised and adjusted profit before tax), 98% (2023: 98%) of the Group's revenue and 98% (2023: 98%) of the Group's total assets.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

The specific scope components contributed 1% of the Group's adjusted EBITDA (2023: 3% of the Group's normalised and adjusted profit before tax), 2% (2023: 1%) of the Group's revenue and 1% (2023: 1%) of the Group's total assets.

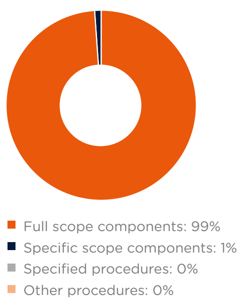
The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

For 11 components, we performed specified procedures over the valuation of inventory, valuation and completeness of provisions and the valuation of investments.

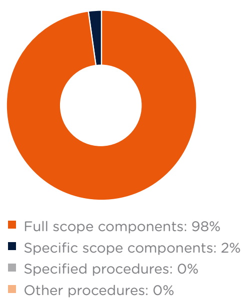
The remaining 13 components together represent 0% of the Group's adjusted EBITDA. For these components, we performed other procedures, including analytical reviews as well as testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

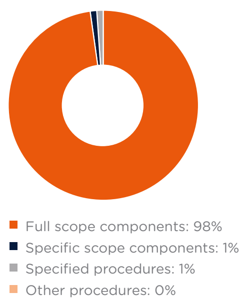
Adjusted EBITDA



Revenue



Total assets



Changes from the prior year

The number of selected components decreased to 18 from 21 in the prior year due to reduced activities in some components and an increase in overall Group materiality.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on their 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 page 68 in the Task Force on Climate Related Financial Disclosures. All of these disclosures form part of the 'Other information', rather than the audited financial statements. Our procedures on these unaudited 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, in line with our responsibilities on 'Other information'.

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in the 'critical accounting judgements and key sources of estimation uncertainty' section on page 121 of the financial statements how climate change has been reflected in the financial statements. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset valuations under the requirements of 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). In note 15 to the financial statements, supplementary sensitivity disclosures of the impact of the useful life of the Group's network assets as a result of the Government's 2050 net zero target have been provided.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, 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, and in the associated sensitivity disclosures. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Value of the defined benefit obligation (£599.4m, PY comparative £607.4m) *Refer to the Audit Committee Report (page 10); Accounting policies (page 116); and note 29 of the Consolidated Financial Statements (page 144)* The Group operates a defined benefit pension scheme. Significant estimates and judgements are made in valuing the Group's pension obligation. Due to the quantum of the underlying balance, relatively small changes in key assumptions could have a significant effect on the calculation of the carrying value of the Group's pension obligation. Key assumptions include the scheme duration, discount rate, RPI and CPI inflation rates, salary increases, pension increases and the mortality rate. 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 within 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 2024; and • Assessed the compliance of the related disclosures under FRS 102, including the disclosure around the potential impact of the Virgin Media Limited v NTL Pension Trustees II Limited High Court ruling in June 2023 on the Group's pension scheme.	Based on the audit procedures performed, we consider the valuation of the Group's defined benefit obligation for the year ended 31 March 2024 to be appropriate. The assumptions used in valuing the obligation were within acceptable EY ranges. We consider the disclosures to be appropriate and in accordance with FRS 102.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

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 £15.1m (2023: £6.6m), which is 2% of adjusted EBITDA (2023: 5% of normalised and adjusted profit before tax) so as to exclude the accounting impacts of the non-recurring onerous contract provision for H100 accounted for in the year. We believe that adjusted EBITDA 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. This is a change in basis from the prior year where normalised and adjusted profit before tax was used, which we believe is no longer the most representative measure that reflects the underlying performance of the Group as it is fluctuating significantly with the volatile inflationary and interest rate environment in the UK. Materiality for the Group has increased year on year as a result of an increase in the underlying business profitability.

We determined materiality for the Parent Company to be £15.4m (2023: £17.7m), which is 0.8% (2023: 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 £2.3m (2023: £1.0m) was applied.

Starting basis	• EBITDA of £738.6m
Adjustments	• Add back onerous contract provision of £18.5m
Materiality	• Adjusted EBITDA of £757.1m • Materiality of £15.1m (2% of materiality basis)

During the course of our audit, we reassessed initial materiality, which was based on EBITDA, to exclude the non-recurring charge in the year relating to the onerous contract provision for H100.

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% (2023: 75%) of our planning materiality, namely £11.3m (2023: £4.9m). We have set performance materiality at this percentage due to following a quantitative and qualitative assessment of prior year misstatements and our assessment of the Group's overall control environment.

Audit work at component locations 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 £2.3m to £9.1m (2023: £1.0m to £4.9m).

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 £0.8m (2023: £0.3m), 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 and Accounts set out on pages 1 to 99, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report and Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement set out on page 97, 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.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

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 to the responses provided to our enquiries.

- 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 journals which include a manual 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 internal legal counsel, external legal counsel, Group management and internal audit in conjunction with our EY Forensics specialists; reviewing written legal advice provided by external legal counsel; 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 2024

Consolidated profit and loss account

for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Turnover[i]	3, 4	**1,375.3**	1,288.5
Net operating costs[ii]	4	**(854.6)**	(849.0)
Operating profit	4	**520.7**	439.5
Interest receivable and similar income	8	**23.9**	23.1
Interest payable and similar expenses	9	**(271.2)**	(310.6)
Fair value movements on derivatives	10	**(15.9)**	(1.1)
Share of loss of investments in JV entities	16	**(2.7)**	(0.1)
Profit before tax	5	**254.8**	150.8
Tax charge	11	**(79.9)**	(55.6)
Profit for the year	26	**174.9**	95.2

(i) Included within turnover are exceptional items to the sum of £nil (2023: £30.8m), see note 6 for further details.
(ii) Included within operating costs are exceptional items to the sum of £24.1m (2023: £15.9m), 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 2024

	Notes	2024 £m	2023 £m
Profit for the financial year	26	**174.9**	95.2
Cash flow hedges:			
– Profit arising on cash flow hedges	26	**0.8**	21.0
Remeasurement on net pension asset	29	**(35.8)**	(117.1)
Deferred tax movement relating to components of other comprehensive income:			
– Cash flow hedges	26	**(0.2)**	(5.3)
– Pension asset		**9.0**	29.3
Other comprehensive loss for the year		**(26.2)**	(72.1)
Total comprehensive income		**148.7**	23.1

The accompanying notes form part of these financial statements.

Balance sheets

as at 31 March 2024

	Notes	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Fixed assets					
Intangible assets	14	**344.9**	333.7	**–**	–
Tangible assets	15	**7,474.1**	7,225.4	**–**	–
Investments	16	**14.7**	11.9	**2,030.7**	2,030.7
Non-current financial assets	19	**4.5**	4.8	**–**	–
		7,838.2	7,575.8	**2,030.7**	2,030.7
Current assets					
Inventories	17	**42.1**	43.5	**–**	–
Debtors	18	**151.9**	205.8	**24.6**	62.6
Short term deposits		**77.5**	245.9	**–**	–
Cash at bank and in hand		**29.5**	43.3	**–**	–
		301.0	538.5	**24.6**	62.6
Creditors: amounts falling due within one year	20	**(785.9)**	(668.6)	**(10.4)**	(11.3)
Net current (liabilities)/assets		**(484.9)**	(130.1)	**14.2**	51.3
Total assets less current liabilities		**7,353.3**	7,445.7	**2,044.9**	2,082.0
Creditors: amounts falling due after more than one year	21	**(4,989.6)**	(5,211.6)	**(356.3)**	(356.3)
Provisions for liabilities	23	**(1,146.7)**	(1,138.9)	**(0.1)**	(0.1)
Deferred income	24	**(490.7)**	(490.9)	**–**	–
Net assets excluding pension asset		**726.3**	604.3	**1,688.5**	1,725.6
Defined benefit pension asset	29	**218.2**	246.0	**–**	–
Net assets including pension asset		**944.5**	850.3	**1,688.5**	1,725.6
Capital and reserves					
Called up share capital	25	**200.0**	200.0	**200.0**	200.0
Hedging reserve		**(24.6)**	(25.2)	**–**	–
Profit and loss account		**769.1**	675.5	**1,488.5**	1,525.6
Shareholders' funds	26	**944.5**	850.3	**1,688.5**	1,725.6

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 £17.4m (2023: £34.7m).

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 2024.

Signed on behalf of the Board of Directors

Nick Salmon
Chair

Consolidated statement of changes in equity

for the year ended 31 March 2024

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	**Total £m**
Group:					
At 1 April 2022		200.0	(40.9)	722.6	**881.7**
Profit for the financial year		–	–	95.2	**95.2**
Cash flow hedges		–	21.0	–	**21.0**
Remeasurement of net defined benefit pension asset		–	–	(117.1)	**(117.1)**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	(5.3)	–	**(5.3)**
– Pension asset		–	–	29.3	**29.3**
Total comprehensive income		–	15.7	7.4	**23.1**
Transactions with owners, recognised directly in equity					
Dividends paid	13	–	–	(54.5)	**(54.5)**
At 31 March 2023		200.0	(25.2)	675.5	**850.3**
Profit for the financial year		–	–	174.9	**174.9**
Cash flow hedges	26	–	0.8	–	**0.8**
Remeasurement of net defined benefit pension asset	29	–	–	(35.8)	**(35.8)**
Deferred tax movements relating to items of other comprehensive income:	26				
– Cash flow hedges		–	(0.2)	–	**(0.2)**
– Pension asset		–	–	9.0	**9.0**
Total comprehensive income		–	0.6	148.1	**148.7**
Transactions with owners, recognised directly in equity					
Dividends paid	13	–	–	(54.5)	**(54.5)**
At 31 March 2024		200.0	(24.6)	769.1	**944.5**

The accompanying notes form part of these financial statements.

Company statement of changes in equity

for the year ended 31 March 2024

	Notes	Called up share capital £m	Profit and loss account £m	**Total £m**
Company:				
At 1 April 2022		200.0	1,545.4	**1,745.4**
Profit for the financial year	12	–	34.7	**34.7**
Total comprehensive income		–	34.7	**34.7**
Transactions with owners, recognised directly in equity				
Dividends paid	13	–	(54.5)	**(54.5)**
At 31 March 2023		200.0	1,525.6	**1,725.6**
Profit for the financial year	12	–	17.4	**17.4**
Total comprehensive income		–	17.4	**17.4**
Transactions with owners, recognised directly in equity				
Dividends paid	13	–	(54.5)	**(54.5)**
At 31 March 2024		200.0	1,488.5	**1,688.5**

The accompanying notes form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Operating profit	4	**520.7**	439.5
Depreciation and software amortisation	14, 15	**210.7**	201.3
Goodwill amortisation	14	**9.5**	9.5
Amortisation of deferred income	24	**(11.9)**	(11.7)
Loss on disposal of fixed assets		**4.5**	4.7
(Increase)/Decrease in inventories	17	**(6.6)**	2.8
Decrease/(increase) in debtors	18	**36.6**	(25.2)
(Decrease)/increase in creditors and employee benefits	20, 21	**(21.6)**	60.6
Increase in provisions	23	**12.1**	27.2
Other operating cash flows		**2.7**	0.4
Cash generated by operations		**756.7**	709.1
Interest paid		**(184.0)**	(157.2)
Tax paid		**(47.0)**	(41.6)
Net cash inflow from operating activities		**525.7**	510.3
Cash flows from investing activities			
Interest received		**11.4**	2.2
Purchase of fixed assets		**(477.7)**	(396.3)
Purchase of intangible fixed assets		**(17.8)**	(8.7)
Sale of tangible fixed assets		**-**	3.2
Customer contributions received		**17.0**	33.0
Fixed asset investment additions		**(5.5)**	(1.4)
Net cash outflow from investing activities		**(472.6)**	(368.0)
Cash flows from financing activities			
Shareholder loan interest paid		**(30.6)**	(30.6)
Issue of debt		**495.7**	399.0
Dividend paid	13	**(54.5)**	(54.5)
Repayment of debt		**(665.1)**	(308.7)
Payments of interest rate swaps		**(0.8)**	(2.8)
Payments of inflation-linked swaps		**(0.6)**	-
Payments of cross currency swaps		**(5.5)**	-
Receipts from inflation-linked swaps		**22.3**	-
Receipts from cross currency swaps		**3.6**	-
Receipts from interest rate swaps		**0.2**	21.9
Net cash (outflow)/inflow from financing activities		**(235.3)**	24.3
Net (decrease)/increase in cash and cash equivalents		**(182.2)**	166.6
Cash and cash equivalents at beginning of the year		**289.2**	122.6
Cash and cash equivalents at the end of the year(i)		**107.0**	289.2

(i) Cash and cash equivalents of £107.0m includes £19.7m of cash which has specific restrictions over its use (2023: £41.4m of £289.2m). 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 2024

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 2024. The comparative period presented is the year ended 31 March 2023.

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 2024 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 and Accounts (i.e. until 31 July 2025). 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 takes account of the debt issuance in April 2024 (see note 32 for further details), but assumes that there will be no subsequent debt issuance in the forecast period that has not been secured before the reporting date. In addition, the base case scenario includes £385m of debt due for repayment in February 2025 (£350m) and March 2025 (£35m).

Notes to the financial statements

for the year ended 31 March 2024

1. Principal accounting policies (continued)

Considerations are made by the Directors for severe but plausible downside scenarios. These downside scenarios include, most notably, a reduction in transportation revenue due to a decline in demand and an increase in operating costs as a result of inflation and supply chain pressures. 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.

Additionally, management performed reverse stress testing to overstretch the Group's liquidity. These scenarios are considered remote due to the predictability of the Group's cash flows under the regulatory mechanism.

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 and Accounts (i.e. until 31 July 2025) 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 Overview and Strategic Report, the Group is dedicated to decarbonisation while ensuring the resilience and reliability of the network remains uncompromised. The Group is therefore allocating significant resources to ensure that the networks can be repurposed to transport greener gases, thereby extending the life of our networks 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. Impairment indicators for goodwill are assessed on an annual basis at each balance sheet date in line with FRS 102 requirements.

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 nine 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.

In line with the relevant accounting standards replacement expenditure is capitalised and the useful life is based on the range within mains and services above. Tangible fixed assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

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 includes 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. A 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 'Work in progress' 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.

Notes to the financial statements

for the year ended 31 March 2024

1. Principal accounting policies (continued)

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.

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.

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.

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, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably. 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.

Onerous contracts
A contract is considered onerous, where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The Group recognises a provision for the present obligation under the onerous contract. If the Group has assets that are dedicated to the contract, these are reviewed for impairment.

Contingent liabilities
Through the ordinary course of operations, the Company is party to various litigation, claims and investigations. Where management consider the settlement of these to be possible or the amount of the obligation cannot be estimated reliably, the Group treats this as a contingent liability until such a time that it becomes probable that the Group will be required to make a payment or the obligation can be estimated reliably.

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.

Notes to the financial statements

for the year ended 31 March 2024

1. Principal accounting policies (continued)

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). These relate to money market funds with an original maturity date of three months or less.

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 for risk management purposes.

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.

Notes to the financial statements

for the year ended 31 March 2024

1. Principal accounting policies (continued)

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 within the Group's control and 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 items such 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.

New and amended standards and interpretations
Published in FRED 82 Draft amendments to FRS 102, the Financial Reporting Council proposes significant changes to the approach to revenue recognition and accounting for leases, alongside a number of other amendments. The proposed effective date for these amendments is accounting periods beginning on or after 1 January 2025 (i.e. the year ended 31 March 2026 for the Group). Management expects FRED 82 to have a material impact on the Group's revenue recognition for customer contributions as well as for leases.

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 Group incur significant staff and contractor costs for fulfilling normal business activities. Management judgement is required to allocate costs between capital, replacement and operating expenditure depending on the nature of the work being performed. Capital and replacement expenditure as reported in the Strategic Report on page 42 are both recognised as additions to plant and equipment within tangible fixed assets. Operating expenditure is recognised within Net operating costs within the Profit and Loss account.

b. Impairment of goodwill – 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. Supplier of last resort – Management has 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 levies are received. In relation to the SoLR mechanism, the Group does not hold inventory risk, does not set the SoLR mechanism pricing and is not exposed to credit risk. As such, it is management's judgement that the Group is acting as an Agent and therefore associated revenues and costs are not shown within Turnover or Net operating costs within the Profit and Loss account. The SoLR mechanism's only impact on the current and prior year financial statements is an immaterial balance originating from timing differences in payment and recovery, which is recorded in other creditors on the Balance Sheet.

d. 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 within the Group's control and whether the event is considered to be one-off in nature. See note 6.

e. Customer contributions and interest paid – Cash inflows from customer contributions are presented as cash flows from investing activities in the Consolidated cash flow statement, as these are directly associated with capital investment in the Group's gas networks. Cash outflows from interest paid are presented in Net cash inflow from operating activities, as the loans these interest payments relate to are directly associated with funding the Group's operations.

f. Galpin's Road Investigation – Management judgement is required in assessing if the recognition criteria for a provision has been met in relation to the Galpin's Road incident as at 31 March 2024 (as described on page 143). Based on external legal advice, management has concluded that the investigation is not sufficiently progressed to reliably estimate the financial impact or timing of any future obligation. As such the case has been disclosed as a contingent liability (see note 28) until the point at which any economic transfer can be reliably estimated.

g. Other legal and regulatory cases – Consistent with the nature and size of the SGN Group's operations, the Group is, from time to time, subject to certain legal and regulatory claims. Judgement is exercised by management as to the probability of future cash outflows and the extent to which any outflows can be reliability estimated. Where a future cash flow is assessed as probable and can be reliably estimated, the Group records a provision at the balance sheet date. Where the recognition criteria for a provision is not yet met, the Group records a contingent liability.

h. Use of our networks beyond 2050 – Climate change poses a global challenge and we have a key role to play in mitigating its effects by reducing our carbon emissions, and assisting our customers in doing the same. Several elements of our financial statements are contingent on the future utilisation of our network.

The UK's aim to achieve net zero emissions by 2050 will reshape the use of fossil fuels, thereby affecting our network's operations. Uncertainties persist regarding key aspects of the UK's energy plans, with scenarios range from hydrogen integration via our existing network to gradual decarbonisation favouring a high electrification solution. We are actively evaluating how these scenarios would impact the lifespan of our assets, and are heavily investing in demonstrating hydrogen based solutions. Based on available information we conclude that our network will continue to transport gas (methane, hydrogen, biomethane or other alternatives) beyond 2050.

As mentioned in Point a. within Significant estimates below, the useful life of assets are significantly impacted by our capability of using the network beyond 2050. See note 15 for sensitivity analysis on the life of our network.

Significant estimates
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 29 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 23.

e. Onerous contract provision – the Group recognises an onerous provision in respect of the obligation to complete the H100 Fife project to construct an end-to-end hydrogen system for approximately 300 homes in Scotland. The provision represents management's best estimates of the future expenditure necessary to settle the obligations.

3. Turnover

The Board and Chief operating decision maker view the Group as one operating segment. Analysis of turnover by class of business:

	2024 £m	2023 £m
Transportation of natural gas and the provision of related services	1,336.5	1,243.2
Gas asset services	18.7	18.9
Gas to the West construction contract	9.0	8.3
Property sales	10.1	15.4
Managed service income	-	2.0
Other income	1.0	0.7
Total turnover	**1,375.3**	1,288.5

Notes to the financial statements

for the year ended 31 March 2024

3. Turnover (continued)

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. As at 31 March 2024, the Gas to the West project is now fully completed.

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

	2024 £m	2023 £m
Turnover	**1,375.3**	1,288.5
Cost of sales	**(40.5)**	(54.4)
Operational and administrative expenses	**(601.3)**	(590.8)
Depreciation	**(192.1)**	(188.3)
Amortisation	**(28.1)**	(22.5)
Loss on disposal of fixed assets	**(4.5)**	(4.7)
Other operating income	**11.9**	11.7
Total net operating costs	**(854.6)**	(849.0)
Operating profit	**520.7**	439.5

5. Profit before taxation

Group profit before taxation is stated after charging/(crediting):

	2024 £m	2023 £m
Auditor's remuneration	**0.9**	0.7
Amortisation of goodwill	**9.5**	9.5
Amortisation of intangible assets	**18.6**	13.0
Depreciation of tangible fixed assets	**192.1**	188.3
Amortisation of customer contributions	**(11.9)**	(11.7)
Impairment of tangible fixed assets	**5.6**	–
Loss on disposal of fixed assets	**4.5**	4.7
Rental under operating leases	**4.9**	4.8

Auditor's remuneration for the Group comprises:

- Audit of these financial statements £36,000 (2023: £33,000)
- Audit of financial statements of subsidiaries of the Company £668,000 (2023: £562,000)
- Audit-related assurance services £116,000 (2023: £105,000)
- Other assurance services £80,000 (2023: £70,000)

6. Exceptional items

	2024 £m	2023 £m
Exceptional items included within turnover:		
Incremental turnover from recovery of costs due to increase in gas wholesale prices(i)	**–**	(30.8)
Exceptional items included within net operating costs:		
Onerous contract (ii)	**18.5**	15.9
Impairment of tangible fixed assets (iii)	**5.6**	–
Included within taxation:		
Tax charge on impact of increase in gas wholesale prices	**–**	5.9
Tax credit on onerous contract	**(1.1)**	(1.6)
Total tax (credit)/charge included within taxation	**(1.1)**	4.3

(i) In the year ended 31 March 2023, the Group recorded incremental turnover of £30.8m, as a result of recovering incremental costs charged in the previous periods, which were associated with the rise in wholesale gas prices through the Group'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 year ended 31 March 2024, there are no such exceptional items included within turnover.

(ii) During the year, the Group reassessed its onerous contract provision by £18.5m to £34.4m (2023: £15.9m) in respect of the obligation to complete the H100 Fife project to construct an end-to-end hydrogen system for approximately 300 homes in Scotland (see note 23, included in Other provisions).

(iii) During the year the Group recognised an impairment loss of £5.2m (2023: £nil) relating to the development of the property at Balcombe Road, Horley following the decision to abandon the build of the new Head Office. The recoverable amount of the asset was determined based on the fair value less cost to sell using a market valuation. In addition, the Group has also recognised £0.4m impairment loss relating to two sites of SGN Property Holdings Limited, which are held as fixed assets.

7. Employee information and Directors' emoluments

The Group had 4,535 full time equivalent employees as of 31 March 2024 (2023: 4,068). The average monthly number of full time equivalent employees during the year was 4,380 (2023: 3,874).

	2024	2023
Field based staff	**2,398**	2,140
Office and other administrative staff	**2,137**	1,928
Total	**4,535**	4,068

The Independent Directors received aggregate remuneration of £213,943 (2023: £201,528) for their services to the Group during the year, of which the highest paid Director's share was £82,800 (2023: £77,153). 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:

	2024 £m	2023 £m
Staff costs		
Wages and salaries	**220.9**	192.5
Social security costs	**24.3**	22.7
Pension costs (see note 29)	**31.7**	35.8
Total	**276.9**	251.0

The Company had 4 employees as of 31 March 2024 (2023: 4).

8. Interest receivable and similar income

	2024 £m	2023 £m
Net defined benefit pension income (see note 29)	**11.8**	10.1
Other interest receivable	**12.1**	13.0
Total	**23.9**	23.1

9. Interest payable and similar expenses

	2024 £m	2023 £m
Interest payable on fixed rate instruments	**138.0**	120.8
Interest payable on floating rate instruments	**17.3**	6.7
Interest payable on inflation-linked instruments	**69.3**	130.9
Interest payable on shareholder loan	**30.7**	30.6
Other interest payable	**15.9**	21.6
Total	**271.2**	310.6

Included within interest payable on inflation-linked instruments is £73.5m of accretion on RPI-linked debt instruments (2023: £133.0m).

Other interest payable includes facility fees and interest of £5.5m (2023: £0.2m), bond amortisations of £6.9m (2023: £1.8m), monoline fees of £nil (2023: £8.9m) and other interest payable of £3.5m (2023: £10.7m).

Notes to the financial statements

for the year ended 31 March 2024

10. Fair value movements on derivatives

	2024 £m	2023 £m
Fair value movements on derivatives:		
Net losses on derivative financial instruments (i)	**15.9**	1.1
Included within taxation:		
Tax (credit)/charge on derivative financial instruments	**(4.0)**	4.0

(i) 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 the statement of comprehensive income. Included within net losses on derivative financial instruments is £31.3m (2023: £70.6m) of accretion on CPI-linked swaps. There was nil impact (2023: £nil) to the cash flow as a result of the fair value movements on financial derivatives.

11. Tax charge on profit

a) Analysis of the tax charge on profit

	2024 £m	2023 £m
Current tax		
UK corporation tax on profits for the year	**69.4**	33.8
Adjustment in respect of previous years	**(6.0)**	(4.6)
Total current tax charge	**63.4**	29.2
Deferred tax		
Origination and reversal of timing differences	**11.8**	11.4
Adjustments in respect of previous years	**4.7**	7.0
Effect of change in tax rate	**–**	8.0
Total deferred tax charge	**16.5**	26.4
Total tax charge on profit	**79.9**	55.6

b) Factors affecting the total tax charge for the year

	2024 £m	2023 £m
Profit before tax	**254.8**	150.8
Profit multiplied by standard rate of corporation tax in the UK of 25% (2023: 19%)	**63.7**	28.7
Effects of:		
Expenses not deductible for tax purposes	**7.6**	4.8
Non deductible goodwill	**2.4**	1.8
Depreciation of non qualifying assets	**1.1**	0.9
De-recognition of deferred tax relating to previous years	**–**	4.6
Current year deferred tax not recognised	**6.4**	5.1
Adjustment in respect of prior years	**(1.3)**	2.4
Permanent benefit of capital allowances super deduction	**–**	(0.7)
Effect of change in tax rate	**–**	8.0
Total tax charge on profit	**79.9**	55.6

The standard rate of tax applied to reported profit on ordinary activities is 25% (2023: 19%). At the balance sheet date, Finance (No2) Act 2023 had been substantively enacted confirming that the main rate of UK corporation tax would remain at 25% having increased to this rate from 19% on 1 April 2023. Deferred tax assets and liabilities have been calculated based on the rate that is expected to apply when the deferred tax is reversed which resulted in the Group's deferred tax liability at 31 March 2023 increasing by £8.0m.

12. Profit of the Company for the financial year

The Company's profit for the year amounted to £17.4m (2023: £34.7m). The intercompany interest receivable during the year ended 31 March 2024 amounted to £2.1m (2023: £2.1m) 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.

13. Dividends

	2024 £m	2023 £m
Equity shares		
Interim dividends paid of 11.5945p (2023: 11.5945p)	**54.5**	54.5

The dividends paid in the current year of £54.5m were paid in December 2023.

14. Intangible fixed assets

	Goodwill £m	Software £m	Total £m
Group			
Cost			
At 1 April 2023	477.6	101.7	579.3
Transfer from tangible fixed assets	–	23.1	23.1
Additions	–	17.7	17.7
Disposals	–	(15.2)	(15.2)
At 31 March 2024	**477.6**	**127.3**	**604.9**
Amortisation			
At 1 April 2023	170.6	75.0	245.6
Transfer from tangible fixed assets	–	1.5	1.5
Charge for the year	9.5	18.6	28.1
Eliminated on disposal	–	(15.2)	(15.2)
At 31 March 2024	**180.1**	**79.9**	**260.0**
Net book value			
At 31 March 2024	**297.5**	**47.4**	**344.9**
At 31 March 2023	307.0	26.7	333.7

The goodwill, which arose on the acquisitions of Scotland Gas Networks plc and Southern Gas Networks plc on 1 June 2005, is being amortised on a straight-line basis over 50 years, with 31 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:

	2024 £m	2023 £m
Southern Gas Networks plc	**203.5**	210.0
Scotland Gas Networks plc	**94.0**	97.0
	297.5	307.0

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 2024, following management's assessment of internal and external impairment indicators, no such indicators were noted. As such £nil impairment charge has been recorded for the current year (2023: £nil).

The amortisation charge is recognised in operating costs in the profit and loss account.

There is no security held against the intangible fixed assets (2023: none).

During the year, a portion of assets, which had previously been recognised as tangible fixed assets, were transferred to intangible fixed assets (software) to reflect their nature more appropriately (2023: £nil).

During the year, the Group wrote off £15.2m (2023: £105.7m) of fully depreciated assets, with a nil net book value.

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15. 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 2023	0.7	154.8	9,070.8	164.7	9,391.0
Transfer to intangible fixed assets	–	–	(0.1)	(23.0)	(23.1)
Additions	–	8.8	450.4	14.4	473.6
Disposals	–	–	(16.9)	(7.0)	(23.9)
Impairment	–	(5.6)	–	–	(5.6)
At 31 March 2024	**0.7**	**158.0**	**9,504.2**	**149.1**	**9,812.0**
Depreciation					
At 1 April 2023	0.3	57.0	1,999.4	108.9	2,165.6
Transfer to intangible fixed assets	–	–	–	(1.5)	(1.5)
Charge for the year	–	6.6	177.2	8.3	192.1
Disposals	–	–	(11.4)	(6.9)	(18.3)
At 31 March 2024	**0.3**	**63.6**	**2,165.2**	**108.8**	**2,337.9**
Net book value					
At 31 March 2024	**0.4**	**94.4**	**7,339.0**	**40.3**	**7,474.1**
At 31 March 2023	0.4	97.8	7,071.4	55.8	7,225.4

There is no security held against the fixed assets. Included within freehold properties is the Net book value of land of £18.8m (2023: £17.4m).

During the year, a portion of assets, which had previously been recognised as tangible fixed assets, were transferred to intangible fixed assets (software) to reflect their nature more appropriately (2023: £nil).

During the year, the Group recognised an impairment loss of £5.2m relating to the development of the property at Balcombe Road, Horley following the decision to abandon the build of the new Head Office. The recoverable amount of the asset was determined based on the fair value less cost to sell using a market valuation. In addition, the Group has also recognised £0.4m impairment loss relating to two sites of SGN Property Holdings Limited, which are held within Freehold properties. The impairment losses are included within 'Net operating costs' in the profit and loss account.

The Company had no tangible fixed assets in either year.

Sensitivity to changes in significant estimates
The useful life of the Group's network assets, included in tangible fixed assets above, are significantly impacted by the Group's capability of using its network beyond the Government's net zero target of 2050. The following sensitivity analysis indicates the financial impact a reduction in the life of our network assets would have on the Group's profit and loss and net assets.

	2024 reduction in profit and loss £m	2024 reduction in net assets £m
Additional depreciation charge if useful economic life of network assets end in 2050 in line with the UK Government's net zero target	94.9	94.9
Additional depreciation charge if useful economic life of network assets end in 2045	156.4	156.4
Additional depreciation charge if useful economic life of network assets end in 2040	254.0	254.0

16. Fixed asset investments

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Cost				
Shares in Group undertakings				
At 1 April	–	–	2,028.4	2,028.4
At 31 March(3)	–	–	2,028.4	2,028.4
Investments in joint ventures				
At 1 April	9.5	8.1	–	–
Additions(1)	5.5	1.5	–	–
Share of losses in joint venture	(2.7)	(0.1)	–	–
At 31 March	12.3	9.5	–	–
Other investments(2)				
At 1 April	2.4	2.4	2.3	2.3
At 31 March	2.4	2.4	2.3	2.3
Total investments	**14.7**	11.9	**2,030.7**	2,030.7

(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.
(3) During the year ended 31 March 2024, there was a partial disposal of a subsidiary (see further information in the table below), which had a carrying value of £1 and due to the rounding applied on these financial statements, this disposal does not appear in the table above.

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	Dormant
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	Dormant
SGN Evolve Network Limited (previously known as 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

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16. Fixed asset investments (continued)

Name	Description of shares held	% of shareholding	Country of registration	Principal activities
Subsidiaries – indirectly held (continued)				
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
SGN Rotherhithe Holdco Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Croydon Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Crayford 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
SGN Silvertown LLP	Equity	100%	England & Wales	Dormant
SGN Gas to Grid ProjectCo1 Limited	1 ordinary share of £1	100%	England & Wales	Dormant
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
Tonbridge Riverside Regeneration 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	Software development

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, 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 2024 was £19.0m (2023: £11.4m). Its loss for the year then ended was £3.3m (2023: £2.1m).

The address of SGN Mitheridge Limited's registered office is Langham Hall UK Services LLP, 8th Floor, 1 Fleet Place, London, EC4M 7RA. The aggregate amount of capital and reserves of the undertaking as at 31 March 2024 was £11.8m (2023: £8.2m). Its loss for the year then ended was £3.6m (2023: £2.8m).

Tonbridge Riverside Regeneration Limited was 100% owned subsidiary of SGN Place Limited until 1 August 2023, at which date it was partially disposed. SGN Place Limited holds 50% of the ordinary share capital of this entity as at 31 March 2024, therefore it is now a joint venture, accounted for using the equity method of accounting. The registered address of Tonbridge Riverside Regeneration Limited is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ, United Kingdom. The aggregate amount of capital and reserves of the undertaking as at 31 March 2024 was £0.2m. Its loss for the year then ended was £0.1m. 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 2024 are not considered material to the Group's financial statements.

17. Inventories

	Group		Company	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Work in progress	**31.1**	43.0	**–**	–
Materials and supplies	**11.0**	0.5	**–**	–
	42.1	43.5	**–**	–

Included within work in progress is £31.0m (2023: £42.8m) of land.

The amount of inventory recognised as an expense in the year amounted to £8.5m (2023: £6.9m).

18. Debtors

	Group		Company	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Trade debtors	**115.1**	134.6	**–**	–
Prepayments and accrued income	**29.5**	48.8	**–**	–
Amounts owed by Group undertakings	**–**	–	**23.1**	62.6
Other debtors	**4.9**	3.5	**1.5**	–
Corporation tax	**2.4**	18.9	**–**	–
	151.9	205.8	**24.6**	62.6

Included in debtors are amounts falling due after more than one year of £10.3m (2023: £9.8m).

Included in prepayments and accrued income is accrued income on the Gas to the West project of £0.1m (2023: £24.5m).

Amounts owed by Group undertakings for the Company include intercompany loans due to SGN Commercial Services Limited amounting to £1.6m (2023: due from SGN Commercial Services Limited of £40.4m); due from SGN Place Limited amounting to £7.3m (2023: £6.9m); and due from SGN Lessona Limited amounting to £19.5m (2023: £13.1m).

The loan due to SGN Commercial Services Limited bears interest at the Bank of England Base Rate, all others charge interest at Bank of England Base Rate plus 1% per annum. All loans are repayable on demand.

Also included in the balance are intercompany trade balances due to the SGN Group subsidiaries of £2.1m (2023: £2.2m).

19. Non-current financial assets

	Group		Company	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Derivative financial instruments – interest rate swaps not in hedge relationships	**3.1**	4.8	**–**	–
Derivative financial instruments – cross-currency swaps in hedge relationships	**1.4**	–	**–**	–
	4.5	4.8	**–**	–

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20. Creditors: amounts falling due within one year

	Group		Company	
	2024 £m	2023 £m	**2024 £m**	2023 £m
£300m 4.875% fixed rate note due 2023[1]	**–**	299.8	**–**	–
£350m 2.5% fixed rate note due 2025[1]	**349.7**	–	**–**	–
£35m 2.407% fixed rate loan due 2025	**35.0**	–	**–**	–
Floating rate debt: bank facility	**60.0**	–	**–**	–
Trade creditors	**107.4**	81.9	**–**	1.1
Other taxation and social security	**17.2**	23.6	**0.1**	–
Other creditors	**15.3**	18.4	**–**	–
Accrued interest	**50.4**	56.4	**10.3**	10.2
Accruals	**107.6**	134.7	**–**	–
Deferred income	**43.3**	53.8	**–**	–
	785.9	668.6	**10.4**	11.3

(1) Listed on the London Stock Exchange.

The Group held two committed bank facilities at 31 March 2024:

- £150.0m (2023: £20m) revolving credit facility at Scotland Gas Networks plc maturing in March 2027. This facility was undrawn at 31 March 2024 (2023: undrawn).
- £450.0m (2023: £340m) revolving credit facility at Southern Gas Networks plc maturing in March 2027. £60.0m of this facility was drawn as at 31 March 2024 with a repayment date of 2 April 2024, thus this balance is classified as amounts falling due within one year. The facility was undrawn at 31 March 2023.
- £25m debt service reserve facility at SGN MidCo Ltd was renewed in the year and is maturing in January 2025. This facility was undrawn at 31 March 2024 and at 31 March 2023.

21. Creditors: amounts falling due after more than one year

	Group		Company	
Borrowings	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Fixed rate debt				
£350m 2.5% fixed rate note due 2025[1]	**–**	349.3	**–**	–
£35m 2.407% fixed rate loan due 2025	**–**	35.0	**–**	–
£250m 3.25% fixed rate note due 2027[1]	**249.2**	249.0	**–**	–
£375m 4.875% fixed rate note due 2029[1]	**374.6**	374.5	**–**	–
£100m 2.9% fixed rate note due 2030	**99.2**	99.1	**–**	–
£75m 2.74% fixed rate note due 2030	**74.9**	74.8	**–**	–
£75m 2.74% fixed rate note due 2030	**74.9**	74.8	**–**	–
£250m 1.25% fixed rate note due 2031[1]	**248.3**	248.3	**–**	–
£200m 1.25% fixed rate note due 2031	**138.9**	–	**–**	–
£75m 1.98% fixed rate note due 2032	**74.8**	74.8	**–**	–
£34m 6.220% fixed rate note due 2032	**33.9**	33.8	**–**	–
£50m 2.04% fixed rate note due 2033	**49.9**	49.9	**–**	–
£185m 3.02% fixed rate note due 2033	**183.2**	183.0	**–**	–
£75m 2.87% fixed rate note due 2033	**74.8**	74.8	**–**	–
£75m 2.87% fixed rate note due 2033	**74.8**	74.8	**–**	–
$66m 5.630% fixed rate note due 2033	**52.1**	53.1	**–**	–
£100m 2.27% fixed rate note due 2034	**99.6**	99.6	**–**	–
£225m 4.875% fixed rate note due 2034[1]	**224.8**	224.7	**–**	–
£30m 6.310% fixed rate note due 2035	**29.8**	29.8	**–**	–
£50m 6.220% fixed rate note due 2035	**49.8**	49.8	**–**	–
$66m 5.730% fixed rate note due 2035	**52.1**	53.1	**–**	–
£300m 6.625% fixed rate note due 2035	**298.7**	–	**–**	–
£400m 3.1% fixed rate note due 2036[1]	**398.1**	398.1	**–**	–
£70m 6.340% fixed rate note due 2037	**69.8**	69.8	**–**	–
£15m 3.11% fixed rate note due 2038	**14.8**	14.8	**–**	–
£225m 6.375% fixed rate note due 2040[1]	**224.2**	224.2	**–**	–
	3,265.2	3,212.9	**–**	–
Inflation-linked debt				
£150m 2.066% RPI-linked note due 2025[1]	**296.0**	272.9	**–**	–
£83.3m 2.013% RPI-linked note due 2025[1]	**164.3**	151.5	**–**	–
£15m 2.580% RPI-linked loan due 2028	**26.7**	24.5	**–**	–
£50m -0.8818% CPI-linked note due 2029	**57.2**	55.0	**–**	–
£50m -0.4465% CPI-linked note due 2032	**57.2**	55.0	**–**	–
£37.5m 0.11% RPI-linked note due 2033	**51.1**	48.7	**–**	–
£83.3m 2.013% RPI-linked note due 2035[1]	**164.3**	151.6	**–**	–
£87.5m 0.28% RPI-linked note due 2038	**119.2**	113.5	**–**	–
£125m 2.317% RPI-linked note due 2039[1]	**220.0**	209.6	**–**	–
	1,156.0	1,082.3	**–**	–
Floating rate debt				
£125m floating rate loan due 2025	**–**	125.0	**–**	–
£80m floating rate loan due 2026	**–**	80.0	**–**	–
£60m floating rate loan due 2026	**–**	60.0	**–**	–
£30m floating rate loan due 2026	**–**	30.0	**–**	–
£35m floating rate loan due 2026	**–**	35.0	**–**	–
£35m floating rate loan due 2026	**–**	35.0	**–**	–
£80m floating rate note due 2043[1]	**79.7**	79.7	**–**	–
	79.7	444.7	**–**	–

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21. Creditors: amounts falling due after more than one year (continued)

	Group 2024 £m	Group 2023 £m	Company 2024 £m	Company 2023 £m
Borrowings (continued)				
Total external borrowings	**4,500.9**	4,739.9	**–**	–
Shareholders' loans[2] (see note 30)	**356.3**	356.3	**356.3**	356.3
Total borrowings	**4,857.2**	5,096.2	**356.3**	356.3
Derivative financial instruments				
Inflation-linked swaps (see note 22)	**88.3**	73.0	**–**	–
Interest rate swaps (see note 22)	**24.6**	27.7	**–**	–
Cross-currency swaps (see note 22)	**19.5**	14.7	**–**	–
Total creditors falling due after more than one year	**4,989.6**	5,211.6	**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.

(1) Listed on the London Stock Exchange.
(2) £183.3m of the shareholder loan is listed on The International Stock Exchange.

Maturity of borrowings

	Group 2024 £m	Group 2023 £m
Due within one year	**444.7**	299.8
Between one and five years	**1,110.9**	1,422.8
After five years	**3,746.3**	3,673.4
	5,301.9	5,396.0

The Company's borrowings all fall due by 9 April 2043.

In September 2023, the Group submitted a notice of its intention to repay early some of its floating rate notes amounting to £365m, which were fully repaid as at 31 March 2024.

In September 2023, the Group issued £500m of new fixed rate public bonds with net proceeds (£435.7m) used to repay and prepay maturing bond and EIB debt in October 2023. £200m of these bonds were raised by 'tapping' an existing 1.25% fixed rate instrument maturing in December 2031 for a cash price of £68 leading to proceeds received of £135.2m, where the difference between the amounts issued and received is amortised over the remaining life of the instrument.

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 £75.9m (2023: £15.4m). 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- and CPI-linked debt are not payable until the principal amount of the instruments are repaid and are included within the carrying value of the debt stated above. Certain interest costs in respect of CPI-linked swaps are also not payable until the maturity of the swap. The amount of interest in relation to the RPI- and CPI-linked debt included in the carrying value of the debt at 31 March 2024 is £461.9m (2023: £392.9m) and £14.4m (2023: £10.0m) respectively. The amount in relation to the CPI-linked swaps included in the carrying value of the debt at 31 March 2024 is £137.6m (2023: £106.2m).

22. 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 comprises 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 liabilities in any particular subsidiary as and when they fall due.

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, which includes a confirmation of sufficiency of financial resources (liquidity looking forward 12 months).

To prevent over-reliance on individual sources of liquidity, funding is accessed across a range of instruments including: public bonds, bank loan facilities (including the RCF) and private placements.

The Group currently has external financing (including undrawn revolving credit facilities) outstanding across four of the Group's subsidiaries:

- Scotia Gas Networks Limited: £356.3m shareholder loans;
- SGN MidCo Limited: £170.3m inflation-linked private placements; and £297.2m fixed rate private placements;
- Scotland Gas Networks plc: £473.9m fixed rate bonds; £79.7m floating rate bonds; £220.0m inflation-linked bonds; £457.8m fixed rate private placements; £35.0m EIB loans; £150.0m (undrawn) bank RCF; and £114.4m inflation-linked bank term loan facility; and
- Southern Gas Networks plc: £2,032.4m fixed rate bonds; £651.4m inflation-linked debt; £353.4m fixed rate private placements; and £450.0m bank RCF (£60.0m drawn).

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 highly-rated 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.

A summary of the Group's contractual maturity of its 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.

2024

	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)	(796.2)	(949.3)	593.0	(356.3)
Bank facility	–	(60.1)	–	–	–	(60.1)	0.1	(60.0)
Bonds	(55.4)	(485.3)	(627.9)	(1,060.6)	(4,501.5)	(6,730.7)	1,845.1	(4,885.6)
	(70.7)	(560.7)	(658.5)	(1,152.5)	(5,297.7)	(7,740.1)	2,438.2	(5,301.9)
Derivative financial liabilities								
Inflation-linked swaps	(10.2)	(12.2)	(22.5)	(69.5)	308.2	193.8	(282.1)	(88.3)
Interest rate swaps	0.8	0.4	1.0	4.4	24.4	31.0	(55.6)	(24.6)
Cross-currency swaps	3.6	3.6	7.2	21.7	155.4	191.5	(211.0)	(19.5)
	(5.8)	(8.2)	(14.3)	(43.4)	488.0	416.3	(548.7)	(132.4)
Other financial liabilities								
Trade creditors	(107.4)	–	–	–	–	(107.4)	–	(107.4)
Total financial liabilities	(183.9)	(568.9)	(672.8)	(1,195.9)	(4,809.7)	(7,431.2)	1,889.5	(5,541.7)

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22. Financial instruments and risk management (continued)

The Group expects to meet its obligations from cash balances, operating cash flows and refinancing.

The corresponding amounts for 2023 were as follows:

2023	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)	(826.9)	(980.0)	623.7	(356.3)
Bank facility	–	–	–	–	–	–	–	–
Bonds	(63.7)	(402.1)	(537.1)	(1,441.8)	(4,371.5)	(6,816.2)	1,776.5	(5,039.7)
	(79.0)	(417.4)	(567.7)	(1,533.7)	(5,198.4)	(7,796.2)	2,400.2	(5,396.0)
Derivative financial liabilities								
Inflation-linked swaps	(10.1)	(12.1)	(22.4)	(69.0)	302.4	188.8	(261.8)	(73.0)
Interest rate swaps	0.9	0.7	1.5	5.7	34.2	43.0	(70.7)	(27.7)
Cross-currency swaps	1.2	3.6	7.2	21.7	162.7	196.4	(211.1)	(14.7)
	(8.0)	(7.8)	(13.7)	(41.6)	499.3	428.2	(543.6)	(115.4)
Other financial liabilities								
Trade creditors	(81.9)	–	–	–	–	(81.9)	–	(81.9)
Total financial liabilities	(168.9)	(425.2)	(581.4)	(1,575.3)	(4,699.1)	(7,449.9)	1,856.6	(5,593.3)

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 certain committed facilities and financial instruments.

The maximum exposure to credit risk is the carrying value of financial assets as follows:

	2024 £m	2023 £m
Net trade receivables	**115.1**	134.6
Accrued income	**18.3**	40.1
Other debtors	**4.9**	3.5
Short term deposits	**77.5**	245.9
Cash	**29.5**	43.3
Derivative financial instruments – interest rate swaps	**3.1**	4.8
Derivative financial instruments – cross-currency swaps	**1.4**	–
	249.8	472.2

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 £34.7m of security in respect of its trade counterparties (2023: £30.5m). 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 2024 non-transportation debtors (£16.9m) were 14.7% (2023: 29.7%) of net trade debtors (£115.1m). An impairment allowance of £7.3m (2023: £8.2m) has been set aside according to the Group's impairment policy.

The largest transportation debtor is £18.8m (2023: £19.2m). There is no material credit exposure to any one customer.

The ageing of trade debtors net of impairment allowance is:

	2024 £m	2023 £m
Not past due	**104.9**	125.6
Past due 0-30 days	**2.1**	0.1
Past due 31-90 days	**1.2**	0.6
Past due over 90 days	**6.9**	8.3
	115.1	134.6

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 instrument types and 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 positions owed to the regulated businesses within the Group. Investments of cash through deposits in the short term are also subject to review and approval according to defined criteria agreed by the Finance Committee and Board.

The Group conducted a review of counterparty credit risk and its own credit risk, and concluded that an adjustment was required to reflect the net credit risk in arriving at the fair value of financial instruments stated in the balance sheet. The net credit risk adjustment reduced liabilities by £28.8m (2023: £36.2m). The net credit risk adjustment related to inflation-linked swaps, interest rate swaps and cross-currency swaps. £21.8m (2023: £29.3m) was credited to the consolidated profit and loss account in the line 'Fair value movements on derivatives' as this relates to financial instruments held at fair value through profit and loss and £7.0m (2023: £6.9m) was credited to other comprehensive income as this relates to financial instruments designated as hedging instruments. The net credit risk adjustment was debited to 'Derivative financial liabilities' within 'Creditors: amounts falling due after more than one year' as presented in the consolidated balance sheet.

The net credit risk adjustment represents the risk of non-performance (or default) of either the counterparty or the Group in relation to financial instruments that require fair value measurements. These adjustments are respectively called Credit Value Adjustments (CVA) and Debit Value Adjustments (DVA).

The Mark to Market (MtM) value is calculated using a discounted cash flow method, which discounts the contracted future cash flows of derivatives using a risk-free rate (SONIA). The valuation is subsequently adjusted for the default risk of both the bank counterparty and the SGN entity respectively, by applying the CVA and DVA (together the 'net credit risk adjustment').

The CVA and DVA are calculated by running two separate Monte Carlo simulations, based on the bilateral credit risk adjustment method. Quoted credit default swap (CDS) spreads are used to determine counterparty credit curves when calculating the CVA. Z-spreads of senior unsecured public bonds are used to construct a credit curve for the Group when calculating the DVA. The net credit risk adjustment is made up of a CVA of £3.3m (2023: £3.4m) and a DVA of £(32.1)m (2023: £(39.5)m). The magnitude of the DVA adjustment as at 31 March 2024 is mainly due to the asymmetric cash flow positions. SGN settles the inflation accretion to the counterparty at maturity on the swap, whereas the Group receive cash flows from the counterparty at every interest rate settlement date (every six months) through to maturity. The inflation linked swaps are long dated with tenors of between 10 to 15 years, exacerbating the impact of the asymmetric cash flow position.

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for the year ended 31 March 2024

22. Financial instruments and risk management (continued)

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, credit spreads and foreign exchange 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 aims to maintain 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 increase 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.

	2024 £m	2023 £m
Impact ((charge)/credit) on profit and loss account		
Floating rate instruments	(4.5)	(4.5)
Fixed to floating swaps	(0.9)	(0.9)
Floating to fixed swaps	0.9	0.3
	(4.5)	(5.1)
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 UK 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 100 basis point increase in CPIH (affecting transportation income), CPI and RPI (impacting inflation-linked bonds and inflation-linked swaps) before the effects of tax.

	2024 £m	2023 £m
Impact (credit/(charge)) on profit and loss		
Inflation-linked bonds	11.5	11.0
Inflation-linked swaps	8.0	7.7
Transportation income	(13.0)	(12.4)
Total	6.5	6.3

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 £5,724.1m (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 aims to manage its 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 is required 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 predominantly 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. In the last financial year, the Group issued USD denominated private placement notes that it fully hedged back to Sterling at issuance using cross-currency swaps. The Group has also 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 a floating to fixed interest rate swap at Scotland Gas Networks plc, hedging future floating rate interest payments on a floating rate bond, and cross-currency swaps put in place at Southern Gas Networks plc to fully hedge the principal and interest payments on certain USD denominated private placement notes. 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.

Interest rate swaps:
The interest rate swap at Scotland is in place to hedge future interest outflows on the floating rate bond and is therefore an effective hedging instrument. The fair value of this swap was £22.4m as at 31 March 2024 (2023: £27.7m).

The movement before deferred tax taken to the hedging reserve in equity in respect of this cash flow hedge in the year was a £1.5m gain (2023: £26.9m gain) and the ineffective portion of this hedge of £3.3m was credited to the profit and loss account (2023: £2.1m). 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 cash flow hedges at 31 March 2024 was £80.0m (2023: £80.0m). As at 31 March 2024, the fixed rate of interest on this swap was 7.0575% and the floating rate was SONIA + 1.1193%. The uncompounded SONIA rate as at 31 March 2024 was 5.1911%.

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22. Financial instruments and risk management (continued)

Cross-currency swaps:
The movement before deferred tax taken to the hedging reserve in equity in respect of cross-currency swaps in the year was a £3.4m loss (2023: £14.7m loss). The notional principal amount of the pay leg of the outstanding cross-currency swaps at 31 March 2024 amounted to £115.6m (2023: £115.6m), whilst the receive leg totalled $132m. As at 31 March 2024, the fixed rates of interest paid on these swaps were 6.2435%; 6.2585% and 6.28%. The fixed rates of interest received were 5.63% and 5.73%.

As disclosed further on page 140, on 19 March 2024, the Group entered into $202m of additional cross-currency swaps to fully convert the interest and principal of certain USD denominated private placement notes to GBP. These swaps were effective from April and June 2024.

Categories of financial instruments
The categories of financial assets and liabilities held by the Group were as follows:

	Book value	
	2024 £m	2023 £m
Financial assets held at amortised cost		
Trade debtors[1]	**115.1**	134.6
Short term deposits[1]	**77.5**	245.9
Other debtors	**4.9**	3.5
Cash	**29.5**	43.3
	227.0	427.3
Financial assets at fair value		
Derivative financial instruments – interest rate swaps	**3.1**	4.8
Derivative financial instruments – cross-currency swaps	**1.4**	–
	4.5	4.8
Total financial assets	**231.5**	432.1

(1) The carrying amount of financial assets approximates to their fair value.

	Book value	
	2024 £m	2023 £m
Financial liabilities held at amortised cost		
Trade creditors	**107.4**	81.9
Accrued interest	**50.4**	56.4
Accruals	**107.6**	134.7
Bank facility	**60.0**	–
Borrowings	**4,885.6**	5,039.7
Shareholder loans	**356.3**	356.3
	5,567.3	5,669.0
Financial liabilities at fair value		
Derivative financial instruments – inflation-linked swaps	**88.3**	73.0
Derivative financial instruments – interest rate swaps	**24.6**	27.7
Derivative financial instruments – cross-currency swaps	**19.5**	14.7
	132.4	115.4
Total financial liabilities	**5,699.7**	5,784.4

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 2024 is as follows:

	2024			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– Derivative financial instruments – interest rate swaps	–	3.1	–	3.1
– Derivative financial instruments – cross-currency swaps	–	1.4	–	1.4
	–	4.5	–	4.5
Financial liabilities				
At fair value through profit and loss				
– Derivative financial instruments – inflation-linked swaps	–	88.3	–	88.3
– Derivative financial instruments – interest rate swaps	–	24.6	–	24.6
– Derivative financial instruments – cross-currency swaps	–	19.5	–	19.5
	–	132.4	–	132.4

	2023			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– Derivative financial instruments – interest rate swaps	–	4.8	–	4.8
	–	4.8	–	4.8
Financial liabilities				
At fair value through profit and loss				
– Derivative financial instruments – inflation-linked swaps	–	73.0	–	73.0
– Derivative financial instruments – interest rate swaps	–	27.7	–	27.7
– Derivative financial instruments – cross-currency swaps	–	14.7	–	14.7
	–	115.4	–	115.4

Inflation-linked swaps
In June 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 bond maturing in 2031;
- £130m fixed rate notes maturing in 2033;
- £100m fixed rate notes maturing in 2034; and
- £40m of the £400m fixed rate bond maturing in 2036.

Interest rate swaps
In October 2022, Scotland Gas Networks plc entered into three interest rate swaps totalling £90m that convert some or all 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 June 2022 the mandatory break on Scotland Gas Networks plc's £80m IRS was extended by 10 years to March 2033. As part of this exercise, the swap was novated to another of the 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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22. Financial instruments and risk management (continued)

In February 2023, Scotland Gas Networks plc entered into a single £30m interest rate swap to 're-fix' the interest rate swap hedging the fixed rate notes due in 2032. The new swap's floating receive leg exactly offsets the original swap's floating pay leg, resulting in a net fixed exposure. In May 2023 and August 2023, Scotland Gas Networks plc entered into two £30m interest rate swaps to 're-fix' the interest rate swaps hedging the fixed rate notes issued in October 2022 and due in 2035. The new swap's floating receive leg exactly offsets the original swap's floating pay leg, resulting in a net fixed exposure.

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 March 2024, Southern Gas Networks plc issued a total of $202m in private placement notes, for which the drawings occurred in April and June 2024:

- $101m 5.77% fixed rate notes due 2034;
- $101m 5.87% fixed rate notes due 2036.

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 6.2435% GBP interest payable, due 2033, effective March 2023;
- $25m converted to £22m with fixed 6.2585% GBP interest payable, due 2033, effective March 2023;
- $66m converted to £59m with fixed 6.2800% GBP interest payable, due 2035, effective March 2023;
- $20m converted to £16m with fixed 5.496% GBP interest payable, due 2034, effective June 2024;
- $30m converted to £24m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- $51m converted to £40m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- $20m converted to £16m with fixed 5.625% GBP interest payable, due 2036, effective April 2024;
- $30m converted to £24m with fixed 5.627% GBP interest payable, due 2036, effective April 2024;
- $51m converted to £40m with fixed 5.627% GBP interest payable, due 2036, effective April 2024.

Fair values
The Group's financial instruments recorded at amortised cost are shown below together with their fair values:

	31 March 2024		31 March 2023	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings	**4,885.6**	**5,197.5**	5,039.7	5,240.4
Bank facility	**60.0**	**60.0**	–	–
Shareholder loans	**356.3**	**393.7**	356.3	458.5
	5,301.9	**5,651.2**	5,396.0	5,698.9

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.

23. Provisions for liabilities

	Environmental and demolition £m	Deferred tax £m	Other provisions £m	Total £m
Group				
At 1 April 2023	42.0	1,048.7	48.2	1,138.9
Reassessments during the year	(2.4)	–	27.5	25.1
Utilised during the year	(9.0)	–	(19.5)	(28.5)
Net movement in deferred tax	–	7.7	–	7.7
Amortisation of discount	1.5	–	–	1.5
Other movement	–	–	2.0	2.0
At 31 March 2024	**32.1**	**1,056.4**	**58.2**	**1,146.7**

Environmental and demolition
The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Group has a legal obligation to restore sites at the balance sheet date. The provision has been discounted at the nominal rate of 3.59% (2023: 3.21%) 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 two years in line with anticipated regulatory output 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 3.59% (2023: 3.21%) to the present value of the estimated expenditure to settle the obligation. They are expected to be utilised over the next two years.

Deferred tax
The net movement on the deferred tax provision has arisen mainly as a result of movements in the defined benefit pension asset, offset by other movements in the year of which £16.5m (2023: £26.4m) is recorded as a debit (2023: debit) to the profit and loss account and £8.8m (2023: £24.0m) is recorded as a gain (2023: gain) to the statement of comprehensive income.

Deferred tax recognised in the financial statements is as follows:

	Group		Company	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Accelerated capital allowances	**(1,007.0)**	(994.9)	**–**	–
Deferred tax on cash flow hedges	**5.6**	6.9	**–**	–
Deferred tax on inflation-linked swaps	**(8.2)**	(5.8)	**–**	–
Deferred tax on defined pension benefits	**(54.6)**	(61.5)	**–**	–
Other timing differences	**7.8**	6.6	**–**	–
Total deferred tax liability	**(1,056.4)**	(1,048.7)	**–**	–

Other timing differences relate to elimination of intergroup profits 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	
	2024 £m	2023 £m
At 1 April	**(1,048.7)**	(1,046.3)
Debited to profit and loss account	**(16.5)**	(26.4)
Credited to other comprehensive income	**8.8**	24.0
At 31 March	**(1,056.4)**	(1,048.7)

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23. Provisions for liabilities (continued)

The Group is not expecting a reversal of deferred tax in the next financial year. There is no expiry date on timing differences, unused tax losses or tax credits.

Due to an election made during the previous year, the Group no longer has the ability to utilise deferred tax assets on restricted interest expenditure against existing deferred tax liabilities.

The Group has not recognised deferred tax assets in respect of £235.0m (2023: £235.0m) of unutilised tax losses, £66.9m (2023: £67.0m) of capital losses and £110.8m (2023: £85.3m) 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. 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 11 to the financial statements).

The Company has not recognised deferred tax on £235.0m (2023: £235.0m) of unutilised tax losses.

Other provisions
Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks, including the Operational target provision, detailed in note 2. 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 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next year.

During the prior year, an onerous contract was identified in relation to the H100 Fife project, as a result of cost overruns. The onerous provision of £34.5m (2023: £15.9m) reflects the unavoidable costs under the contract, which are the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The provision represents management's best estimates of the future expenditure necessary to settle the obligations.

The Company has £0.1m (2023: £0.1m) of other provisions for redundancies and legal claims.

24. Deferred income

Group	Connections £m	Replacement £m	Other £m	**Total 2024 £m**	Total 2023 £m
Customer contributions					
Customer contributions brought forward	287.4	197.8	–	485.2	464.3
Customer contributions deferred in the year	13.2	3.8	–	17.0	33.0
Amortisation in year	(8.0)	(3.9)	–	(11.9)	(11.3)
Utilised in the year	–	–	–	–	(0.8)
Total customer contributions	**292.6**	**197.7**	**–**	**490.3**	**485.2**
Government grants					
Government grants brought forward	–	–	5.7	5.7	6.9
Government grants amortisation	–	–	–	–	(0.4)
Government grants utilised in the year	–	–	(5.3)	(5.3)	(0.8)
Total government grants	**–**	**–**	**0.4**	**0.4**	**5.7**
Total deferred income	**292.6**	**197.7**	**0.4**	**490.7**	**490.9**

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

Other deferred income relates to contributions received from fellow gas distribution networks and the Scottish Government towards the funding of the Group's H100 Fife project.

The Company has no deferred income.

25. Share capital

	31 March 2024 Number	**31 March 2024 Value £m**	31 March 2023 Number	31 March 2023 Value £m
Allotted, called up and fully paid shares				
'A' ordinary shares of 42.55p (2023: 42.55p) each	**235,025,002**	**100.0**	235,025,002	100.0
'B' ordinary shares of 42.55p (2023: 42.55p) each	**117,512,501**	**50.0**	117,512,501	50.0
'C' ordinary shares of 42.55p (2023: 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. There are no restrictions on the distribution of the dividends and the repayment of capital.

26. Reconciliation of movements in Group shareholders' funds

	2024 £m	2023 £m
Profit for the financial year	**174.9**	95.2
Dividend paid on equity shares (see note 13)	**(54.5)**	(54.5)
Cash flow hedges (net of deferred tax)	**0.6**	15.7
Actuarial loss on defined benefit pension scheme (net of related deferred tax)	**(26.8)**	(87.8)
Movement in shareholders' funds	**94.2**	(31.4)
Opening shareholders' funds	**850.3**	881.7
Closing shareholders' funds	**944.5**	850.3

27. Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Vehicles **2024 £m**	Vehicles 2023 £m	Land and buildings **2024 £m**	Land and buildings 2023 £m
Within one year	**2.3**	2.2	**2.3**	2.0
Within two to five years	**2.9**	2.8	**8.6**	7.7
After five years	**–**	–	**21.7**	21.5
Total	**5.2**	5.0	**32.6**	31.2

The Company has no operating lease commitments in either year.

28. Commitments and contingencies

Capital commitments
Capital projects contracted for by the Group but not provided in the financial statements amounted to £63.6m at 31 March 2024 (2023: £51.6m). The Company has capital commitments of £nil at 31 March 2024 (2023: £nil).

Contingent liabilities
Galpin's Road Investigation
The Group has been subject to a detailed investigation by the police and Health and Safety Executive regarding the gas explosion at Galpin's Road on 8 August 2022. The Group is continuing to support the investigation. Due to the current stage of the investigation, and the wide range of potential outcomes due to the nature of the sentencing guidelines, it is not possible for management to reliably estimate the financial impact or timing of any future obligation as at 31 March 2024.

Other legal and regulatory claims
The Group is party to various litigation, claims and investigations, including in relation to health and safety matters. These proceedings include claims and litigation matters which, based on the advice of legal counsel, management believes may result in potential liabilities. As of the reporting date, the ultimate outcome of these proceedings is either uncertain or the amount of the obligation cannot yet be reliably estimated. Accordingly, no provision has been recognised in the financial statements for these contingent liabilities.

Notes to the financial statements

for the year ended 31 March 2024

28. Commitments and contingencies (continued)

Management continuously evaluates the progress of legal proceedings and assesses the likelihood of any potential loss, taking into account available information and legal advice. Should circumstances arise where it becomes probable that a loss will be incurred and the amount can be reliably estimated, appropriate provisions will be recognised in the financial statements at that time.

It is possible that the resolution of these proceedings could have a material adverse effect on the financial position, results of operations, or cash flows of the Group.

29. 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 2021. The next triennial valuation as at 31 March 2024 is in progress at the signing date of this report. 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 31 March 2024 using the projected unit method.

The following financial assumptions have been used:

As at 31 March	**2024**	2023	2022	2021
Discount rate	**4.75%**	4.65%	2.75%	2.0%
Retail price inflation	**3.55%**	3.50%	3.75%	3.5%
Consumer price inflation	**3.15%**	3.10%	3.35%	3.1%
Rate of increase of salaries	**3.35%**	3.30%	3.55%	3.3%
Rate of increase of pensions payment	**3.55%**	3.50%	3.75%	3.5%

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:

	2024		2023		2022	
	Male	**Female**	Male	Female	Male	Female
As at 31 March						
Members currently aged 65	**21.8**	**24.3**	22.3	24.7	22.8	24.4
Members currently aged 45	**23.8**	**26.4**	24.3	26.8	24.5	27.0

The approximate effects of movements in the key assumptions on the defined benefit obligation are shown in the table below:

	Sensitivity	Approximate change in DBO £000
Discount rate	– 0.1% p.a.	8.9
	+ 0.1% p.a.	(8.7)
Price inflation (RPI measure) [(1)]	– 0.1% p.a.	(8.2)
	+ 0.1% p.a.	8.3
Life expectancy	– 1 year	(16.0)
	+ 1 year	16.0

(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	**2024 Quoted £m**	**2024 Unquoted £m**	**2024 Total £m**	2023 Quoted £m	2023 Unquoted £m	2023 Total £m
Equities	**–**	**–**	**–**	–	–	–
Government bonds [(1)]	**–**	**380.4**	**380.4**	404.1	–	404.1
Corporate bonds	**146.5**	**73.3**	**219.8**	136.4	103.4	239.8
Property	**–**	**–**	**–**	–	0.1	0.1
Cash	**–**	**23.9**	**23.9**	–	10.8	10.8
Insurance contracts	**–**	**193.5**	**193.5**	–	198.6	198.6
Total market value of assets	**146.5**	**671.1**	**817.6**	540.5	312.9	853.4
Actuarial value of liabilities			**(599.4)**			(607.4)
Surplus in scheme			**218.2**			246.0

(1) Including LDI repurchase agreement liabilities. After considering the Scheme's strong funding level and the advice of the Scheme's investment advisors, in March 2023 the Scheme's trustees agreed to undertake some further de-risking of the investment portfolio and fully sell out of all equity positions. The proceeds of the sale were invested into LDI assets initially, with a longer-term investment strategy agreed by the Trustees over the course of the 2023/24 financial year. The scheme's sole investment in Government Bonds as at 31 March 2024 is in unquoted LDI assets.

The fair value of scheme assets at 31 March 2024 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 contributes to overall hedging levels for the Scheme of 95% for interest rates and 95% for inflation as at 31 March 2024 with respect to the pension scheme liabilities of £0.6bn (valued using the UK Government bond yield curve). These LDI assets, which provide both interest rate and inflation protection, are managed by Insight and include a variety of instruments, including UK Government bonds (gilts), interest rate swaps, inflation swaps, gilt repos and corporate bonds. Further interest rate protection is provided by investment grade credit funds, including those managed by Insight and Goldman Sachs. The Scheme has also implemented pensioner buy-ins which contribute to the total interest rate hedging ratios referred to above.

Movement in fair value of Scheme assets

	2024 £m	2023 £m
At 1 April	**853.4**	1,221.2
Interest income	**39.4**	33.4
Contributions from the Group	**5.2**	7.7
Remeasurement of Scheme assets	**(55.7)**	(369.3)
Benefits paid	**(22.5)**	(38.3)
Administration costs	**(2.2)**	(1.3)
As at 31 March	**817.6**	853.4

Notes to the financial statements

for the year ended 31 March 2024

29. Pension commitments (continued)

Movement in fair value of Scheme liabilities

	2024 £m	2023 £m
At 1 April	**(607.4)**	(858.7)
Current service cost	**(6.8)**	(15.9)
Interest cost	**(27.6)**	(23.3)
Actuarial gains	**19.9**	252.2
Benefits paid	**22.5**	38.3
At 31 March	**(599.4)**	(607.4)

Employer contributions for the year ending 31 March 2024 were 37.3% (2023: 37.3%) of monthly salary roll, before allowing for any salary sacrifice contributions. Deficit contributions were not payable in the year ended 31 March 2024, nor in the year ended 31 March 2023.

The actual loss on plan assets was:

	2024 £m	2023 £m
Loss on plan assets excluding interest income	**(55.7)**	(369.3)
Interest income on plan assets	**39.4**	33.4
Actual loss on plan assets	**(16.3)**	(335.9)

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since adoption total £292.4m (2023: £272.5m).

Analysis of the amounts recognised in the profit and loss account

	2024 £m	2023 £m
Amount charged to net operating costs:		
Current service cost	**(6.8)**	(15.9)
Administration cost	**(2.2)**	(1.3)
Total charge to net operating costs	**(9.0)**	(17.2)
Analysis of the amount credited/(charged) to finance income/expense:		
Interest income on pension scheme assets	**39.4**	33.4
Interest cost on pension scheme liabilities	**(27.6)**	(23.3)
Net finance income	**11.8**	10.1
Net credit/(charge) to the profit and loss account	**2.8**	(7.1)

Analysis of the amount recognised in other comprehensive income

	2024 £m	2023 £m
Actual loss on scheme assets	**(55.7)**	(369.3)
Actuarial gains on scheme liabilities	**19.9**	252.2
Loss recognised in other comprehensive income	**(35.8)**	(117.1)

A High Court legal ruling in June 2023 (Virgin Media Limited v NTL Pension Trustees II Limited) decided that certain rule amendments were invalid if they were not accompanied by the correct actuarial confirmation. While the ruling only applied to the specific pension scheme in question, if it stands it will form part of case law and can therefore be expected to apply across other pension schemes. The ruling is subject to appeal and it may take some time for the outcome of the appeal to be known. The Group has not assessed the extent of any likely impacts from this ruling and considers that there is sufficient uncertainty not to warrant recognition of any potential obligation in respect of this in the consolidated balance sheet at 31 March 2024. Any subsequent developments following this ruling will be monitored by the Group.

b) Defined contribution schemes

The amounts recognised in the profit and loss account are as follows:

	2024 £m	2023 £m
Amount charged in respect of defined contribution schemes	**24.9**	19.9

30. Related parties

The Company is owned by 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 funds managed by Global Infrastructure Partners (GIP).
It is the opinion of the Directors that the Group and Company have no single controlling party.

Transactions with key management personnel

Total compensation of key management personnel in the year amounted to £5.6m (2023: £6.4m). 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	
	2024 £m	2023 £m
Shareholders' loans:		
UK Gas Distribution 2 Limited	**133.6**	133.6
Speyside Bidco Limited	**89.1**	89.1
Apple Debtco Limited	**133.6**	133.6
	356.3	356.3
Interest owed to shareholders:		
UK Gas Distribution 2 Limited	**3.8**	3.8
Speyside Bidco Limited	**2.6**	2.6
Apple Debtco Limited	**3.8**	3.8
	10.2	10.2

The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £30.7m (2023: £30.6m). 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 Group may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to its shareholders.

Transactions with other related parties

In the year the Group also invested £5.5m in a Joint Venture, Murphy Asset Services Limited (2023: £1.5m). The Group also accounted for a share of the loss to the year ended 31 March 2024 of £1.7m (2023: £1.0m).

In the year the Group has disposed 50% of its ownership of Tonbridge Riverside Regeneration Limited. As at the 31 March 2024, the investment is now a joint venture. There were no related party transactions between the Group and the entity in the period since the joint venture has crystallised. The Group has accounted for a share of Tonbridge Riverside Regeneration Limited's loss to the period ended 31 March 2024 of £nil. A shareholder loan balance of £2m is outstanding from Tonbridge Riverside Regeneration Limited to the Scotia Group as at 31 March 2024. The loan is interest free.

The Company contributed £5.2m (2023: £7.7m) to Scotia Gas Networks Pension Scheme during the year.

As at 31 March 2024, the Company has an intercompany loan balance due to SGN Commercial Services Limited amounting to £1.6m (2023: £40.4m due from SGN Commercial Services Limited); £7.3m (2023: £6.9m) due from SGN Place Limited; and £19.5m (2023: £13.1m) due from SGN Lessona Limited.

The loan due to SGN Commercial Services Limited bears interest at the Bank of England Base Rate, all others charge interest at Bank of England Base Rate plus 1% per annum. All loans are repayable on demand. They are presented in Amounts owed by Group undertakings in note 18. Also included in this balance are intercompany trade balances due to the SGN Group subsidiaries of £2.1m (2023: £2.2m).

In accordance with FRS 102, the Company is exempt from disclosing transactions with subsidiaries that are wholly-owned by the Group.

Notes to the financial statements

for the year ended 31 March 2024

31. Analysis of changes in net debt

Analysis of changes in net debt	2023 £m	Cash flow £m	Other non-cash movements £m	**2024 £m**
Net cash and cash equivalents				
Cash at bank	43.3	(13.8)	–	**29.5**
Short term deposits	245.9	(168.4)	–	**77.5**
	289.2	(182.2)	–	**107.0**
Financial liabilities, loans and borrowings				
Debt due within one year (note 20)	(299.8)	239.8	(384.7)	**(444.7)**
Debt due after one year (note 21)	(5,096.2)	(70.7)	309.7	**(4,857.2)**
	(5,396.0)	169.1	(75.0)	**(5,301.9)**
Derivative financial assets	4.8	–	(0.3)	**4.5**
Derivative financial liabilities	(115.4)	–	(17.0)	**(132.4)**
Total	(5,217.4)	(13.1)	(92.3)	**(5,322.8)**

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

Non-cash movements in derivative financial instruments relate to fair value movement and accretion accruals.

32. Subsequent events

In March 2024, the Group raised £375m (equivalent) of private placement notes across Southern Gas Networks plc (£325m equivalent) and Scotland Gas Networks plc (£50m equivalent), with drawdowns across the notes occurring in April and June 2024.

The terms of the notes are as follows:

- $101m 5.77% fixed rate notes due 2034, drawn June 2024, for Southern;
- $101m 5.87% fixed rate notes due 2036, drawn April 2024, for Southern;
- £60m 5.64% fixed rate notes due 2036, drawn April 2024, for Southern;
- £56m 5.74% fixed rate notes due 2039, drawn April 2024, for Southern;
- £50m 5.82% fixed rate notes due 2044, drawn April 2024, for Southern;
- £25m 5.74% fixed rate notes due 2039, drawn June 2024, for Scotland;
- £25m 5.82% fixed rate notes due 2044, drawn April 2024, for Scotland.

The economics of the two USD tranches were converted to GBP using cross-currency swaps with effective dates matching the notes (April and June 2024). Please see note 21 for further details.

In May 2024, £15.3m of interest due on the Group's shareholder loans was paid in kind by increasing the value of the principal by this amount..

The £60m revolving credit facility that was drawn as at 31 March 2024 in Southern Gas Networks plc was repaid in April 2024.

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 uses 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
Cash flow after investing activities	Operating cash flow	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.
Replacement expenditure	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions excluding capital expenditure.	
Regulated Asset Value (RAV)	Tangible and intangible assets	RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Governed by specific licence conditions due to the nature of the business.
Network investment	Tangible and intangible additions	Total of tangible and intangible additions.	Illustrates total capital and replacement expenditure across the networks, being a key performance measure.

Glossary of key terms

AC – Audit Committee
AGM – Annual General Meeting
AI – Artificial Intelligence
APMs – Alternative Performance Measures
BEIS – Department for Business, Energy and Industrial Strategy
CCA – Customer Contract Association
CCUS – Carbon Capture, Usage and Storage
CDP – Carbon Disclosure Project
CEO – Chief Executive Officer
CESC – Commercial Engineering Safety Committee
CFD – Contract for Differences
CFO – Chief Financial Officer
CGUs – Cost Generating Units
CIR – Corporate Interest Restriction
CISBOT – A cast iron pipe-repair robot that seals joints in natural gas pipelines from the inside
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
CPI – Consumer Price Index
CSEG – Customer and Stakeholder Engagement Group
Defra – Department for Environment Food & Rural Affairs
DESNZ – Department for Energy Security and Net Zero
DNO – Distribution Network Operator
EDI – Equality, Diversity and Inclusion
EIB – European Investment Bank
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
ExCo – Executive Committee
FC – Finance Committee
FES – Future Energy Scenarios
FIFO – First-in, First-out
FPNES – Fuel Poor Network Extension Scheme
FRC – Financial Reporting Council
FRS – Fire and Rescue Service
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
GDN – Gas Distribution Network
GHG – Greenhouse Gas
GIP – Global Infrastructure Partners
HMRC – Her Majesty's Revenue and Customs
HS2 – High Speed 2 Railway
HSC– Health & Safety Committee
HSE – Health and Safety Executive
IDNO – Independent Distribution Network Operator
IGT – Independent Gas Transporter
IPCC – International Panel on Climate Change
IT – Information Technology
JV – Joint Venture
KPI – Key Performance Indicator
LDI – Liability Driven Investment
LNG – Liquefied Natural Gas
LTIP – Long-term Incentive Plan
LTS – Local Transmission System
MAM – Meter Asset Manager
MAP – Meter Asset Provider
NAV – New Appointments and Variations
NEA – National Energy Action
NGFS – Network for Greening the Financial System
Ofgem – Office of Gas and Electricity Markets Ofgem is responsible for regulating the gas and electricity markets in the UK to ensure customers' interests are protected
Ofwat – The Water Services Regulation Authority is the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales
OT – Operational Technology
PBIE – Public Benefit Infrastructure Exemption
PE – Polyethylene
PPE – Personal Protective Equipment
PSR – Priority Services Register
R&D – Research and Development
RAAC – Risk, Audit and Assurance Committee
RAV – Regulated Asset Value
RCF – Revolving Credit Facility
RCP – Representative Concentration Pathways
Regulated businesses – Consists of Scotland Gas Networks plc, Southern Gas Networks plc, and SGN Natural Gas Ltd
Repex – Replacement expenditure
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
RIIO-GD3 – The price control period that will run from 1 April 2026 to 31 March 2031
RPI – Retail Price Index
RRP – Regulatory Reporting Pack
RRRCG – Risk & Resilience Review & Challenge Group
RTN – Real Time Network
SBTi – Science Based Targets initiative
SCM – Stakeholder Capitalism Metrics
SDG – Sustainable Development Goal
SECR – Streamlined Energy and Carbon Reporting
SESG – Stakeholder, Environment, Social & Governance Committee
SID – Sufficiently Independent Directors
SIF – Strategic Innovation Fund
SIUs – Scottish Independent Undertakings
SoLR – Supplier of Last Resort
SONIA – Sterling Overnight Index Average
SMF – Safety Management Framework
SMS- Safety Management System
SRM – Supplier Relationship Management
STIP – Short-term Incentive Plan
TCFD – Taskforce on Climate-related Financial Disclosures
The Group – The Company and its subsidiary undertakings (together the Group)
TNI – Total Network Investment
Totex – Total expenditure
UKCP18 – UK Climate Projections 2018
UKRI – UK Research and Innovation
UN – United Nations
UREGNI – Utility Regulator for Northern Ireland
USPP – US Private Placement
VCMA – Vulnerability and Carbon Monoxide Allowance
WEF – World Economic Forum
WHO – World Health Organisation

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If you smell gas or are worried about gas safety you can call the National Gas Emergency Number on **0800 111 999**

Carbon monoxide (CO) can kill. For more information visit **sgn.co.uk/help-and-advice**