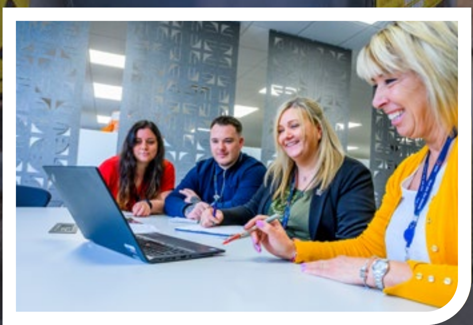
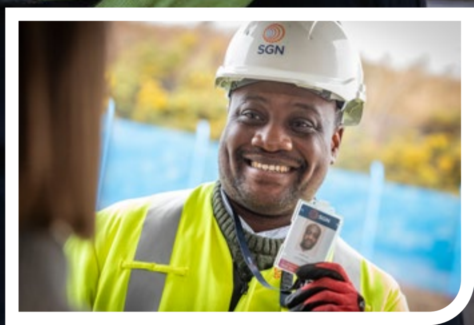
SGN

Annual Report and Financial Statements 2025





2025 performance summary

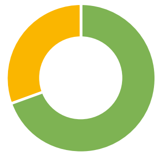
Live document links
This annual report is available as an online PDF only and not printed. We have therefore included live links on the contents list and primary accounting statements (to aid navigation) and elsewhere throughout the document (to signpost related information).

Contents

Network investment[1]

£620.4m

2024 £491.3m 2023 £409.4m



Comprising:
- **Replacement expenditure**
  £431.2m – The amount invested to replace 1,013km of pipeline, primarily upgrading cast-iron pipes to polyethylene (PE), ensuring a safe and reliable network.
- **Capital expenditure**
  £189.2m – Includes fleet upgrades, major engineering projects, continued cyber investments to maintain our operational resilience, and IT projects to support improved business processes and safety.

[1] Defined in Alternative Performance Measures (APMs) on page 143.

Revenue

£1,267.6m

2024 £1,375.3m 2023 £1,288.5m

Network reliability

99.99%

2024 99.99% 2023 99.99%

Operating profit

£317.1m

2024 £520.7m 2023 £439.5m

Mains replaced

1,013km

2024 795km 2023 831km

Regulatory Asset Value (RAV)

£7.68bn

2024 £7.28bn 2023 £6.97bn

Uncontrolled gas emergency response
(minimum standard 97%)

99.46% Scotland

98.03% Southern

Total energy through SGN network

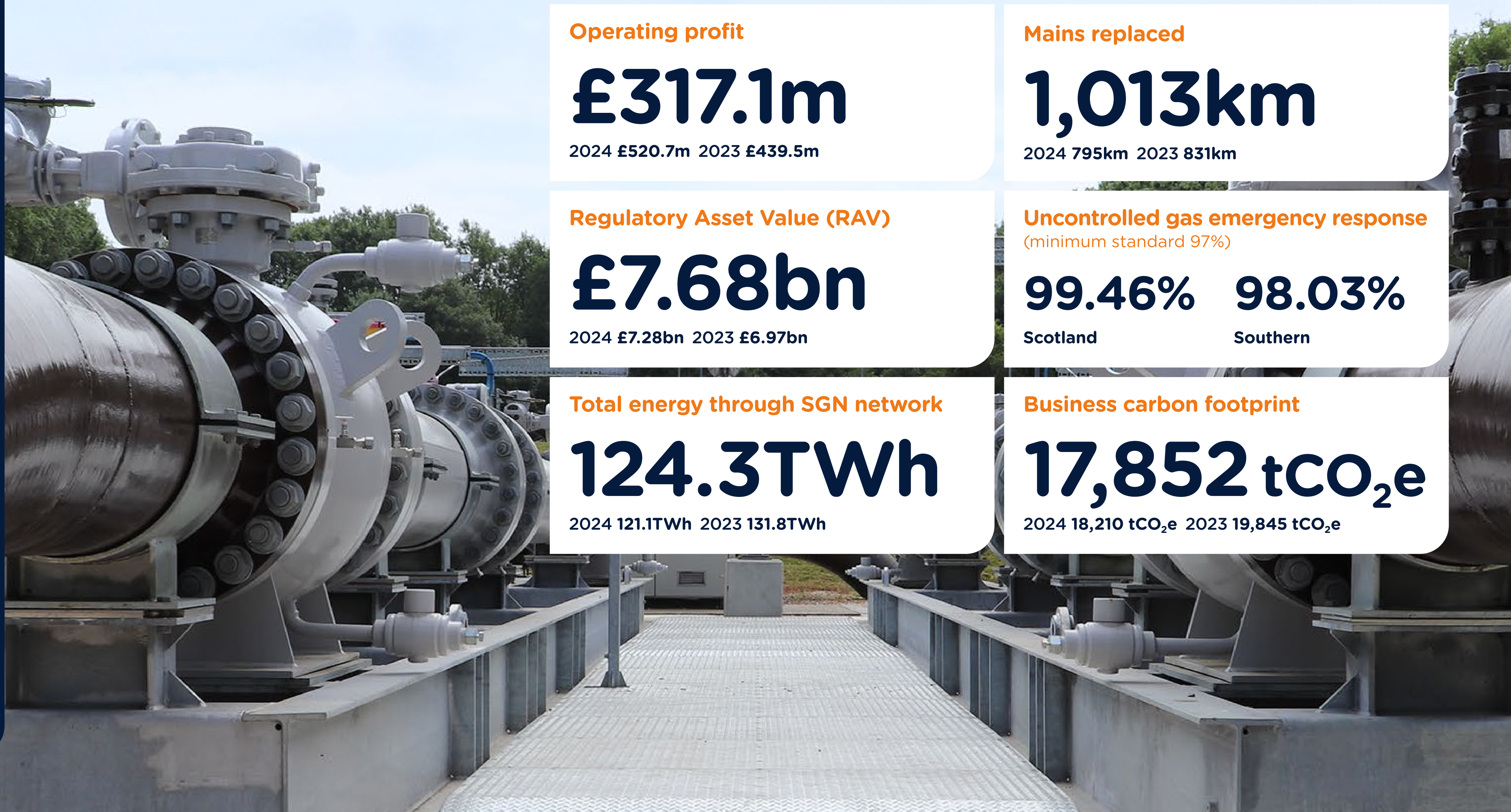
124.3TWh

2024 121.1TWh 2023 131.8TWh

Business carbon footprint

17,852 tCO_2e

2024 18,210 tCO_2e 2023 19,845 tCO_2e



SGN at a glance

Who we are and what we do

Our award-winning engineering organisation designs, builds, operates and maintains energy systems. We efficiently and safely deliver natural and green gas through our network to millions of homes and businesses.

75,347km of pipes

We operate and manage one of the UK's largest gas distribution networks, which provides energy across southern England, Scotland and Northern Ireland.

Over 6m customers

We transport natural gas from the national transmission system (NTS) and green gas from local biogas plants to over six million homes and businesses.

24/7 response

We respond to thousands of reported gas escapes each year, working day and night, making essential repairs to our pipes so everyone stays safe and warm.

4,800 colleagues

Our diverse and talented workforce is committed to providing world-class customer experiences and a seamless delivery of heat and power.

Modern infrastructure

We replace hundreds of kilometres of old metal pipes with modern infrastructure each year, ensuring our network is safe and can support the energy transition long into the future.

Decarbonising homes

We are harnessing green gases and undertaking pioneering projects to ensure that we can help all our customers play their part in reaching our climate goals.

Our purpose

Serving our communities by keeping everyone safe and warm.

Our values

Where we operate

SGN manages three gas network areas across the UK, safely distributing gas to over six million customers.

Scotland
Our network distributes gas to 1.8 million Scottish homes, including in remote areas operated by our SIUs.

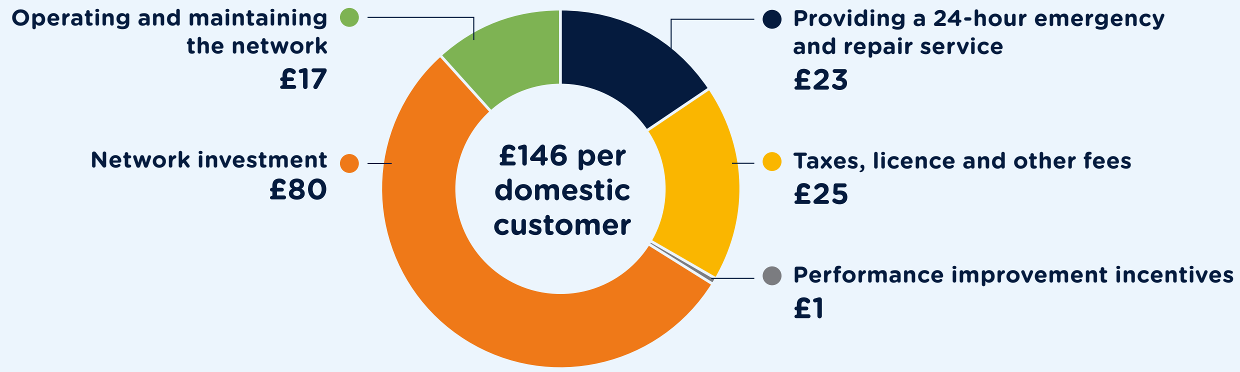
Southern England
We distribute gas to over 4.0 million homes in south and south-east England.

Northern Ireland
Nine towns are connected to our Evolve network in the west of Northern Ireland.

How we deliver value

In 2024/25, an average household paid £146 for our services.

SGN customer bill breakdown 2024/25



Figures used for customer bill analysis represent core network charges and therefore exclude Supplier of Last Resort (SoLR) costs recovered on behalf of the industry and NTS Exit Charges (ECN). They reflect the forecast of revenue used when setting the tariffs and also include the impact of actual/forecast inflation.

Chair's statement

Rebecca Lumlock
Chair

It is a pleasure to welcome you to our annual report which sets out how far SGN has come in recent years under new ownership and leadership.

Over the past year, we have recorded a marked improvement in operational performance, and I'd like to express my gratitude to all our colleagues and contractor partners for ensuring that we achieved our core business targets.

A year of delivery

Last year SGN embarked on a journey of change. We launched our new strategy to enhance performance, with the entire business focused on supporting our operational colleagues to look after our customers.

Those colleagues are out 365 days a year in all weathers, providing an emergency service that keeps our customers safe and warm. Safety is our priority and, over the past year, we have exceeded our key safety obligations for responding to emergency gas escapes.

Our people also operate and maintain 75,347km of largely hidden infrastructure, undertaking constant maintenance and delivering major construction projects to ensure gas continues to flow safely and reliably.

A formidable effort by our many frontline teams and contractor colleagues meant that we delivered a 27.4% year-on-year increase in our activity to replace our old metal mains, which will maintain safety and reliability, and enable our network to support the energy transition.

At the same time, we provided industry-leading and award-winning customer service. Our Scotland network topped the industry customer satisfaction league table for a ninth consecutive year; a remarkable achievement, which shows that high-quality service is embedded in our working practices. I am particularly pleased with the enhanced support that our teams and charity partners provide to customers in vulnerable circumstances.

Supporting the economy

Our networks provide energy to communities across southern England, Scotland and Northern Ireland. This includes nearly six million homes and more than 189,000 industrial and commercial customers – which together are responsible for almost seven million jobs and make a major contribution to our economy each year.

Our modern network also provides vital resilience to the wider energy system and will play an important role in the energy transition.

What we do every day really matters, which is why it was such an honour to be asked by the Board to take on the role of Chair. As a Board member since 2022, with a background in energy and infrastructure, I am particularly excited about the role SGN can play in society today and tomorrow.

I'd like to thank Nick Salmon for his expert stewardship of the Board over recent years. I am delighted that we will continue to draw on his wisdom and experience as a Non-Executive Director and as Chair of the Health & Safety Committee.

My first responsibility was to find a successor for Mark Wild, who was asked by the government to run the high-speed rail network HS2. The Board is grateful to Mark for navigating SGN through some challenging times.

Simon Kilonback has already proved a worthy successor. He has a wealth of experience in safety-critical infrastructure companies. As CFO, he was the architect of SGN's new business strategy. As CEO, he has stabilised the business while accelerating its transformation. That includes restructuring a number of back-office activities into a single Business Services Centre and ensuring that SGN has a senior leadership team of the highest calibre.

Governance – striving for excellence

As Chair, I am focused on ensuring the Board assists the effective management of the Company so that it meets its objectives and serves the interests of all stakeholders and investors. We strive for excellence in all aspects of governance.

As a member of SGN's Health & Safety Committee, I also commend the business's ongoing efforts to enhance the safety culture. Having reached level 3 on the Hudson safety culture maturity scale last year, SGN is seeking to go further, supported by the arrival of a new Chief Safety Officer earlier in the year.

A core priority this year was supporting the delivery of the RIIO-GD3 Business Plan. The Board was closely involved at all stages, providing support and insight to ensure the final plan met the needs of all of our customers.

We have also undertaken site visits and joined events to speak with colleagues and see for ourselves the improvements in operational performance.

Green gases driving net zero

We support industry plans for blending hydrogen with natural gas to incrementally decarbonise the gas in our network, while creating demand for the emerging hydrogen production sector.

In the autumn, the Board had the pleasure of visiting both H100 Fife and our LTS Futures projects, which were under construction. This year, those pioneering projects will both go live, demonstrating the role hydrogen could play in the energy transition. Both are examples of engineering excellence and first-class customer engagement. They will deliver key evidence for future hydrogen policy decisions.

Today, our customers are already benefitting from green gases. In Scotland, one in ten households are heating their homes with biomethane generated from agricultural or organic waste, which is injected into the gas grid. With the right financial framework, we see huge potential for this green gas to play an important role in the energy transition by helping to decarbonise households and businesses in the decades to come.

A fair price control

Gas networks are regulated in fixed price control periods, with RIIO-GD3 commencing in April 2026. Our business plan submitted to Ofgem last December rightly prioritised the efficient operation of a safe and reliable gas network. Recognising that many households are still struggling with the cost of living, we worked hard to limit the impact on bills while committing to support those customers who need it most.

A key consideration for the RIIO-GD3 final determination should be the scale of investment required in the gas network for years to come to maintain safety, integrity and reliability.

A key consideration for the final determination should be the scale of investment required in the gas network for years to come to maintain safety, integrity and reliability. In the wake of events in Portugal, Spain and closer to home at Heathrow, our network must be able to continue to provide resilience in the wider energy system throughout the transition to net zero.

While delivering value for money for customers and stakeholders, the outcome must also maintain confidence amongst investors and lenders.

Looking ahead

It is more important than ever that we benefit from diverse skills and perspectives as we navigate the challenges and opportunities ahead. Having seen how some industries have struggled to balance their workforce, I'd like to commend the strides taken at SGN to harness all the talents. In particular, female colleagues now make up 19% of our workforce, compared with an average of 15% across the gas networks.

Of course, we have more to do and it's important that we continue to meet the high expectations of our customers, stakeholders, regulators and wider society. With an enhanced leadership team, a business plan focused on operational excellence, and the wider transformation that is underway, I'm confident SGN will continue to deliver.

I am looking forward to working with Simon and the Executive team to deliver the Company strategy and continue creating real value for all our stakeholders.

R Lumlock

Rebecca Lumlock
Chair
31 July 2025

Chief Executive Officer's strategic review

Simon Kilonback
Chief Executive Officer

We have made significant progress over the past year. The continued stabilisation and acceleration of performance improvement has put us in a strong position as we prepare to enter the final year of the current price control period and look ahead to the next.

NESO indicate 280TWh of biomethane, hydrogen and natural gas will need to be transported through the gas system in 2050, so it's critical SGN continues to invest in a safe, reliable and resilient network.

We have put in place the building blocks to transform SGN into to a high-performing business that delivers value for all our stakeholders, further strengthened our leadership team and accelerated the delivery of our new strategy. This strategy is working and is transforming our organisation for the future.

Throughout, we have maintained focus on our customers and frontline operations to ensure that we always deliver for the businesses and communities who rely on us to provide safe, secure, resilient and increasingly sustainable energy.

A key role, today and tomorrow

It is a privilege to be asked to take on the role of Chief Executive, with the opportunity to support our people in delivering the strategy that I helped shape as CFO.

Our network has a fundamental role to play supporting the UK's energy transition, today and tomorrow. We keep millions of households and businesses safe and warm while also providing resilience to the wider energy system.

Our modern infrastructure has benefitted from continuous investment over decades and is already carrying green gases which are helping communities and businesses to decarbonise, while providing security and resilience for the UK energy system.

In July 2025, the National Energy System Operator (NESO) updated the Future Energy Scenarios, building on the pathways they set out in 2024. Ofgem suggests network operators adopt the Holistic Transition pathway, which indicates around 280TWh of biomethane, hydrogen and natural gas needs to be transported through the gas system in 2050. It is critical SGN continues to invest in a safe, reliable and resilient network to support gas transportation in the future energy system.

Improving performance

Our strategy to transform our performance and increase the value we deliver for all our stakeholders builds upon our heritage as a world-class engineering organisation. We design, build, operate and maintain the energy systems of today and tomorrow.

We maintain our local gas transmission and distribution systems to deliver 99.99% network availability to meet peak demand, even on the coldest days in winter. Attendance at emergency gas escapes, one of our core responsibilities, is in line with our regulatory Standards of Service – exceeding Ofgem's 97% minimum standard in both our Scotland and our Southern networks.

In both Southern and Scotland, we hit our stretch targets for mains replacement, continuing to future-proof our network by converting a total of 1,013km of iron mains to modern, secure plastic pipework.

We also care deeply about the role we play supporting our communities and some of the most vulnerable people in society, including those in fuel poverty. Working with partners over the past year, we have directly supported 363,233 vulnerable households.

I would like to commend all our colleagues who deliver our world-class customer service, topping the industry customer service league table for the ninth year running. Our Scotland network exceeded a target of 9.2/10, scoring a remarkable 9.45. Across our Southern region, our score also improved, ending the year at an impressive 9.28.

To meet the challenges ahead, we are investing in our people and transforming our operational capability with new talent and experience across the Executive team. We welcomed Tony King as CFO, who joined us with an impressive track record in complex, safety-critical industries.

I want to acknowledge the contribution made by our former Chief Executive, Mark Wild MBE, over the past two years. He navigated the organisation through challenging times and built the foundations for the change now underway. We wish him well leading HS2, a vitally important infrastructure project for Britain.

I'd also like to express my thanks to Rob Gray and Kate Naylor, who have recently left the Company, for their dedication and the improvements they brought to our Communications, Stakeholder and People functions. I'm also grateful to Andrew Quail, our longstanding Chief Information Officer, who is leaving having shaped plans to make SGN a simpler, easier and better place to work.

Transforming SGN

During the past year, our transformation programme moved from planning to delivery.

We are investing in our future with a new national training centre, currently under construction outside Glasgow. We are upgrading our offices and depots while continuing to roll out new tools, Personal Protective Equipment (PPE) and over 550 new vehicles. The early cohort of our new apprenticeship programme is now supporting our frontline operations, and we continue to recruit more apprentices to ensure a pipeline of future talent.

As well as reforms to pension arrangements, we have brought together several of our corporate support service functions in a dedicated Business Services Centre.

Our new operating model in our Southern region, introduced in May 2025, will help improve our effectiveness and we will continue to progress our new field services platform to give our operational colleagues a simpler, unified online experience.

Accelerating the energy transition

We are committed to helping all our customers navigate the energy transition, enabling choice in how they decarbonise.

We already provide the equivalent of over 330,000 homes in our regions with biomethane – a renewable, green gas produced from sewage or agricultural waste. This figure could hit one million by the early 2030s. There are around 130 biomethane plants connected to the UK gas grid today, providing capacity for 11TWh of energy. But there is potential for 120TWh by 2050. That's home-grown green energy that can enhance our energy security while supporting rural communities.

We are also exploring how we can blend up to 20% hydrogen into our network, which will accelerate the decarbonisation of communities and industry while providing guaranteed demand for new hydrogen producers.

Our engineering expertise and leading role in decarbonisation will be underlined this year as our pioneering H100 Fife and LTS Futures projects become operational. They will deliver key evidence for the potential role that hydrogen can play in the UK's energy transition.

An ambitious, deliverable RIIO-GD3 Business Plan

One of my first acts as CEO was to submit our RIIO-GD3 Business Plan, which committed SGN to being a leader in safety, customer service and value for money. It was well received by our Independent Stakeholder Group and we engaged positively with Ofgem.

Our plan clearly sets out the investment required to ensure customer safety while delivering continued resilience and security of supply for our domestic, industrial and commercial customers for decades to come – as the pathway to net zero becomes clearer.

It details the required workstreams to achieve this, while supporting growth in local communities and delivering value for money for customers. We also evidence the significant cost challenges that we experience in our Southern region, which must be accounted for.

The critical nature of the gas network in the UK means it is essential that we can make the investment needed to maintain a safe, secure and reliable network, as clearly set out in our plan.

We are focused on achieving a fair outcome that delivers value for money for our customers and stakeholders. With the transformation underway at SGN, we enter the final year of RIIO-GD2 on an upward trajectory and with momentum which we will carry into RIIO-GD3.

Simon Kilonback
Chief Executive Officer
31 July 2025

Chief Executive Officer's strategic review

Our strategy

As a regulated utility at the heart of the national energy system, we understand that the expectations of our customers, stakeholders and wider society are changing.

That's why SGN is changing too, transforming how we operate to deliver for all our stakeholders now and in the future.

Our long-term plan

1. Renewing our business

Investing in our people while harnessing technology and data to transform how we operate. Driving improved business services and front line delivery to ensure we always provide exceptional service for customers.

2. Providing resilience and energy security

Our modern infrastructure provides resilience and security to the energy system, supporting the clean energy transition, while keeping households and businesses safe and warm.

3. Leading on decarbonisation

Harnessing green gases by undertaking ground-breaking hydrogen projects and accelerating the use of biomethane to give communities and businesses options to decarbonise now and in the future.

Our strategic priorities

We are delivering our long-term plan by focusing on our five strategic priorities:

Safety

We commit to keeping our colleagues and customers safe by preventing incidents and raising concerns.

Customers

We provide leading customer care through outstanding service and support for vulnerable people.

People

We create environments that allow our diverse workforce to demonstrate their talents.

Productivity

We deliver value for money through enhanced ways of working and innovative technologies.

Future

We change the way homes and businesses are heated for a more sustainable tomorrow.

Our transformation is underway

To help our colleagues deliver exceptional service every day we are transforming how we operate, including:

- Opening a new purpose-built **national training centre** in Scotland later this year.
- **Investing** in hundreds of vans each year and providing our people with new PPE, tools and equipment.
- Providing **modern, fit-for-purpose** working environments, for all our staff.
- **Building our pipeline of talent** by creating dozens of apprenticeship and training opportunities every year.
- **Restructuring our Southern network** to improve outcomes for customers and colleagues.
- Developing a new **field service platform** to give our people an efficient, unified online experience.
- Launching our new **Business Services Centre** in Glasgow, a one-stop shop for staff enquiries.

We also transformed our Executive team with key appointments:

- Tony King, Chief Financial Officer
- Mark Whitley, Chief Safety Officer
- David Wilson, Chief Transformation Officer
- Penny Meddes, Chief People Officer
- Devin-Paul O'Brien, Chief of Staff
- Abbie Sampson, Chief Corporate Affairs Officer

Chief Executive Officer's strategic review

Powering Britain today and tomorrow

Providing resilience and energy security

The gas distribution network is the backbone of the UK's energy system. Gas is the country's primary energy source, keeping 23 million homes and businesses running, powering the country's economy and supporting its growth.

The largely invisible pipeline network provides a highly reliable energy supply that can flex to meet rapid changes in demand driven by changes in the weather and other factors. It transports and distributes high quantities of energy reliably, efficiently and cost-effectively; safely stores energy within its pipelines; and supplements electricity generation when demand is high, or renewable energy sources are intermittent.

Around a third of the gas supplied is used by domestic customers to heat their homes. The rest is used by industrial and commercial customers to fuel their systems and processes, many of which rely on the intense heat that only gas can provide.

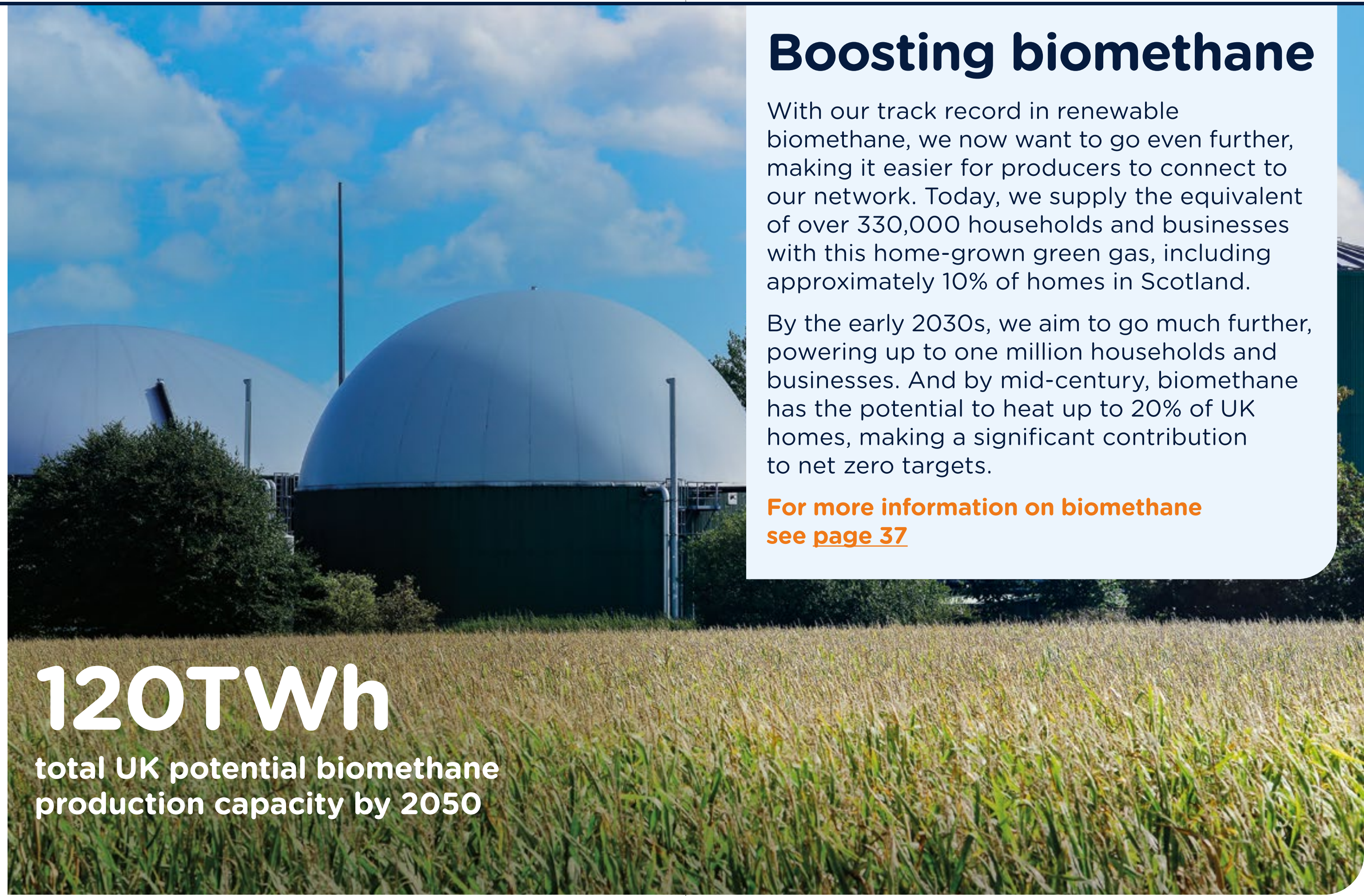
284,000km
of gas network infrastructure across Great Britain

699.9TWh
of energy is delivered every year via the transportation of natural gas

99.99%
reliability rate with customers only experiencing an interruption in supply once every 40 years

37.4%
of the total energy demand – more than 2.8 times the contribution of electricity

5.2 times
more energy travels through the UK's gas network on a cold winter's day than its electricity grid



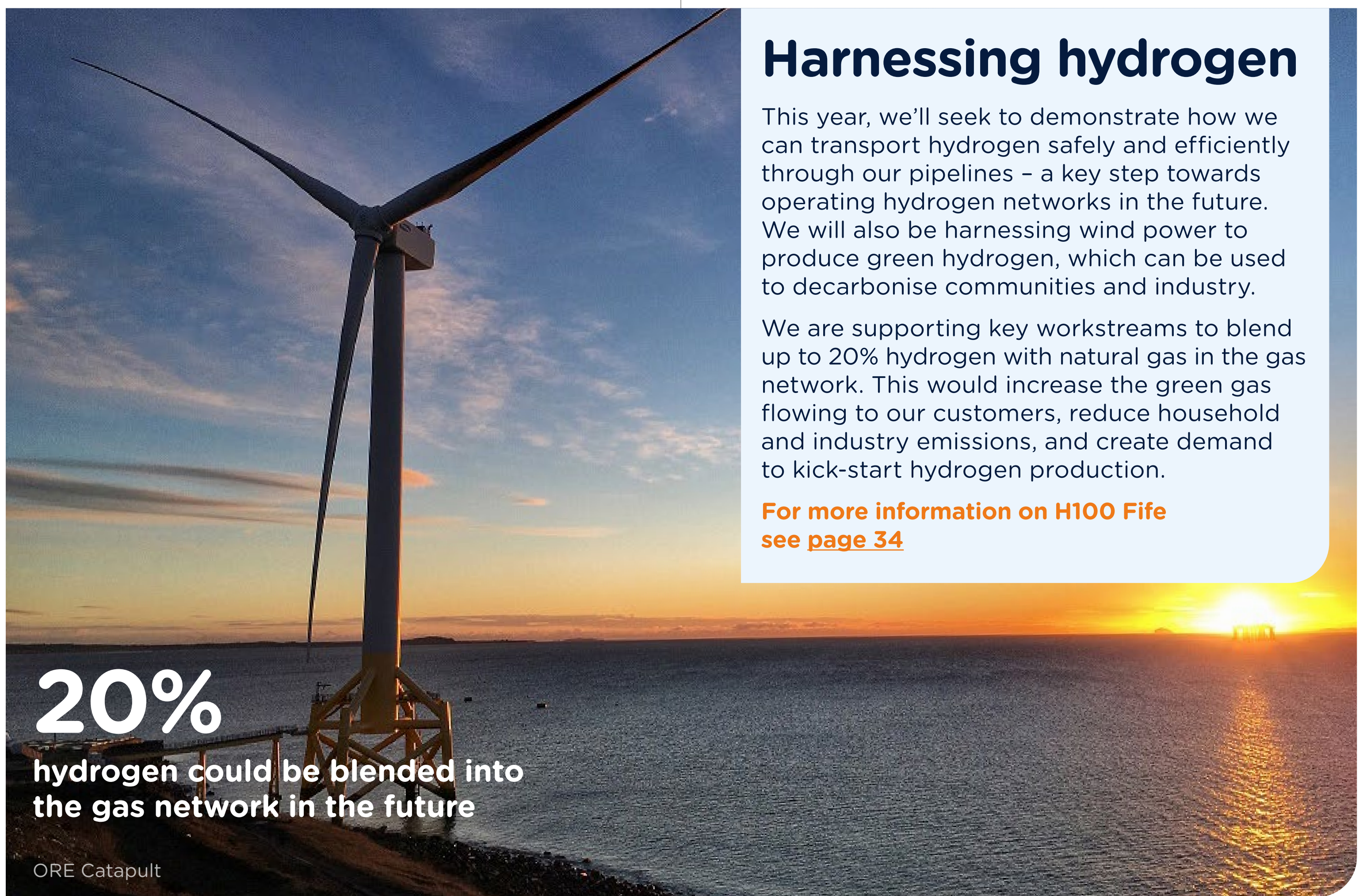
120TWh
total UK potential biomethane production capacity by 2050

Boosting biomethane

With our track record in renewable biomethane, we now want to go even further, making it easier for producers to connect to our network. Today, we supply the equivalent of over 330,000 households and businesses with this home-grown green gas, including approximately 10% of homes in Scotland.

By the early 2030s, we aim to go much further, powering up to one million households and businesses. And by mid-century, biomethane has the potential to heat up to 20% of UK homes, making a significant contribution to net zero targets.

For more information on biomethane see page 37



20%
hydrogen could be blended into the gas network in the future

ORE Catapult

Harnessing hydrogen

This year, we'll seek to demonstrate how we can transport hydrogen safely and efficiently through our pipelines – a key step towards operating hydrogen networks in the future. We will also be harnessing wind power to produce green hydrogen, which can be used to decarbonise communities and industry.

We are supporting key workstreams to blend up to 20% hydrogen with natural gas in the gas network. This would increase the green gas flowing to our customers, reduce household and industry emissions, and create demand to kick-start hydrogen production.

For more information on H100 Fife see page 34

Our plan for a net zero gas network

At SGN, we are committed to using our modern network to contribute to a fair and affordable energy transition. We are constantly seeking to make our network greener to deliver on our vision for a net zero gas grid.

SGN was the first gas distribution company to bring biomethane into the UK's gas system. We created the world's first biomethane hub, enabling producers to inject their green gas into our network. This renewable gas, produced from waste and sustainable agriculture, is identical to natural gas and requires no changes for use in industrial applications or domestic appliances.

We're also leading the way in exploring hydrogen as a green gas to displace fossil-based natural gas in the future. With no carbon emissions, hydrogen could replace natural gas in powering industrial processes, providing back-up power for intermittent renewables and providing heat to buildings. We're exploring its production, distribution and potential use across our network, to help build a resilient, greener future for our communities. Our goal is to deliver a route to a completely net zero gas grid.

By mid-century, biomethane has the potential to heat up to 20% of UK homes, making a significant contribution to net zero targets.

Chief Executive Officer's strategic review

Our pioneering projects

Delivering reliable and affordable energy for our customers of the future

To meet increasing energy demand and give customers clean energy choices, a range of renewable technologies and solutions will be required.

As a world-class engineering organisation at the forefront of innovation in clean energy, we are leading the way in decarbonising the gas network by expanding the use of green renewable gases.

In 2025, two of our industry-leading innovation projects will go live, demonstrating the potential for hydrogen to contribute to net zero. We will show how Britain's existing gas infrastructure can be repurposed to transport hydrogen in the same way that natural gas is transported today. We'll also demonstrate how Scotland's abundant wind resources can be used to produce green hydrogen, which can then be stored and distributed to help decarbonise communities and industry.

Together, we're building a resilient and greener future for the communities we serve.

As a world-class engineering organisation at the forefront of innovation in clean energy, we are leading the way in decarbonising the gas network by expanding the use of green renewable gases.

LTS Futures

The Local Transmission System (LTS) is made up of thousands of kilometres of pipeline, which safely carry natural gas from the National Transmission System (NTS) to local neighbourhoods. Our LTS Futures project aims to demonstrate the compatibility of this same pipeline network to carry hydrogen in the future, as part of a 'first of a kind' trial and demonstration. Working in partnership with INEOS, we will transport hydrogen through a 30km pipeline running from Grangemouth to Granton near Edinburgh.

For more information on LTS Futures see page 34

30km

pipeline repurposed to test compatibility with hydrogen

H100 Fife

Later this year, we will welcome the first customers to our H100 Fife project in Levenmouth, Scotland. With its end-to-end green hydrogen production, storage and distribution system, it will enable several hundred households to cook and heat their homes without carbon emissions. H100 Fife is one of the largest trials of its kind anywhere in the world, and will provide crucial evidence for future policy decisions on how we decarbonise communities and industry.

For more information on H100 Fife see page 34

8.4km

network will carry green hydrogen to hundreds of households

Chief Executive Officer's strategic review

Serving our customers

Households and communities

We take pride in keeping all our customers safe and warm.

This includes providing a 24-hour emergency service, dealing with gas leaks or interruptions to supplies. Our Regulator sets demanding standards of service and, over the past year, we continued to improve our performance across both our networks.

Our people are trained to recognise those who may need extra help. We work hand-in-hand with expert organisations and charities to access the right support for the most vulnerable people.

Our customer teams are always on hand during supply incidents, providing food vouchers or hot plates and ensuring vulnerable customers are prioritised.

Over the past year, our customer service scores were the best we have ever achieved.

SGN was the best performing network, scoring an average of 9.37 out of 10 across both our networks. Our Scotland network topped the table for the ninth year running with a score of 9.45/10.

We're also supporting our domestic customers through the energy transition by modernising our network to deliver the green energy they need today and tomorrow.

9

years in a row our Scotland network has led customer satisfaction scores

766,950

vulnerable customers supported during RIIO-GD2

Industrial and commercial

Our energy system needs to be cleaner and more sustainable while supporting economic growth and meeting customer needs.

A successful transition to net zero is particularly important for the I&C customers in our region that support more than seven million jobs and make a major contribution to the UK economy.

40% of the total energy we deliver is consumed by I&C customers, who are connected to all parts of our network. Where we can find solutions to decarbonise industry, we will also be able to decarbonise whole communities, without significant disruption, because they use the same network.

Many of these businesses need intense heat that only gas can provide. We are working with them to understand their needs and support their efforts to decarbonise by transporting more green gas through our network.

We are also committed to providing biomethane producers with a high-quality service to connect to our network and inject the green gas that will supply our homes, industry, power generation and transport.

40%

of the total energy we deliver is supplied to I&C customers

18

industry sectors engaged to better understand their future energy needs

Chief Executive Officer's strategic review

Engaging with our stakeholders

Stakeholder engagement is a cornerstone of our strategy

Engaging with our stakeholders ensures that we remain responsive and adaptive to their needs and expectations. This engagement informs our decision-making processes, enhances transparency, and fosters trust. By actively listening to and collaborating with our stakeholders, we can make informed decisions that drive sustainable growth and innovation.

We engage with stakeholders at both a day-to-day operational level and at Board level, as part of an extensive programme of engagement with our six key stakeholder groups:

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

To support our RIIO-GD3 Business Plan, we carried out extensive research and engagement with stakeholders. The quality of this work has been recognised externally, with SGN shortlisted for a Market Research Society award.

Our commitment to stakeholder engagement strengthens our relationships and contributes to the overall success and resilience of our Company.

For more information on our engagement activity and policy see page 50

Liaising with our communities
Our colleagues engage with homeowners, businesses, councillors and colleagues to enhance our service and ensure we're setup for sustainable success.

By actively listening to and collaborating with our stakeholders, we can make informed decisions that drive sustainable growth and innovation.

Working with partners to support customers in vulnerable circumstances

One of the main ways we support our customers is by working with community organisations, charities and other partners to get the right support to those who need it most. Over the past four years, we have enhanced this support via a scheme that targets customers in vulnerable situations and raises awareness about the risks of carbon monoxide (CO).

The Vulnerability and Carbon Monoxide Allowance (VCMA) is a collective fund that is distributed to the gas networks, based on the number of customers they serve.

The scheme provides funding for initiatives such as energy advice, safeguarding measures and CO safety campaigns, to help people in vulnerable situations stay safe and warm.

Working collaboratively with our GDN peers, our regulator, our partners and our stakeholders, we have been able to increase this support at a time of significant societal change, including the COVID-19 pandemic and the cost-of-living crisis.

Our engineers, who are embedded in the communities they serve, are trained to recognise those who are struggling and in need of support. Connecting these vulnerable customers with our range of charity partners can often have life-changing results.

Together, over the past year, we have helped 363,233 vulnerable households stay safe, warm and well.

In this fourth year of our vulnerability strategy, we have collectively expanded the scale of support provided to reflect the increasing scale of the challenge we see in society. This has contributed to us supporting a total of 766,950 households since 2021.

We are now working with Ofgem, as part of the price control process, to ensure we can continue to support vulnerable communities in the years ahead.

Our operating environment

Many factors influence the way different gas networks are run across the country. In Scotland and southern England we face a range of challenges – some of which are unique to our networks – that influence how we operate and drive our investment programme.

SGN's operational areas

In Scotland, we serve major cities and some of the most remote parts of the UK. We cover a vast area – the largest of any of the gas networks. Scotland experiences the coldest weather in the UK, with temperatures dropping well below zero, leading to more gas emergencies and disruption to travel time. Intense periods of rain are becoming more common, causing flooding that closes roads and makes it harder to reach customers.

Our Southern network covers south and south-east England, including London, coastal cities, county towns and rural villages. It includes the London boroughs of Lambeth and Southwark, which are among the most densely populated in the country.

Our teams cover long distances along heavily congested roads to reach communities. Responding to emergencies at busy times can be extremely challenging.

Our networks are physically separate and have different geographies, climates and demographics, which influence our operations and costs.

Scotland

- We serve 1.8 million homes and more than 58,000 industrial and commercial customers in major cities and some of the coldest and most remote parts of the UK.
- We operate more than 25,000km of network pipeline and five stand-alone networks known as Scottish Independent Undertakings (SIUs), covering the largest area of any network.
- We employ nearly 800 full-time frontline operatives who travel long distances to serve our customers.
- 1 in 3 customers are in fuel poverty and 451,600 are on our Priority Services Register.

Southern

- We serve over 4.0 million homes and more than 131,000 industrial and commercial customers across southern England, including London, coastal cities, county towns and rural villages.
- We operate more than 50,000km of network pipeline across a highly urbanised and congested area – above and below ground.
- We employ more than 1,450 full-time frontline operatives in the most competitive employment market in the country.
- 1 in 5 customers are in fuel poverty and more than 840,000 are on our Priority Services Register.

Investing in a high-performing modern network

Thanks to past and ongoing investment, our network can play a central role in helping the UK reach net zero and achieve long-term energy security. Over the past 25 years, nearly 80% of our network has been replaced with modern, plastic pipes that are distributing gas more safely and reliably, while helping to reduce emissions. Our network is ready to transport green gases and is already providing biomethane to the equivalent of over 330,000 homes.

It's essential that we continue to invest. However, the cost of operating, maintaining and upgrading our network is increasing, as we work to meet new safety and security requirements, and carry out more complex and time-consuming tasks. At the same time we are facing increasing competition for skilled, technical, frontline operatives in the resource-stretched south of England.

Improving safety and security

Approximately a third of the customers we transport gas to live in multiple occupancy buildings (MOBs). We are proactively responding to new laws and recommendations made following the Grenfell Tower fire, to make these highly populated, high-rise buildings safer.

We are changing working conditions for our frontline operatives, in line with HSE requirements, to reduce the impact that fatigue associated with long working hours may have on their safety and wellbeing. This means we need to recruit more people, to ensure we continue to meet our emergency response targets 24/7.

Enhancing our cyber security is a constant and dynamic challenge. As we share more data, and cyber criminals become more sophisticated, we must remain one-step ahead to protect our customers and our network, and meet the requirements of the Network and Information System (NIS2) Directive.

The current unprecedented levels of infrastructure investment in the UK are most concentrated in the south-east.

Delivering more complex projects

The remaining projects in our cast-iron mains replacement programme are more complex and time-consuming than those we have completed to date. This is because earlier phases of the scheme focused on replacing mains pipes located close to houses, as these posed the greatest risk to customers. The remaining iron mains pipes are located in less accessible places, such as under road crossings, which require more measures to be put in place to enable safe working and to minimise disruption to the public.

This challenge is particularly acute in our Southern region, which is more urbanised and congested. Here, more operational constraints are imposed by local authorities, which increase the time, resource and funding needed to carry out these essential works. We are also seeing more repairs, particularly to larger mains, that are not included in the mandatory mains replacement programme. These mains typically take longer and are more costly to repair.

Recruitment challenges in southern England

The competition for skilled labour in southern England is fierce, impacting our ability to recruit direct employees and secure the supply chain support we need to deliver our investment programme. The current unprecedented levels of infrastructure investment in the UK are most concentrated in the south-east. This includes water companies that are embarking on significant investment programmes, around a third of which will be in our Southern region. That means we will face increasing competition for skills and resources, pushing up wages and supply chain costs.

We continue to take steps to recruit more frontline employees and stimulate the supply chain to attract more contractors. However, this requires us to recognise the higher rates within the region in which we work, which must be reflected in our RIIO-GD3 cost allowance, if we are to have sufficient funds to meet our safety obligations.

Working in Wandsworth
Our work area in Wandsworth as we replaced mains along Garratt Lane.

Highlights of our RIIO-GD3 Business Plan

Every five years, our regulator undertakes a price review, which determines how much we can charge customers for distributing gas.

In December 2024, we submitted our evidence-led and well-balanced RIIO-GD3 Business Plan for the 2026-2031 period to Ofgem. It recognises the scale of essential investment still required in the gas network to maintain safety and provide critical resilience in Great Britain's energy mix throughout the transition to net zero.

This plan includes £4.5bn of expenditure covering our network operating costs and investment. If Ofgem agree to this expenditure, it will require a £28 per year increase on our share of household gas bills, compared to the average bill in RIIO-GD2, but is lower than our RIIO-GD1 bill share.

It's vital we receive the appropriate level of funding to maintain the network's safety and integrity, and to reflect the costs associated with operating in our two regions.

The next regulatory settlement must provide a stable financial framework that continues to attract investment and protects customers from short- and long-term bill rises. Investor confidence must be maintained to help fund the investment needed in the network, which is part of the UK's critical national infrastructure and supplies power to businesses vital to the Government's growth mission.

Ofgem published its draft determination in July 2025. We're responding to the draft determination with evidence to support the commitments set out in our business plan – safety and resilience, high-quality service, the transition to net zero and providing value for money.

Putting customers at the heart of our plans

We listened and responded to our customers' priorities, using insights from more than 11,000 engagements to inform our decisions and shape our plan.

We heard from domestic customers – including many in fuel poverty – as well as small businesses, large industrial users and customers of the future. We also engaged with local, regional and national stakeholders who helped to shape our plan.

Our Independent Stakeholder Group ensured we engaged widely and openly with stakeholders and acted on the input we received. It challenged and scrutinised our business plan development and decision-making process.

Our customer research programme was the most extensive we had ever carried out, and was shortlisted in the Market Research Society Awards 2024.

SGN RIIO-GD3 Business Plan
Final determination will be made by Ofgem in December 2025.

Safety and resilience

Six million homes and businesses rely on us for heat and power. We must continue to transport gas safely, efficiently and reliably by maintaining and investing in our network.

Our proposed investment

- **£1.8bn to replace metallic mains with safer plastic pipes.**
- **£847m to maintain and improve our network so it's safe and reliable.**
- **£248m to improve the safety of high-rise buildings.**
- **£463m to deliver a 24/7 emergency and repair service.**

What we need to deliver

- 5,000km of mains replacement to make the gas network safer. We will replace the remaining small diameter (Tier 1) iron mains in our network to meet the HSE's 2032 deadline. We'll also accelerate replacement of larger (Tier 2 and 3) mains and steel mains that are in poor condition.
- A modernised emergency response and repair service that consistently achieves our emergency response targets for planned and unplanned gas escapes, while protecting our frontline operatives from the impact of fatigue caused by long working hours.
- Safer multiple occupancy buildings by replacing more of the pipes that supply the floors of high-rise tower blocks and refurbishing the valves that control the flow of gas around the buildings.

Our key commitments

- **Maintaining our network so there is no deterioration in its performance or reliability.**
- **Targeting a maximum working day of 12 hours by the end of RIIO-GD3.**

High-quality service

Our customers value the industry-leading service we provide. We'll focus on getting it right first time and support those that need help most, working with our network of trusted partners.

Our proposed investment

- **£130m to maintain our industry-leading customer service and provide targeted help to our most vulnerable customers.**
- **£173m to protect our customers from cyber attacks and energy system disruption.**

What we need to deliver

- Consistently high customer satisfaction scores and continued improvements to our service, particularly in our Southern network, which is more prone to complexity and disruption.
- More support for vulnerable customers to help them use gas safely and efficiently. We will help more people than ever before, targeting those most in need. Our focus will be on helping those living in cold and unsafe homes, continuing to raise awareness of the dangers of carbon monoxide and doing more to identify those in fuel poverty. We'll provide energy efficiency services, energy debt advice, income maximisation and warm spaces.
- State-of-the-art cyber security measures that will help protect our customers' data and our infrastructure as cyber crime becomes more sophisticated.

Our key commitments

- **Both networks will be in the industry top three for customer satisfaction by the end of RIIO-GD3.**
- **We will help at least 650,000 households in the most vulnerable circumstances in RIIO-GD3.**

Net zero transition

We are committed to optimising our modern network and investing in the technology and people needed to deliver clean energy. We will also reduce emissions from our network to help protect the environment.

Our proposed investment

- **£31m to implement new technology to reduce methane leaks from our pipes.**
- **£23m on projects that will increase the amount of biomethane in our network.**

What we need to deliver

- More biomethane will enter our network as we connect more producers. The Wick and Thurso SIUs in northern Scotland will be decarbonised using compressed biomethane, produced at local distilleries.
- Progress opportunities to introduce hydrogen, blended up to 20% with natural gas, into our network. Building on our LTS Futures project, we aim to run a pilot that uses our new hydrogen-ready pipeline to help decarbonise Edinburgh.
- A reduction in methane emissions by using advanced methane-detection technology to provide real-time emissions data – enabling us to carry out targeted repairs. We will also apply remote pressure management and use Artificial Intelligence (AI) and machine learning to automate its operation.

Our key commitments

- **Maximising biomethane injection into our network and reducing connection times for producers – providing the capacity to deliver this green gas to the equivalent of one million homes.**
- **Transporting locally produced biomethane to Wick and Thurso SIUs to replace liquefied natural gas (LNG).**
- **Reducing our operational carbon footprint by 46% compared with our 2019 baseline, with a focus on reducing methane emissions.**

Value for money

Our plan balances affordability with essential investment in our critical infrastructure. We will deliver long-term value for money by optimising our operations, applying innovation, developing a multi-skilled workforce and harnessing data and digitalisation.

Our proposed investment

- **£63m on training and apprenticeships to improve the skills of our current and future frontline employees.**
- **£51m on innovation that enhances our service today and contributes to achieving net zero.**
- **£27m to enhance network performance through digitalisation and improved use of data.**

What we need to deliver

- Digitalisation and the effective use of data will enhance our network and support the transition to net zero. We will invest in safe data-sharing platforms and implement innovations such as AI, digital twins and the Internet of Things to make us more efficient. We'll embed improved cyber security across all our digital platforms and solutions to protect our customers and our network.
- Innovation to improve the safety and sustainability of our service, while maximising the value our customers get from our investment.
- A diverse and modern workforce, by attracting new talent and employing 150 apprentices, trainees and graduates each year who are key to the future of our industry.

Our key commitments

- **Delivering more than £89m of operational savings through core innovation.**
- **Opening our data to facilitate collaborative planning and the development of whole-system solutions.**
- **Recruiting and training more than 50 apprentices each year.**

Chief Operating Officer's report

Creating the Chief Operating Officer (COO) role in 2023/24 marked a significant milestone in our journey to strengthen operational leadership and enhance safety, productivity, customer service, reliability and the strategic oversight of our gas distribution networks.

Darren Elsom
Chief Operating Officer

The rationale was clear – to enhance operational performance by aligning the entire organisation around delivering our core activities.

This was achieved by bringing together our operations, engineering, asset management, customer service and operational support teams under a single, unified leadership structure, establishing a more cohesive and aligned organisation. This integration enables us to deliver greater consistency across the business, ensuring that we have a high-performing frontline operation that supports the communities we serve.

As part of embedding the COO function, I made several key leadership appointments to strengthen our operational capabilities and support the wider SGN transformation programme. These changes are already delivering tangible benefits, helping us modernise our approach and improve service delivery across the board. We have also continued our recruitment drive with more frontline apprentices and the introduction of a graduate programme.

A year of progress

I created a new 'Operational Support' function to bring together strategic planning, scheduling and dispatch, along with fleet management and oversight of our logistics operations, all aimed at supporting our frontline. We realigned key teams to improve performance and customer experience, including integrating residential connections into our customer service function. To support our ongoing transformation, we introduced new delivery structures that are already helping us improve our performance. Alongside these changes, we started a programme of enhancing our regional hubs, to make our facilities fit for purpose and equipped to support a modern, agile workforce.

I am delighted with the progress we have made on our mains replacement programme in Southern, where we have worked closely with our supply chain partners to increase the replacement of iron pipes to just over 700km, a 42% increase on the prior year.

We start 2025/26 ready to transition to a new regional structure in Southern, to better reflect the needs of our customers and our people. This change sees us establish distinct South and South-East networks and increases our operational regions from five to nine, enabling a more localised and responsive service delivery.

Meeting the challenges of today and tomorrow

My review focuses on our key strategic priorities. It highlights the past year's achievements, which are a result of the hard work and support of all our people. I'd like to express my thanks to my team, everyone across the function, and across SGN, for making 2024/25 a success.

Across everything we do, our purpose remains unchanged: to serve our communities by keeping everyone safe and warm. As the UK continues its energy transition, SGN will play a vital role in balancing the shift towards electrification with the ongoing needs of the 23 million customers who remain connected to the gas network.

The achievements of the past year reflect the dedication of our people and the strength of our new operating model. I am proud of the progress we've made and confident in our ability to continue delivering for our customers, our communities and the UK's energy future.

Darren Elsom
Chief Operating Officer
31 July 2025

Delivering a safe and reliable gas supply

Upgrading our network

We invested £431.2m to replace old iron mains and steel pipes, most of which are part of the programme mandated by the Health and Safety Executive for completion by 2032.

We replaced 1,013.2km of our old pipe this year, to ensure gas can be delivered safely for many years to come. This included 868km of Tier 1 mains, which exceeded our annual linear target by 77km.

Our performance this year signals a recovery within RIIO-GD2, after we fell behind our annual targets in the first three years due to the COVID-19 pandemic and the increased competition in our Southern network for skilled contractor resources.

We're constantly evolving our pipe replacement techniques to minimise disruption to communities and lessen our impact on the environment. We set new records for both the longest a robot has travelled (493m), and the most joints identified for remediation (136), from a single excavation, while working in Greenwich in November 2024. We also delivered a trial to recover natural gas and reinsert it back into our network as we replaced our pipes in Mitcham.

Gas emergency response

We responded to 181,764 reported gas escapes in our capacity as the National Gas Emergency Service provider in Scotland and southern England.

We aim to attend all reported uncontrolled gas escapes within the hour, and all controlled gas escapes within two hours. We attended more than 97% of emergencies within these timeframes for uncontrolled and controlled escapes, in both network areas, in line with Standards of Service response times. In May 2025, Ofgem closed its investigations into our failure to attend 97% of reported gas escapes for the reporting period 2022/23, resulting in the Group making a payment to Ofgem's Voluntary Redress Fund of £6.5m.

Storm Eowyn response

Our teams responded to the record-breaking Storm Eowyn, which hit the UK in January 2025.

Widespread red warnings for wind and rain across Scotland and Northern Ireland were forecast a week in advance, giving us time to prepare.

Our Scottish maintenance teams used this window to minimise disruption and damage to the thousands of transmission sites, along with offtakes and biomethane injection points we manage. We temporarily reduced our non-critical workload, while advancing critical jobs, strategically siting temporary generators and organising tree-felling resources.

The storm caused considerable damage and disruption. 113 colleagues worked tirelessly over seven days to respond to sites with no power, 50 sites with heating faults and to clear fallen trees and repair damage at our sites. This included a £44,000 repair to the roof at our PRS site in Leven and £250,000 to replace a damaged boiler system at our Pitcairngreen site.

Routine maintenance

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

One such project involved completing a full inspection of our overhead pipeline spanning the Brighton to Redhill mainline railway. We used a series of rope access techniques to ensure our pipeline had not deteriorated in the past ten years.

Some projects within our portfolio involve replacing district governors to keep the network safe and reliable. The safety of our network is measured through a consistent framework introduced by Ofgem (NARM – Network Asset Risk Metric). We have a target for removing risk over the price control period and we are forecasting to exceed that target. That means our network will be demonstrably safer at the end of RIIO-GD2 than it was at the start of this five-year period.

Gas emergency response

We responded to 181,764 gas escapes this year. We recorded above 97% attendance within Standards of Service response times, across our Scotland and Southern networks.

	Uncontrolled	Controlled
Scotland	99.46%	99.86%
Southern	98.03%	98.55%

Chief Operating Officer’s report

Major projects

This year marked one of our busiest periods for infrastructure upgrades across our Southern and Scotland networks.

In our Southern network, we completed major rebuilds at key sites in Winkfield and Mappowder, replacing ageing equipment to ensure continued safe and reliable gas supply. These upgrades included modernising control systems and improving site resilience, helping maintain pressure levels essential for regional gas distribution.

We also responded swiftly to an unexpected pipeline issue by safely isolating the affected section and rerouting the supply to avoid disruption. In parallel, we made strong progress on a large-scale programme to upgrade our remote monitoring systems, enhancing network visibility and safety. Over 60 sites are included in this initiative in RIIO-GD2, with 15 completed in 2024/25 and final installations on track for completion later this year.

In Scotland, we delivered two significant projects. At Dunkeld, we protected a vulnerable pipeline section by installing a new route and upgrading surrounding infrastructure. Meanwhile, at Pitcairngreen, we laid a new pipeline to replace an older one involving complex terrain, improving reliability and future-proofing supply in the area.

We are also rebuilding the Provan Pressure Reduction Station at the historic Provan gas works in Glasgow. Serving over 150,000 customers, the site is receiving new heating, filtration, and pressure control systems, along with pipeline upgrades. Completion is expected by March 2026.

These projects reflect our commitment to investing in a safer, more efficient gas network that supports long-term energy needs across the UK.

Inspecting our pipeline near Motherwell
Our team welding a key pipe before recommissioning.

Serving over 150,000 customers, our Provan site is receiving new heating, filtration, and pressure control systems, along with pipeline upgrades.

Rebuild at Winkfield
Four regulator streams now sit in kiosks at our rebuilt site.

Critical upgrades in Livingston
Complex excavations were needed to re-route the gas supply as part of a £2m upgrade.

63%
of our network extension work in Falkirk is complete, and this project will offer
1,700
people a route out of fuel poverty

New connections to our network

6,311 domestic properties were connected to our network in 2024/25.

We’re continuing to extend our network in the Falkirk area by laying 27km of new pipes, which will connect neighbouring villages to natural gas for the first time. Approximately 63% of this new infrastructure has been installed so far.

Gas Control Centre

Our Gas Control Centre operates 24/7, forecasts customer gas demand, and responds to any alerts at our high-pressure sites.

Our network facilitates the import of gas from ships delivering LNG to UK terminals, as well as dozens of biomethane sites connected to our pipes.

Gas Control’s LTS planning team monitors current and future gas demand across our network. It engages directly with some of our largest industrial and commercial customers to better understand their future needs. This valuable insight is helping us to provide effective support to these critical businesses through the UK’s energy transition.

This year marked one of our busiest periods for infrastructure upgrades across our Southern and Scotland networks.

We’re committed to distributing gas safely and efficiently, today and tomorrow.

We are delivering our long-term plan by focusing on five strategic priorities:

Safety
We commit to keeping our colleagues and customers safe by preventing incidents and raising concerns.

Customers
We provide leading customer care through outstanding service and support for vulnerable people.

People
We create environments that allow our diverse workforce to demonstrate their talents.

Productivity
We deliver value for money through enhanced ways of working and innovative technologies.

Future
We change the way homes and businesses are heated for a more sustainable tomorrow.

Chief Operating Officer's report

Committing to keeping everyone safe

Resilience
We have a team dedicated to emergency planning, business continuity and incident response. They ensure we're prepared for and can respond to disruption, and we can continue our critical operations by protecting and enabling key processes and resources at all times.

As a Category 2 responder under the Civil Contingencies Act (2004), we liaise regularly with external resilience partners to share information and ensure all parties understand how to protect our most vulnerable customers during emergencies.

Safe days
In 2024/25, we recorded 276 days without lost time to colleagues or contractors, road traffic collisions, cable strikes, or injuries to members of the public. Our performance improved on the 142 days recorded in 2023/24, and we continue to strive for improvement.

Our accident frequency rate was 0.17, while the total recordable injury rate was 0.20. We're targeting a 15% reduction in injuries next year.

We're preparing for new HSE procedures and serious incident reporting requirements being implemented in 2025/26.

Near-miss reporting
Near-miss reporting is an integral part of our safety culture. Along with ensuring the best possible PPE is available to our people, near-miss reporting is a last line of defence for us. Our near-miss reporting mechanism is open, transparent and honest. Sharing and learning from what nearly went wrong can help us to avoid incidents and accidents in the future.

Hazard reports increased by 6% to 18,897 in 2024/25, and there was a 38% drop in near-miss reports from 3,032 to 1,877 over the same period.

PROTECT and our lifesaving rules
Safety excellence is key to a high-performing organisation. Our dedicated PROTECT programme demonstrates our commitment to achieving zero harm at work.

PROTECT and our lifesaving rules help foster safer working environments for everyone. Programme safety briefings are delivered monthly and cover safety topics such as manual handling, fatigue and safe driving. 71.47% of our people received a face-to-face briefing, while 28.53% received a crib-sheet alternative in 2024/25.

477 conversation visits were logged in 2024/25 by leadership group members. We exceeded our 30 conversations per month target in 11 out of 12 months.

We also established a mechanism for zero-harm alerts, which ensure key lessons are shared with colleagues after a safety incident.

Health surveillance
We safeguard employee health through statutory health surveillance, clinical case management, and specialist risk assessments aligned with legal and regulatory frameworks.

Our specialist team supports business continuity and enhances workforce sustainability, safety and organisational resilience. It does this by managing fitness for work, reducing sickness absence, and enabling safe return-to-work pathways. It also leads our mental health and resilience agenda, delivering trauma support, psychological services and proactive wellbeing initiatives.

In 2024/25, our Occupational Health and Wellbeing team held 2,560 clinics and saw 2,105 core staff members. It made 690 referrals.

Damage prevention
Businesses and the public can access our plant protection service online to find out where gas and other utility assets are located.

We received approximately 85,000 enquiries each month this year. We responded to each one and provided accurate drawings and relevant safety information for organisations and individuals to prevent damage to our network.

In addition, we introduced a planning application service. This enables our team to receive an overview of applications and future works, so that vital safety information can be shared with relevant parties quickly.

Energy theft
Consumers tampering with gas pipework and meter installations present a significant safety risk. This risk has been exacerbated and brought into focus by the ongoing cost-of-living crisis affecting the UK.

A recent Retail Energy Code Company study found energy theft costs the UK up to £155m each year. These losses end up being added to customer bills.

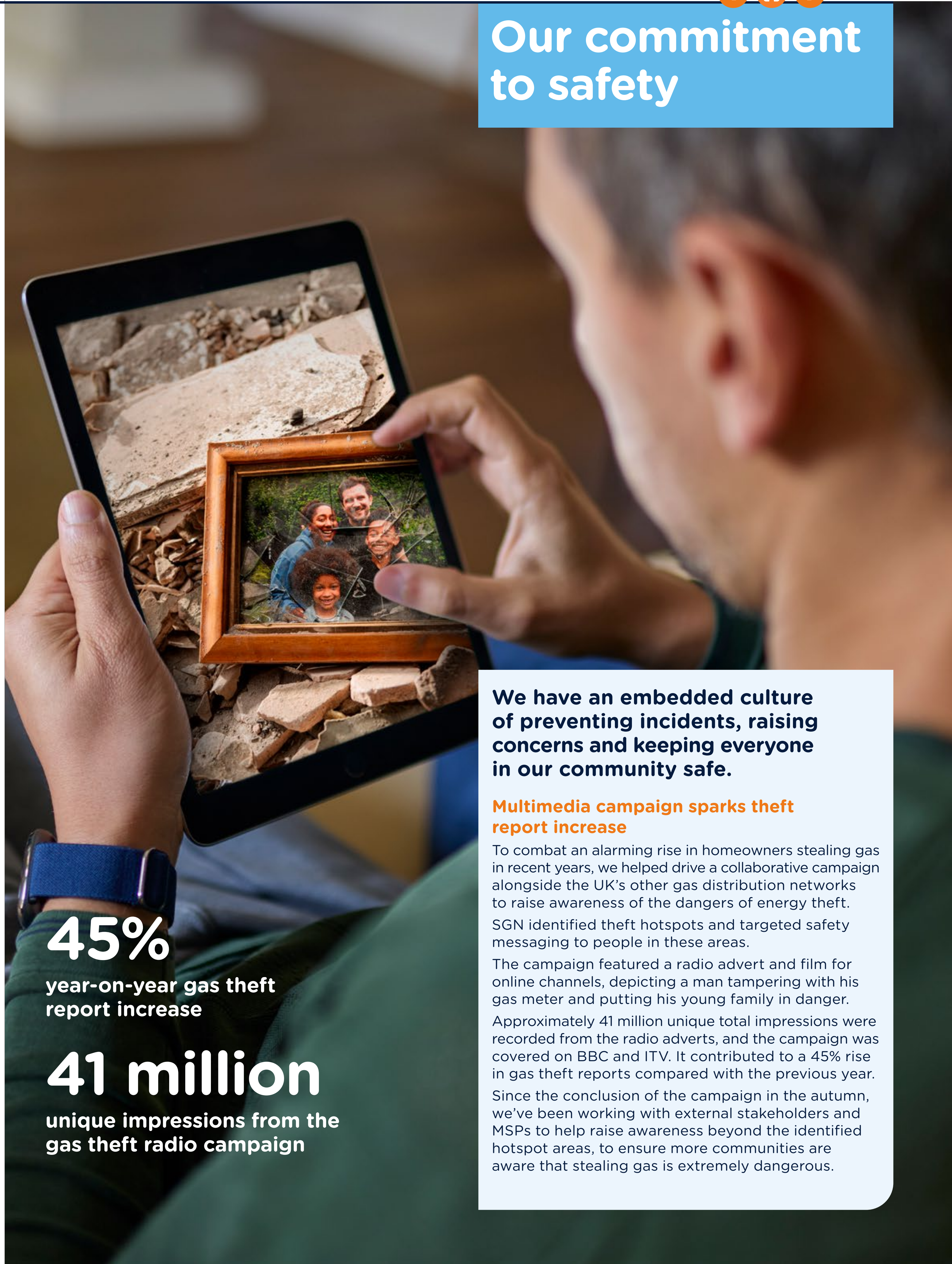
This prompted a collaborative multimedia campaign with the UK's other GDNs to raise awareness of the dangers of stealing gas. Theft hotspots were targeted with safety messaging and the campaign generated a 45% rise in gas theft reports nationally, compared with the previous year.

There were 426 theft of gas cases recorded in our network areas during 2024/25: 199 in Scotland and 227 in southern England.

We added to our bespoke toolkit containing learning tools for our colleagues, and streamlined the theft reporting process for field-based workers.

Cyber security
Cyber security remains a critical enterprise risk, given the evolving threat landscape and the Company's role as an Operator of Essential Services (OES) under the NIS Regulations. As part of the UK's critical national infrastructure, we are a target for global cyber criminals motivated by disruption to essential services, 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 likelihood of an attack and mitigate any potential impacts. This year, we've further strengthened our cyber resilience across governance, operations, risk management and assurance.



Our commitment to safety

45%
year-on-year gas theft report increase

41 million
unique impressions from the gas theft radio campaign

We have an embedded culture of preventing incidents, raising concerns and keeping everyone in our community safe.

Multimedia campaign sparks theft report increase

To combat an alarming rise in homeowners stealing gas in recent years, we helped drive a collaborative campaign alongside the UK's other gas distribution networks to raise awareness of the dangers of energy theft.

SGN identified theft hotspots and targeted safety messaging to people in these areas.

The campaign featured a radio advert and film for online channels, depicting a man tampering with his gas meter and putting his young family in danger.

Approximately 41 million unique total impressions were recorded from the radio adverts, and the campaign was covered on BBC and ITV. It contributed to a 45% rise in gas theft reports compared with the previous year.

Since the conclusion of the campaign in the autumn, we've been working with external stakeholders and MSPs to help raise awareness beyond the identified hotspot areas, to ensure more communities are aware that stealing gas is extremely dangerous.

Chief Operating Officer's report

Leading customer care

Delivering high customer satisfaction
Keeping our six million customers safe and warm is at the heart of everything we do. We aim to always deliver 10/10 service and put our customers first.

To improve customer experience, we've implemented a new online payment process, adjusted our website to simplify navigation and improve accessibility, and made our 10/10 commitment to service visible on our website and via SMS.

For the ninth year in a row, our Scotland network recorded the best customer satisfaction score among all GDNs. Here, we scored an impressive average of 9.45 out of 10, while our Southern network climbed to sixth place with an overall score of 9.28. In total, we received 10,334 10/10 compliments for our people this year.

Resolving complaints quickly
We aim to put things right by the next working day if anyone is unhappy with our service. 84% of complaints handled were resolved by the next working day.

We have introduced an improved notification service to advise customers when an engineer will be arriving to reconnect their gas supply. We established video capture so customers can tell us how we can improve our service, and put things right.

Supporting vulnerable customers
Millions of people are unable to make ends meet, with energy debt and arrears rising 91% in the past two years. To combat this, we helped 363,233 vulnerable households use energy safely, efficiently and affordably in 2024/25, taking the total number of households helped since 2021/22 to 766,950.

Stakeholder and community partner collaboration is essential to understand the challenges faced by our most vulnerable people. We're regularly adapting colleague training, direct customer services provided, and our partnership approaches, so we never walk away from customers in need.

Our commitment to customers was recognised at the 2024 Global Excellence Awards and UK Customer Experience Awards.

Operational teams identify and offer support as part of what they do. They made over 13,000 extra help referrals via our Additional Services platform, resulting in over 20,000 unique services being accessed – almost double last year.

Bringing Careline services into our communities
We expanded our Careline services to deliver tailored support on doorsteps. Our Safe & Warm Community team grew to ten, working alongside planned engineering projects to provide extra help to vulnerable customers and identify people not yet registered.

We've supported unplanned gas outages, and visited customers referred by engineers, to provide additional help, energy crisis vouchers, and tailored referrals to specialist partners. Our team has helped 7,666 customers access 12,836 additional support services this year.

We scored a record
9.51
out of 10 for Priority Services Register (PSR) customer service

Safe & Warm partnership network
Our network of community partners has surpassed 130. These national organisations and regional charities tirelessly support society's most vulnerable people, who live in cold and unsafe homes. Their insight into the challenges our diverse communities face is invaluable, and shapes co-designed programmes to ensure we're helping the most vulnerable households where, when and how they need it.

This year, we introduced new partnerships focused on financial resilience, building expertise in end-of-life care as well as supporting families at risk of homelessness. These initiatives are helping to tackle the challenges associated with the increased cost-of-living and the changes to Winter Fuel Allowance eligibility.

Fuel poor network extension scheme (FPNES)
FPNES requests continue to decline in recent years as a result of net zero and UK Government policy.

516 households were connected to our network through FPNES this year. Most of these connections were linked to our Falkirk-based gas network extension project.

Carbon monoxide (CO) awareness
Alongside industry colleagues, we're raising CO danger awareness and innovating to reduce harm.

Our research uncovered young people are least aware, and most at risk, of CO dangers and poisoning. This year, we've reached almost 20,000 five to 16-year-olds with bespoke in-school education sessions and introduced a new Scout Association CO awareness badge and activities.

Awareness resources are available in 15 languages and we've designed visual guidance if your CO alarm activates.

Our regional fire and rescue service (FRS) partnerships extend our reach into vulnerable households, help to raise CO awareness and provide free, accessible CO alarms.

In 2024/25, we delivered more than 160,000 CO awareness conversations and provided over 60,000 CO alarms to households that didn't have this life-saving device installed.

Our commitment to customers

527,000+
I&C customers connected to UK gas grid

40%
of total UK gas demand comes from I&C properties

We're ensuring our largest customers continue to remain competitive as we support their transition to clean energy.

Exploring impact on non-industrial clusters

Our joint study with Mott MacDonald and WWU investigated the potential economic impact on large, gas-dependent industries situated outside of established industrial clusters, a critical area for the UK's net zero transition.

These dispersed industries are responsible for 50% of all industrial emissions, highlighting the need for effective decarbonisation strategies for all 527,000 industrial and commercial customers currently relying on the gas network are essential for the UK to achieve net zero.

UK competitiveness, jobs, and GDP are at risk, as our report found that non-clustered industries face significant challenges in decarbonising their reliance on gas.

Securing a net zero future and averting decline for industries located away from clusters, who employ millions and contribute significant GVA, critically depends on: clear policy, financial aid, gas grid diversification, and targeted innovation.

Chief Operating Officer's report

Building a diverse and talented workforce

Recruitment
Our recruitment strategy continued to successfully build our frontline teams, while also expanding into our corporate functions to support our business transformation.

In recent years, we have concentrated on stabilising our frontline workforce, having lost a considerable number of employees following the COVID-19 pandemic. We have grown our recruitment team to include experienced recruiters across finance, IT and senior hires.

A key benefit of having a larger, more diverse team is the increased focus we now have on Equality, Diversity and Inclusion (EDI). This has enabled us to better measure and influence EDI outcomes, not only in frontline roles but across corporate functions, ensuring that we are recruiting fairly, inclusively and effectively.

We enhanced our approach by introducing corporate assessment days, which were instrumental in supporting the appointment of new regional managers.

We handled over 26,800 applications to fill vacant roles in 2024/25 and employed 620 new people.

Apprenticeships and the 5% Club
Since launching our collaboration with Fife College in October 2022, we continue to make significant strides in creating a skilled workforce for the future.

12 apprentices recently joined our programme in Scotland, meaning 40 are now enrolled through Fife College. The majority of new apprentices are part of programmes focused on managing gas escapes and repairing our network.

A first in Fife
GMB and manufacturers visited our hydrogen training facility at Fife College.

7%
of our workforce is in an earn-and-learn position, highlighting SGN's strong commitment to expanding apprenticeship, graduate and trainee programmes

Apprentices undertake classroom learning and gain hands-on experience alongside experienced frontline engineers. Upon completion, apprentices are fully qualified to work in communities across Scotland, helping to keep customers safe and warm.

We became a member of the 5% Club, which means that over 5% of our workforce is in an earn-and-learn position. This highlights the Company's commitment to expanding its apprenticeship, graduate and trainee programmes.

New national training centre
We made significant progress in developing our new National Training Centre for Scotland. This state-of-the-art facility in Cambuslang will provide us with a modern, dedicated space for technical, practical, relevant and accessible training.

It will reduce our reliance on external training providers and enhance our in-house technical training ability. It marks a transformative step in our training capabilities, enabling our colleagues to perform safely and to the highest standard.

Construction work started in January 2025, and is scheduled to be complete by autumn 2025.

Hydrogen training facility
Our partnership with Fife College also extends to the UK's first hydrogen training facility, which will be opening in 2025.

Based in Fife College's Levenmouth Campus, it will create a new net zero workforce in Fife by upskilling over 200 existing Gas Safe registered engineers to work with hydrogen gas.

Engineers who receive the training will work on SGN's green hydrogen trial, H100 Fife. This will supply green hydrogen to several hundred homes in Levenmouth through a new hydrogen gas network, built alongside the existing natural gas network.

For more information see
sgn.co.uk/about-us/careers-hub

Our commitment to people

3
new accessible PPE items established

388
people currently enrolled in our apprenticeship, graduate and training programmes

We offer a first-class learning environment where personal growth and career development are valued and our colleagues are empowered to make their mark.

Award-winning apprentice

Our Health & Safety Apprentice Hannah Moseley-Brown has certainly made her mark since joining SGN in October 2022. Hannah made a swift impact to improve PPE for our female colleagues, and won Gas Industry Apprentice of the Year at the Energy & Utility Skills annual awards as a result.

Her hard work has led to the introduction of a maternity range of PPE and she has begun a fit trial for a fire and electric shock-proof hijab. She has also started important conversations about PPE for transgender colleagues and is working to ensure PPE is accessible to all races and genders.

Hannah was awarded a distinction for her external apprenticeship and has also been successfully working through an internal health and safety apprenticeship programme, learning about the engineering and procedures that go into maintaining a gas network.

Speaking after collecting her award at September's ceremony, Hannah said: "The opportunities and support from everyone at SGN have been life-changing. I'm honoured to accept this award on behalf of SGN, as the apprenticeship programme truly deserves all the recognition. I'm also proud of my personal growth in skills and confidence over the past two years."

Chief Operating Officer's report

Transforming our business

Frontline focus
We take immense pride in our customer service and engineering expertise, with a steadfast commitment to achieving zero harm. However, we recognise the need for continuous performance improvements and want to create an enduring and thriving business, with a secure, long-term future.

We have initially focused on increasing the support provided to our frontline colleagues so they can deliver exceptional service every day. This means transforming our business by investing in the people, tools, processes and systems needed to make SGN a better and simpler place to work.

Business Services Centre
Our dedicated Business Services Centre launched on 1 April 2025 to provide a one-stop shop for everyday finance, procurement and people services.

Considerable planning and preparation went in to ensure it could meet the needs of its users. We've united shared, transactional business services, and some areas of specialist HR and financial service expertise – comprising Accounts Payable, Accounts Receivable, Payroll, Procurement Admin and HR Services – into one team.

This shared services model underpinned by the right systems, processes and technology, is an accepted best-practice model, which is used in several organisations of a similar scale, scope and complexity.

Centre colleagues will benefit from greater consistency through standard operating procedures and continuous improvement, on-the-job and training across several tasks, and a clear development path.

Refining our regional boundaries
In May 2025, we restructured our Southern network from five to nine regions, creating a structure that is simpler and better for our customers, communities and teams.

Smaller regions mean streamlined operations, with improved performance, quality and business practices – using industry knowledge to become more commercially driven and offer our customers better value for money.

This will enhance our overall safety standards as workload will be more evenly distributed, reducing travel times between jobs and solve customer problems more quickly.

Smaller regions mean streamlined operations, with improved performance, offering our customers better value for money.

Applying Lean processes to repairing exposed PE services has delivered annual savings of

591 hours
and
£17,097

Reviewing our existing property portfolio
We're making sure we offer our colleagues great working environments, in the right locations. We are better supporting our frontline operations through regional hubs, satellite depots, hardstanding yards and our new training centre.

In late 2024, we strategically acquired a property in Farringdon, central London, to facilitate regular engagement with key stakeholders, including investors, DESNZ and Ofgem. Operational since early 2025, this location hosts our Executive and senior leadership teams, Corporate Affairs, and Change Management functions, and serves as a central hub for colleagues across our networks. The new office underscores our commitment to maintaining close proximity to key stakeholders, ensuring effective and timely communication and collaboration.

Lean programme
We've expanded our successful 2023 London-based pilot to foster a company-wide culture of continuous improvement and optimised performance.

'Lean' has embedded a mindset of eliminating waste and harnessing knowledge. Regional operational teams have identified pain points, bottlenecks and waste from day-to-day activities, and developed improvement initiatives to simplify and streamline processes.

In total, over 400 initiatives have been identified to date, unlocking substantial financial benefits, enhancing work environments, promoting stronger collaboration, and positively impacting customer experience and safety. 'Lean' methodologies have enabled us to refine core repair activities in the field and streamline administrative processes through tactical automation.

For example, we've streamlined our existing repair process for exposed PE services, eliminating the need for additional teams to visit certain jobs and creating a more efficient workflow. This has resulted in a significant decrease in job hours, enhanced customer satisfaction thanks to faster completion, and reduced expenses associated with excavation and reinstatement.

Our commitment to productivity

600mm
width excavations enhance precision and cut waste

£1.3 million
investment in four next-generation vehicles

We strive to deliver value for money as we operate our critical national infrastructure.

Next-gen excavation fleet hits UK roads

Our new third-generation fleet of Core and Vac vehicles exemplifies our ongoing commitment to developing and implementing new technologies to address challenges facing the gas system. SGN helped to pioneer the deployment of this advanced excavation technology, which is revolutionising gas network maintenance by reducing environmental impact, increasing safety and reducing costs for stakeholders.

The four new vehicles, designed in partnership with MTS, have enhanced speed, manoeuvrability and effectiveness, creating a cleaner, faster and safer system.

The Mk3 range builds on the concept of vacuum excavation and enhances precision by allowing keyhole removal and reinstatement. It also recycles excavated materials to dramatically cut waste and achieve a full circular economy benefit.

This fleet makes the cost of reinstatement effectively zero and reduces the time it takes to complete, depending on the road surface. It will also reduce lane rental costs for stakeholders and minimise disruption to road users.

Chief Operating Officer's report

Innovating for a shared future

Future Energy Networks (FEN) membership
The UK's gas network companies are at the core of the energy transition, and we understand that delivering net zero means change for virtually every energy user. To meet this challenge, the gas networks have acknowledged that an evolution is required to deliver activity more clearly within the changing energy landscape.

That's why we, the other GDNs and National Gas, all joined FEN when our memberships with the Energy Networks Association (ENA) expired at the end of 2024.

FEN represents those enacting the changes needed to deliver an equitable and affordable energy transition for all. FEN is leading this change by bringing together expertise from energy industry stakeholders to build the evidence base for decision-making, while we and its other members invest in the infrastructure required to transport low-carbon energy from producers to consumers.

Innovation
We're committed to shaping a sustainable future for gas distribution. Our networks are developed to safely and reliably deliver energy that meets customer needs and advances the UK's net zero energy transition.

Two key strategies govern our innovation strategies: enhancing the performance of our networks through smarter practices, and exploring new technologies to reimagine the future energy sector.

Our approach combines reducing emissions, ensuring the network provides value for money, and developing a fair and inclusive system that meets the needs of vulnerable customers.

Safety is paramount, and we continuously seek innovative tools to protect customers and colleagues.

We've strengthened our relationships with academics, leading institutions, industry leaders and start-ups to remain at the forefront of innovation. Collaborating and connecting with more sector peers helps us tackle the challenges of reducing our environmental footprint and decarbonising energy-intense sectors, such as industrial, commercial and transport.

Hydrogen demo homes launch
First Minister John Swinney opened our H100 Fife demonstration homes.

Customer modelling project
The UK's future energy system will likely comprise a mix of biomethane, hydrogen, heat networks and electrification technologies to deliver decarbonisation.

We developed a fact-based model to evaluate the propensity of our customer base to switch heating technologies, and the factors influencing those decisions. This project provides crucial insights into potential future scenarios, supports our long-term planning and provides key data to guide stakeholders on their decarbonisation journeys.

The project's second phase ended in January 2025. We conducted a deep dive into the transition options for our industrial customers and considered the whole system impacts of the energy transition.

H100 Fife demonstration homes
In February 2025, we launched demonstration homes showcasing hydrogen appliances for zero-carbon heating and cooking as part of our H100 Fife project.

H100 Fife will see hundreds of households switch from natural gas to hydrogen, with the launch marking a major milestone in Scotland's net zero ambitions. Scotland's First Minister John Swinney opened the homes and said H100 Fife is a "shining example" in tackling climate change through innovative solutions.

Located in Levenmouth on Fife's east coast, the demonstration homes showcase how hydrogen can provide heating and cooking experiences very similar to natural gas, but with zero carbon emissions. Residents involved in the trial will have hydrogen boilers and hobs installed in their homes later in 2025.

LTS Futures
We're testing the compatibility of the Local Transmission System (LTS) to transport hydrogen, by repurposing a mothballed 30km pipeline between Grangemouth and Granton.

Our team are working to provide evidence that this pipeline can carry 100% hydrogen, instead of natural gas. This project forms part of the UK's National Hydrogen Research Programme, which aims to deliver a decarbonised solution for customers. It will culminate in a first-of-a-kind live trial scheduled for summer 2025.

The live trial pipeline will be supplied by a newly constructed 1.2km tie-in hydrogen supply pipeline connected to a current hydrogen producer, INEOS. Construction of this new asset is now complete.

The next steps for the project include completing construction at our sites, ongoing training of our operatives, and all required documentation, including management procedures and work instructions for completion of the trial.

For more information see sgn.co.uk/sites/default/files/media-entities/documents/2025-07/innovationannualreport2025.pdf

Our commitment to the future

£1 billion
lost annually due to insufficient UK wind power transmission capacity

20kg
of hydrogen will be stored and released in the demo each day

We're committed to delivering decarbonisation without sacrificing what people need and want from their energy supply: resilience, reliability and minimal disruption.

Green light for hydrogen storage project

We're exploring ways to harness curtailed wind energy to produce green hydrogen, which can be stored and released into the gas network at periods of high demand.

Our innovative HyScale project is investigating opportunities to use Liquid Organic Hydrogen Carriers (LOHCs) to store hydrogen to help meet the challenge of balancing supply with demand.

The hydrogen can be distributed through our pipelines at times when renewables are not generating electricity, the power grids are at capacity, or when customers can't access energy where they need it.

During the alpha stage of the project carried out this year, we determined the financial and environmental benefits of using LOHCs, we defined the technical opportunities of coupling a production plant with LOHC technology, and produced plans for a demonstration project.

Non-regulated business activities

Within the SGN Group, we operate several non-regulated business activities. We maintain strict business separation principles between our regulated and non-regulated activities. This section of the annual report focuses on our non-regulated commercial ventures.

Commercial services and metering

During 2024/25, we secured additional opportunities on our maintenance and emergency-response contracts across the UK. We signed a ten-year contract to maintain Mutual Energy's 250km of gas network in Northern Ireland and Scotland.

We continue to support the first-ever biomethane connection to the Northern Irish gas network at Granville Eco Park in County Tyrone. We're working to provide biomethane connection services to all gas network operators in Northern Ireland.

We're also preparing metering services for the domestic customers that will be connected to the hydrogen network in Fife, Scotland. These UK-first services are expected to commence in 2025.

Green Gas Solutions

The UK's wastewater sector has the potential to deliver 2.6TWh of energy through sewage derived biomethane by 2050. Green gas solutions continued to target the wastewater market to increase the amount of renewable gas flowing through the UK gas network.

Gas-to-grid construction at Yorkshire Water's Sheffield and Leeds sites progressed this year: pipeline construction commenced at its Blackburn Meadows site in December, while full planning permission was secured and mobilisation occurred at its Knostrop site. The 15-year partnership with Yorkshire Water will see 125GWh of biomethane produced annually, and more than 10,000 homes heated with renewable gas.

Green Gas Solutions (GGS) continue to operate biomethane infrastructure at Thames Water's sites in north and west London, as well as nine further sites across the UK. GGS won the Health, Safety and Wellbeing award at the World Biogas Awards in recognition of the safety arrangements on the Thames Water Mogden project. One site left the GGS portfolio – a historic contract relating to an onshore gas well has been removed as the pressure in the well has dropped below viable levels. This leaves the remainder of the GGS sites focused on renewable biomethane.

Capitalising commercially
Our non-regulated businesses liaise with stakeholders, manage our gas-to-grid biomethane sites and signed a maintenance contract.

Heat networks in Wandsworth

SGN Commercial Services (SGNCS) is exploring two heat network projects on the former Wandsworth gas holder site, set for a 620-home redevelopment.

The first is a Strategic Innovation Fund project in partnership with UK Power Networks to explore the use of waste transformer heat to supply the development. The second is a collaboration with National Grid Electricity Transmission to use waste heat produced by high-voltage electricity cables across London.

mua

As one of Britain's leading independent multi-utility network operators, Murphy Asset Services Limited (mua) delivers energy and water to customers nationwide. It is a 50:50 joint venture between SGN and Murphy Group.

The business secured a £100m debt funding package from Santander UK, Lloyds and NatWest in August 2024, following substantial and sustainable growth over the past five years.

The new funding is driving further growth, including more EHV and HV connections to data centres, battery energy storage systems (BESS) and electric vehicle charging infrastructure.

After expanding into the water sector, mua began supplying water and wastewater services to its first housing development in December 2024.

FYLD

FYLD is an AI-powered field-force safety and productivity app that helps global infrastructure businesses make smarter and faster decisions, improving productivity, safety, sustainability and revenue.

The app, which we co-developed, secured $10m in financing from NatWest during 2024/25. The funding will accelerate platform growth opportunities and expansion.

FYLD continues to deliver an Ofgem and UKRI-funded, cross-network innovation project to develop and deploy a predictive, machine-learning model to anticipate high-risk events before they occur.

10,000

homes will soon be heated with renewable gas thanks to our Yorkshire Water partnership

Financial review

Tony King
Chief Financial Officer

In a pivotal year for SGN, we have invested significantly in our networks (26% increase year-on-year), advanced our decarbonisation strategy and delivered a solid financial performance as we enter the final year of RIIO-GD2 and prepare for RIIO-GD3.

SGN is committed to decarbonising energy while maintaining network reliability.

I started as CFO at SGN in December 2024, taking on the role at a critical period as we navigate the latter stages of the RIIO-GD2 regulatory framework and prepare for RIIO-GD3, working closely with Simon Kilonback our newly appointed CEO and the Executive team. My priorities have been to understand the major financial drivers of the SGN business, looking to optimise operational efficiency and ensure we deliver value to customers and stakeholders through the remainder of the RIIO-GD2 period. Financial resilience is a key principle for our business, which with a fair RIIO-GD3 settlement, will allow us to deliver for our customers, continue to finance our business efficiently and make sustainable returns for our shareholders.

In December 2024, we submitted our RIIO-GD3 Business Plan for our Southern and Scotland gas networks. This carefully constructed plan aligns with customer and stakeholder expectations and supports our decarbonisation goals. As we await Ofgem's final determination, anticipated towards the end of 2025, and as discussed within our business plan, we are positioning the Group robustly for the upcoming price control period.

This section reviews our financial performance for the year ended 31 March 2025, highlighting key operational and strategic developments as we conclude RIIO-GD2 and prepare for RIIO-GD3.

Operating financial performance

For the year ended 31 March 2025, the Group generated revenues of £1,267.6m (2024: £1,375.3m), operating profits of £317.1m (2024: £520.7m), and invested £620.4m (2024: £491.3m) in network assets. These results reflect our commitment to operational control, regulatory compliance, and the safe delivery of energy to our customers.

Regulated charges for gas transportation, governed by Ofgem and the Utility Regulator (NI), accounted for 95.6% (2024: 94.7%) of revenue. The year-on-year allowed revenue decline primarily stems from true-up adjustments for prior-year cost over-recoveries, notably shrinkage and NTS costs, and delayed tax relief implementation for capital expenditure.

Non-regulatory revenue amounted to £55.7m (2024: £38.8m), this increase was largely driven by property disposals of redundant brownfield sites by the SGN Place Group, including sales of land in Croydon and Rotherhithe.

Operating profit decreased by £203.6m compared to the prior year, primarily due to the reduction in regulated revenue as outlined above. This was further impacted by an increase in pass-through costs of £31.6m, accounting adjustments arising from the closure of the defined benefit pension scheme to future accruals (see page 42 for further details), and costs incurred in relation to the Group's transformation programme.

To enhance performance, we launched a multi-year transformation programme to restructure operations, ensuring a safe, reliable network and sustained customer service excellence. During the year the Group recognised £11.0m of exceptional costs in the profit and loss account in relation to this programme (see note 6 to the financial statements).

During the year, the Group has continued to support Ofgem's investigation into potential breaches of competition law. The Group has recorded £5.0m (2024: £nil) of costs in the profit and loss account in relation to this investigation, which are disclosed as exceptional items. See Note 6 to the financial statements for further information.

Investment in the safety and reliability of our networks

Our balance sheet is underpinned by significant tangible fixed assets, financed through borrowings to support our capital investment programme. In 2025, we invested £620.4m (2024: £491.3m), contributing to a projected £2.2bn over the RIIO-GD2 period, reinforcing our commitment to network safety and value for money.

Replacement expenditure, primarily replacing cast-iron pipes with PE, totalled £431.2m (2024: £312.5m). This increase reflects a rise in pipe replacement from 795km in 2024 to 1,013km in 2025, alongside higher contractor costs driven by constrained labour in the south of England supply chain. Other capital expenditure of £189.2m (2024: £178.8m) included fleet upgrades, continued cyber investments to maintain our operational resilience and IT projects to support our continued drive to improve performance, as well as other planned investments during RIIO-GD2.

The total Regulatory Asset Value (RAV) for Southern Gas Networks plc and Scotland Gas Networks plc (GB Network) rose by 5.5% during the year from £7.28bn to £7.68bn. The RAV represents amounts invested in the network and inflation indexation. In Northern Ireland the RAV grew to £44.9m as at the regulatory year end of 31 December 2024 (2023: £40.2m).

The future of energy

SGN is committed to decarbonising energy while maintaining network reliability. We understand that there is no singular solution to decarbonisation, and so our investments span multiple initiatives to support the UK's net zero ambitions.

Our pioneering H100 Fife hydrogen project, connecting several hundred homes, achieved key milestones, including completing construction of the hydrogen gas network in December 2024 and opening Scotland's first hydrogen demonstration homes in February 2025. This project will be a significant step in informing the viability of hydrogen for domestic heating in the UK.

The LTS Futures project is repurposing a high-pressure pipeline to transport hydrogen, providing a blueprint for decarbonising Great Britain's 11,600km LTS. Major works were completed in 2025, including hydrogen supply connections and construction at Granton, to pave the way for live trials in summer 2025.

We continue to progress our biomethane projects, supplying sustainable heating to an increasing number of customers. Collaborations with water companies and plans to expand biomethane blending in Northern Ireland underscore our commitment to green gas.

Turnover

2025 **£1,267.6m**

2024 **£1,375.3m**

2023 **£1,288.5m**

Operating profit

2025 **£317.1m**

2024 **£520.7m**

2023 **£439.5m**

Financial review

Replacement expenditure[1]

2025 **£431.2m**

2024 **£312.5m**

2023 **£256.7m**

Capital expenditure[1]

2025 **£189.2m**

2024 **£178.8m**

2023 **£152.7m**

Regulatory asset value[1]

2025 **£7.68bn**

2024 **£7.28bn**

2023 **£6.97bn**

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 SGN MidCo group level. At 31 March 2025, 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:

- SGN MidCo group: £5.41bn (2024: £5.11bn)
- Southern: £3.46bn (2024: £3.23bn)
- Scotland: £1.48bn (2024: £1.42bn)

With RAV at:

- SGN MidCo group: £7.68bn (2024: £7.28bn)
- Southern: £5.27bn (2024: £4.96bn)
- Scotland: £2.41bn (2024: £2.28bn)

As such, the net debt to RAV ratios were:

- SGN MidCo group: 70.4% (2024: 70.2%)
- Southern: 65.6% (2024: 65.2%)
- Scotland: 61.6% (2024: 62.2%)

Covenants

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

- Net debt to RAV ratio (95% for SGN MidCo group, Southern and Scotland)
- Interest cover ratio (1.5:1.0 for SGN 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 2026).

Debt issuance

The Group's financing strategy is to raise additional capital to fund network investment when the right opportunities present.

During the financial year Southern had a £350m fixed rate public bond that matured in February 2025 and Scotland repaid the £35m EIB loan which is the final EIB debt outstanding.

Southern issued an inaugural Eurobond in October 2024 which was swapped out to £419m immediately providing liquidity to refinance the maturing bond in February 2025. Southern entered into new Private Placements with £50m drawn in December 2024 and £99.4m drawn in March 2025.

Scotland entered into a £20m Private Placement that was drawn in December 2024.

In the coming financial year, Southern has an RPI Bond of £476.7m maturing in October 2025 and there are no other facilities maturing until March 2027. SGN MidCo Ltd has no scheduled debt maturities in the coming year. Treasury will look for opportunities to issue on the Private Placement market if the right tenure and pricing can be negotiated.

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

1 Defined in Alternative Performance Measures (APMs) on page 143.

The debt service reserve liquidity facility held at SGN MidCo Ltd for £25m remained undrawn throughout the year and was extended for a further year to 9 January 2026.

In April 2025, Scotland and Southern entered into an uncommitted Private Placement Shelf Facility with a limit of £150m each and is available for three years.

In May 2025, Southern issued a Sterling public bond for £350m, which will add liquidity to refinance the RPI Bond which matures in October 2025.

Liquidity

As at 31 March 2025, 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 £413.4m (2024: £106.9m) across the Group (of which £28.4m (2024: £19.7m) was restricted cash); and committed revolving credit facilities totalled £600m, which was undrawn as at 31 March 2025 (2024: £60m drawn).

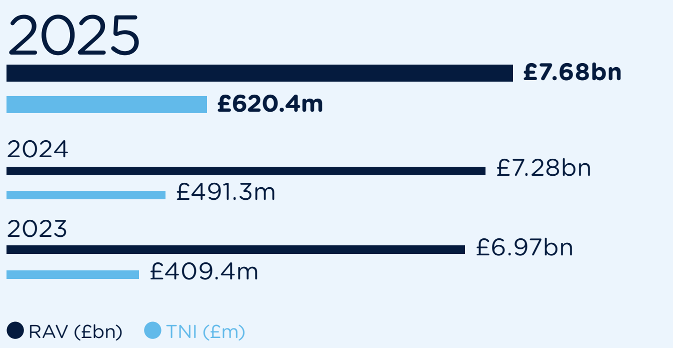
The revolving credit facility is split between Southern and Scotland which have £450m and £150m respectively, where the borrowers are able to allocate the total commitments of £600m between themselves at their discretion. At the year end, Southern was undrawn on the RCF (2024: £60m), and Scotland was undrawn (2024: 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 £216.2m during the financial year (2024: £259.7m) excluding interest on shareholder loans, interest relating to the defined benefit pension scheme and movement in the fair value of derivatives. This primarily comprised interest on external financing arrangements:

- Scotland Gas Networks plc – net interest payable £63.2m (2024: £68.6m)
- Southern Gas Networks plc – net interest payable £138.1m (2024: £174.6m)
- SGN MidCo Ltd – net interest payable £15.8m (2024: £17.5m)

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



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 4.6% (2024: 5.5%). The Group's effective cash cost of interest (excluding accretion on inflation-linked liabilities) was 2.5% (2024: 3.5%).

The decrease in effective net interest rate noted above is largely driven by lower inflation over the 2024/25 financial year compared to the prior year. The reduction in the effective cash cost of interest is largely due to shareholder loan interest being capitalised and not paid for 2025.

Risk management

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

- In April 2024, Southern entered into $101m (£79.5m 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.
- In June 2024, Southern entered into a $101m (£79.5m equivalent) of cross-currency swaps to fully convert the US Dollar principal and interest payments into Pound Sterling on Southern's June 2024 debt issuance.
- In October 2024, Southern entered into another EUR500m (£419m equivalent) of cross-currency swaps to fully convert the Euro principal and interest payments into Pound Sterling on Southern's October 2024 bond issuance.
- In February 2025, Southern entered into a JPY 9.35bn (£49.4m equivalent) of cross-currency swaps to fully convert the JPY principal and interest payments into Pound Sterling on Southern's March 2025 debt issuance.

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

As at 31 March 2025, the gross debt exposure to fixed interest rates (post derivatives) within the Group was:

- Group (consolidated): 66.8% (including shareholder loans) (2024: 63.5%)
- SGN MidCo group (consolidated): 64.6% (2024: 61.7%)
- Scotland Gas Networks plc: 65.2% (2024: 65.2%)
- Southern Gas Networks plc: 64.6% (2024: 58.7%)

As at 31 March 2025 the gross debt exposure to inflation (post derivatives) within the Group was:

- Group (consolidated): 33.2% (including shareholder loans) (2024: 35.7%)
- SGN MidCo group (consolidated): 35.4% (2024: 38.7%)
- Scotland Gas Networks plc: 34.8% (2024: 34.8%)
- Southern Gas Networks plc: 35.4% (2024: 39.9%)

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.

There is no floating rate exposure to interest rates in 2025.

For a more detailed explanation of the Group's approach to risk management see note 22 to the financial statements.

Financial review

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 2025:

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

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 capitalised scheduled shareholder loan interest totalling £32.1m (2024: £30.6m paid). No dividends were declared in the year ended 31 March 2025 (2024: £54.5m). At 31 March 2025 Scotia Gas Networks Ltd had £1,459.7m (2024: £1,543.0m) in available distributable reserves.

Taxation
We have recognised a total tax charge to the statement of profit and loss for the year of £35.9m (2024: £79.9m). Our effective rate of corporation tax for the year is 37.7% (2024: 31%). 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.

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 2025 amounted to £323.7m (2024: £394.0m); £222.2m direct taxes (2024: £233.1m) and £101.5m indirect taxes (2024: £160.9m).

Pension commitments
We operate pension arrangements on behalf of our employees. A proportion of our employees are members of a defined benefit pension scheme (DB 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.

On 31 March 2025, the Company closed its DB scheme to future accruals. As a result, active members no longer accrue additional pension benefits based on service or salary increases from this date. Benefits earned up to 31 March 2025 remain preserved within the scheme. To compensate affected members, the Company introduced pension credits in the form of additional years of pensionable service. The scheme closure and pension credits resulted in £28.1m of costs recognised in the profit and loss account for the year ended 31 March 2025, disclosed as an exceptional item (see note 6 to the financial statements).

As of 31 March 2025, the DB scheme remains in a strong surplus position of £180.4m (2024: £218.2m), a decrease of £37.8m from the previous year. The decrease compared to the prior year position is primarily due to a reduction in asset values from falling LDI funds, partially offset by a decrease in liabilities driven by higher AA corporate bond yields and the impact of the scheme's closure to future accruals.

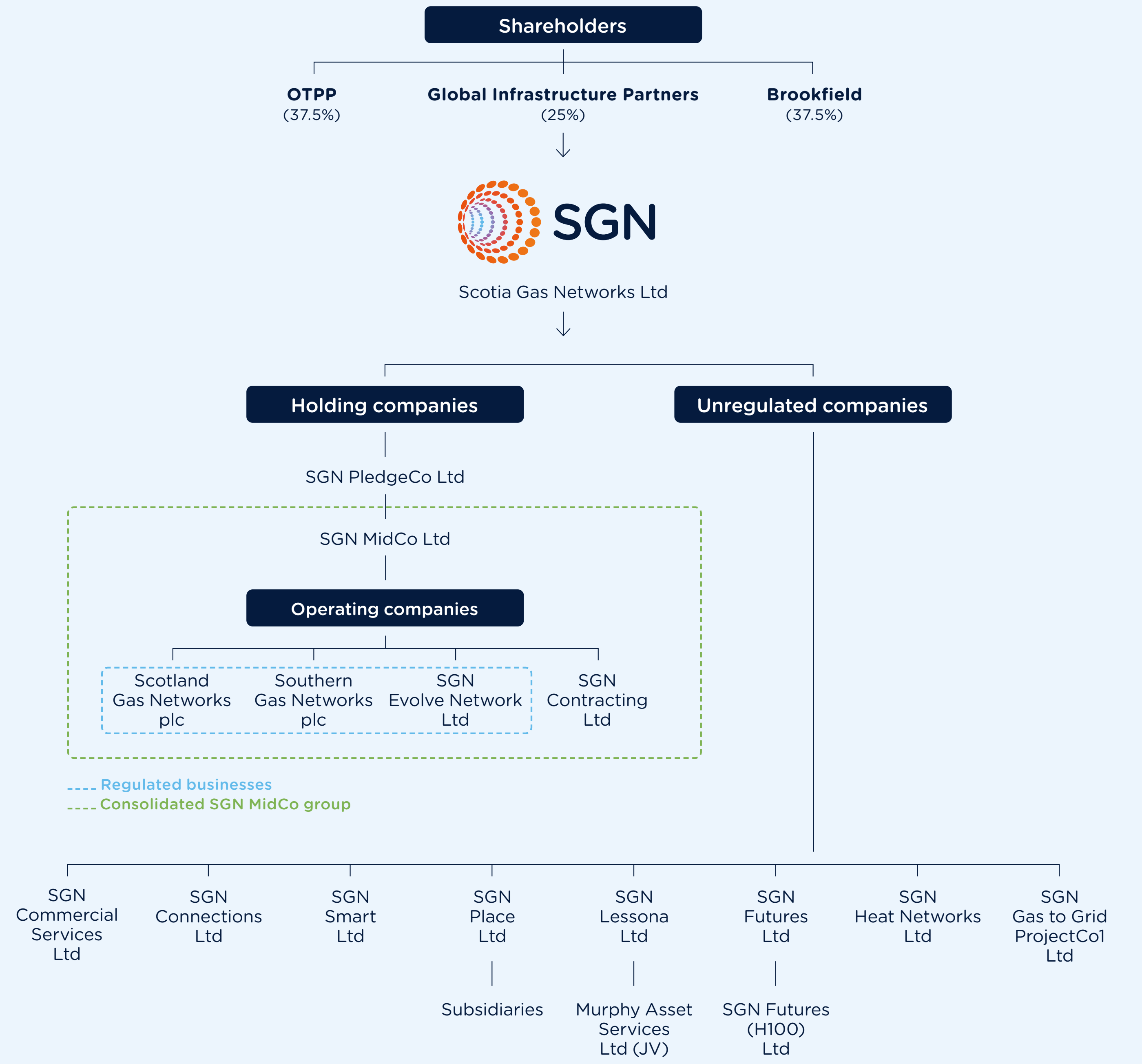
The Group contributed £1.8m to the DB scheme in the year (2024: £5.2m). See note 29 to the financial statements for further details.

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% (2024: 99%) of all invoices within 60 days, and average days to pay of 14 days (2024: 14 days). We continue to monitor and assess our processes for improvements, and to further enhance payment transparency for all our suppliers.

Tony King
Chief Financial Officer
31 July 2025

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 141, note 30.

Financial review

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

Turnover

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

2025 **£1,267.6m**

2024 **£1,375.3m**

2023 **£1,288.5m**

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).

2025 **£317.1m**

2024 **£520.7m**

2023 **£439.5m**

Replacement expenditure[1]

Replacement expenditure represents the investment in renewing sections of gas network with modern PE pipes to improve future safety and reliability.

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

2025 **£431.2m**

2024 **£312.5m**

2023 **£256.7m**

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.

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.

2025 **£189.2m**

2024 **£178.8m**

2023 **£152.7m**

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.

2025 **-£56.5m**

2024 **£237.1m**

2023 **£299.5m**

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 SGN MidCo group and regulated businesses can be found in the ownership structure on page 43.

Consolidated SGN MidCo group

2025 **70.4%**

2024 **70.2%**

2023 **71.0%**

Regulated businesses

2025 **64.3%**

2024 **64.4%**

2023 **64.5%**

1 Defined in Alternative Performance Measures (APMs) on page 143.

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.

2025 **0.20**

2024 **0.20**

2023 **0.07**

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 118,895 uncontrolled and 62,869 controlled gas escapes during the year ending 31 March 2025.

Scotland Gas Networks

2025 **99.5%**

2024 **99.5%**

2023 **97.2%**

Southern Gas Networks

2025 **98.0%**

2024 **98.4%**

2023 **91.8%**

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.

2025 **9.1**

2024 **9.0**

2023 **9.0**

Customer satisfaction (score out of 10): unplanned interruptions

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

2025 **9.8**

2024 **9.6**

2023 **9.5**

Business carbon footprint

Our business carbon footprint includes Scope 1 and 2 emissions, excluding shrinkage, reported in tonnes of CO_2e. Further details can be found on page 54.

2025 **17,852 tCO_2e**

2024 **18,210 tCO_2e[2]**

2023 **19,845 tCO_2e**

2 Updated following external assurance.

Principal risks and uncertainties

Risk management is a core part of how we operate and make decisions. The Board remains fully committed to safeguarding our customers, colleagues and business interests, and retains overall accountability for risk management across the organisation.

SGN risk management framework

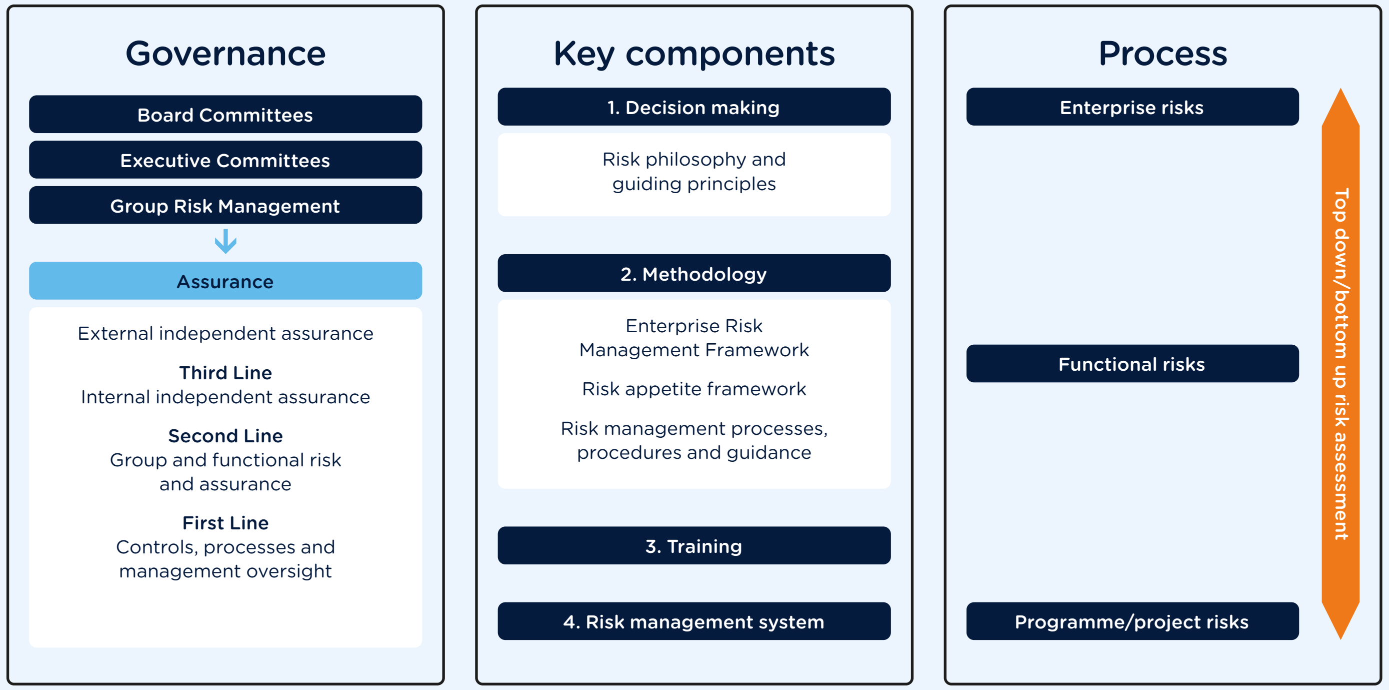
Across the organisation, risks are identified and addressed through an integrated Enterprise Risk Management (ERM) process that draws insight from all levels of the business. This dual 'top-down' and 'bottom-up' approach helps ensure that our risk management activities are closely aligned with our strategic priorities and business objectives.

Our Enterprise Risk Framework is designed to provide a consistent and structured methodology for identifying, assessing, managing, and monitoring risks and uncertainties that may impact the successful delivery of our strategic and operational goals.

The Three Lines of Defence risk model is operated at SGN, clearly distinguishing the roles of different functions. The first line consists of functions that own and manage risks, while the second line includes functions that oversee and monitor these risks. The third line provides independent assurance, ensuring that risk management processes are effective. This model also ensures:

- Clear responsibility and accountability.
- Effective collaboration.
- Efficient coordination of risk and control activities.

SGN risk management framework



SGN enterprise risks

Risk title	Enterprise risk description	Key mitigations	More information
Timeframe: Short term (0-2 years)			
Critical Network Information Systems	There is a risk that SGN's information systems (IT and/or OT), which are critical for the provision of essential energy infrastructure services, fail because of an internal, external or cyber-based event. There is also a risk SGN fails to detect an event or to respond effectively to restore those systems within a predefined timeframe.	• Information security control framework • Asset management control framework • Procurement and supply chain control framework • Cyber security investment programme • Business continuity and disaster recovery procedures	See pages 19 and 26 for some detail on activity during 2024/25.
People	There is a risk that SGN fails to recruit, develop and retain a sufficiently competent and diverse workforce and leadership team and/or fails to effectively manage industrial relations 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 • New Business Service Centre	See pages 19, 30 and 32 for some detail on activity during 2024/25.
Health and 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 health and wellbeing in the workforce.	• Safety management framework (SMF) • Safety management system (SMS) • Occupational health control framework • Asset management control framework • Competency and training control framework	See pages 19, 26, 56 and 88 for some detail on activity during 2024/25.
Operational Delivery	There is a risk that SGN fails to achieve operational performance targets and/or deliver key operational projects for the achievement of regulatory outputs and/or SGN's strategic objectives.	• Safe control of operations framework • Competency and training control framework • Procurement and supply chain control framework • BCM framework • Establishment of ERR (Equivalent Risk Reduction) strategy for REPEX and associated engagement with HSE • REPEX delivery programme • Restructure of the COO function • New COO Risk and Assurance function	See pages 19, 23-24 and 32 for some detail on activity during 2024/25.
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 42 and 51 for some detail on activity during 2024/25.
RIIO-GD3	There is a risk that Ofgem's Final Determination for RIIO-GD3 may set allowances and financial parameters that compromises SGN's ability to deliver its regulatory and legal obligations.	• Extensive engagement with all levels of Ofgem and government • Submission of well justified Business Plan with clear supporting evidence	See pages 5, 7 and 20-21 for some detail on activity during 2024/25.

Principal risks and uncertainties

Risk title	Enterprise risk description	Key mitigations	More information
Timeframe: Short term (0-2 years) (continued)			
IT Resilience	There is a risk that SGN's IT Services fail because of an internal, external or cyber-based event. There is also a risk SGN fails to detect an event or to respond effectively to restore those systems within a predefined timeframe.	• 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 39, 51 and 84 for some detail on activity during 2024/25.
Transformation	There is a risk that SGN fails to successfully implement and embed key transformational initiatives, resulting in misalignment with strategic objectives.	• Independent central transformation office • Transformation governance and tracking	See pages 7, 9, 22, 38 and 84 for some detail on activity during 2024/25.
Timeframe: Short term/medium term			
Legal and Regulatory	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 59 and 84 for some detail on activity during 2024/25.
Governance and 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 • New COO Risk and Assurance function	See pages 46-49, 58-59, 63, 72-90 and 84 for some detail on activity during 2024/25.
Leadership and 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 and 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 • New appointments across the Senior Leadership Team	See pages 2, 30, 51, 56, 59, 83 and 90 for some detail on activity during 2024/25.
Political and 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 Government policy • Engagement with Ofgem and Future System • Operation to shape whole systems approach	See pages 13, 51 and 66-67 for some detail on activity during 2024/25.

Risk title	Enterprise risk description	Key mitigations	More information
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 40-41 and 84-86 for some detail on activity during 2024/25.
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 63-70 for some detail on activity during 2024/25.
Timeframe: Long term (10+ years)			
Future of Energy	There is a risk that the shift towards a decarbonised energy system results in SGN assets becoming stranded without adequate compensation.	• Strategy and Regulation 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 7, 11, 34, 37 and 84 for some detail on activity during 2024/25.
Security of Supply and 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, including failure to maintain a secure supply of gas to customers on its networks.	• Asset management control framework • Asset investment strategy • Long-term horizon scanning to capture network asset changes • Cyber security investment programme • Repex delivery programme • Procurement and supply chain control framework • Restructure of the COO function • New COO Risk and Assurance function	See pages 6, 10, 19, 23, 26 and 84 for some detail on activity during 2024/25.

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.

"Through active stakeholder engagement and commitment to ESG priorities, the Committee continues to influence SGN's strategy to deliver sustainable long-term outcomes for our customers and communities."

Jeffrey Rosenthal
Stakeholder, Environment, Social & Governance Committee Chair

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 72 to 90.

Conclusion
The directors believe these activities demonstrate how they have had regard to the matters set out in section 172(1) of the Companies Act 2006 during the year in promoting the long-term success of the Company for the benefit of its members as a whole.

1. Customers

We safely and reliably deliver gas to six million homes and businesses, every day.

How we engaged
The Board considered our customer responsibilities, with emphasis on satisfaction, vulnerable customer support, and a fair energy transition. Stakeholder engagement informed enhancements to our RIIO-GD3 vulnerable customer strategy, broadened the VCMA fund scope of services, and improved digital channel services. Research focused on identifying the lived experience of vulnerable households. The Board approved continuing our vulnerable customer assistance programme, training for frontline and Safe & Warm teams, and outreach initiatives to shape our business plan. The Board continued to support our pathway to decarbonisation, exploring least-cost options and alternative routes for consumers.

2. Our people

We employ approximately 4,800 highly skilled and dedicated people.

How we engaged
The Board engaged closely with employee priorities, including compensation, EDI, and provision of high-quality equipment. We endorsed a Transformation Plan to improve ways of working, approved remuneration benchmarking strategies, and supported the People Plan's development and delivery. The Board promoted greater use of the 'Safe to Speak Up' mechanism, focused on employee recognition and development opportunities, and maintained high employee engagement scores.

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.

How we engaged
Recognising our operational impact on the environment, the Board supported our target to cut operational carbon footprint by 46% by 2030, with a focus on reducing methane leakage. We continued to invest in our pioneering projects on our path to net zero. The Board redefined SGN's Environmental Action Plan in line with this emissions reduction target.

4. Suppliers, contractors and partners

Our suppliers and contractors help keep our customers safe and warm, while our joint venture partners enable us to develop new technologies and alternative heat solutions.

How we engaged
The Board monitored relationships with suppliers and contractors, focusing on ESG compliance, resourcing challenges, and procurement process automisation. Key outcomes included introducing online stakeholder engagement processes, enhancing supplier accessibility through the Fairmarkit sourcing tool, and implementing new IT Supplier Services Frameworks to support project delivery. The Board approved the Modern Slavery Statement and various IT and service contracts.

5. Government and regulators

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

How we engaged
The Board engaged proactively with government and regulators on price controls, decarbonisation, cyber security, and operational resilience. We continued to invest in our Cyber Security Programme and enhanced political engagement on decarbonisation and consumer vulnerability. The Board approved further investment in cyber security measures, improvements to compliance policies, and the RIIO-GD3 Business Plan.

6. Shareholders and debt investors

Our solid shareholder base features large infrastructure and pension funds, and a diverse debt investor base across public bonds, private placements and bank lending.

How we engaged
The Board maintained active dialogue with shareholders and debt investors through the AGM, financial reporting, and ongoing engagement. Recognising that shareholder priorities can differ, the Board aimed to act fairly between members. During the year, the Board oversaw the appointment of new Board Directors, conducted investment performance reviews, and approved financing strategies, including debt raising exercises in both the Public Bond Market and Private Placement Market.

ESG report

About this report

This is our fourth annual Environmental, Social and Governance (ESG) report, demonstrating our commitment to sustainability and progress on key ESG issues that matter to our business and stakeholders. We continue to align our reporting with the World Economic Forum's (WEF) Stakeholder Metrics Initiative (formerly known as Stakeholder Capitalism Metrics), ensuring transparency and accountability.

WEF pillars:

Planet | People | Prosperity | Principles of Governance

United Nations SDGs:

- 3 GOOD HEALTH AND WELL-BEING
- 5 GENDER EQUALITY
- 7 AFFORDABLE AND CLEAN ENERGY
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- 13 CLIMATE ACTION
- 15 LIFE ON LAND
- 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

External benchmarking

CDP DISCLOSURE INSIGHT ACTION

For the past eight years, we have reported through CDP. In 2024, we received a 'B' score on climate change, exceeding the oil and gas sector average. We also received a 'B' score for our Supplier Engagement Assessment.

Our progress

This report provides an overview of our ESG performance for the 2024/25 financial year, comparing it to the previous year's disclosures and relevant targets.

We remain dedicated to supporting the United Nations Sustainable Development Goals (SDGs) by aligning our key material issues with the SDGs and integrating them into our broader ESG strategy.

For the third consecutive year, we are reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (see pages 61 to 70).

Further reporting

Our 2025 Annual Environmental Report will be published on our website in autumn and will provide further details on how we are transitioning to a net zero future, while delivering positive environmental outcomes.

Our 2025 Vulnerability and Carbon Monoxide Allowance report is available on our website now and details how we are reaching communities who need it the most.

Next steps

As ESG reporting requirements evolve and stakeholder expectations grow, we will continue to refine our reporting practices, ensuring alignment with best practices and the ongoing maturity of our climate-related disclosures.

Our ongoing commitment to sustainability

"Climate change is one of the most pressing global challenges of our time. Its far-reaching impacts demand urgent and collective action across all sectors of society.

As a gas distribution network, we are acutely aware of our responsibility to support the UK's transition to a low-carbon future. We are committed to achieving net zero by 2045 and have already taken significant steps in that direction. Our strategy includes clear medium-term targets set out in our RIIO-GD3 Business Plan, which reinforces accountability and progress across our operations. We are also investing in green gases and are proud to have delivered three new biomethane connections over the past year.

Alongside our environmental commitments, we remain focused on supporting those who need it most. Helping vulnerable customers is a key priority for us, and this year alone we've been able to assist over 360,000 individuals through dedicated support initiatives."

Jeffrey Rosenthal
Stakeholder, Environment, Social & Governance Committee Chair

Environment

Our operations, supply chains, and network usage all have a direct impact on the environment. If not carefully managed, these impacts can contribute to significant environmental and social challenges. That's why we are committed to minimising our impact by continuously improving our practices and integrating sustainability across all aspects of our business.

SGN material aspect	Non-financial KPI	Target/tracking	2024/25	2023/24	2022/23
Decarbonising the gas grid and innovating to provide our customers with cleaner energy	Volume of new biomethane in the network	Tracking	5,655,273 scm/h	170,689 scm/h	0 scm/h
	Growth in biomethane	450,000 households supplied with biomethane by 2026	334,127	289,620	259,000
Tracking the carbon impact of our business today, including emissions from leakage	Greenhouse Gas (GHG) emissions	We have a long-term net zero by 2045 target, which includes Scope 1, 2 and 3 emissions. We also have short and medium-term targets. Compared to our 2019 baseline, we are aiming for a 25% reduction in Scope 1 and 2 emissions (excluding shrinkage) by 2026 and a 46% reduction in Scope 1 and 2 emissions (including shrinkage) by 2031. See our Streamlined Energy and Carbon Reporting (SECR) on page 54.			
Nature loss	Biodiversity studies	128 by 2026	0	78	50
	Improvement projects	Tracking	12	9	6
Conservation of water	Water consumption and withdrawal in water-stressed areas. This metric, which is part of the 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 61 to 70.			

ESG report

Environment (continued)

Streamlined energy and carbon reporting

	2024/25	2023/24	% change
Scope 1 and 2 (direct emissions)			
Scope 1: Gas usage from our occupied/operational sites (tCO_2e)	**790**	975	19.0% decrease
Scope 1: Natural gas shrinkage (leakage, theft of gas and own use of gas) (tCO_2e)	**692,653**	671,481	3.15% increase
Scope 1: Business mileage Company owned/controlled vehicles (tCO_2e)	**14,605**	14,731	0.85% decrease
Scope 2: Purchased electricity (location based) (tCO_2e)	**2,457**	2,504	1.87% decrease
Total Scope 1 and 2 (tCO_2e)	**710,505**	689,691	3.02% increase
Scope 1 and 2 energy consumption (kWh)	**680,327,663**	633,404,148	7.41% increase
Intensity metric: Total Scope 1 and 2 per £1m turnover (tCO_2e/£m)	**532**	518	2.70% increase
Intensity metric: Total Scope 1 and 2 per km gas pipe in network (tCO_2e/km)	**9.8**	9.6	2.08% increase
Intensity metric: Total Scope 1 and 2 per energy throughput (tCO_2e/GWh)	**5.7**	5.5	3.64% increase
Scope 3 (indirect emissions)			
Business travel (rail, air, ferry, car hire, grey fleet) (tCO_2e)	**1,111**	1,085	2.40% increase

Methodology

Our carbon footprint reporting follows annual regulatory requirements set by Ofgem, using Defra conversion factors. GHG emissions are calculated in alignment with the GHG Protocol under operational control. This includes data from our Southern and Scottish networks.

Additionally, our intensity-based metrics have been agreed with other UK GDNs.

Commentary on changes

Scope 1 gas usage from occupied and operational sites for the 2024/25 financial year is 790 tCO_2e, compared to 975 tCO_2e in the previous year. This change is primarily due to limited data availability in 2023/24 meaning that we had to estimate our gas usage. This year, we were able to use actual invoice data from our suppliers.

The most significant contributor to our carbon footprint is Scope 1 emissions from natural gas shrinkage. This year we saw an increase of 3.15% in our emissions associated with shrinkage compared to last year. This increase was due to two significant gas escapes in our Southern network. If these gas escapes had not occurred, we would have seen a 3.8% reduction in our emissions from shrinkage, thus showing that our pipe replacement programme is continuing to effectively reduce leakage.

Biodiversity enhancement projects across our network

Our biodiversity improvement programme continues to deliver tangible improvements across our Scotland and Southern networks. Biodiversity net gain feasibility assessments were undertaken by our specialist contractor from 2021 to 2024, and we are now undertaking enhancement projects each year, to continue to the end of the RIIO-GD2 price control period. Following this we will be maintaining sites where enhancements have been undertaken to ensure that wildlife on site and local communities continue to benefit from the works we have done.

In total we have completed 31 enhancement projects. One of our projects in Oban was award winning at the CIRIA Biodiversity Challenge Awards in 2024, achieving the award in the Habitat Creation category and being highly commended in the Client award. Judges commented: “There are significant opportunities for meaningful biodiversity enhancements. By using the biodiversity metric tool to gather improved data – exceeding requirements in Scotland – this initiative goes above and beyond.”

ESG report

Social

People are at the heart of SGN. Ensuring their safety and wellbeing remains our top priority. Beyond safety, we are dedicated to attracting, developing, and retaining top talent while fostering a diverse and inclusive workplace. Through ongoing investment in our people and a strong focus on equality, we continue to build a culture where everyone can thrive.

SGN material aspect	Non-financial KPI	Target/ tracking	2024/25	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	81% male 19% female
	Diversity and inclusion – ethnicity	Tracking	87% white 6% ethnic minority 7% data not held	87% white 6% ethic minority 7% data not held	86% white 3.6% ethnic minority 9.6% data not held
	Diversity and inclusion – disability	Tracking	5% yes 25% no 1% prefer not to say 70% data not held	5% yes 27% no 1% prefer not to say 67% data not held	8% yes 38% no 2% prefer not to say 52% data not held
	Diversity and inclusion – age group	Tracking	<1% under 20 19% 20s 32% 30s 22% 40s 18% 50s 7% 60s <1% 70s	<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 reports: 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 comparison against our own data and don't anticipate that 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	£5.8m	£8.6m	£4.9m
Securing the safety and wellbeing of all customers and colleagues	Health and safety – number of fatalities as a result of work related injury	0	0	0	0
	Injury rates: total recordable injury rate	0.08	0.20	0.26	0.13
	Safe days	210	276	142	169
	Utilisation rate of employee assistance programme	8-12%	12% (over 12 month period)	4.6% (over 9 month period)	8% (over 12 month period)

Creating a workplace where everyone can develop and thrive

We're committed to fostering an inclusive, supportive environment where diverse perspectives drive innovation. Since 2022, SGN has launched six employee-led networks, now with over 1,350 members, to promote inclusion, share experiences, and drive positive change across the business.

Female representation at SGN remained at 19% in 2024/25. This continues to be above the GDN average. We recognise the need to build on this foundation and have introduced targeted initiatives to improve diversity and inclusion. These include CV-less recruitment for entry level roles and diverse interview panels to create a fairer, more accessible hiring process.

Looking ahead, we're developing a new programme with local prisons to help former offenders gain employment, building on the success of our armed forces network. Launch of this initiative is planned for summer 2025.

We're also enhancing recruitment for people with disabilities, acting on feedback from our ability network to remove barriers and make our processes more accessible.

ESG report

Governance

At SGN, we are committed to building a sustainable future by providing a safe, reliable and affordable service that benefits customers, stakeholders and employees alike.

SGN material aspect	Non-financial KPI	Target/tracking	2024/25	2023/24	2022/23
Creating a sustainable future for our business while providing a safe, reliable and affordable service	Economic contribution	Financial review, pages 38 to 45.			
	Financial investment contribution	Financial review, pages 38 to 45.			
	Total R&D investment	Tracking	£63.5m[1]	£1.6m	£2.6m
Maintaining an attractive and flourishing business respected by a wide range of stakeholders	New employee hires	Tracking	620	860	771
	Employee turnover	Tracking	9%	9%	11%
	Total tax paid	Financial review, pages 38 to 45.			
Delivering an excellent service for customers and stakeholders	Emergency response service – controlled gas escapes	Scotland: 97% regulatory standard	99.86%	99.8%	96.6%
		Southern: 97% regulatory standard	98.55%	98.9%	92.94%
	Emergency response service – uncontrolled gas escapes	Scotland: 97% regulatory standard	99.46%	99.49%	97.17%
		Southern: 97% regulatory standard	98.03%	98.39%	91.86%
	Network reliability (as % of full liability)	Scotland: 100%	99.99%	99.99%	99.99%
		Southern: 100%	99.99%	99.99%	99.99%
	Gas transported	Tracking	124.3TWh	121.1TWh	131.8TWh
	Customer satisfaction	Scotland: 9	9.45	9.33	9.30
		Southern: 9	9.28	9.19	9.02
	Complaints metric	Scotland: <5.00	0.51	1.62	1.71
		Southern: <5.00	1.82	3.61	4.74
	Additional services referrals	Tracking	13,056	7,433	7,083
	Priority Services Register	Tracking: The referrals include referrals made through partners	65,573	32,982	17,153
	Fuel poor connections	Tracking	539	268	649

1 In 2024/25, we undertook a review of how we define and report investment in innovation. As a result, we have broadened the scope of what we consider innovation-related activity to include our entire Future of Energy portfolio. This change reflects the strategic importance of these projects in delivering decarbonisation, environmental improvement and long-term system transformation. We recognise that this revised approach has significantly increased the reported investment figure, from £1.6m in 2023/24 to £63.5m in 2024/25. However, we believe this is a more accurate and transparent reflection of our ongoing innovation efforts. It also provides a consistent baseline for reporting in future years.

SGN material aspect	Non-financial KPI	Target/tracking	2024/25	2023/24	2022/23
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, see pages 76 to 78. SGN Board roles and responsibilities, see page 79.			
	Material issues impacting stakeholders	Please refer to our material issues for our ESG reporting on pages 53, 56, 58 and 59 and how we engage with stakeholders on pages 50 to 51.			
	Stakeholder relationship satisfaction	Tracking	8.0	8.0	8.2
Ethical behaviour	Anti-corruption, compliance training and awareness sessions	Tracking	5,107	15,541	14,867
	Anti-corruption incidents	We treat the number and proportion of corruptions incidents as confidential Company information.			
Protected ethics advice and reporting mechanism	Speak Up reports	Tracking	58	59	44
Risk and opportunity oversight	Integrating risk and opportunity into business process	Principal risks and uncertainties, see pages 46 to 49.			

Our Speak Up (whistleblowing) policy

We have developed a culture of integrity by encouraging our people to report any behaviours that do not align with our high ethical standards. Numerous reporting channels are available, including internal avenues and a confidential, independent, Speak Up Hotline. This hotline is actively promoted through our Safe to Speak Up campaign, ensuring all employees feel supported in raising concerns.

In 2024/25, we received 58 reports. We are actively addressing the top three reported categories, which are health and safety, drug/alcohol misuse and discrimination to drive meaningful improvements and uphold our commitment to ethical business practices.

ESG report

Looking forward

The upcoming financial year marks a pivotal moment for SGN as we enter the final year of the RIIO-GD2 price control period.

"As we approach the final year of RIIO-GD2 and prepare for RIIO-GD3, we remain focused on delivering meaningful progress across our environmental and social priorities. Our commitment to transparency, innovation and collaboration will be central to achieving long-term sustainability. We're not just working towards meeting today's expectations, we are preparing SGN for a low-carbon, inclusive future that benefits our people, our communities and the customers we serve."

Simon Kilonback
Chief Executive Officer

Our focus is firmly on delivering against the environmental and social targets we set at the start of RIIO-GD2, striving to meet our commitments to customers, communities, and the Regulator. At the same time, the next year serves as an important stepping stone as we prepare for the next price control period RIIO-GD3, which begins with the start of the 2026/27 financial year. Laying strong foundations now will enable a smooth transition into the next regulatory period.

Looking beyond the regulatory cycle, our wider approach to sustainability continues to guide our long-term direction. We remain committed to being transparent in our progress, positioning SGN to play a meaningful role in the transition to a net zero economy. Our goal is not only to meet our ambitious 2045 net zero target, but to contribute positively to the broader societal shift, while identifying risks and opportunities that arise along the way.

As the landscape continues to evolve, we are closely monitoring developments in sustainability best practice, emerging reporting standards, and potential regulatory requirements such as mandatory transition planning. By staying alert to these changes, we are ensuring that SGN remains proactive, adaptable, and ready to meet future obligations.

We recognise that continued collaboration with our stakeholders will be essential as we move forward. Together, we aim to drive progress that is not only measurable but meaningful, creating value for our customers, protecting the environment, and building a fairer, more resilient future.

TCFD report

We are fully committed to understanding the impacts of climate change on our business and providing transparent disclosures on how we manage climate-related risks and opportunities. This includes both the physical risks associated with climate change and the transition risks and opportunities as the UK moves towards a low-carbon economy.

Aligning disclosures

In line with the Companies (Strategic Report) (Climate-related Financial Disclosures) Regulations 2022, SGN reports on climate-related risks and opportunities as part of the Annual Report. We achieve compliance through our Task Force on Climate-related Financial Disclosures (TCFD) reporting, outlining our progress to date and our future priorities to enhance our strategic approach and communication around climate-related issues.

We are compliant with all TCFD disclosure requirements and have taken steps over the past year to better quantify the financial impacts of our climate-related risks. However, we recognise there is still work to be undertaken in relation to better understand and disclose the financial impacts of our climate-related opportunities, which is an area we will look to address in the future.

TCFD report

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 SGN governance structure	46-49 63 76-78
(b) Describe the management's role in assessing and managing climate-related risks and opportunities.		Principal risks and uncertainties TCFD Board Committees hierarchy	46-49 63 76
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	64
(b) Describe the impact of climate-related risks and opportunities on the organisation's business, 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	64-65
(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	65-68
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	46-49 63
(b) Describe the organisation's processes for managing climate-related risks.		TCFD	69
(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	46-49 69
Metrics and targets			
(a) Disclose the metrics used by the organisation to assess climate-related risks 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	54 69-70
(b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.		Streamlined energy and carbon reporting TCFD	54 70
(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	52-60 79

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 79 for more details on Board roles, responsibilities, and an organisational structure organogram.

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 through horizon scanning. The Executive Committee, which is split into the Operational Executive Committee and the Strategic Executive Committee, owns and oversees the Enterprise Risk Management Framework. Each enterprise risk is assigned to an Executive Sponsor 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 16 risks, one of which is climate change. See pages 76 to 78 for further details on how the SGN Governance framework works.

Oversight of climate-related risk and opportunities is also provided by our Stakeholder and ESG (SESG) Committee to properly encompass both the physical and transition risks arising from climate change. The SESG is a sub-board committee and is chaired by one of our Non-Executive Directors. The committees meet four times a year.

Climate-related KPIs are reported at Board Sub-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 Policy is signed by the CEO 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.

For financial year 2024/25 overall management level responsibility for sustainability, including the strategic risk of climate change, resided 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 in reports to the Executive team and senior managers:

- Our 'Company dashboard' includes climate related business information and KPIs. This is shared with the Operational Executive Committee on a monthly basis.
- Climate related information and metrics are also reported monthly to the Chief Operating Officer's leadership team which includes senior managers looking after our Network, Asset Management and Operations.
- Our Condition Review Group meets monthly to provide governance and adequate management control in relation to the management of risk of distribution pipe systems. Additionally, our Asset Managers evaluate climate risks associated with the network.

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

TCFD report

Strategy

Climate-related risks and opportunities over time

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

Our process involved the following steps:

- Establishing a long list of current and potential risks and opportunities based on internal workshops and interviews, sector research, and climate scenario analysis.
- Scoring and prioritising these risks and opportunities across selected climate scenarios and time horizons, using our enterprise risk scoring matrix. This matrix assesses factors such as health and safety, financial impact, people, operations, asset management, process safety, environmental considerations, reputation, and regulatory impacts.

A significant financial impact is defined as:

- £15m to £50m with an almost certain likelihood (>90%).
- £50m to £100m with a likely probability (50% to 90%).
- £100m+ with a possible probability (30% to 50%).

A summary of our material climate-related risks and opportunities are presented on pages 66 to 67. In this context, materiality refers to issues that could significantly impact our operations. These have been evaluated up to 2045 across the following time horizons:

- Short term – One to two years into the future.
- Medium term – Three to nine years into the future, aligning with the next Ofgem price control period.
- Long term – 10+ years into the future, aligned with our net zero goal.

Impact on business, strategy and financial planning

Taking into account our material risks and opportunities, along with climate-related scenario analysis (see pages 65 to 68), we have developed a Company strategy that is robust, agile, and focussed on delivering long-term value to our customers, shareholders, and other key stakeholders.

This strategy is reflected in our latest business plan, submitted to Ofgem in December 2024, covering the period from 2026 to 2031. Our Business Plan includes proposed investments for the next price control period, ensuring we can continue to provide a safe, efficient and reliable network while addressing the increasing physical risks to our assets.

Climate resilience strategy

Our climate resilience strategy, published in December 2024, outlines our approach and commitments to ensuring our assets remain resilient to a changing climate over the short, medium and long term. In line with the material climate-related risks presented on pages 66 to 67, our strategy identifies increasing extreme weather events as a key risk to our network. It also details the various ways we intend to mitigate this, including proactive survey work for river crossings, river and coastal erosion remediation works, and pipeline repair work.

The strategy acknowledges the need for the business to introduce a measure for climate resilience and to establish a standard baseline from which we will monitor our progress. This is something that we are committed to implementing and we are in the early stages of developing a long-term Asset Management Strategy up to 2050.

In addition to our climate resilience strategy, we are continuously engaging with UK and Scottish Governments to prevent any adverse effects and maximise growth opportunities. We contribute to government consultations on the future of the gas network and the customers we serve, to inform strategic policy decisions on the use of the gas network. This work is ongoing to support the transition to net zero in 2045 in Scotland and 2050 across the UK. We advocate for a multi-technology pathway to a net zero economy.

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 continuing to develop 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

Although the methodology for setting verified science-based targets for the oil and gas sector is still not yet available from the SBTi[1], we continue to explore potential activities to decarbonise the network and assess the associated costs. Our focus is on identifying emission-reducing initiatives that align with a 1.5°C global warming scenario for our Scope 1 and 2 emissions, including shrinkage, which remains our largest source of emissions.

We also recognise that Scope 3 emissions, including those from customers burning gas we distribute, may become part of a future SBTi methodology. Currently, these emissions are not included in our carbon footprint under the GHG Protocol.

1 The Science Based Targets initiative (SBTi) is a corporate climate action organisation that defines and promotes best practice in emissions reductions, develops standards tools and guidance to set science-base targets and assess and validates companies' targets.

This presents a strategic opportunity to expand our unregulated business streams by providing additional green gas and hydrogen to customers. Supporting the decarbonisation of the wider energy network is a priority for us, and we are keen to play a significant role in this transition.

Building on the success of the biomethane plants delivered in conjunction with Thames Water over the past three years, construction is now underway on SGN Commercial Services' latest gas-to-grid plants at Yorkshire Water's Knostrop and Blackburn Meadows sewage treatment works. Together, these SGN funded projects will have the capacity to supply up to 215GWh of waste derived biomethane, heating 18,000 UK homes and avoiding 40,000 tonnes of fossil carbon emissions per year. While these are not on our operated network, the outcome of this project will benefit UK's goal towards net zero and contribute to a greener gas network across the country. Our non-regulated business biomethane team assess their onward opportunity associated with water company projects could conceivably offer an additional 2TWh of biomethane annually by 2035.

Opportunities to decarbonise our network

The regulated part of our business is focussed on easing and facilitating biomethane connections to our network. Our ambition is to achieve new biomethane connections that will support the equivalent of 450,000 customers by the end of the current price control period in March 2026. In the medium term, by 2031, we will work collaboratively to maximise biomethane injection and reduce connection times for producers to provide the capacity to transport it to the equivalent of one million homes.

Additionally, the UK Government has made a strategic policy decision to support the blending of up to 20% hydrogen by volume into GB gas distribution networks. This presents a significant opportunity to reduce emissions, support the decarbonisation of the energy network, and help lower leakage emissions from our network.

Climate-related scenario analysis

Over the past financial year, we have reviewed our climate-related scenario analysis to inform our RIIO-GD3 Business Plan. This involved reviewing the National Energy System Operator's (NESO) Future Energy Scenarios (FES). To ensure the resilience of our business model and strategy, we evaluated the 'Holistic Transition' and the 'Counterfactual' pathways in the FES framework – see table below.

We also began preparing a long-term strategic asset management plan. Although we are currently in the early stages of development, our initial work has considered climate change and FES. This is an important step in reaching net zero and will ensure our business is resilient to a changing climate by being able to strategically plan ahead at an asset level.

The work undertaken throughout 2024/25 builds on the climate-related scenario analysis historically undertaken by the business. This includes evaluating two GHG emissions scenarios aligned with the Intergovernmental Panel on Climate Change (IPCC). These scenarios, known as Representative Concentration Pathways (RCPs), provide insight into potential climate outcomes:

- RCP 2.6 represents a scenario where GHG emissions are significantly reduced, aiming to limit global warming to below 2.0°C above pre-industrial levels.
- RCP 6.0 represents a medium stabilisation pathway with varying levels of mitigation, leading to an estimated global temperature rise of between 2.0°C and 3.7°C.

We have also previously considered UK-specific and energy sector scenarios, incorporating key studies to evaluate both physical and transitional risks.

This includes legacy studies by the Met Office. One study undertaken on behalf of the Energy Networks Association (ENA), which reviewed UKCP18 climate data to asses potential risks to energy infrastructure. The study found that several climate hazards are expected to intensify in the future, including an increased frequency of extreme high temperature days, prolonged and extreme rainfall, sea level rise, storm surges, and wildfires. On the other hand, snow and ice days are projected to decrease.

The study also highlighted that changing weather patterns will affect energy supply and demand dependencies, making forecasting more complex and increasing the overall impact of climate hazards on the energy sector.

Pathway name	Summary
Holistic transition	• Net zero reached through a balanced mix of electrification and hydrogen, with hydrogen focused in industrial areas. • Strong consumer participation through demand-side flexibility (e.g. electric vehicles). • Unabated gas use ends post-2036 and highest renewable capacity deployed. • Moderate nuclear presence and limited hydrogen power generation. • Flexible energy supply system via storage and interconnectors. • Requires 51 $MtCO_2e$ of negative emissions, delivered by bioenergy with carbon capture and direct air capture technologies.
Counterfactual	• Net zero not achieved, although some decarbonisation improvements. • Continued heavy dependence on gas, especially for power and heating. • Slower electric vehicle uptake, although petrol and diesel use declines. • Lowest renewable capacity and significant reliance on natural gas. • Reduced need for electricity storage, minimal flexibility in supply. • Negative emissions only from bioenergy with carbon capture, but insufficient for net zero.

TCFD report

Material climate-related risks and opportunities

Ref	Material risk or opportunity	Link to enterprise risk	Category	Timeframe	Description	Potential impact	How we are responding
1	**Increasing extreme weather events**	Climate Change and Network Asset Management	Acute Physical Risk (Strategic and Asset Management)	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. • Carried out pipeline remediation works at 21 sites during in 2024/25. • Responded to Storm Eowyn in January 2025. Further details on our response are available on page 23.
2	**Government heat policy decision**	Future of Energy and Political and Public Policy	Transition Risk (Strategic)	Short	UK Government reduces hydrogen's role in gas grid for heating homes and building 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 (Strategic)	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 (e.g. electric boilers).	• 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. • SGN has developed data-led approaches to better understand risk of customer switching and greater network insight through the concept of an enduring 'minimum viable network' that would support industry and wider energy resilience even in the absence of domestic demand. • Proactive biomethane delivery plan to incrementally green the existing network. • Collaborative work with DNOs to deliver a system for a net zero future. • Undertaken sensitivity analysis in relation to the useful life of the Group's network assets, see pages 120 to 121 for further details.
4	**Failure to meet our decarbonisation targets**	Climate Change and Future of Energy	Transition Risk (Strategic)	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. • Publicly reporting on emissions and progress. • Environment Advisory Panel holding SGN accountable. • Our RIIO-GD3 Business Plan has set an SBTi aligned approach for Scope 1 and 2 emissions including shrinkage to reduce by 46% against 2019 baseline. • Improving Scope 3 emissions data collection. • 23% reduction in Scope 1 and 2 (excluding shrinkage) emissions compared to 2019 baseline. Target is 25% reduction by the end of 2025/26.
5	**Growth in new regulated business streams which favour low carbon energy such as biomethane, hydrogen and heat networks**	Future of Energy	Transition Opportunity (Strategic)	Medium	Opportunity to grown unregulated business streams by establishing initiatives to develop, own and operate low and zero-carbon assets.	• Increased revenue.	• Proactively seeking 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**	Future of Energy	Transition Opportunity (Strategic)	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 other GDNs to develop hydrogen blending implementation plan. • Proactive biomethane delivery plan to incrementally green the existing network and develop the UK's first biomethane islands. • Three new biomethane connections installed in 2024/25 and increased the amount of equivalent customers supplied with biomethane to 334,127.

TCFD report

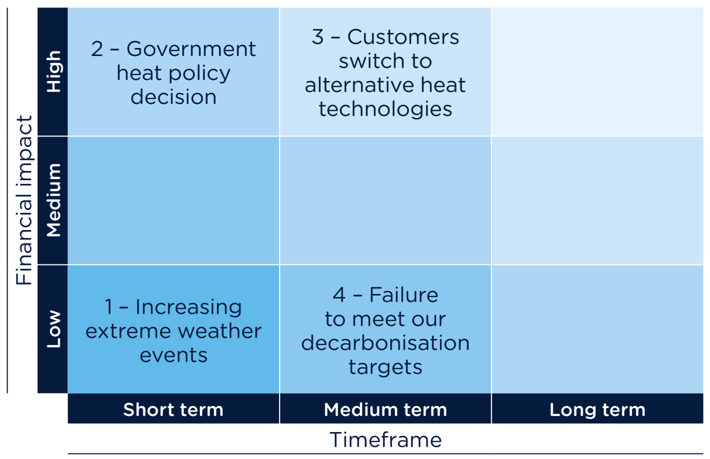
This year, we have enhanced our climate-related risk assessment by introducing a heat map to illustrate the potential financial impacts of climate-related risks. This represents an important first step in improving our disclosures and providing greater transparency around the financial implications of climate-related risks to our business.

The four risks shown on the heat map have all been identified as material through our enterprise risk assessment process. The heat map is designed to rank these material risks relative to one another based on their indicative financial impact and timeframe.

At this stage, our heat map presents a qualitative assessment, rather than a quantitative one, meaning we have not assigned specific financial thresholds to define high, medium, or low financial impacts. Instead, the assessment is based on expert judgement and aligned with our Enterprise Risk Framework.

For example, risks identified as 'low financial impact' in the heat map are still considered material risks to the business. This classification reflects their lower relative financial impact compared to others, not their overall significance.

While we recognise the importance of assessing the financial impacts of climate-related opportunities, this has not been included in this year's report. We acknowledge that further work is needed in this area and intend to develop a more comprehensive financial assessment of climate-related opportunities in future disclosures.



Impact on SGN business model and strategy

Holistic transition

Under this scenario, we anticipate low to medium physical risks, broadly in line with what we are already experiencing today, alongside high transition risks as policy and regulation tighten to support the shift to a net zero economy by 2050.

- Physical risk: In 2023, the world experienced its first sustained period with an average global temperature increase of 1.5°C, making this scenario closely aligned with today's reality. Over the last financial year, we recorded 31 pipeline washouts, which represented the most significant physical risk to our network. A sustained 1.5°C to 2°C temperature increase, would likely result in heightened risks to our infrastructure.
- Transition risk: This would present opportunities for our non-regulated business, particularly in hydrogen, biomethane and carbon, capture, usage and storage (CCUS). However, increasing electrification could pose a challenge, potentially leading to the decommissioning of parts of the gas distribution network as energy systems evolve.

Counterfactual

In this scenario, physical risks would be high to very high, with severe and potentially irreversible impacts, such as rising sea levels and more frequent extreme weather events. In contrast, transition risks would remain low, as the slow adoption of decarbonisation technologies and minimal policy shifts would result in limited pressure for change.

- Physical risk: While our business model would remain largely unchanged in this scenario, the increasing global temperature rise would introduce a range of risks that could significantly affect our operations. More severe acute and chronic weather events would pose a greater threat to the safety and resilience of our infrastructure, potentially jeopardising both security of supply and asset integrity.
- Transition risk: A slower transition to net zero would mean minimal disruption to our current business model. With lenient carbon policies and sustained gas demand, the pressure to decarbonise would be low. In the absence of strong public or regulatory mandate for meaningful emissions reductions, there would be no significant policy shift driving change, allowing for a business-as-usual approach.

Our long-term strategy considers the potential impacts of the above scenarios, along with internally developed scenario assumptions used to model regulatory asset value and customer numbers. These internal assumptions are not disclosed in this report.

As a result, our business strategy has evolved beyond a sole focus on hydrogen as a future heat carrier. Instead, we have adopted a whole systems approach that includes biomethane, hydrogen blending, full hydrogen networks, and heat networks, while also recognising the role of electrification in some areas.

Our Future of Energy projects, H100 Fife and LTS Futures, are key initiatives that demonstrate the potential of hydrogen to support Scotland's decarbonisation agenda. As the incumbent gas distribution network in Scotland, and with operations in southern England, we are actively informing both the UK and Scottish Governments on the role hydrogen could play in building a resilient and low-carbon energy system.

By taking this balanced approach, we are positioning ourselves for the future, supporting customers on the decarbonisation journey while ensuring a fair and inclusive transition.

Next steps

- Assess and quantify the potential financial impacts of our climate-related opportunities.
- Continue to develop our long-term Asset Management Strategy.

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 asses 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. The Sustainability Team, which sits within this directorate, plays a key role in this process by providing subject matter expertise and guidance on environmental and climate issues.

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.

Our scoring matrix involves evaluating each risk by assigning a 'likelihood' and 'impact' against nine impact categories: Health and Safety, Finance, People, Operations, Change, Asset Management and Process Safety, Environment, Reputation, Legal and Regulatory. These scores are then multiplied together to establish the overall score associated with each risk.

Score	Likelihood	Impact
1	Rare (<10%)	Insignificant
2	Unlikely (10-30%)	Minor
3	Possible (30-50%)	Moderate
4	Likely (50-90%)	Major
5	Almost certain (>90%)	Critical

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. Climate risk is recognised as one of our enterprise risks and is subject to continuous monitoring by both the Executive team and the Board.

Integrational into overall risk management

The oversight of the Enterprise Risk Management Framework 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. See pages 46 to 49 for further details on how we manage enterprise risks and uncertainties.

Next steps

- 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 continue to conduct a review of their risk register, supported by the Group Risk function. The outcomes of these reviews inform the Quarterly Risk, Audit and Assurance Committee (RAAC) meetings, as well as the bi-annual Board risk discussions.
- The RAAC aims to foster a more integrated and less siloed approach to risk and assurance activities. Enterprise risks – including climate change – are a standing item on the agenda, and Executive sponsors for these risks are in attendance to ensure appropriate oversight and alignment.
- To further strengthen risk governance, the Risk and Resilience Review and Challenge Group will be introduced next year. This forum will provide a structured opportunity for directorates to engage in cross-functional review and constructive challenge of risk information prior to escalation to RAAC and the Board.

Metrics and targets

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 overleaf, mapped to the most relevant climate-related risk or opportunity.

We also report on several cross-industry metrics and targets recommended by TCFD, which we consider relevant to our operations. These include GHG carbon emissions, climate-related opportunities (such as the number of biomethane connections), and remuneration, specifically the proportion of executive management with incentives linked to climate considerations.

We have a long-term bonus scheme (LTiP) for senior executive participants. In 2024, our LTiP included a carbon footprint reduction target based on a three-year comparison. Between 2022 and 2025, the bonus incentive is linked to the overall achievement of our environmental targets. Our annual short-term incentive plan links a wider group of managers and personal contract holders to progression against targets including reduction in our carbon emissions.

In our ESG Report (pages 52 to 60) we disclose performance against KPIs for our Scope 1 and 2 carbon footprint, including shrinkage, as well as network leakage metrics and the number of biomethane connections.

TCFD report

Key climate-related metrics (continued)

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 53
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 53
Scope 1, 2 and 3 emissions	4) Failure to meet our decarbonisation targets	See page 54

Scope 1, Scope 2 and Scope 3 GHG emissions
The biggest contributor to climate change impact within our operations is Scope 1 shrinkage, particularly leakage from the network. We continue to address this by replacing old metal mains with PE pipes, alongside effect pressure management and innovative solutions.

We are also working to enhance Scope 3 data collection and assessment, engaging with our supply chain. This remains an ongoing process, continuing through the remainder of RIIO-GD2 and into RIIO-GD3.

The table below presents historic Scope 1, 2 and 3 GHG emissions since the 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 GHG reduction target, aligned with the science-based methodology of the Paris Agreement. In addition to this long-term target, we also have short and medium-term targets. Compared to our 2019 baseline, we are aiming for a 25% reduction in Scope 1 and 2 emissions (excluding shrinkage) by 2026 and a 46% reduction in Scope 1 and 2 emissions (including shrinkage) by 2031.

The table below shows progress against our short-term GHG emissions targets and how we are increasing the availability of biomethane in the networks.

Next steps
- Committed to disclose progress on medium-term climate-related targets.
- Explore benefits and requirements associated with developing a transition plan.

GHG emissions	2024/25	2023/24	2022/23	2021/22	2020/21	2019/20
Scope 1 (including tCO_2e shrinkage)	708,048	687,187	713,857	740,163	759,994	785,292
Scope 1 (shrinkage) tCO_2e	692,653	671,481	696,634	721,448	740,826	765,284
Scope 1 (excluding shrinkage) tCO_2e	15,395	15,706	17,222	18,715	19,168	20,008
Scope 2 (location based) tCO_2e	2,457	2,504	2,622	2,652	3,111	3,274
Scope 3 tCO_2e	44,052	35,050	31,859	19,303	22,378	35,843

Targets	Target date	2024/25	2023/24	2022/23
25% reduction in Scope 1 and 2 (excluding shrinkage) emissions compared to 2019 baseline	April 2026	23%	22%	15%
19% reduction in shrinkage emissions compared to 2019 baseline	April 2026	9.5%	12%	9%
450,000 customers on biomethane	April 2026	334,127	289,620	259,000

Chair's introduction to governance

On behalf of the Board, I am pleased to present our Corporate Governance Report for 2024/25.

This report outlines how Scotia Gas Networks Limited (SGN) maintains the high standards of governance expected of a regulated gas distribution company, delivering on the expectations of our shareholders, regulators, and broader stakeholders. We have adopted the Wates Corporate Governance Principles for Large Private Companies, and our approach to each of these principles is set out in the following pages.

I was appointed Chair during the year, succeeding Nick Salmon, who stepped down from the role but continues to serve on the Board. I would like to thank Nick for his leadership and for the invaluable support he continues to provide through this transition.

Strong governance has never been more critical. Against the backdrop of an accelerating energy transition, evolving regulatory demands, and heightened stakeholder expectations, I am committed to ensuring that SGN's governance framework remains robust, forward-looking, and fit for purpose. Our focus is on aligning governance with long-term value creation and operational resilience.

To that end, I am actively supporting Management in its ongoing review of our governance arrangements, with a particular emphasis on Board effectiveness and strategic oversight. We are evolving the Board's role in shaping SGN's long-term direction, with dedicated strategy sessions convened across the year, including:
- September 2024 and January 2025 – Long-term growth and asset management
- November 2024 – RIIO-GD3 and the Future of Energy
- March 2025 – People, transformation, and business planning

We are also refining the cadence and quality of Board and Committee reporting to sharpen the focus on strategic matters. The planned refresh of our Committee Terms of Reference is a key step in strengthening clarity of purpose and decision-making accountability across our governance structure.

I would like to thank Christian Fingerle, who stepped down from the Board on 13 September 2024, for his valuable contributions, and welcome James Adam, who was appointed on 25 January 2025.

In closing, I extend my sincere thanks to my fellow Board members, our Executive team, and all SGN employees for their continued commitment to excellence in governance and service. As we prepare for RIIO-GD3, our collective focus remains on keeping customers safe and warm while advancing our strategic ambitions for the Future of Energy.

Rebecca Lumlock
Chair
31 July 2025

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 2025, 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 73 to 75 summarise the six Wates Principles and indicate where more information can be found in the strategic and the governance reports. Throughout 2025/26 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 pages 51 and 73 and Directors' Report on page 92).
2. **Stakeholder Engagement** – A statement on how Directors have engaged with stakeholders and how Directors have had regard to stakeholder interests (see pages 51 and 75 and Directors' Report on page 92).
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 50).
4. **Corporate Governance** – A statement on the Company's Corporate Governance Arrangements and how these have been applied (see pages 71 to 79).

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 2024/25 and what we plan to do in FY 2025/26

During the financial year, the Board remained committed to embedding and upholding the Company's purpose, vision and values, ensuring that these were reflected in their decision making. They continued to actively review and challenge the Company's long-term strategy via regular strategy sessions. The Board, CEO, CFO and Executive have continued to demonstrate visible leadership and engagement with employees via informal and formal sessions. This includes site safety visits throughout the year, engaging with frontline employees and reinforcing the Company's commitment to a safe working environment and Zero Harm initiative.

Looking ahead to FY 2025/26, the Board will continue to strengthen its alignment between the Company's purpose and strategy and build on the core business commitments to safety, people, productivity and the future as we prepare for RIIO-GD3.

Where you can find further information

For further information on our purpose, vision and values please refer to page 2.

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 2025. We consider that there is an appropriate combination of skills, backgrounds, experience and knowledge that promotes accountability.

What we did in FY 2024/25 and what we plan to do in FY 2025/26

The Board remains committed to improving diversity throughout the Company in terms of gender, ethnicity, disability, and age and will continue to champion policies and procedures which foster inclusion at all levels of the Company. While the overall responsibility of this falls within the remit of the Board, it is the Nomination Committee which actively engages with the shareholders to ensure that diversity and inclusion remains one of the key objectives for Board appointments, in addition to diverse skills and experience. In September 2024, a new Chair was appointed and in 2025 we also welcomed new Board Directors and Alternate Directors, further strengthening the range of experience and insight on the Board.

The Board will continue to keep its composition under review to ensure that it remains fit for purpose and reflective of the Company's evolving needs.

Where you can find further information

For further information of the Board composition and experience can be found on pages 80 to 82.

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 2024/25 and what we plan to do in FY 2025/26
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 or 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, the results of the Board effectiveness review conducted in March 2024 was received and the ways of working by the Board for FY 2025/26 will be led by this feedback.

Where you can find further information
Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 79 and 91.

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 2024/25 and what we plan to do in FY 2025/26
The Board reviewed, challenged and approved the Company's enterprise risks, updates to the Risk Philosophy and Guiding Principles, a new Enterprise Risk Management Policy and Framework, as well as a new Risk Appetite Framework ensuring these reflect the RIIO-GD2 plan and pathway to decarbonisation as well as engagement with regulators to plan RIIO-GD3. Details concerning SGN's enterprise risks can be found on pages 46 to 49.

In FY 2025/26, the enterprise risks will continue to be reviewed by the Board, 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 46 to 49. Details of the key investment opportunities reviewed by the Board can be found on page 84.

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 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 2024/25 and what we plan to do in FY 2025/26
In FY 2024/25, 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. In FY 2025/26, 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.

Where you can find further information
Details of activities undertaken by Remuneration Committee can be found on page 87. The gender pay gap report can be found on page 56.

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 2024/25 and what we plan to do in FY 2025/26
During the financial year, the priorities continued to be our core purpose, keeping everyone safe and warm, reducing the carbon impact of the gas network and creating a sustainable future for the business. Two-way engagement with our stakeholders has continued to be a fundamental element to this throughout the year, and their feedback shapes our decision-making. Our Stakeholder, Environment, Social & Governance Committee met four times during the year, taking into account stakeholder feedback and insight, continued in their commitments to decarbonise the gas network and further develop the ESG strategy and stakeholder engagement plan. In FY 2025/26, we will continue to foster our stakeholder relationships and put them 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 50 to 51.

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, Rebecca Lumlock, appointed on 25 September 2024. Rebecca succeeded Nick Salmon, who served as Chair between March 2021 until September 2024. The Chair 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.

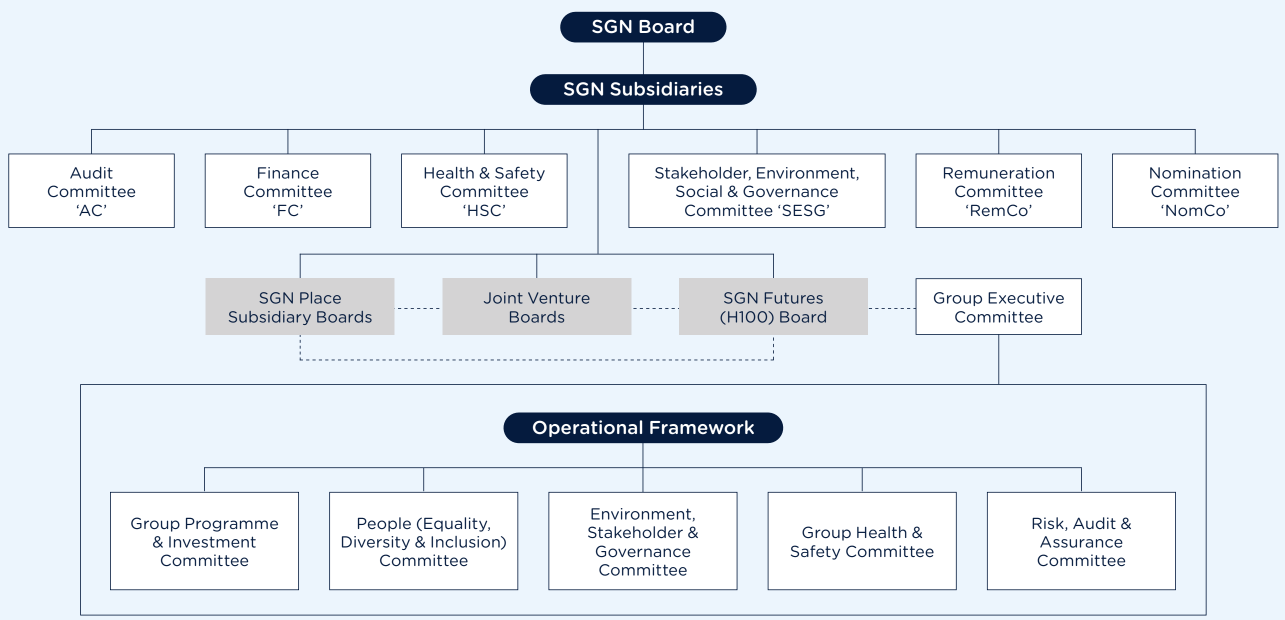
The Board is collectively responsible for the long-term success of the Group and for setting a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders. It provides the leadership necessary for the Group to meet its business objectives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

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

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, Chief Operating Officer and Company Secretary can be found on page 79 followed by their biographies on pages 80 to 83.

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 out on pages 85 to 90.

Board effectiveness
In 2024/25, Scotia Gas Networks Limited did not conduct a board effectiveness review, following the comprehensive survey completed in 2023/24, with its report issued in April 2024. The transition to a new Chair and ongoing review of Committee Terms of Reference prompted a strategic decision to defer the next review to 2025/26. This planned review will ensure continued alignment with our governance objectives and stakeholder expectations, reinforcing our commitment to robust Board performance and effective oversight.

Board and Executive reporting cycle

Chief Executive Officer and Chief Financial Officer
Below the Board, Executive responsibility rests with Simon Kilonback, Chief Executive Officer (CEO) and Tony King, 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 83.

Executive Committee
In 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 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 Company Secretary. Biographical details for the Company Secretary are set out on page 83.

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 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 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 2024/25.

SGN governance structure

Board meetings
There were six scheduled meetings of the Board and an additional six Board update calls in 2024/25 in line with the agreed plan of business for the year, and details of Director attendance can be found at the bottom of this page.

In the months between full Board meetings, the Board update calls provide an 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 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 50 to 51.

Board activity
The Board splits its time between steering and supervising the organisation across strategy, performance and governance. With Board input, the Company Secretary has developed a focused set of priorities for the Board for the year (see page 84). 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 2024/25 are set out on the following pages.

Meeting attendance, April 2024 to March 2025

Directors[4]	Board meetings	Audit Committee meetings	Finance Committee meetings	Health & Safety Committee meetings	Remuneration Committee meetings	Stakeholder, Environment, Social & Governance Committee meetings	Nomination Committee meetings
Rebecca Lumlock	6/6	–	–	6/6	4/4	–	–
Michael Botha	6/6	3/3	7/7	–	–	–	–
Jeffrey Rosenthal	6/6	–	–	–	–	4/4	–
Nick Salmon	6/6	3/3	–	6/6	–	–	–
Charlotte Brunning	6/6	–	7/7	–	4/4	4/4	–
James Adam[1]	1/1	–	–	–	–	–	–
Martin Catchpole	6/6	3/3	7/7	–	–	–	–
Paul Trimmer	6/6	–	–	–	4/4	4/4	–
Paul Jeffery	6/6	3/3	7/7	6/6	–	–	–
Joanna Whittington	6/6	–	–	6/6	4/4	4/4	–
Christian Fingerle[2]	3/3	–	–	–	–	–	–
Michael Smart[3]	2/2	–	–	–	–	–	–

1 James Adam was appointed as a Director on 30 January 2025.
2 Christian Fingerle resigned as a Director on 13 September 2024.
3 Michael Smart attended the meetings in his capacity as an Alternate Director from 13 September 2024 until 30 January 2025.
4 Alternate Directors will appear in this table if they attended the meetings in their capacity as an Alternate Director within the financial year.

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.
Chief Operating Officer	• Leading safe, efficient and reliable operation of SGN's gas networks. • Driving operational performance, customer service, resilience and service delivery. • Providing strategic input to investment and regulatory plans. • Championing a mature safety culture and workforce capability.
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

Chair

Rebecca Lumlock

Date of appointment 22 March 2022

Biography Rebecca joined the Board in March 2022 and was appointed the Chair in September 2024. Rebecca is an Operating Partner in Brookfield. Previously, she was a member of the Group executive committee at Network Rail responsible for one of the busiest parts of the UK rail network. She also served as CEO of Freightliner, the European rail freight company. Rebecca worked for two decades in senior roles in the oil and gas industry across four continents, most recently as Managing Director of Dragon LNG.

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

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 has 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 of Apple Newco Limited; Director of Galaxy Pipeline Assets HoldCo Limited; Director of SGI; Director of Scottish Hydro Electric Transmission plc; Director of Braeburn EquityCo Limited

Nick Salmon

Date of appointment 14 March 2019

Biography Nick joined the Board in March 2019 and served as Board Chair from 2021 to 2024. Previously he was Chair of South East Water Ltd, the Senior Independent Director at both United Utilities plc and Elementis plc, a non-executive director of Interserve plc and CEO of both Cookson Group plc and Babcock International Group plc.

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

James Adam

Date of appointment 30 January 2025

Biography James joined the Board in January 2025. He is a member of the EMEA Infrastructure and Natural Resources team and has been with Ontario Teachers' since 2006. He has been involved in a number of direct investments in EMEA, including Bristol Airport, Brussels Airport, Copenhagen Airport, London City Airport, Westerleigh Group, Caruna, and Anglian Water Group. James holds a BA from Western University and an MBA from the Ivey Business School at Western University.

Key external appointments and changes during the period
Director of Braeburn EquityCo Limited; Director of Sauna UK BidCo Limited; Director of Western BidCo Limited

Shareholder Non-Executive Directors (continued)

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

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

Jeffrey Rosenthal

Date of appointment 24 November 2022

Biography Jeffrey is an 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, and 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.

Christian Fingerle

Date of appointment 27 May 2022 (Resigned 13 September 2024)

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 board roles in portfolio companies. Prior to this, Christian worked in various roles within the Allianz Group and Technische Universität München.

Board and Committee membership key

- Board
- Audit Committee
- Finance Committee
- Remuneration Committee
- Health & Safety Committee
- Stakeholder, Environment, Social & Governance Committee
- Nomination Committee

Board of Directors

Alternate Directors

David Demes

Date of appointment 30 January 2025

Biography David joined Ontario Teachers' in 2018 and is a Director in London based EMEA Infrastructure and Natural Resources team. Prior to joining the organisation, David worked in infrastructure private equity at PGGM and investment banking at Deutsche Bank. David holds a Master's degree in Finance from the Stockholm School of Economics and a Bachelor's degree in Economics from Charles University in Prague.

Afonso Gois

Date of appointment 16 May 2025

Biography Afonso is a Managing Director at Global Infrastructure Partners (GIP), a part of BlackRock. He is a member of the energy and utility infrastructure team and has been with GIP since 2019. Previously, he accumulated 11 years of experience in M&A investment banking within the Energy, Power, and Utilities sector at Citi in New York, London and Madrid. Afonso holds an MSc in Finance equivalent from Universidade Católica Portuguesa.

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.

Mathew Henry

Date of appointment 16 May 2025

Biography Mathew Henry is a Vice President in Brookfield's Infrastructure Group overseeing asset management activities with a focus on super-core and transport investments in Europe. Prior to joining Brookfield in 2022, Mathew worked in the Real Assets department in a Sovereign Wealth Fund and the audit practice of a Big Four accounting firm. He holds a Bachelor of Science in Business Management and Economics from The University of Manchester.

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.

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.

Felipe Ortiz

Date of appointment 24 November 2022 (Resigned 8 May 2025)

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.

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.

Corporate information

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

Auditor
Ernst & Young LLP
Statutory Auditor
London

Registered number
04958135

SGN Executive Team

Simon Kilonback
Chief Executive Officer

Key responsibilities
Simon was appointed CEO of SGN after serving as the Company's CFO since September 2023. Prior to joining SGN, he was the CFO of Transport for London (TfL).

Date of appointment 18 September 2023

Darren Elsom
Chief Operating Officer

Key responsibilities
Darren oversees the day to day operations, engineering, asset management and customer service.

Date of appointment 19 December 2023

Tony King
Chief Financial Officer

Key responsibilities
Tony oversees all financial planning, treasury and control activities, along with supply chain management, property and facilities, and business services.

Date of appointment 2 December 2024

Antony Green
Chief Strategy and Regulation Officer

Key responsibilities
Tony leads the Company's forward looking strategy including the future of energy and regulatory engagement.

Date of appointment 31 July 2023

Penny Meddes
Chief People Officer

Key responsibilities
Penny drives SGN's people strategy, overseeing HR functions to attract, develop and retain talent and promote a culture of safety, diversity, and innovation.

Date of appointment 1 March 2025

Devin-Paul O'Brien
Chief of Staff

Key responsibilities
Devin supports the CEO by managing strategic initiatives, aligning senior teams, streamlining governance and building external relationships to deliver SGN's goals.

Date of appointment 1 April 2025

Fungai Makoni
Governance Director & Company Secretary

Key responsibilities
Fungai is responsible for SGN's corporate governance framework, regulatory compliance, and Board effectiveness.

Date of appointment 1 April 2025

Nicola Graham-Shand
Chief Legal Officer

Key responsibilities
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.

Date of appointment 1 August 2016

Nick Porter
General Counsel (Interim)

Key responsibilities
Nick joined SGN in January 2025 to provide senior legal support to the Executive and to the Board. Nick was previously a partner at the law firm Linklaters.

Date of appointment 7 January 2025

Abbie Sampson
Chief Corporate Affairs Officer

Key responsibilities
Abbie leads our communications, stakeholder and external affairs activities, advising the Executive team on reputation.

Date of appointment 9 June 2025

Mark Whitley
Chief Safety Officer

Key responsibilities
Mark leads the Health and Safety strategy ensuring safety and wellbeing of all employees, contractors and the public.

Date of appointment 10 February 2025

David Wilson
Chief Transformation Officer

Key responsibilities
David is accountable for the Transformation Programme, working across SGN to deliver the Benefits Case & Transition States committed to the Board.

Date of appointment 16 December 2024

Board activities during 2024/25

The SGN Board held six scheduled meetings and six further Board update calls during the year ended 31 March 2025. 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 the Group strategy and business plan, including the delivery of SGN's vision through strategic goals and the transformation programme, helping to deliver net zero with least cost and inconvenience to customers, delivering for our stakeholders and engaging SGN's employees.
- Regulatory: Consideration and approval of the RIIO-GD3 plan submission to Ofgem and response to their Sector Specific Methodology Consultation (SSMC).
- Customers: Received and provided feedback on progress against the customer strategy.
- Cyber security and IT resilience: Consideration and approval of the IT Development, Testing and Consulting support framework and IT Platform contract. Continued review of IT resilience across the business.
- Energy Futures: Reviewed the strategy covering long-term asset management, future growth and non-regulated activities.
- Continued review of the ESG and sustainability framework.
- Non-regulated growth: Consideration, approval and continued support of projects, investments and sales in property (SGN Place), mua and opportunities which complement the core (Fleet, IT and Resourcing suppliers).
- Financial: Approval of the annual budget and overall financing strategy. Review of credit rating and investment strategy.
- Review and approval of the triannual actuarial valuation of the pension scheme.
- People: Received and provided feedback on the people plan.
- Reviewed and approved the closure of the Defined Benefit Pension Scheme to future accruals.

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.
- Safety performance: Reviewed the outcomes of the holistic analysis of safety across the Group which are to be delivered as part of the transformation programme. Overall continued Board focus and review of safety performance and initiatives, including Board site visits.
- Stakeholder: Continued Board focus and review of stakeholder performance and initiatives, including receiving and reviewing the annual Customer, Stakeholder & Engagement Group report.
- Operations and network: Continued review of Southern and Scotland Operations and Network performance and initiatives including the delivery of the RIIO-GD2 REPEX programme.
- Large projects and investments: Review of progress against significant projects and investments, including H100 Fife, LTS Futures and SGN Lessona Limited (Murphy Utility Assets).
- Cyber security: Received regular Cyber Programme performance updates.
- Employees: Received and provided feedback on SGN's Great Place to Work survey 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 46 to 49) 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 policies and compliance certificates in line with the Governance Framework, such as the insurance renewal, modern slavery statement and business separation statement.
- Annual Report and Accounts: Approval of annual report and accounts prior to submission to the annual general meeting.
- Review and consideration of the key outcomes from the Board effectiveness review.

Board Committees

Audit Committee

"The Committee continues to strengthen the Group's governance by overseeing the integrity of financial reporting, supporting the effectiveness of risk management and internal controls, and ensuring compliance with regulatory and ethical standards."

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

The role of the Committee and principal responsibilities
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.
- Received and discussed the accounting treatment and provisions for key commercial projects.
- Received and discussed the outputs from the property impairment review as required.

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

Internal audit
- Approved the annual audit plan, received regular updates on its delivery and monitored the resourcing.
- Received and reviewed key outcomes of audit reports and management's response.

Risk management and internal controls
- Approved the update to the Compliance Framework, 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.
- Received external compliance report on compliance with standard licence condition A27 concerning business separation and approved submission to Ofgem.

Regulatory filings and governance
- Reviewed the Prompt Payment Code return and noted the change to the new Fair Payment Code.
- Monitored compliance against the schedule of key dates for SGN's regulatory and financial obligations.

Looking forward
The Committee's priorities for 2025/26 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. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

Board Committees

Finance Committee

"The Committee remains focused on safeguarding SGN's financial resilience through strategic financing and risk management, regulatory compliance, and proactive engagement with the evolving external economic 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 Finance Director
- Group Treasurer

The role of the Committee and principal responsibilities

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

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

In addition, the Finance Committee will 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 seven 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 the financing strategy and philosophy, loan payment, and financing issuances within the year.
- Received and reviewed the RIIO-GD3 Business Plan financial model submission to Ofgem.

Performance

- Considered and monitored the financing of key commercial projects.
- Received progress against the budgeting process for 2025/26.
- Received and monitored progress against the finance and finance risk management strategies.
- Received and monitored the liquidity requirements of the Group.
- Received performance against the cost of debt allowance for RIIO-GD2.

Governance

- Reviewed and approved an update to the Treasury policy and Treasury mandates.
- Reviewed and approved the half-year and annual compliance certificate submissions.
- Received and discussed the changes to the Regulatory Financial Performance Reporting (RFPR) obligations to Ofgem, assessed impacts and compliance. Approved RFPR submission to the Regulator.
- Received an update on and assessed the impacts of the Retail Price Index reform.

Looking forward

The Committee's priorities for 2025/26 are to monitor the implementation of funding and financial risk management strategies to ensure the Group has appropriate management of financial risk and that credit ratings are maintained within target levels. The Committee will continue its focus 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. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

Remuneration Committee

"The Committee welcomes the strengthening of our management team, supporting our commitment to fair and responsible remuneration, effective talent strategies, and fostering a diverse and inclusive workplace."

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 Remuneration Committee is a sub-committee of the Board. The Remuneration 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 Remuneration 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.
- Reviewed and approved the extension to the long-term incentive framework.

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 and LTIP for 2021-2024.
- Reviewed and approved personal objectives for the Chief Executive Officer and Chief Financial Officer and assessed prior year performance.
- Reviewed and approved personal assessments of the Executive team.
- Reviewed the succession plan for Executive Directors and other critical roles.

Governance

- Reviewed latest internal reward benchmarking results for Executive.

Looking forward

The Committee's priorities for 2025/26 are continuing 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. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

Board Committees

Health & Safety Committee

"We anticipate further improvements in our Health and Safety performance and culture with support from our newly appointed Chief Safety Officer, Mark Whitley."

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 Safety Officer
- Chief Operating Officer

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 – monitor the execution of those policy statements; review and challenge performance against targets; review the compliance and assurance plan; and monitor progress against key safety programmes.
- Check – receive a comprehensive health and safety report, 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, 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 HSC held six meetings during the financial year, which were scheduled in advance of Board meetings. This enabled the Chair to report on key matters discussed to the Board and, where required, recommend decisions to be ratified by the Board in line with the Committee Terms of Reference. The Committee and Board members attend safety site engagements throughout the year in addition to dedicated employee engagement 'Let's Chat' sessions (Management excluded).

Key highlights
The key highlights for the year were:

Strategy
- Reviewed and approved the Health & Safety targets across a range of metrics.
- Received and approved the Safety Programme for the financial year.
- Received and discussed the winter preparedness plan for 2024/25.

Performance
- Monitored and challenged performance and progress against the Health & Safety targets and scrutinised delivery plans.
- Monitored progress against the project transforming the safety management framework approved in 2023/24.
- Received an update on the Health and Safety Performance Indicators (HSPI) framework.
- Reviewed and discussed the TRIBE safety culture employee survey results.
- Reviewed compliance and assurance plans, including safety related internal audit and Speak Up reports.
- Monitored the relationship with regulators.
- Reviewed performance against the fatigue programme.
- Received and discussed SGN's approach to occupational health and wellbeing of its employees.
- Reviewed and discussed the LTS Futures emergency planning, safety procedures and training.

Governance
- Reviewed and approved the Safety, Health and Wellbeing Policy statement for 2024/25.

Looking forward
The Committee's priorities for FY 2025/26 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, performance improvements for mental health and wellbeing and continued commitment across the Group for visible leadership through site engagements. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

Stakeholder, Environment, Social & Governance Committee

"Through active stakeholder engagement and commitment to ESG priorities, the Committee continues to influence SGN's strategy to deliver sustainable long-term outcomes for our customers and communities."

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
- Chief Operating Officer
- Chief Strategy and Regulation Officer

The role of the Committee and principal responsibilities
The Stakeholder, Environment, Social & Governance Committee (SESGC) is a sub-committee of the Board. The SESGC'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 ESG issues.

What the Committee has done this year
The SESGC 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
- Received SGN' s stakeholder engagement plan and provided feedback.
- Received and discussed SGN's vulnerable customers support programme.
- Received and discussed the advocacy plan for energy transition and provided feedback.

Performance
- Continued to monitor and engage with the RIIO-GD2 reporting requirements.
- Reviewed performance of stakeholder, environment and customer engagement activities and provided feedback.
- Received the performance update against SGN's initiatives to net zero and associated projects.

Governance
- Received an update on and assessed the impacts and compliance of the Climate Related Financial Disclosures Regulation.
- Received the Annual Environmental Report.

Looking forward
The Committee's priorities for 2025/26 are to continue overseeing SGN's political engagement activities for the future of energy and support for vulnerable customers, ensuring a just transition. It will also review the ESG & Sustainability vision and increase its focus on strategic oversight of the business. The Committee will consider and monitor any implications of RIIO-GD3 upon receipt of both the draft and final determinations from Ofgem, ensuring that stakeholder interests and sustainability commitments are appropriately reflected in the Company's strategic response. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

Board Committees

Nomination Committee

"Following Mark Wild's resignation as Chief Executive Officer, we have managed a successful transition with the appointments of Simon Kilonback and Tony King as CEO and CFO."

Rebecca Lumlock
Nomination Committee Chair

Appointment September 2024

Membership

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

Attendees

Members of management may be invited to attend as appropriate.

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

Although the Nomination Committee did not formally convene during the year, its key responsibilities were actively overseen and fulfilled at Board level. The primary focus was the identification and appointment of the new Chief Executive Officer and Chief Financial Officer. Both processes were coordinated by the previous Chair (Nick Salmon) and involved all the Board of Directors. A leading executive search firm was engaged to support both appointments.

Key highlights

The key highlights for the year relating to the Nomination Committee were:

Governance

- Board approval of the appointment of Simon Kilonback as Chief Executive Officer and Tony King as Chief Financial Officer.
- Board approval of the appointment of James Adam as a Director to the SGN Group Boards.
- Board approval of the appointments of David Demes, Afonso Gois and Mathew Henry as Alternate Directors to the SGN Group Boards.
- Board approval of the appointment of Fungai Makoni as Company Secretary.

Looking forward

The Committee's priority for 2025/26 is to consider the appointment of the CEO and CFO to the SGN Group Boards, and review and refresh the membership of Board Committees where appropriate. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

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 80 to 82 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:

Rebecca Lumlock
Chair

31 July 2025

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2025.

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 1 to 70.

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 2025 and up to the date of signing can be found on pages 80 to 82.

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 46 to 49.

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 50 to 51.

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 52 to 60.

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 101. No dividends were paid within the financial year.

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 40 to 42.

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 46 to 49. 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 2026). 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.

Fungai Makoni
Company Secretary
31 July 2025

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 2025 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 2025 which comprise:

Group	Parent company
Consolidated balance sheet as at 31 March 2025	Balance sheet as at 31 March 2025
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 relating 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 2026, 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 and the RIIO-GD3 business plan;
- Challenging management's forecasts with reference to the audited results for the year ended 31 March 2025;
- 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 2026) from when the financial statements were 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 three components and audit procedures on specific balances for a further four components. In addition, we performed specified audit procedures on specific balances for a further seven components.
Key audit matters	• Valuation of the defined benefit obligation.
Materiality	• Overall Group materiality of £14.1m which represents 2.5% of the Group's adjusted EBITDA. • EBITDA is adjusted to exclude the accounting impacts of the non-recurring provision for the H100 onerous contract and the closure of the defined benefit pension scheme to future accruals.

An overview of the scope of the parent company and Group audits

Tailoring the scope

In the current year our audit scoping has been updated to reflect the new requirements of ISA (UK) 600 (Revised). We have followed a risk-based approach when developing our audit approach to obtain sufficient appropriate audit evidence on which to base our audit opinion. We performed risk assessment procedures to identify and assess risks of material misstatement of the Group financial statements and identified significant accounts and disclosures. When identifying components at which audit work needed to be performed to respond to the identified risks of material misstatement of the Group financial statements, we considered our understanding of the Group and its business environment, the potential impact of climate change, the applicable financial framework, the Group's system of internal control, and any relevant internal audit results.

We identified three components as individually relevant to the Group due to materiality or financial size of the component relative to the Group, or a significant risk or an area of higher assessed risk of material misstatement of the Group financial statements being associated with the components. We identified seven further components as individually relevant due to relevant events and conditions underlying the identified risks of material misstatement of the Group financial statements being associated with the components or a pervasive risks of material misstatement of the Group financial statements.

For those individually relevant components, we identified the significant accounts where audit work needed to be performed at these components by applying professional judgement, having considered the Group significant accounts on which centralised procedures will be performed, the reasons for identifying the financial reporting component as an individually relevant component and the size of the component's account balance relative to the Group significant financial statement account balance.

We then considered whether the remaining Group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the Group financial statements. We selected four components of the Group to include in our audit scope to address these risks.

Having identified the components for which work will be performed, we determined the scope to assign to each component.

Of the fourteen components selected, we designed and performed audit procedures on the entire financial information of three components ('full scope components'). For four components, we designed and performed audit procedures on specific significant financial statement account balances or disclosures of the financial information of the component ('specific scope components'). For the remaining seven components, we performed specified audit procedures to obtain evidence for one or more relevant assertions.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

Our scoping to address the risk of material misstatement for each key audit matter is set out in the Key audit matters section of our report.

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

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 networks and managing changes as we move to a zero-carbon economy. These are explained on page 61 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 114 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 UK 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 judgement, 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
Valuation of the defined benefit obligation (£550.1m, PY comparative £599.4m) *Refer to the Audit Committee Report (page 9); Accounting policies (page 107); and Note 29 of the Consolidated Financial Statements (page 138)* The Group operates a defined benefit pension scheme, whereby 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 carrying value of the Group's pension liability. Key assumptions include the discount rate, RPI and CPI inflation rates, 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: • 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, 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 the discount rate, RPI and CPI inflation rates, pension increases and the mortality rate; • With support from our pension actuarial specialists, independently benchmarked the most recent triennial valuation at 31 March 2024 performed by the external actuaries against an EY valuation; • With support from our pension actuarial specialists, tested the financial impact of the closure of the scheme to future accruals from 31 March 2025 on the obligation; • 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 the scheme Trustees, to confirm the completeness of accounting for any pension scheme transactions that have occurred in FY 2025; 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 which was upheld in Court in July 2024 on the Group's pension scheme.

Key observations communicated to the Audit Committee
Based on the audit procedures performed, we consider the valuation of the Group's defined benefit obligation for the year ended 31 March 2025 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.

How we scoped our audit to respond to the risk
We performed full audit procedures over this risk in at two full scope components, which covered 100% of the risk amount.

All audit work performed to address this risk was undertaken by the Group audit team.

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

Our application of materiality

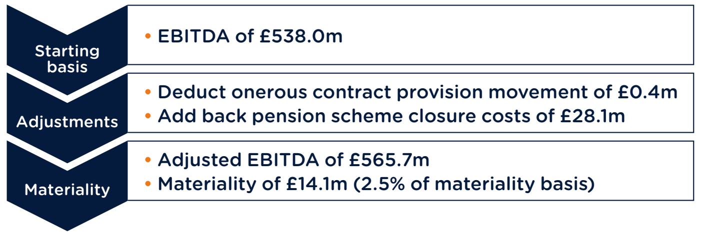
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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 £14.1m (2024: £15.1m), which is 2.5% (2024: 2.0% of adjusted EBITDA) of adjusted EBITDA so as to exclude the accounting impacts of the non-recurring provision for the H100 onerous contract and the closure of the defined benefit pension scheme to future accruals. 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.

We determined materiality for the parent company to be £15.5m (2024: £15.4m), which is 0.8% (2024: 0.8%) of total assets. However, since the company is a full scope component, for accounts that were relevant for the Group's financial statements, a performance materiality of £2.1m (2024: 2.3m) was applied.



During the course of our audit, we reassessed initial materiality to reflect the final audited numbers.

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% (2024: 75%) of our planning materiality, namely £10.6m (2024: £11.3m). We have set performance materiality at this percentage following a quantitative and qualitative assessment of prior year misstatements an our assessment of the Group's overall control environment.

Audit work was undertaken at component locations for the purpose of responding to the assessed risks of material misstatement of the Group financial statements. 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 £2.1m to £8.3m (2024: £2.3m to £9.1m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.7m (2024: £0.8m), 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 93, 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 91, 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, 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 included 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; 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

31 July 2025

Consolidated profit and loss account

for the year ended 31 March 2025

	Notes	2025 £m	2024 £m
Turnover	3, 4	1,267.6	1,375.3
Net operating costs (i)	4	(950.5)	(854.6)
Operating profit	4	317.1	520.7
Interest receivable and similar income	8	42.4	23.9
Interest payable and similar expenses	9	(256.3)	(271.2)
Fair value movements on derivatives	10	(7.1)	(15.9)
Share of loss of investments in JV entities	16	(0.8)	(2.7)
Profit before tax	5	95.3	254.8
Tax charge	11	(35.9)	(79.9)
Profit for the year	26	59.4	174.9

(i) Included within operating costs are exceptional items to the sum of £43.7m (2024: £24.1m), 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 2025

	Notes	2025 £m	2024 £m
Profit for the financial year	26	**59.4**	174.9
Cash flow hedges:			
– Profit arising on cash flow hedges	26	**12.8**	0.8
Remeasurement on net pension asset	26, 29	**(14.1)**	(35.8)
Deferred tax movement relating to components of other comprehensive income:			
– Cash flow hedges	26	**(3.2)**	(0.2)
– Pension asset	26	**3.5**	9.0
Other comprehensive loss for the year		**(1.0)**	(26.2)
Total comprehensive income		**58.4**	148.7

The accompanying notes form part of these financial statements.

Balance sheets

as at 31 March 2025

		Group		Company	
	Notes	2025 £m	2024 £m	2025 £m	2024 £m
Fixed assets					
Intangible assets	14	**336.0**	344.9	**–**	–
Tangible assets	15	**7,868.9**	7,474.1	**–**	–
Investments	16	**13.9**	14.7	**2,030.7**	2,030.7
Non-current financial assets	19	**6.9**	4.5	**–**	–
		8,225.7	7,838.2	**2,030.7**	2,030.7
Current assets					
Inventories	17	**29.9**	42.1	**–**	–
Debtors	18	**166.0**	151.9	**31.5**	24.6
Short term deposits		**383.2**	77.5	**–**	–
Cash at bank and in hand		**30.2**	29.5	**–**	–
		609.3	301.0	**31.5**	24.6
Creditors: amounts falling due within one year	20	**(827.3)**	(785.9)	**(14.9)**	(10.4)
Net current (liabilities)/assets		**(218.0)**	(484.9)	**16.6**	14.2
Total assets less current liabilities		**8,007.7**	7,353.3	**2,047.3**	2,044.9
Creditors: amounts falling due after more than one year	21	**(5,544.1)**	(4,989.6)	**(387.6)**	(356.3)
Provisions for liabilities	23	**(1,141.4)**	(1,146.7)	**–**	(0.1)
Deferred income	24	**(499.7)**	(490.7)	**–**	–
Net assets excluding pension asset		**822.5**	726.3	**1,659.7**	1,688.5
Defined benefit pension asset	29	**180.4**	218.2	**–**	–
Net assets including pension asset		**1,002.9**	944.5	**1,659.7**	1,688.5
Capital and reserves					
Called up share capital	25	**200.0**	200.0	**200.0**	200.0
Hedging reserve		**(15.0)**	(24.6)	**–**	–
Profit and loss account		**817.9**	769.1	**1,459.7**	1,488.5
Shareholders' funds	26	**1,002.9**	944.5	**1,659.7**	1,688.5

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 loss for the year amounted to £28.8m (2024: profit of £17.4m).

The financial statements of Scotia Gas Networks Limited, registered number 04958135, were approved by the Board of Directors and authorised for issue on 31 July 2025.

Signed on behalf of the Board of Directors

Rebecca Lumlock
Chair

Consolidated statement of changes in equity

for the year ended 31 March 2025

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	Total £m
Group:					
At 1 April 2023		200.0	(25.2)	675.5	**850.3**
Profit for the financial year		–	–	174.9	**174.9**
Cash flow hedges		–	0.8	–	**0.8**
Remeasurement of net defined benefit pension asset		–	–	(35.8)	**(35.8)**
Deferred tax movements relating to items of other comprehensive income:					
– 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**
Profit for the financial year		–	–	59.4	**59.4**
Cash flow hedges	26	–	12.8	–	**12.8**
Remeasurement of net defined benefit pension asset	26, 29	–	–	(14.1)	**(14.1)**
Deferred tax movements relating to items of other comprehensive income:	26				
– Cash flow hedges		–	(3.2)	–	**(3.2)**
– Pension asset		–	–	3.5	**3.5**
Total comprehensive income		–	9.6	48.8	**58.4**
Transactions with owners, recognised directly in equity					
Dividends paid	13	–	–	–	**–**
At 31 March 2025		200.0	(15.0)	817.9	**1,002.9**

The accompanying notes form part of these financial statements.

Company statement of changes in equity

for the year ended 31 March 2025

	Notes	Called up share capital £m	Profit and loss account £m	Total £m
Company:				
At 1 April 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**
Loss for the financial year	12	–	(28.8)	**(28.8)**
Total comprehensive loss		–	(28.8)	**(28.8)**
Transactions with owners, recognised directly in equity				
Dividends paid	13	–	–	**–**
At 31 March 2025		200.0	1,459.7	**1,659.7**

The accompanying notes form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2025

	Notes	2025 £m	2024 £m
Cash flows from operating activities			
Operating profit	4	**317.1**	520.7
Depreciation and software amortisation	14, 15	**221.2**	210.7
Goodwill amortisation	14	**9.6**	9.5
Amortisation of deferred income	24	**(12.2)**	(11.9)
Loss on disposal of fixed assets		**1.5**	4.5
Decrease/(increase) in inventories	17	**9.4**	(6.6)
Decrease in debtors	18	**31.5**	36.6
Decrease in creditors and employee benefits	20, 21, 29	**(28.4)**	(21.6)
(Decrease)/increase in provisions	23	**(8.0)**	12.1
Other operating cash flows		**–**	2.7
Cash generated by operations		**541.7**	756.7
Interest paid		**(166.5)**	(184.0)
Tax paid		**(24.7)**	(47.0)
Net cash inflow from operating activities		**350.5**	525.7
Cash flows from investing activities			
Interest received		**21.8**	11.4
Purchase of fixed assets		**(598.8)**	(477.7)
Purchase of intangible fixed assets	14	**(20.9)**	(17.8)
Sale of tangible fixed assets		**2.8**	–
Customer contributions received		**21.6**	17.0
Fixed asset investment additions		**–**	(5.5)
Net cash outflow from investing activities		**(573.5)**	(472.6)
Cash flows from financing activities			
Shareholder loan interest paid		**–**	(30.6)
Issue of debt		**963.3**	495.7
Dividend paid	13	**–**	(54.5)
Repayment of debt		**(446.9)**	(665.1)
Payments of interest rate swaps		**(0.8)**	(0.8)
Payments of inflation-linked swaps		**–**	(0.6)
Payments of cross currency swaps		**(11.7)**	(5.5)
Receipts from inflation-linked swaps		**22.4**	22.3
Receipts from cross currency swaps		**3.0**	3.6
Receipts from interest rate swaps		**0.1**	0.2
Net cash inflow/(outflow) from financing activities		**529.4**	(235.3)
Net increase/(decrease) in cash and cash equivalents		**306.4**	(182.2)
Cash and cash equivalents at beginning of the year		**107.0**	289.2
Cash and cash equivalents at the end of the year (i)		**413.4**	107.0

(i) Cash and cash equivalents of £413.4m includes £28.4m of cash which has specific restrictions over its use (2024: £19.7m of £107.0m). 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 2025

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 2025. The comparative period presented is the year ended 31 March 2024.

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 networks, 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 2025 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 2026). 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 May 2025 (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 £476.7m of debt due for repayment in October 2025. The forecast also incorporates management's best estimate from April 2026, based on the business plan submitted for the RIIO-GD3 price control. This estimate is subject to the final determination of the RIIO-GD3 price control by the regulator later in 2025.

Notes to the financial statements

for the year ended 31 March 2025

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 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 2026) 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 five 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 a weighted average 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 2025

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.

Contingent assets
A possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group are considered contingent assets. These are not recognised in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is considered probable.

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.

Notes to the financial statements

for the year ended 31 March 2025

1. Principal accounting policies (continued)

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's funding, liquidity and exposure to interest rate risks are managed within a framework of policies and guidelines authorised by the Board of Directors. In accordance with these policies financial derivative instruments are used to manage interest rate and currency exposure.

Where appropriate these instruments are recorded at fair value and accounted for as described below.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income and expense is recognised on an effective interest basis for debt instruments other than those financial assets designated as at 'fair value through profit or loss' (FVTPL).

Financial assets
Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL, which are initially measured at fair value.

Financial assets at the balance sheet date are classified into the following specified categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Impairment of financial assets
For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Trade debtors
Trade debtors are initially recognised at fair value. The carrying amount is reduced through the use of provision. Appropriate provision for estimated irrecoverable amounts are recognised where there is a difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the asset's original effective interest rate. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

Cash
Cash comprises cash on hand and demand deposits, which are those deposits, which are repayable on demand and available within 24 hours (one day) without penalty. The Group receives monies in the form of grants and contributions towards innovation projects. The use of this cash is restricted by the specific terms and conditions of each project.

Short term deposits
Short term deposits comprise of cash deposits that are available with notice of more than 24 hours (one day). 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.

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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

Following the Periodic Review 2024, the Financial Reporting Council issued an update to the FRS 102 accounting standard in September 2024, which will introduce significant changes to revenue recognition and accounting for leases, alongside a number of other amendments. The effective date for these amendments is accounting periods beginning on or after 1 January 2026 (i.e. the year ended 31 March 2027 for the Group). Management expects these changes to have material impact on the Group's revenue recognition for customer contributions, as well as on 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 44 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. 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.

d. 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.

e. 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 2025 (as described on page 137). 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.

f. 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.

g. 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 lives 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. Assumptions made in relation to the closure of the pension scheme for future accruals are also set out in note 29.

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 net of contributions received and receivable from third parties.

3. Turnover

The Board and Chief operating decision maker view the Group as one operating segment. Analysis of turnover by class of business:

	2025 £m	2024 £m
Transportation of natural gas and the provision of related services	**1,211.9**	1,336.5
Gas asset services	**17.3**	18.7
Gas to the West construction contract	**–**	9.0
Property sales	**37.0**	10.1
Property rental	**1.4**	1.0
Total turnover	**1,267.6**	1,375.3

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for the year ended 31 March 2025

3. Turnover (continued)

Gas to the West construction contract revenue in the comparative period was recognised with reference to stage of completion based on costs incurred as a proportion of total forecasted expenditure. The Gas to the West project was fully completed in the year ended 31 March 2024.

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

	2025 £m	2024 £m
Turnover	**1,267.6**	1,375.3
Cost of sales	**(45.8)**	(40.5)
Operational and administrative expenses	**(688.8)**	(601.3)
Depreciation	**(201.0)**	(192.1)
Amortisation	**(29.8)**	(28.1)
Loss on disposal of fixed assets	**(1.5)**	(4.5)
Other operating income	**16.4**	11.9
Total net operating costs	**(950.5)**	(854.6)
Operating profit	**317.1**	520.7

Other operating income relates to a claim settlement awarded to the Group, research and development expenditure credits and Northern Ireland Sustainable Energy Programme credits.

5. Profit before taxation

Group profit before taxation is stated after charging/(crediting):

	2025 £m	2024 £m
Auditor's remuneration	**1.1**	0.9
Amortisation of goodwill	**9.6**	9.5
Amortisation of intangible assets	**20.2**	18.6
Depreciation of tangible fixed assets	**201.0**	192.1
Amortisation of customer contributions	**(12.2)**	(11.9)
(Reversal of impairment)/impairment of tangible fixed assets	**(0.5)**	5.6
Loss on disposal of fixed assets	**1.5**	4.5
Rental under operating leases	**6.0**	4.9

Auditor's remuneration for the Group comprises:

- Audit of these financial statements £38,000 (2024: £36,000)
- Audit of financial statements of subsidiaries of the Company £746,000 (2024: £668,000)
- Audit-related assurance services £120,000 (2024: £116,000)
- Other assurance services £151,800 (2024: £80,000)

6. Exceptional items

	2025 £m	2024 £m
Exceptional items included within net operating costs:		
Onerous contract (i)	**(0.4)**	18.5
Impairment of tangible fixed assets (ii)	**–**	5.6
Restructuring costs (iii)	**11.0**	–
Costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals (iv)	**28.1**	–
Investigation support costs (v)	**5.0**	–
Included within taxation:		
Tax credit on onerous contract	**(2.0)**	(1.1)
Tax credit on impact of restructuring costs	**(2.8)**	–
Tax credit on costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals	**(7.0)**	–
Tax credit on investigation support costs	**(1.3)**	–
Total tax credit included within taxation	**(13.1)**	(1.1)

(i) During the year, the Group recognised a credit of £0.4m (2024: £18.5m debit) in relation to the onerous contract 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 reassessment of the provision in the year was as a result of additional contributions being secured.

(ii) During the previous 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. Additionally in the prior year, the Group has also recognised £0.4m impairment loss relating to two sites of SGN Property Holdings Limited, which are held as fixed assets. No such impairment losses were recognised in the year ended 31 March 2025.

(iii) The Group is undergoing an operational transformation programme to improve business processes and safety by restructuring the business , which is expected to last until March 2029. During the year the Group recognised £5.6m of costs relating to a voluntary severance scheme (2024: £nil) and £5.4m in relation to the transformation programme (2024: £2.9m, of which £nil was treated as an exceptional item), bringing the cumulative restructuring costs to £13.9m since the beginning of the restructure in 2024. These activities are infrequent and are financially material over the course of the multi-year exercise.

(iv) On 31 March 2025, the company closed its defined benefit pension scheme to future accruals. As a result, active members no longer accrue additional pension benefits based on service or salary increases from this date. Benefits earned up to 31 March 2025 remain preserved within the scheme. To compensate affected members, the company introduced pension credits in the form of additional years of pensionable service. The scheme closure and pension credits resulted in a curtailment cost of £1.8m (2024: £nil) and a past service cost of £26.3m (2024: £nil), totalling £28.1m (2024: £nil).

(v) During the year the Group incurred costs associated with supporting the investigation by Ofgem into potential breaches of competition law, totalling £5.0m (2024: £nil). The Group considers these to be exceptional costs due to their material and one-off nature. This matter does not meet the FRS 102 definition of a contingent liability or a provision.

7. Employee information and Directors' emoluments

The Group had 4,865 full time equivalent employees as of 31 March 2025 (2024: 4,535). The average monthly number of full time equivalent employees during the year was 4,726 (2024: 4,380).

	2025	2024
Field based staff	**2,604**	2,398
Office and other administrative staff	**2,261**	2,137
Total	**4,865**	4,535

The Independent Directors received aggregate remuneration of £176,235 (2024: £213,943) for their services to the Group during the year, of which the highest paid Director's share was £71,715 (2024: £82,800). 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:

	2025 £m	2024 £m
Staff costs		
Wages and salaries	**255.1**	220.9
Social security costs	**28.2**	24.3
Pension costs (see note 29)	**63.0**	31.7
Total	**346.3**	276.9

The Company had 4 employees as of 31 March 2025 (2024: 4).

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8. Interest receivable and similar income

	2025 £m	2024 £m
Net defined benefit pension income (see note 29)	**10.5**	11.8
Other interest receivable	**31.9**	12.1
Total	**42.4**	23.9

9. Interest payable and similar expenses

	2025 £m	2024 £m
Interest payable on fixed rate instruments	**170.2**	138.0
Interest payable on floating rate instruments	**5.0**	17.3
Interest payable on inflation-linked instruments	**37.5**	69.3
Interest payable on shareholder loan	**32.1**	30.7
Other interest payable	**11.5**	15.9
Total	**256.3**	271.2

Included within interest payable on inflation-linked instruments is £41.2m of accretion on RPI-linked debt instruments (2024: £73.5m).

Other interest payable includes facility fees and interest of £1.6m (2024: £5.5m), bond amortisations of £7.8m (2024: £6.9m) and other interest payable of £2.1m (2024: £3.5m).

10. Fair value movements on derivatives

	2025 £m	2024 £m
Fair value movements on derivatives:		
Net losses on derivative financial instruments (i)	**7.1**	15.9
Included within taxation:		
Tax credit on derivative financial instruments	**(1.8)**	(4.0)

(i) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the Consolidated profit and loss account. These exclude gains and losses for which hedge accounting has been effective, which has been recognised directly in the Consolidated statement of comprehensive income. Included within net losses on derivative financial instruments is £24.0m (2024: £31.3m) of accretion on CPI-linked swaps. There was £nil impact (2024: £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

	2025 £m	2024 £m
Current tax		
UK corporation tax on profits for the year	**30.7**	69.4
Adjustment in respect of previous years	**0.5**	(6.0)
Total current tax charge	**31.2**	63.4
Deferred tax		
Origination and reversal of timing differences	**–**	11.8
Adjustments in respect of previous years	**4.7**	4.7
Total deferred tax charge	**4.7**	16.5
Total tax charge on profit	**35.9**	79.9

b) Factors affecting the total tax charge for the year

	2025 £m	2024 £m
Profit before tax	**95.3**	254.8
Profit multiplied by standard rate of corporation tax in the UK of 25% (2024: 25%)	**23.8**	63.7
Effects of:		
Expenses not deductible for tax purposes	**1.3**	7.6
Income not taxable in determining taxable profit	**(2.9)**	–
Non deductible goodwill	**2.1**	2.4
Depreciation of non qualifying assets	**0.6**	1.1
Current year deferred tax not recognised	**5.8**	6.4
Adjustment in respect of prior years	**5.2**	(1.3)
Total tax charge on profit	**35.9**	79.9

12. Profit of the Company for the financial year

The Company's loss for the year amounted to £28.8m (2024: profit of £17.4m). The interest receivable and payable on loans to and from Group undertakings during the year ended 31 March 2025 amounted to £1.6m (2024: £2.1m) and £(0.4)m (2024: £nil) in the Company respectively. 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

	2025 £m	2024 £m
Equity shares		
Interim dividends paid of nil (2024: 11.5945p)	**–**	54.5

There were no dividends paid in the year ended 31 March 2025. The dividends paid in the comparative period of £54.5m were paid in December 2023.

14. Intangible fixed assets

	Goodwill £m	Software £m	Total £m
Group			
Cost			
At 1 April 2024	477.6	127.3	604.9
Additions	–	20.9	20.9
Disposals	–	(16.9)	(16.9)
At 31 March 2025	**477.6**	**131.3**	**608.9**
Amortisation			
At 1 April 2024	180.1	79.9	260.0
Charge for the year	9.6	20.2	29.8
Eliminated on disposal	–	(16.9)	(16.9)
At 31 March 2025	**189.7**	**83.2**	**272.9**
Net book value			
At 31 March 2025	**287.9**	**48.1**	**336.0**
At 31 March 2024	297.5	47.4	344.9

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 30 years remaining. See note 15 for sensitivity analysis on the life of our network.

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for the year ended 31 March 2025

14. Intangible fixed assets (continued)

Goodwill is monitored by management for two operating units as follows:

	2025 £m	2024 £m
Southern Gas Networks plc	**196.9**	203.5
Scotland Gas Networks plc	**91.0**	94.0
	287.9	297.5

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 2025, 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 (2024: £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 (2024: none).

During the year, the Group wrote off £16.9m (2024: £15.2m) of fully depreciated assets, with a nil net book value.

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 2024	0.7	158.0	9,504.2	149.1	9,812.0
Additions	–	6.9	577.4	15.2	599.5
Disposals	–	–	(11.8)	(9.3)	(21.1)
Reversal of impairment	–	–	0.5	–	0.5
At 31 March 2025	**0.7**	**164.9**	**10,070.3**	**155.0**	**10,390.9**
Depreciation					
At 1 April 2024	0.3	63.6	2,165.2	108.8	2,337.9
Charge for the year	–	4.4	186.0	10.6	201.0
Disposals	–	–	(7.6)	(9.3)	(16.9)
At 31 March 2025	**0.3**	**68.0**	**2,343.6**	**110.1**	**2,522.0**
Net book value					
At 31 March 2025	**0.4**	**96.9**	**7,726.7**	**44.9**	**7,868.9**
At 31 March 2024	0.4	94.4	7,339.0	40.3	7,474.1

There is no security held against the fixed assets. Included within freehold properties is the Net book value of land of £19.2m (2024: £18.8m).

During the previous year, the Group recognised an impairment loss of £5.2m relating to the development of the property at Balcombe Road, Horley. The recoverable amount of the asset was determined based on the fair value less cost to sell using a market valuation. Additionally in the prior year, the Group also recognised £0.4m impairment loss relating to two sites of SGN Property Holdings Limited, which are held within Freehold properties. The impairment losses were included within 'Net operating costs' in the comparative period's profit and loss account. No such impairment losses were recognised in the year ended 31 March 2025.

As at 31 March 2025, the Group reversed £0.5m of impairment relating to meter assets (2024: £nil) due to the slower than expected government roll-out programme of SMART meters resulting in the Group's meter portfolio being expected to yield revenue for several years' longer than previously expected. This is 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.

	2025 reduction in profit and loss £m	**2025 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	**108.8**	**108.8**
Additional depreciation charge if useful economic life of network assets end in 2045	**178.7**	**178.7**
Additional depreciation charge if useful economic life of network assets end in 2040	**292.1**	**292.1**

16. Fixed asset investments

	Group		Company	
Cost	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Shares in Group undertakings				
At 1 April	**–**	–	**2,028.4**	2,028.4
Additions	**–**	–	**20.0**	–
Impairment charge[3]	**–**	–	**(20.0)**	–
At 31 March	**–**	–	**2,028.4**	2,028.4
Investments in joint ventures				
At 1 April	**12.3**	9.5	**–**	–
Additions[1]	**–**	5.5	**–**	–
Share of losses in joint venture	**(0.8)**	(2.7)	**–**	–
At 31 March	**11.5**	12.3	**–**	–
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	**13.9**	14.7	**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, the Company has provided a £20.0m capital injection to its subsidiary undertaking, SGN Futures Limited, to further finance the H100 Fife project. As at 31 March 2025, management identified impairment indicators in relation to its investment in SGN Futures Limited, and thus the recoverable amount of the investment was assessed and consequently the investment was impaired down to £nil. The impairment losses are included within 'Net operating costs' in the profit and loss account.

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	Dormant

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16. Fixed asset investments (continued)

Name	Description of shares held	% of shareholding	Country of registration	Principal activities
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	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 Ltd	2,815,000,001 ordinary shares of £1	100%	England & Wales	Holding company
SGN Property Holdings Limited	18,022,565 ordinary shares of £1	100%	England & Wales	Property development
SGN Property Services Limited	340,856 ordinary shares of £1	100%	England & Wales	Property development
SGN Belvedere Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Brighton Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Southampton Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Epsom Limited	373,414 ordinary shares of £1	100%	England & Wales	Property development
SGN Greenwich Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Motspur Park Limited	1,539,420 ordinary shares of £1	100%	England & Wales	Property development
SGN Old Kent Road Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Rotherhithe Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Rotherhithe Holdco Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Croydon Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Crayford Limited	1 ordinary share of £1	100%	England & Wales	Dormant
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 Lonehead Drive, Newbridge, Edinburgh, EH28 8TC. The registered address of all other subsidiaries above is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ.

The Board of Directors have approved the winding up of SGN Smart Limited, SGN Brighton Limited and SGN Silvertown LLP. These subsidiaries are therefore preparing accounts as at 31 March 2025 on an 'other than going concern' basis and are due to be liquidated.

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 2025 was £18.2m (2024: £19.0m). Its loss for the year then ended was £1.7m (2024: £3.3m).

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 2025 was £15.7m (2024: £11.8m). Its loss for the year then ended was £3.9m (2024: £3.6m).

Tonbridge Riverside Regeneration Limited is 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 2025 was £0.3m (2024: £0.2m). Its loss for the year then ended was £0.1m (2024: £0.1). 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 2025 are not considered material to the Group's financial statements.

17. Inventories

	Group		Company	
	2025 £m	2024 £m	**2025 £m**	2024 £m
Work in progress	**16.9**	31.1	**–**	–
Materials and supplies	**13.0**	11.0	**–**	–
	29.9	42.1	**–**	–

Included within work in progress is £16.9m (2024: £31.0m) of land.

The amount of inventory recognised as an expense in the year amounted to £20.1m (2024: £8.5m). The significant increase compared to the prior year is due to the in-sourcing of logistics in March 2024.

18. Debtors

	Group		Company	
	2025 £m	2024 £m	**2025 £m**	2024 £m
Trade debtors	**107.6**	115.1	**–**	–
Prepayments and accrued income	**44.4**	29.5	**–**	–
Amounts owed by Group undertakings	**–**	–	**31.5**	23.1
Other debtors	**14.0**	4.9	**–**	1.5
Corporation tax	**–**	2.4	**–**	–
	166.0	151.9	**31.5**	24.6

Included in debtors are amounts falling due after more than one year of £11.5m (2024: £10.3m).

Included in prepayments and accrued income is accrued income on the Gas to the West project of £nil (2024: £0.1m).

Amounts owed by Group undertakings for the Company include loans due to SGN Commercial Services Limited amounting to £8.9m (2024: £1.6m); due from SGN Place Limited amounting to £7.7m (2024: £7.3m); and due from SGN Lessona Limited amounting to £25.8m (2024: £19.5m).

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 trade balances due from the SGN Group subsidiaries of £6.9m (2024: due to SGN Group subsidiaries of £2.1m).

Notes to the financial statements

for the year ended 31 March 2025

18. Debtors (continued)

Other debtors include a loan due from Murphy Asset Services Limited of £5.5m (2024: £nil). Included in this amount is accrued interest of £0.2m (2024: £nil). The loan is repayable on demand and interest is charged at 8% per annum on the principal amount of the loan only.

Other debtors also includes £7.1m (2024: £0.9m) incurred so far in the building of two biomethane facilities. On completion they will be treated as finance leases, where the Group will be the Lessor. Thus, the facilities are not recognised as fixed assets in the accounts of the Group.

In addition, other debtors also includes £1.4m (2024: £1.4m) of cash deposit paid to the Gas Market Operator for Northern Ireland (GMO NI) in line with the requirements of the NI Network Gas Transmission Code.

19. Non-current financial assets

	Group		Company	
	2025 £m	2024 £m	**2025 £m**	2024 £m
Derivative financial instruments – interest rate swaps not in hedge relationships	**2.3**	3.1	**-**	–
Derivative financial instruments – cross-currency swaps in hedge relationships	**4.6**	1.4	**-**	–
	6.9	4.5	**-**	–

20. Creditors: amounts falling due within one year

	Group		Company	
	2025 £m	2024 £m	**2025 £m**	2024 £m
£150m 2.066% RPI-linked note due 2025⁽¹⁾	**306.5**	–	**-**	–
£83.3m 2.013% RPI-linked note due 2025⁽¹⁾	**170.2**	–	**-**	–
£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	**82.7**	107.4	**2.1**	–
Other taxation and social security	**11.6**	17.2	**1.7**	0.1
Other creditors	**17.9**	15.3	**-**	–
Accrued interest	**68.5**	50.4	**11.1**	10.3
Accruals	**124.7**	107.6	**-**	–
Deferred income	**45.2**	43.3	**-**	–
	827.3	785.9	**14.9**	10.4

(1) Listed on the London Stock Exchange.

The Group held two committed bank facilities at 31 March 2025:

- £150.0m (2024: £150.0m) revolving credit facility at Scotland Gas Networks plc maturing in March 2027. This facility was undrawn at 31 March 2025 (2024: undrawn).
- £450.0m (2024: £450.0m) revolving credit facility at Southern Gas Networks plc maturing in March 2027. This facility was undrawn as at 31 March 2025. £60.0m of this facility was drawn as at 31 March 2024 with a repayment date of 2 April 2024, thus this balance was classified as amounts falling due within one year in the comparative period balance sheet.
- £25m debt service reserve facility at SGN MidCo Ltd was renewed in the year and is maturing in January 2026. This facility was undrawn at 31 March 2025 and at 31 March 2024.

21. Creditors: amounts falling due after more than one year

	Group		Company	
Borrowings	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Fixed rate debt				
£250m 3.25% fixed rate note due 2027⁽¹⁾	**249.5**	249.2	**-**	–
£375m 4.875% fixed rate note due 2029⁽¹⁾	**374.7**	374.6	**-**	–
£100m 2.90% fixed rate note due 2030	**99.1**	99.2	**-**	–
£75m 2.74% fixed rate note due 2030	**74.9**	74.9	**-**	–
£75m 2.74% fixed rate note due 2030	**74.9**	74.9	**-**	–
€500m 3.50% fixed rate note due 2030⁽¹⁾	**415.4**	–	**-**	–
£250m 1.25% fixed rate note due 2031⁽¹⁾	**248.5**	248.3	**-**	–
£200m 1.25% fixed rate note due 2031⁽¹⁾	**147.0**	138.9	**-**	–
£75m 1.98% fixed rate note due 2032	**74.8**	74.8	**-**	–
£34m 6.220% fixed rate note due 2032	**33.9**	33.9	**-**	–
£50m 2.04% fixed rate note due 2033	**49.9**	49.9	**-**	–
£185m 3.02% fixed rate note due 2033	**183.4**	183.2	**-**	–
£75m 2.87% fixed rate note due 2033	**74.9**	74.8	**-**	–
£75m 2.87% fixed rate note due 2033	**74.9**	74.8	**-**	–
$66m 5.630% fixed rate note due 2033	**51.0**	52.1	**-**	–
£100m 2.27% fixed rate note due 2034	**99.7**	99.6	**-**	–
£225m 4.875% fixed rate note due 2034⁽¹⁾	**224.8**	224.8	**-**	–
$101m 5.770% fixed rate note due 2034	**78.1**	–	**-**	–
£30m 6.310% fixed rate note due 2035	**29.9**	29.8	**-**	–
£50m 6.220% fixed rate note due 2035	**49.8**	49.8	**-**	–
$66m 5.730% fixed rate note due 2035	**51.0**	52.1	**-**	–
£300m 6.625% fixed rate note due 2035⁽¹⁾	**298.7**	298.7	**-**	–
£400m 3.10% fixed rate note due 2036⁽¹⁾	**398.3**	398.1	**-**	–
£60m 5.640% fixed rate note due 2036	**59.8**	–	**-**	–
$101m 5.870% fixed rate note due 2036	**78.1**	–	**-**	–
£70m 6.340% fixed rate note due 2037	**69.9**	69.8	**-**	–
£15m 3.11% fixed rate note due 2038	**14.8**	14.8	**-**	–
£20m 6.120% fixed rate note due 2038	**19.9**	–	**-**	–
£50m 6.120% fixed rate note due 2038	**49.8**	–	**-**	–
£50m 6.120% fixed rate note due 2038	**49.8**	–	**-**	–
¥9,350m 2.650% fixed rate note due 2038	**48.2**	–	**-**	–
£25m 5.740% fixed rate note due 2039	**24.9**	–	**-**	–
£56m 5.740% fixed rate note due 2039	**55.8**	–	**-**	–
£225m 6.375% fixed rate note due 2040⁽¹⁾	**224.2**	224.2	**-**	–
£25m 5.820% fixed rate note due 2044	**24.9**	–	**-**	–
£50m 5.820% fixed rate note due 2044	**49.7**	–	**-**	–
	4,226.9	3,265.2	**-**	–
Inflation-linked debt				
£150m 2.066% RPI-linked note due 2025⁽¹⁾	**-**	296.0	**-**	–
£83.3m 2.013% RPI-linked note due 2025⁽¹⁾	**-**	164.3	**-**	–
£15m 2.580% RPI-linked loan due 2028	**27.7**	26.7	**-**	–
£50m -0.8818% CPI-linked note due 2029	**58.9**	57.2	**-**	–
£50m -0.4465% CPI-linked note due 2032	**58.9**	57.2	**-**	–
£37.5m 0.11% RPI-linked note due 2033	**53.0**	51.1	**-**	–
£83.3m 2.013% RPI-linked note due 2035⁽¹⁾	**170.2**	164.3	**-**	–
£87.5m 0.28% RPI-linked note due 2038	**123.7**	119.2	**-**	–
£125m 2.317% RPI-linked note due 2039⁽¹⁾	**228.2**	220.0	**-**	–
	720.6	1,156.0	**-**	–

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21. Creditors: amounts falling due after more than one year (continued)

	Group		Company	
Borrowings (continued)	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Floating rate debt				
£80m floating rate note due 2043[1]	**79.8**	79.7	**–**	–
	79.8	79.7	**–**	–
Total external borrowings	**5,027.3**	4,500.9	**–**	–
Shareholders' loans[2] (see note 30)	**387.6**	356.3	**387.6**	356.3
Total borrowings	**5,414.9**	4,857.2	**387.6**	356.3
Derivative financial instruments				
Inflation-linked swaps (see note 22)	**95.3**	88.3	**–**	–
Interest rate swaps (see note 22)	**16.9**	24.6	**–**	–
Cross-currency swaps (see note 22)	**17.0**	19.5	**–**	–
Total creditors falling due after more than one year	**5,544.1**	4,989.6	**387.6**	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) £193.8m of the shareholder loan is listed on The International Stock Exchange (2024: £183.3m).

Maturity of borrowings

	Group	
	2025 £m	2024 £m
Due within one year	**476.7**	444.7
Between one and five years	**809.8**	1,110.9
After five years	**4,605.1**	3,746.3
	5,891.6	5,301.9

The Company's borrowings all fall due by 9 April 2043.

Scotland Gas Networks plc and Southern Gas Networks plc debt instruments are unsecured, while SGN MidCo Ltd's debt instruments are secured, and all are stated after the deduction of unamortised issue costs of £71.5m (2024: £75.9m). 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 2025 is £499.7m (2024: £461.9m) and £17.8m (2024: £14.4m) respectively. The amount in relation to the CPI-linked swaps included in the carrying value of the debt at 31 March 2025 is £161.5m (2024: £137.6m).

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: £387.6m shareholder loans;
- SGN MidCo Ltd: £176.7m inflation-linked private placements; £297.3m fixed rate private placements; and £25.0m undrawn debt service reserve facility;
- Scotland Gas Networks plc: £474.3m fixed rate bonds; £79.8m floating rate bonds; £228.2m inflation-linked bonds; £527.7m fixed rate private placements; £150.0m (undrawn) bank RCF; and £117.8m inflation-linked bank term loan facility; and
- Southern Gas Networks plc: £2,106.9m fixed rate bonds; £674.6m inflation-linked debt; £820.6m fixed rate private placements; and £450.0m bank RCF (undrawn).

Group subsidiaries are also funded through a combination of share capital, retained earnings and loans with Group undertakings. 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.

2025	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	(16.6)	(16.6)	(33.3)	(100.0)	(832.9)	(999.4)	611.8	(387.6)
Bank facility	–	–	–	–	–	–	–	–
Bonds	(79.4)	(564.4)	(409.3)	(943.3)	(4,815.9)	(6,812.3)	1,308.3	(5,504.0)
	(96.0)	(581.0)	(442.6)	(1,043.3)	(5,648.8)	(7,811.7)	1,920.1	(5,891.6)
Derivative financial liabilities								
Inflation-linked swaps	(10.4)	(12.3)	(22.8)	(70.2)	326.3	210.6	(305.9)	(95.3)
Interest rate swaps	0.8	0.7	1.4	4.5	18.9	26.3	(43.2)	(16.9)
Cross-currency swaps	9.6	9.6	30.1	134.2	853.0	1,036.5	(1,053.5)	(17.0)
	–	(2.0)	8.7	68.5	1,198.2	1,273.4	(1,402.6)	(129.2)
Other financial liabilities								
Trade creditors	(82.7)	–	–	–	–	(82.7)	–	(82.7)
Total financial liabilities	(178.7)	(583.0)	(433.9)	(974.8)	(4,450.6)	(6,621.0)	517.5	(6,103.5)

The Group expects to meet its obligations from cash balances, operating cash flows and refinancing.

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22. Financial instruments and risk management (continued)

The corresponding amounts for 2024 were as follows:

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)

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:

	2025 £m	2024 £m
Net trade receivables	**107.6**	115.1
Accrued income	**18.3**	18.3
Other debtors	**14.0**	4.9
Short term deposits	**383.2**	77.5
Cash	**30.2**	29.5
Derivative financial instruments – interest rate swaps	**2.3**	3.1
Derivative financial instruments – cross-currency swaps	**4.6**	1.4
	560.2	249.8

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 £24.8m of security in respect of its trade counterparties (2024: £34.7m). 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 2025 non-transportation debtors (£16.3m) (2024: (£16.9m)) were 15.1% (2024: 14.7%) of net trade debtors (£107.6m) (2024: (£115.1m)). An impairment allowance of £11.0m (2024: £7.3m) has been set aside according to the Group's impairment policy.

The largest transportation debtor is £18.8m (2024: £18.8m). There is no material credit exposure to any one customer.

The ageing of trade debtors net of impairment allowance is:

	2025 £m	2024 £m
Not past due	**98.0**	104.9
Past due 0-30 days	**0.3**	2.1
Past due 31-90 days	**0.5**	1.2
Past due over 90 days	**8.8**	6.9
	107.6	115.1

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtors mentioned above.

At the end of each reporting year a review of the provision for bad and doubtful debts is performed taking into account the age, status and risk of recovery for each debtor.

Financial instruments:
The Group seeks to minimise its exposure to counterparties under financial instruments by agreeing individual exposure limits with the Finance Committee for financial instruments (based on 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 £16.6m (2024: £28.8m). The net credit risk adjustment related to inflation-linked swaps, interest rate swaps and cross-currency swaps. £14.6m (2024: £21.8m) 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 £2.0m (2024: £7.0m) 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 £1.9m (2024: £3.3m) and a DVA of £(18.5)m (2024: £(32.1)m). The magnitude of the DVA adjustment as at 31 March 2025 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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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.

	2025 £m	2024 £m
Impact ((charge)/credit) on profit and loss account		
Floating rate instruments	**(0.8)**	(4.5)
Fixed to floating swaps	**(0.9)**	(0.9)
Floating to fixed swaps	**0.9**	0.9
	(0.8)	(4.5)
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.

	2025 £m	2024 £m
Impact (credit/(charge)) on profit and loss		
Inflation-linked bonds	**12.0**	11.5
Inflation-linked swaps	**8.3**	8.0
Transportation income	**(11.8)**	(13.0)
Total	**8.5**	6.5

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 £6,746.8m (2024: 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 year, the Group issued USD and JPY denominated private placement notes. The JPY denominated private placement note was issued in the US where the underlying exposure is USD. On this transaction the noteholder has transacted a derivative financial instrument to swap the USD exposure into JPY. All exposures are fully hedged back to Sterling at issuance using cross currency swaps. The Group also issued a EUR denominated bond from the EMTN programme, which has been fully hedged back to Sterling at issuance using cross-currency swaps. As a result, the Group does not have exposure to USD, EUR and JPY 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 and JPY denominated private placement notes and EUR bonds. Receipts and payments for the swaps and the underlying bonds are exactly matched and in accordance with IAS 39 any gain or loss that is deferred to equity is recognised in profit or loss over the period that the floating rate interest payments impact on profit.

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 £15.3m as at 31 March 2025 (2024: £22.4m).

The movement before deferred tax taken to the hedging reserve in equity in respect of this cash flow hedge in the year was a £7.1m gain (2024: £1.5m gain) and the ineffective portion of this hedge of £nil was credited to the profit and loss account (2024: £3.3m). 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 2025 was £80.0m (2024: £80.0m). As at 31 March 2025 and 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 2025 was 4.4554% (2024: 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 £5.8m profit (2024: £3.4m loss). The notional principal amount of the pay leg of the outstanding cross-currency swaps at 31 March 2025 amounted to £742.8m (2024: £115.6m), while the receive leg totalled $334.0m; €500.0m and ¥9,350.0m (2024: $132m). As at 31 March 2025, the fixed rates of interest paid on these swaps were between 5.2302% and 6.2800% (2024: between 6.2435% and 6.28%). The fixed rates of interest received were between 5.87% and 2.65% (2024: 5.63% and 5.73%).

As disclosed further on page 134, on 19 March 2024, the Group entered into $202.0m 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. In October 2024, the Group entered into a further €500.0m of cross-currency swaps to fully convert the interest and principal of certain EUR denominated bond to GBP. These swaps were effective from October 2024.

In February 2025, the Group entered into ¥9,350m of additional cross-currency swap to fully convert the interest and principal of certain JPY private placement notes to GBP. This swap is effective from March 2025.

Categories of financial instruments
The categories of financial assets and liabilities held by the Group were as follows:

	Book value	
	2025 £m	2024 £m
Financial assets held at amortised cost		
Trade debtors[1]	**107.6**	115.1
Short term deposits[1]	**383.2**	77.5
Other debtors	**14.0**	4.9
Cash	**30.2**	29.5
	535.0	227.0
Financial assets at fair value		
Derivative financial instruments – interest rate swaps	**2.3**	3.1
Derivative financial instruments – cross-currency swaps	**4.6**	1.4
	6.9	4.5
Total financial assets	**541.9**	231.5

(1) The carrying amount of financial assets approximates to their fair value.

	Book value	
	2025 £m	2024 £m
Financial liabilities held at amortised cost		
Trade creditors	**82.7**	107.4
Accrued interest	**68.5**	50.4
Accruals	**124.7**	107.6
Bank facility	**–**	60.0
Borrowings	**5,504.0**	4,885.6
Shareholder loans	**387.6**	356.3
	6,167.5	5,567.3
Financial liabilities at fair value		
Derivative financial instruments – inflation-linked swaps	**95.3**	88.3
Derivative financial instruments – interest rate swaps	**16.9**	24.6
Derivative financial instruments – cross-currency swaps	**17.0**	19.5
	129.2	132.4
Total financial liabilities	**6,296.7**	5,699.7

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 2025 is as follows:

	2025			
	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	–	2.3	–	2.3
– Derivative financial instruments – cross-currency swaps	–	4.6	–	4.6
	–	6.9	–	6.9
Financial liabilities				
At fair value through profit and loss				
– Derivative financial instruments – inflation-linked swaps	–	95.3	–	95.3
– Derivative financial instruments – interest rate swaps	–	16.9	–	16.9
– Derivative financial instruments – cross-currency swaps	–	17.0	–	17.0
	–	129.2	–	129.2

	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

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22. Financial instruments and risk management (continued)

Cross-currency swaps
In March 2024, Southern Gas Networks plc issued a total of $202.0m in private placement notes, for which the drawings occurred in April and June 2024:

- $101.0m 5.77% fixed rate notes due 2034;
- $101.0m 5.87% fixed rate notes due 2036.

In October 2024, Southern Gas Networks plc issued a total of €500.0m in 3.50% fixed rate bonds due 2030, for which the drawings occurred in October 2024.

In March 2025, Southern Gas Networks plc issued a total of ¥9,350.0m in 2.650% fixed rate private placement notes due 2038, for which the drawings occurred in March 2025.

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, EUR and JPY upfront payment and fixed USD, EUR and JPY payments equal to the principal amounts and coupons under the notes respectively, and pays fixed GBP amounts:

- $20.0m converted to £15.7m with fixed 5.496% GBP interest payable, due 2034, effective June 2024;
- $30.0m converted to £23.6m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- $51.0m converted to £40.1m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- $20.0m converted to £15.7m with fixed 5.625% GBP interest payable, due 2036, effective April 2024;
- $30.0m converted to £23.6m with fixed 5.627% GBP interest payable, due 2036, effective April 2024;
- $51.0m converted to £40.1m with fixed 5.627% GBP interest payable, due 2036, effective April 2024;
- €200.0m converted to £167.5m with fixed 5.2352% GBP interest payable, due 2030, effective October 2024;
- €300.0m converted to £251.3m with fixed 5.2302% GBP interest payable, due 2030, effective October 2024;
- ¥9,350.0m converted to £49.4m with fixed 6.0070% GBP interest payable, due 2038, effective March 2025.

Fair values
The Group's financial instruments recorded at amortised cost are shown below together with their fair values:

	31 March 2025		31 March 2024	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Borrowings	**5,504.0**	**5,647.1**	4,885.6	5,197.5
Bank facility	**–**	**–**	60.0	60.0
Shareholder loans	**387.6**	**399.9**	356.3	393.7
	5,891.6	**6,047.0**	5,301.9	5,651.2

Fair values of borrowings and shareholder loans have been determined by reference to closing quoted market values where available or otherwise by discounting future cash flows at their market interest rate.

The carrying value of all other financial assets and liabilities approximates to their book value.

23. Provisions for liabilities

	Environmental and demolition £m	Deferred tax £m	Other provisions £m	Total £m
Group				
At 1 April 2024	32.1	1,056.4	58.2	1,146.7
Reassessments during the year	0.4	–	14.2	14.6
Utilised during the year	(4.6)	–	(21.5)	(26.1)
Net movement in deferred tax	–	4.4	–	4.4
Amortisation of discount	1.3	–	0.2	1.5
Other movement	–	–	0.3	0.3
At 31 March 2025	**29.2**	**1,060.8**	**51.4**	**1,141.4**

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 3.90% (2024: 3.59%) and is stated at the present value of the estimated expenditure to settle the obligation. The provision is expected to be utilised next year 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 3.90% (2024: 3.59%) to the present value of the estimated expenditure to settle the obligation. They are expected to be utilised in the next financial year.

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 £4.7m (2024: £16.5m) is recorded as a debit (2024: debit) to the profit and loss account and £0.3m (2024: £8.8m) is recorded as a gain (2024: gain) to the statement of comprehensive income.

Deferred tax recognised in the financial statements is as follows:

	Group		Company	
	2025 £m	2024 £m	**2025 £m**	2024 £m
Accelerated capital allowances	**(1,014.3)**	(1,007.0)	**–**	–
Deferred tax on cash flow hedges	**3.8**	5.6	**–**	–
Deferred tax on inflation-linked swaps	**(13.9)**	(8.2)	**–**	–
Deferred tax on defined pension benefits	**(45.1)**	(54.6)	**–**	–
Other timing differences	**8.7**	7.8	**–**	–
Total deferred tax liability	**(1,060.8)**	(1,056.4)	**–**	–

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	
	2025 £m	2024 £m
At 1 April	**(1,056.4)**	(1,048.7)
Debited to profit and loss account	**(4.7)**	(16.5)
Credited to other comprehensive income	**0.3**	8.8
At 31 March	**(1,060.8)**	(1,056.4)

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.

The Group has not recognised deferred tax assets in respect of £235.0m (2024: £235.0m) of unutilised tax losses, £66.8m (2024: £66.9m) of capital losses and £133.2m (2024: £110.8m) 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 (2024: £235.0m) of unutilised tax losses.

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23. Provisions for liabilities (continued)

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 27 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next financial year, as a settlement has been agreed with Ofgem in May 2025.

During financial year 2023/24, an onerous contract was identified in relation to the H100 Fife project, as a result of cost overruns. The onerous provision of £34.1m (2024: £34.5m) 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 net of contributions received and receivable from third parties.

The Company has £nil (2024: £0.1m) of other provisions for redundancies and legal claims.

24. Deferred income

Group	Connections £m	Replacement £m	Other £m	Total 2025 £m	Total 2024 £m
Customer contributions					
Customer contributions brought forward	292.6	197.7	–	490.3	485.2
Customer contributions deferred in the year	14.5	7.1	–	21.6	17.0
Amortisation in year	(8.3)	(3.9)	–	(12.2)	(11.9)
Utilised in the year	–	–	–	–	–
Total customer contributions	**298.8**	**200.9**	**–**	**499.7**	**490.3**
Government grants					
Government grants brought forward	–	–	0.4	0.4	5.7
Government grants amortisation	–	–	–	–	–
Government grants utilised in the year	–	–	(0.4)	(0.4)	(5.3)
Total government grants	**–**	**–**	**–**	**–**	**0.4**
Total deferred income	**298.8**	**200.9**	**–**	**499.7**	**490.7**

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 2025 Number	31 March 2025 Value £m	31 March 2024 Number	31 March 2024 Value £m
Allotted, called up and fully paid shares				
'A' ordinary shares of 42.55p (2024: 42.55p) each	**235,025,002**	**100.0**	235,025,002	100.0
'B' ordinary shares of 42.55p (2024: 42.55p) each	**117,512,501**	**50.0**	117,512,501	50.0
'C' ordinary shares of 42.55p (2024: 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

	2025 £m	2024 £m
Profit for the financial year	**59.4**	174.9
Dividend paid on equity shares (see note 13)	**–**	(54.5)
Cash flow hedges (net of deferred tax)	**9.6**	0.6
Actuarial loss on defined benefit pension scheme (net of related deferred tax)	**(10.6)**	(26.8)
Movement in shareholders' funds	**58.4**	94.2
Opening shareholders' funds	**944.5**	850.3
Closing shareholders' funds	**1,002.9**	944.5

27. Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases are as follows:

	Vehicles 2025 £m	Vehicles 2024 £m	Land and buildings 2025 £m	Land and buildings 2024 £m
Within one year	**3.1**	2.3	**3.3**	2.3
Within two to five years	**4.3**	2.9	**12.0**	8.6
After five years	**–**	–	**24.9**	21.7
Total	**7.4**	5.2	**40.2**	32.6

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 £72.3m at 31 March 2025 (2024: £63.6m). The Company has capital commitments of £nil at 31 March 2025 (2024: £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 2025.

Other legal and regulatory claims

The Group is party to various litigation, claims and investigations, including in relation to health and safety and regulatory 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.

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.

Contingent assets

During the year, Ofgem expressed their intention to provide £26.0m of funding for the Group's H100 Fife Project. Their 'minded-to' position is subject to consultation, as part of the RIIO-GD2 close out process, the outcome of which is uncertain as at 31 March 2025. Management considers this funding to meet the FRS 102 definition of a contingent asset, i.e. it is a possible asset whose existence will only be confirmed by the occurrence of an uncertain future event, not within the control of the Group, and the receipt of this funding is considered probable, therefore the £26.0m is not yet recognised as a receivable as at 31 March 2025 but it is disclosed (2024: none).

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for the year ended 31 March 2025

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 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 2024. 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 2025 using the projected unit method.

The following financial assumptions have been used:

	2025	2024	2023	2022
As at 31 March				
Discount rate	**5.65%**	4.75%	4.65%	2.75%
Retail price inflation	**3.45%**	3.55%	3.50%	3.75%
Consumer price inflation	**3.15%**	3.15%	3.10%	3.35%
Rate of increase of salaries	**3.25%**	3.35%	3.30%	3.55%
Rate of increase of pensions payment	**3.45%**	3.55%	3.50%	3.75%

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:

	2025		2024		2023	
	Male	**Female**	Male	Female	Male	Female
As at 31 March						
Members currently aged 65	**21.6**	**22.9**	21.8	24.3	22.3	24.7
Members currently aged 45	**23.5**	**25.2**	23.8	26.4	24.3	26.8

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 £m
Discount rate	– 0.1% p.a.	7.3
	+ 0.1% p.a.	(7.1)
Price inflation (RPI measure) [1]	– 0.1% p.a.	(6.8)
	+ 0.1% p.a.	6.9
Life expectancy	– 1 year	(13.1)
	+ 1 year	13.0

(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	**2025**			2024		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Government bonds [1]	**–**	**355.5**	**355.5**	–	380.4	380.4
Corporate bonds	**167.3**	**43.4**	**210.7**	146.5	73.3	219.8
Cash	**–**	**9.3**	**9.3**	–	23.9	23.9
Insurance contracts	**–**	**155.0**	**155.0**	–	193.5	193.5
Total market value of assets	**167.3**	**563.2**	**730.5**	146.5	671.1	817.6
Actuarial value of liabilities			**(550.1)**			(599.4)
Surplus in scheme			**180.4**			218.2

(1) Including LDI repurchase agreement liabilities.

The fair value of scheme assets at 31 March 2025 are based on the bid price where available.

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 2025 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

	2025 £m	2024 £m
At 1 April	**817.6**	853.4
Interest income	**38.3**	39.4
Contributions from the Group	**1.8**	5.2
Remeasurement of Scheme assets	**(102.5)**	(55.7)
Benefits paid	**(23.2)**	(22.5)
Administration costs	**(1.5)**	(2.2)
As at 31 March	**730.5**	817.6

Movement in fair value of Scheme liabilities

	2025 £m	2024 £m
At 1 April	**(599.4)**	(607.4)
Current service cost	**(6.4)**	(6.8)
Past service cost [1]	**(26.3)**	–
Interest cost	**(27.8)**	(27.6)
Actuarial gains	**88.4**	19.9
Benefits paid	**23.2**	22.5
Curtailment [2]	**(1.8)**	–
At 31 March	**(550.1)**	(599.4)

Employer contributions for the year ending 31 March 2025 were 3% of monthly salary roll for employees accruing benefits at a rate of 1/63rd of pensionable salary for each completed year of pensionable service; or 5.7% of monthly salary roll for employees accruing benefits at a rate of 1/60th of pensionable salary for each completed year of pensionable service (2024: 37.3%) before allowing for any salary sacrifice contributions. Deficit contributions were not payable in the year ended 31 March 2025, nor in the year ended 31 March 2024.

(1) As part of the closure of the defined benefit pension scheme to future benefit accruals, pension credits granted to members as additional years of pensionable service represent a plan amendment under FRS 102, resulting in past service costs.
(2) The curtailment cost reflects the increase in the present value of the defined benefit obligation due to the cessation of future accruals, adjusted for any reduction in expected future service.

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for the year ended 31 March 2025

29. Pension commitments (continued)

The actual loss on plan assets was:

	2025 £m	2024 £m
Loss on plan assets excluding interest income	**(102.5)**	(55.7)
Interest income on plan assets	**38.3**	39.4
Actual loss on plan assets	**(64.2)**	(16.3)

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since adoption total £380.8m (2024: £292.4m).

Analysis of the amounts recognised in the profit and loss account

	2025 £m	2024 £m
Amount charged to net operating costs:		
Current service cost	**(6.4)**	(6.8)
Administration cost	**(1.5)**	(2.2)
Past service cost	**(26.3)**	–
Curtailment	**(1.8)**	–
Total charge to net operating costs	**(36.0)**	(9.0)
Analysis of the amount credited/(charged) to finance income/expense:		
Interest income on pension scheme assets	**38.3**	39.4
Interest cost on pension scheme liabilities	**(27.8)**	(27.6)
Net finance income	**10.5**	11.8
Net (charge)/credit to the profit and loss account	**(25.5)**	2.8

Analysis of the amount recognised in other comprehensive income

	2025 £m	2024 £m
Actual loss on scheme assets	**(102.5)**	(55.7)
Actuarial gains on scheme liabilities	**88.4**	19.9
Loss recognised in other comprehensive income	**(14.1)**	(35.8)

Closure of the Scheme
On 31 March 2025, the company closed its Defined Benefit (DB) pension scheme to future accruals. As a result, active members no longer accrue additional pension benefits based on service or salary increases from this date. Benefits earned up to 31 March 2025 remain preserved within the scheme. To compensate affected members, the company introduced pension credits in the form of additional years of pensionable service, with credits varying by member based on age, service, and sex. These service credits are due to be granted as follows, as long as the member remains in employment:

- 50% of credits granted on 1 April 2025
- 25% of credits granted on 1 April 2026
- 25% of credits granted on 6 April 2026

For the 2025 disclosures management have assumed that all service credits are applied in full on 31 March 2025, on the assumption that the majority of members will remain in employment until at least 6 April 2026 in the knowledge that they will receive benefit improvements should they do so. Members are protected from loss of credits due to redundancy or ill-health terminations before 31 March 2026.

The scheme closure and pension credits resulted in a curtailment cost of £1.8m and a past service cost of £26.3m, totalling £28.1m, recognised in the profit and loss account as an exceptional item (see note 6) for the year ended 31 March 2025.

Impact of Virgin Media Ruling
In July 2024, the Court of Appeal upheld a High Court ruling in Virgin Media Ltd v NTL Pension Trustees II Ltd, determining that amendments to contracted-out defined benefit pension schemes made between 6 April 1997 and 6 April 2016, affecting Section 9(2B) rights, are void unless accompanied by written actuarial confirmation under Section 37 of the Pension Schemes Act 1993. The Group's defined benefit pension scheme was contracted out during this period. The Group has engaged actuarial advisors that are reviewing the historical amendments to assess compliance with these requirements.

Between 2005 and April 2016, 5 deeds were executed to establish and amend the pension scheme, including deeds of establishment, amendments, and trustee resolutions. 3 of these deeds were considered to potentially fall out of the remit of requiring s37 certificates and 1 deed referenced an actuarial certificate, which is considered to be sufficient for compliance. The Group's actuarial advisors however noted that they were missing copies of 1 of the deeds, which they have requested.

The potential invalidity of past amendments could result in a remeasurement of the defined benefit obligation, increasing the scheme's liabilities if benefits were reduced by void amendments. The Group is monitoring developments, including the outcome of a further court hearing in February 2025 and potential regulatory changes proposed by the Department for Work and Pensions. As the impact of the ruling remains uncertain and no reliable estimate of any additional liability can be made at this stage, no adjustment has been recognised in the financial statements. The Group will continue to engage legal and actuarial advisors to investigate the matter further and assess any financial impact.

This matter represents a significant source of estimation uncertainty, as the outcome could materially affect the defined benefit obligation reported in future periods. The Group will continue to evaluate the need for additional disclosures or recognition of liabilities as more information becomes available.

b) Defined contribution schemes
The amounts recognised in the profit and loss account are as follows:

	2025 £m	2024 £m
Amount charged in respect of defined contribution schemes	**28.5**	24.9

30. Related parties

The Company is owned by Braeburn EquityCo 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 £6.7m (2024: £5.6m). 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	
	2025 £m	2024 £m
Shareholders' loans:		
UK Gas Distribution 2 Limited	**145.4**	133.6
Speyside Bidco Limited	**96.8**	89.1
Apple Debtco Limited	**145.4**	133.6
	387.6	356.3
Interest owed to shareholders:		
UK Gas Distribution 2 Limited	**4.2**	3.8
Speyside Bidco Limited	**2.8**	2.6
Apple Debtco Limited	**4.2**	3.8
	11.2	10.2

The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £32.1m (2024: £30.7m). 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. In May 2024 and November 2024, £15.3m and £16.0m of interest due on the Group's shareholder loans were paid in kind by increasing the value of the principal by these amounts.

Notes to the financial statements

for the year ended 31 March 2025

30. Related parties (continued)

Transactions with other related parties

In the year the Group also invested £nil in a Joint Venture, Murphy Asset Services Limited (2024: £5.5m). The Group also accounted for a share of the loss to the year ended 31 March 2025 of £0.8m (2024: £1.7m).

During the year, the Group granted its joint venture undertaking, Murphy Asset Services Limited, a loan totalling £5.3m (2024: £nil). £0.2m of interest accrued on the loan in the year ended 31 March 2025 (2024: £nil). As at the reporting date, £5.5m is due from Murphy Asset Services Limited to the Group (2024: £nil), which is included in Other debtors. The loan is repayable on demand and interest is charged at 8% per annum on the principal amount of the loan only.

The Group has accounted for a share of Tonbridge Riverside Regeneration Limited's loss to the period ended 31 March 2025 of £nil (2024: £nil). A shareholder loan balance of £2.0m is outstanding from Tonbridge Riverside Regeneration Limited to the Scotia Group as at 31 March 2025. The loan is interest free.

The Company contributed £1.8m (2024: £5.2m) to Scotia Gas Networks Pension Scheme during the year.

As at 31 March 2025, the Company has a loan balance due to SGN Commercial Services Limited amounting to £8.9m (2024: £1.6m); £7.7m (2024: £7.3m) due from SGN Place Limited; and £25.8m (2024: £19.5m) 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 trade balances due from the SGN Group subsidiaries of £6.9m (2024: due to SGN Group subsidiaries of £2.1m).

In accordance with FRS 102, the Company is exempt from disclosing transactions with subsidiaries that are wholly-owned by the Group.

31. Analysis of changes in net debt

Analysis of changes in net debt	2024 £m	Cash flow £m	Other non-cash movements £m	**2025 £m**
Net cash and cash equivalents				
Cash at bank	29.5	0.7	–	**30.2**
Short term deposits	77.5	305.7	–	**383.2**
	107.0	306.4	–	**413.4**
Financial liabilities, loans and borrowings				
Debt due within one year (note 20)	(444.7)	446.9	(478.9)	**(476.7)**
Debt due after one year (note 21)	(4,857.2)	(963.3)	405.6	**(5,414.9)**
	(5,301.9)	(516.4)	(73.3)	**(5,891.6)**
Derivative financial assets	4.5	–	2.4	**6.9**
Derivative financial liabilities	(132.4)	–	3.2	**(129.2)**
Total	(5,322.8)	(210.0)	(67.7)	**(5,600.5)**

Other non-cash movements in borrowings relate to the reclassification of loans from due after more than one year to due within one year. In addition, it also includes 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

Southern Gas Networks plc issued a £350m public bond on the 7th May 2025, which matures in 2039 and has a coupon rate of 6.25%.

On 1 April 2025, Southern Gas Network plc and Scotland Gas Network plc entered into an uncommitted £150.0m Private Placement Shelf Facility each. The facilities are available until 31 March 2028. In May 2025, £16.6m of interest due on the Group's shareholder loans was paid in kind by increasing the value of the principal by this amount (2024: £15.3m).

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
BCM – Business Continuity Management
BEIS – Department for Business, Energy and Industrial Strategy
CCA – Customer Contract Association
CCUS – Carbon Capture, Usage and Storage
CDP – Carbon Disclosure Project
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 SGN 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
SCMH – Standard Cubic Metres per Hour
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**