

REGISTERED NUMBER: SC264065 (Scotland)

Scotland Gas Networks Plc

Strategic Report, Directors' Report and

Audited Financial Statements for the Year Ended 31 March 2025

Scotland Gas Networks Plc

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for the Year Ended 31 March 2025

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Scotland Gas Networks Plc

Company Information
for the Year Ended 31 March 2025

DIRECTORS:

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Paul Trimmer
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Michael Smart
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Scotland Gas Networks Plc

Strategic Report for the Year Ended 31 March 2025

The Directors present their strategic report for the year ended 31 March 2025.

This strategic report sets out the main trends and factors underlying the development and performance of Scotland Gas Networks Plc ("the Company") during the year ended 31 March 2025 as well as those matters which are likely to affect our future development and performance.

THE BUSINESS, ITS OBJECTIVES AND STRATEGY

The Company operates the regulated gas transportation and metering business for the Scotland gas distribution network, one of eight regional gas distribution networks in Great Britain. We serve 1.8 million Scottish 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 25,000 kilometres of network pipeline and five stand-alone networks known as Scottish Independent Undertakings (SIUs), covering the largest area of any network.

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited ("**SGN**"), which is registered at St. Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ. Scotia Gas Networks Limited 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).

The Company's business is regulated by the Office of Gas and Electricity Markets ("Ofgem").

Objectives and Strategy

The Company's principal objectives are to deliver natural gas safely, reliably and efficiently across the gas distribution network and to provide the highest standard of service to our stakeholders, whilst delivering value to our shareholders. Its strategy therefore places the highest emphasis on ensuring activities are carried out safely and that the networks operate in a reliable and efficient manner, so that benchmarks and regulatory targets can be exceeded to the benefit of all its stakeholders.

The Company's overall financial objective is to focus on operational efficiency and the efficient delivery of capital and replacement expenditure programmes. Therefore, financial objectives are set to ensure the regulatory targets are achieved or outperformed.

The Company's financing objective is to ensure an efficient capital structure that mitigates interest rate and inflation risk through maintaining a minimum of 75% of debt at either fixed rate of interest or inflation linked.

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.

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Our long-term plan focuses on three areas:

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 deliver 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.

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

1. Safety

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

2. Customers

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

3. People

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

4. Productivity

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

5. 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.
- 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.

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**External and regulatory environment**

The management and operation of the Company's gas transportation assets are subject to a series of legislative requirements to ensure that assets are managed and operated in a safe and reliable manner. The Company must also ensure that arrangements are in place to respond to emergency situations and to ensure hazardous work is carried out safely and with minimum disruption.

The primary legislation controlling the Company's activities as a gas transporter is the Gas Act 1986 (as amended). Under the Gas Act, the Company holds a licence that allows it to operate the gas distribution network it owns. The Company is regulated by Ofgem, which has established price control mechanisms that govern the amount of revenue that can be earned by regulated businesses. Ofgem assesses the revenue and investment plans of the Company to determine an efficient level of expenditure and the quality of service requirements for the networks are also taken into account. A cost of capital for the required investment in the networks is also determined.

The Company is also subject to safety legislation which is enforced by the Health and Safety Executive ("HSE") in the UK. The Company's processes and procedures are covered in a safety case which has been accepted by the HSE.

Factors affecting the business

The Company's principal activity is the operation of a highly complex gas infrastructure network. As a consequence, there are a number of factors that may influence the development and performance of the Company and the financial returns that can be achieved. The principal factors that influence the Company are as follows:

- **Regulatory price controls**

The prices that can be charged for the use of the Company's networks are determined in accordance with regulator approved price controls. The year ended 31 March 2025 was the fourth year of the RIIO-GD2 price control, which set the key elements of revenue, outputs and allowed returns until 31 March 2026.

Additionally, the regulatory price controls include an allowed rate of return for the investment the Company makes in the network. The allowed rate of return represents the return on debt and equity capital.

In December 2024, we submitted our evidence-led and well-balanced RIIO-GD3 Business Plan for the 1 April 2026 – 31 March 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.

It is 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 regions.

The next regulatory settlement must provide a stable financial framework that continues to attract investment and protect 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.

Scotland Gas Networks Plc

Strategic Report for the Year Ended 31 March 2025

- **Safety and reliability of the networks**

The Company's ability to operate the networks safely and reliably is of the highest importance. Its performance in these areas affects the costs it incurs and the overall financial performance.

- **Efficiency**

The Company's objective is to ensure that gas is delivered as efficiently as possible through its network. This allows the Company to limit price increases and improve its own financial performance.

- **Interest rates**

The costs of financing our operations are affected by changes in interest rates as some of the Company's borrowings are held at floating rates. Exposure to changes in interest rates are hedged by holding both fixed rate and inflation-linked borrowings and by holding derivative financial instruments (interest rate swaps and inflation-linked swaps) where necessary to achieve the desired profile of interest rate risk. The cost of new debt raised by the Company is also affected by changes in interest rates. The Company aims to partially mitigate this risk by maintaining a smooth debt maturity profile to minimise annual refinancing requirements and spread future refinancing risk.

- **Inflation rates**

The value of the Company's regulated assets and its turnover are linked to inflation, which is measured by the Consumer Prices Index including owner occupiers' housing costs ("CPIH"). A large part of the Company's cost base is also linked to various measures of inflation. The costs of financing our operations are also affected by changes in inflation rates as some of the Company's debt has principal and interest payments linked to either RPI or CPI. In addition, the Company is party to a variety of inflation-linked swaps, which have two payment legs linked to CPI. As such, the Company's financial performance, including its performance against various covenants, can fluctuate with inflation.

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 and efficient coordination of risk and control activities.

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**PRINCIPAL RISKS AND UNCERTAINTIES – continued**

Risk title	Enterprise risk description	Key mitigations
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
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
Health & Safety	There is a risk of a major health and/ or safety incident which impacts upon SGN customers and/or employees or contractors. There is also a risk of ineffective management of 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
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 plan - Suite of KPIs

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PRINCIPAL RISKS AND UNCERTAINTIES – continued

Risk Title (continued)	Enterprise risk description (continued)	Key Mitigations (continued)
Operational Delivery (continued)		- 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
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
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.
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

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**PRINCIPAL RISKS AND UNCERTAINTIES – continued**

Risk Title (continued)	Enterprise risk description (continued)	Key Mitigations (continued)
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
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
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

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Strategic Report for the Year Ended 31 March 2025

PRINCIPAL RISKS AND UNCERTAINTIES – continued

Risk Title (continued)	Enterprise risk description (continued)	Key Mitigations (continued)
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
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
Timeframe: Medium term (3-9years)		
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 - New Chief Financial Officer

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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
Timeframe: Long term (10+ years)		
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
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

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Strategic Report for the Year Ended 31 March 2025

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 28 to 50.

Engaging with stakeholders

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

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

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

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Strategic Report for the Year Ended 31 March 2025

Engaging with stakeholders - continued

SGN key stakeholder groups:

1. Customers
2. Our people
3. Communities and the environment
4. Suppliers, contractors and partners
5. Government and regulators
6. Shareholders and debt investors

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

1. Customers

We safely and reliably deliver gas to 1.8 million homes and more than 58,000 industrial and commercial customers, 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 on average approximately 160 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.

Scotland Gas Networks Plc

Strategic Report for the Year Ended 31 March 2025

Engaging with stakeholders - continued

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 automation. 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 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.

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.

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**Key performance indicators**

The Company measures the achievement of its objectives through the use of quantitative assessments and, where quantitative measures are less relevant, through the use of qualitative assessments. The principal key performance indicators ("KPIs") which are used to assess whether principal operating objectives have been achieved are set out below:

Key performance indicator	Description	Year ended 31 March 2025	Year ended 31 March 2024
Revenue	Income relating to the transportation of natural gas and provision of related services	£386m	£434m
Operating profit	Profit before financing costs and taxation	£76m	£169m
Cash flow after investing activities	The operating cash flow (excluding interest paid) of the business after investment in fixed assets, including both replacement and capital expenditure.	£32m	£122m
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.	£77m	£75m
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.	£87m	£81m

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**Key performance indicators – continued**

Key performance indicator	Description	Year ended 31 March 2025	Year ended 31 March 2024
Net Debt to RAV ratio	Regulated Asset Value (RAV) is defined by our regulators. 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.	61.6%	62.2%
Customer satisfaction - 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.	9.20 [2]	9.07 [2]
Customer satisfaction - unplanned interruptions	Results from customer satisfaction surveys (10 = very satisfied). Unplanned interruptions arise through leakage or other emergencies.	9.81 [2]	9.67 [2]
Escapes attendance (uncontrolled)	Proportion of uncontrolled escapes attended in one hour - percentage (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.	99.5%	99.5%
Escapes attendance (controlled)	Proportion of controlled escapes attended in one hour - percentage (target 97%). Controlled gas escapes are defined as those where the gas supply is turned off at the time the customer calls.	99.9%	99.8%

Scotland Gas Networks Plc

Strategic Report
for the Year Ended 31 March 2025

Key performance indicators – continued

Key performance indicator	Description	Year ended 31 March 2025	Year ended 31 March 2024
Business carbon footprint	Our business carbon footprint includes Scope 1 and 2 emissions, excluding shrinkage, reported in tonnes of CO ₂ e. Further details can be found on page 26.	8,598 tCO₂e	8,518 tCO ₂ e

- [1] The sum of capital expenditure and replacement expenditure equal the total additions of intangible and tangible fixed assets as reported in notes 12 and 13 respectively.
- [2] Based on customer satisfaction survey reports.

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Strategic Report for the Year Ended 31 March 2025

Alternative performance measures

When assessing and discussing the Company'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.

	APM 1	APM 2	APM 3
	Net debt to Regulated Asset Value (RAV) ratio	Capital expenditure	Replacement expenditure
Closest equivalent UK GAAP measure	Borrowings	Tangible and intangible fixed asset additions	
Adjustments to reconcile primary statements	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.	Tangible and intangible fixed asset additions excluding replacement expenditure	Tangible and intangible fixed asset additions excluding capital expenditure
Rationale for adjustments	Governed by specific licence conditions and covenants imposed on us due to the nature of the business.	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.	

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**Alternative performance measures - continued**

	APM 4	APM 5	APM 6
	Regulated Asset Value (RAV)	Cashflow after investing activities	Network investment
Closest equivalent UK GAAP measure	Tangible and intangible assets	Operating cashflow	Tangible and intangible fixed asset additions
Adjustments to reconcile primary statements	RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Excluding interest paid and including net cash flow from investing activities.	Total of tangible and intangible additions
Rationale for adjustments	Governed by specific license conditions due to the nature of the business.	Due to the nature of the business cash flow from core activities are considered to be operating activities and investment in our gas infrastructure.	Illustrates total capital and replacement expenditure across the network, being a key performance measure.

Resources

The Company's principal resources are its assets and its people.

The Company's distribution network comprises approximately 25,000 kilometres of gas mains, together with associated services, plant and machinery and storage facilities.

The Company had 151 full time equivalent employees at 31 March 2025 (2024: 166). It places considerable value on the involvement of employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company during the year. It continues to invest in the development and training of its people to ensure both individual developmental needs and business skill requirements are met.

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**FINANCIAL REVIEW**

The Company sets out below its financial review for the year ended 31 March 2025. The comparative figures presented are for the year ended 31 March 2024, as reported in the audited financial statements, unless otherwise stated.

In December 2024, Simon Kilonback, the Company's Chief Financial Officer replaced Mark Wild in the role of Chief Executive Officer. The Company also welcomed a new Chief Financial Officer, Tony King, 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.

During the year, the Company generated revenues of £386m (2024: £434m), delivering £76m (2024: £169m) of operating profits, and enabling £164m (2024: £156m) to be invested on new and existing assets.

The majority of turnover was generated from charges to gas shippers for transporting gas through the network, with prices regulated by the governing body, Ofgem. The annual revenues are predominantly fixed in accordance with the profile outlined by the price control settlement, which dictates the pricing of the Company's services to gas shippers. 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.

Operating profit decreased by £93m 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 £10m, accounting adjustments arising from the closure of the defined benefit pension scheme to future accruals (see page 20 for further details), and costs incurred in relation to the Company'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 Company recognised £4m (2024: £nil) of exceptional costs in the profit and loss account in relation to this programme (see note 10 to the financial statements).

Replacement expenditure, linked to the ongoing replacement of predominantly cast-iron pipes with PE pipes, amounted to £87m (2024: £81m). This increase reflects higher contractor costs driven by constrained labour in our supply chain. Pipe replacement slowed down slightly from 260km in 2024 to approximately 246km in 2025.

Capital expenditure (excluding replacement expenditure) during the year amounted to £77m (2024: £75m). This included fleet upgrades, continued cyber investments to maintain our operational resilience and IT projects to support our continued drives to improve performance, as well as other planned investments during RIIO-GD2.

During the financial year, the Company repaid £35m of EIB loans (2024: £65m), which was the final EIB debt outstanding. The Company has no scheduled debt maturities until March 2027.

In the year, the Company also entered into a £20m Private Placement that was drawn in December 2024.

In April 2025, the Company entered into an uncommitted £150m Private Placement Shelf Facility, which is available until 31 March 2028.

The Company paid dividends of £20m (2024: £33m) during the year. No further dividends were declared for 2024/25.

Scotland Gas Networks PlcStrategic Report
for the Year Ended 31 March 2025**Treasury policies and capital structure**

The Company's operations are financed by a combination of equity and retained profits, bank loans, private placements and public bonds. The Company's funding and liquidity are managed within a framework of policies and guidelines authorised by the Board of Directors. Further details are set out in the Directors' Report.

As a matter of policy, a minimum of 75% of debt is maintained at either fixed rates of interest or inflation-linked. This policy is kept under review. Derivative financial instruments, including interest rate swaps and inflation-linked swaps are used, where necessary, in order to achieve this desired profile.

Liquidity risk

Liquidity is maintained through a mixture of long-term borrowings and short-term liquid funds in order that there are sufficient funds available for the Company's current and planned operations. Committed facilities are in place in order to provide funding for future capital and replacement expenditure as well as to provide sufficient available facilities to meet the seasonal working capital requirements of the Company. The total revolving credit facility as at 31 March 2025 available to the Company is £150m (2024: £150m) and expires in March 2027. The facility was undrawn at the yearend (2024: undrawn).

Counterparty credit risk

The Company transacts with banks for the provision of deposits, interest rate, inflation and currency hedging transactions. Under the Company's hedging policy, counterparties must maintain minimum credit ratings with appropriate collateral posting and replacement thresholds based on each counterparty's long-term credit ratings. At the year end, the Company had £35m payable relating to financial instruments with bank counterparties (2024: £42m).

In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria, with limits set on both the aggregate amount of investment and the investment term based on the credit rating of the counterparty. All investment counterparties must carry a minimum long-term credit rating of A- or equivalent for the Company to enter into a new transaction.

Pension commitments

A large proportion of the Company's employees are members of the Scotia Gas Networks Pension Scheme which provides final salary defined benefits for members.

The Company accounts for any pension asset or liability in accordance with FRS 102. The net pension surplus as at 31 March 2025 was £72m (2024: £87m), a decrease from the previous year of £15m. 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 Company's normal pension contributions 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.

The Company contributed £1m to the DB scheme in the year (2024: £2m). See note 25 to the financial statements for further details.

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.

Scotland Gas Networks Plc

Strategic Report for the Year Ended 31 March 2025

The scheme closure and pension credits resulted in £11m of costs (2024: £nil) recognised in the profit and loss account for the year ended 31 March 2025, disclosed as an exceptional item (see note 10 to the financial statements).

Dividend policy

Our dividend policy 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 as well as the Company's financial covenants and credit metrics and targets set by the Board. The inherent risk in the business and wider economy is also considered.

Accounting policies

The Company's accounting policies are set out in note 1 to the financial statements. These accounting policies have been applied consistently during the year and in the preceding year.

OPERATIONAL REVIEW

Safety

Board responsibility

The Board has a Health and Safety Committee that is responsible for monitoring health and safety performance and ensuring the health and safety policy statement is adhered to. The Committee provides the Board with reports on any key areas identified and further details on the Committee are set out in the Corporate Governance Statement, in the Directors' Report.

Gas escapes standards of service

The Company's engineers respond to reports of suspected gas leaks 24 hours a day, 365 days a year, regardless of from whom people buy their gas. Its engineers aim to attend all uncontrolled gas escapes within one hour and all controlled gas escapes within two hours. A controlled gas escape is one where the person reporting it has confirmed that the gas emergency control valve serving the premises has been turned off and the smell of gas has gone. An uncontrolled gas escape covers all others.

In our capacity as the National Gas Emergency Service, we responded to 55,954 reported gas escapes across the network during 2024/25 (2024: 56,300). During the year ended 31 March 2025 we attended 99.5% (2024: 99.5%) of uncontrolled gas escapes within one hour and 99.9% (2024: 99.8%) controlled gas escapes within two hours.

In May 2025, Ofgem closed their investigations into our failure to attend 97% of reported gas escapes for the reporting period 2022/23 resulting in the Company making a payment to Ofgem's Voluntary Redress Fund totalling £0.7m.

Gas networks' regulation

The year ended 31 March 2025 was the fourth year of the RIIO-GD2 price control, which set the key elements of revenue, outputs and allowed returns until 31 March 2026.

Revenues are earned through charges levied on network users, to cover costs and earn a return on the network company's regulated assets. Ofgem also has incentives in the price control to encourage greater efficiency, innovation and delivery of an enhanced standard of service for customers.

Scotland Gas Networks Plc

Strategic Report
for the Year Ended 31 March 2025

During the year, the Company has continued to support Ofgem’s investigation into potential breaches of competition law. The Company has recorded £2m (2024: £nil) of costs in the profit and loss account in relation to this investigation, which are disclosed as exceptional items. See note 10 to the financial statements for further information.

Further details

Further details on the long-term development plans of the Company can be found in the long-term development statement (published in accordance with Special Condition D3 of the Gas Transporter Licences) and available on the Company's website - www.sgn.co.uk. The long-term development plans set out the forecast gas demand over the ten-year period and outlines the capital investment plan that is required to ensure the continued operation of the network in accordance with the Company's licence conditions.

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED BY:

DocuSigned by:

9B408FC405DA43D.....
Rebecca Lumlock (Chair) - Director
Date: 31-07-25 | 2:53 PM BST

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

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

PRINCIPAL ACTIVITY

The Company's principal activity is the development, administration, maintenance and operation of the Scotland gas distribution system and the supply of gas transportation services. It will continue in this activity for the foreseeable future.

DIVIDENDS

The Company paid an interim dividend of £20m (2024: £33m). The Directors do not recommend the payment of any final dividend for the year (2024: £nil).

FUTURE DEVELOPMENTS

Details of future developments can be found in the strategic report.

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in note 28 to the financial statements.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2024 to the 31 March 2025.

Charlotte Brunning
Paul Jeffery
Nicholas Salmon
Michael Botha
Rebecca Lumlock (Chair)
Felipe Ortiz
Paul Trimmer
Martin Catchpole
Michael Smart
Jeffrey Rosenthal
Matthew Gross
Joanna Whittington

Other changes in directors holding office are as follows:

Antoine Kerrenneur - resigned 15 April 2024
Charles Thomazi (Alternate) - resigned 12 June 2024
Christian Fingerle – resigned 13 September 2024
David Demes - appointed 30 January 2025
James Adam - appointed 30 January 2025
Felipe Ortiz- resigned 8 May 2025
Afonso Gois – appointed 16 May 2025
Mathew Turnell-Henry – appointed 16 May 2025

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, SGN has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself, the Company, the Directors and other senior executives of the Company.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

REVIEW OF BUSINESS

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 Company are set out in the Strategic Report on pages 2 to 22.

FINANCIAL RISK MANAGEMENT

The Company'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 5 and 20.

Interest rate risk and inflation rate risk

The Company has interest bearing liabilities, and as a matter of policy a minimum of 75% of debt is maintained at either fixed or inflation-linked rates of interest. The Company uses interest rate swaps and inflation-linked swaps, where necessary, in order to achieve this desired profile. This policy is kept under review and is updated as deemed necessary by the Board.

Liquidity risk

The Company maintains a mixture of long-term funding, short-term liquid funds and committed facilities, in order to ensure that there are sufficient funds available for the Company'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 Company's regulated business is managed in accordance with industry standards as set out by the Unified Network Code.

Pricing risk

The Company's gas transportation charges are subject to price control formulae set within the regulatory regime. The Company'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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

EMPLOYEE ENGAGEMENT

The Company 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 Company.

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.

RESEARCH AND DEVELOPMENT

The Company 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 3.

POLITICAL CONTRIBUTIONS

The Company made no political contributions in the current or previous financial year.

GOING CONCERN

The Company's accounts have been prepared on a going concern basis.

The Directors have forecast cash flows of the Company for the next twelve months to 31 July 2026 (the going concern period) and have obtained a support letter from Scotia Gas Networks Limited confirming that it can and will support the Company in meeting its liabilities throughout the going concern period.

In assessing the ability of the Company to rely on this support the Directors have considered the going concern assessment undertaken at the Scotia Gas Networks Limited group level, the conclusion of which is that even under severe but plausible downside scenarios there is headroom in relation to both liquidity and covenants.

Consequently, the Directors believe that the Company will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for the going concern period, being twelve months (to 31 July 2026) from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**ENVIRONMENT AND SUSTAINABILITY**

The Financial Stability Board ("FSB") created the Task Force on Climate related Financial Disclosures ("TCFD") to improve and increase reporting of climate-related financial information. As per Companies Act (2006), for companies with >500 employees and >£500m turnover, it is mandatory to report in alignment with TCFD for periods beginning on or after 6 April 2022. Scotland Gas Networks plc does not meet the thresholds yet, however a TCFD report has been included in the Annual Report of the ultimate parent undertaking, Scotia Gas Networks Limited, which is available from St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ, United Kingdom.

The overall Carbon Footprint (compliant with Streamlined Energy and Carbon Reporting, "SECR") for the Company is shown in the Table below:

	2024/25		2023/24		Annual Movement (Decrease)/ increase	
	Tonnes of CO2e	Tonnes of CO2e per £1m turnover	Tonnes of CO2e	Tonnes of CO2e per £1m turnover	Tonnes of CO2e	Tonnes of CO2e per £1m turnover
Scope 1						
Energy consumption (excluding electricity)	490	1.27	389	0.90	101	0.37
Transport (direct commercial vehicles and business miles)	7,151	18.53	7,175	16.53	(24)	2.00
Scope 2						
Electricity consumption (market based)	-	-	50	0.12	(50)	(0.12)
Electricity consumption (location based)	957	2.48	904	2.08	53	0.40
Scope 3						
Business travel (rail, air, ferry, car hire, grey fleet)	587	1.52	548	1.26	39	0.26
Total (excluding shrinkage)	9,185	23.80	9,066	20.89	119	2.91
Shrinkage	175,180	453.83	179,014	412.47	(3,834)	41.36
Total carbon emissions	184,365	477.63	188,080	433.36	(3,715)	44.27

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

ENVIRONMENT AND SUSTAINABILITY - continued

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.

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 490 tCO₂e, compared to 389 tCO₂e 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 saw a 2.1% decrease in our emissions associated with shrinkage compared to last year, showing that our pipe replacement programme is continuing to effectively reduce leakage.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Wates Corporate Governance Principles

For the year ended 31 March 2025, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company 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 Board to monitor corporate governance of the Company 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 Company.

Pages 29 to 32 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 that meet certain thresholds are required to report under four corporate governance reporting regimes:

1. Employee Engagement - A statement on how Directors have engaged with employees and how Directors have had regard to employee interests. See page 12.
2. Stakeholder Engagement - A statement on how Directors have engaged with stakeholders and how Directors have had regard to stakeholder interests. See pages 11 to 13.
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 11.
4. Corporate Governance - A statement on the Company's Corporate Governance Arrangements and how these have been applied. See pages 28 to 35.

The Company has adopted all four of these reporting regimes (Corporate Governance Requirements). In readiness, the Company has established a governance programme to ensure Directors are able to comply with these Corporate Governance Requirements.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

SGN and the Wates Principles for large privately owned companies

1. Purpose and leadership

An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

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.

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 included site safety visits throughout the year, engaging with frontline employees and reinforcing the Company's commitment to a safe working environment and the 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 RII0-GD3.

For further information on our purpose, vision and values please refer to page 3.

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.

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 Company are effectively maintained.

The Chief Executive, Chief Financial Officer and Company Secretary attend each Board meeting.

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 Company 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

SGN and the Wates Principles for large privately owned companies - continued

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.

For further information of the Board composition and experience can be found on pages 49 to 55.

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.

The Company 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.

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 and the Board.

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.

Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 49 to 50.

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.

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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**SGN and the Wates Principles for large privately owned companies - continued**

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 5 to 10 .

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.

The Company's risk management framework and key strategic risks and mitigations are outlined in the Strategic Report on pages 5 to 10. Details of the key investment opportunities reviewed by the Board can be found on pages 36 to 37.

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.

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Company'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 Company'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.

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 financial year 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 Company's Executive is suitable for the Company's long-term success and diversity and inclusion plays a key role across the Company.

Details of activities undertaken by Remuneration Committee can be found on pages 41 to 42.

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.

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 Company. The Board is committed to social responsibility, community engagement and environmental sustainability as underpinned by our strategic priorities.

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.

Scotland Gas Networks Plc

Directors' Report
for the Year Ended 31 March 2025

SGN and the Wates Principles for large privately owned companies - continued

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.

Further details on Engaging with Stakeholders section and Section 172 (1) statement can be found on page 11.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

SGN Governance Structure

The Board's role is to promote the long-term success of the Company 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 Company and for setting of 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 Company 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 for the Company also consist of two additional independent Non-Executive Directors. Each of the Non-Executive Directors are chosen for their diversity of skills and experience.

The Non-Executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Company 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 49 to 50 followed by their biographies on pages 51 to 55.

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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**SGN Governance Structure - continued**

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 is set out on pages 38 to 46.

Board effectiveness

In 2024/25, the Company 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.

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 Company, 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 54.

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 that 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 55.

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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**SGN Governance Structure - continued**

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.

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 on pages 47 to 48.

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 11 to 13.

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. 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 Company 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 Company, 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

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	Detailed description
	- Company strategy: Consideration and approval of the Company's 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 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board activities during 2024/25 - continued

Board Focus	Detailed description
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 Company 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 the Company's 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 and LTS Futures. - 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.
Governance	- Strategic risks: Consideration of strategic risks (further details on pages 5 to 10) 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 Company 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees

The Board Committees convene to steer and supervise the SGN Group across strategy, performance and governance in the short, medium and long-term. As Scotland Gas Network plc is one of the main trading entities of the SGN Group, a significant amount of the Board Committees focus is directed towards the Company. The Committee's company-related activities are introduced below.

Audit Committee

Membership

The current members of the Audit Committee are Paul Jeffery (Committee Chair), Nick Salmon, Michael Botha and Martin Catchpole.

Attendees

The External Auditors are invited to attend the Audit Committee along with the Chief Financial Officer, the Group Finance Director, the Head of Financial Reporting and Tax and the Group Head of Internal Audit, Risk and Compliance, who represent Management.

The role of the Committee and principal responsibilities

The Audit Committee is a sub-committee of the Board. The Committee's role is to support the Board within the Governance Framework in matters relating to the:

- integrity of Financial Reporting;
- relationship with the External Auditor and the effectiveness of the external audit process;
- effectiveness of the Internal Audit and Compliance function; and
- effectiveness of the System of Internal Control.

The Audit Committee also reviews key regulatory filings prior to submission to Ofgem and other regulatory bodies.

What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Financial reporting

- Reviewed key accounting judgements, interim and financial results and recommended approval by the Board for statutory and regulatory results.
- Reviewed and approved the goodwill impairment and carrying value judgements.
- Received and discussed the accounting treatment and provisions for key commercial projects.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

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 Company.
- 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 Company, 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.

Finance Committee

Membership

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

Attendees

The Chief Financial Officer, the Group Finance Director and the Director of Treasury & Corporate Finance also attend the Finance Committee meetings to represent Management.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

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 Company.
- 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

Looking forward

The Committee's priorities for 2025/26 are to monitor the implementation of funding and financial risk management strategies to ensure the Company 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 Company 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

Membership

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

Attendees

The Chief Executive Officer, the Chief People Officer and the Head of Employee Relations, Policy & Reward also attend the Remuneration Committee meetings to represent Management.

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 Company's Executive is suitable for the Company's long-term success;
- diversity and inclusion play a key role across the Company; 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

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 Company's resourcing plans designed to reinforce future resilience, that the talent and succession strategy for the Company's Executive is suitable for the Company's long-term success and ensure diversity and inclusion continues to play a key role across the Company. The Committee will also review and revise its terms of reference as part of a wider Board effectiveness review being conducted.

Health & Safety Committee

Membership

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

Attendees

The Chief Executive Officer, the Chief Safety Officer and the Chief Operating Officer also attend the Health & Safety Committee meetings to represent Management.

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; and review compliance and assurance plans, monitor progress against key safety programmes.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

- 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 Health & Safety Committee 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 2025/26 are continuing to drive health and safety improvements ensuring that the Company 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 Company 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

Stakeholder, Environment, Social & Governance Committee

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 Chief Executive Officer, the Chief Operating Officer and the Chief Strategy and Regulation Officer also attend the Stakeholder, Environment, Social & Governance Committee meetings to represent Management.

The role of the Committee and principal responsibilities

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

- cultural, environmental, social and governance (ESG) issues;
- all stakeholders with an interest or concern in the Company; and
- the Company's impact 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 Stakeholder, Environment, Social & Governance 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

- 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

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.

Nomination Committee

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), Nick Salmon (as available), James Adam (as available), Paul Jeffery (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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Board Committees - continued

Key highlights

The key highlights for the year 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 Board.
- Board approval of the appointments of David Demes, Afonso Gois and Mathew Turnell-Henry as Alternate Directors to the Board.
- 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 Board, 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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**Attendance at Board and Board Committee Meetings**

The attendance of the Board of Directors and the Board Committees during the year is as set out below:

	Board meetings	Audit Committee meetings	Finance Committee meetings	Health & Safety Committee meetings
Directors				
<u>Rebecca Lumlock</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>6/6</u>
<u>Michael Botha</u>	<u>6/6</u>	<u>3/3</u>	<u>7/7</u>	<u>-</u>
<u>Jeffrey Rosenthal</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Nick Salmon</u>	<u>6/6</u>	<u>3/3</u>	<u>-</u>	<u>6/6</u>
<u>Charlotte Brunning</u>	<u>6/6</u>	<u>-</u>	<u>7/7</u>	<u>-</u>
<u>James Adam¹</u>	<u>1/1</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Martin Catchpole</u>	<u>6/6</u>	<u>3/3</u>	<u>7/7</u>	<u>-</u>
<u>Paul Trimmer</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Paul Jeffery</u>	<u>6/6</u>	<u>3/3</u>	<u>7/7</u>	<u>6/6</u>
<u>Joanna Whittington</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>6/6</u>
<u>Christian Fingerle²</u>	<u>3/3</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Michael Smart³</u>	<u>2/2</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the tables above:

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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**Attendance at Board and Board Committee Meetings - continued**

	Remuneration Committee meetings	Stakeholder, Environment, Social & Governance Committee meetings	Nomination Committee meetings
Directors			
<u>Rebecca Lumlock</u>	<u>4/4</u>	<u>-</u>	<u>-</u>
<u>Michael Botha</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Jeffrey Rosenthal</u>	<u>-</u>	<u>4/4</u>	<u>-</u>
<u>Nick Salmon</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Charlotte Brunning</u>	<u>4/4</u>	<u>4/4</u>	<u>-</u>
<u>James Adam¹</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Martin Catchpole</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Paul Trimmer</u>	<u>4/4</u>	<u>4/4</u>	<u>-</u>
<u>Paul Jeffery</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Joanna Whittington</u>	<u>4/4</u>	<u>4/4</u>	<u>-</u>
<u>Christian Fingerle²</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Michael Smart³</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the tables above: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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**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 Company 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 Company 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, resilience, and service delivery. - Providing strategic input to investment and regulatory plans. - Championing a mature safety culture and workforce capability.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**SGN Board Roles and Responsibilities - continued**

Position	Responsible for
Non-Executive Shareholder Directors	- Providing constructive challenge to the Board's decision-making processes. - Scrutinising, measuring and reviewing the performance of the Company. - Constructively challenging and assisting in the development of strategy. - Reviewing and challenging the performance of the Company'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 Company'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.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2025****Rebecca Lumlock, Chair, Non-executive Director**

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. Rebecca is also Director of UK Gas Distribution 2 Limited; Galaxy Pipeline Assets Holdco Limited and PD Ports Limited. Rebecca serves as Chair of the Nomination Committee and is member of the Remuneration Committee and the Health & Safety Committee.

Paul Jeffery, Statutory Independent Non-executive Director

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. Paul is also Non-executive Director of London Power Networks Ltd; South-Eastern Power Networks Ltd; Eastern Power Networks Ltd and UK Power Networks (IDNO) Ltd (all forming part of the UK Power Networks group). Paul serves as Chair of the Audit Committee and is member of the Finance Committee and the Nomination Committee.

Joanna Whittington, Statutory Independent Non-executive Director

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. Joanna is also Non-Executive Director of Payment Systems Regulator. Joanna is member of the Remuneration Committee, the Health & Safety Committee, the Stakeholder, Environment, Social & Governance Committee and the Nomination Committee.

Nick Salmon, Non-executive Director

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. He is also Chair of Pressure Technologies Ltd. Nick serves as Chair of the Health & Safety Committee and is member of the Audit Committee and the Nomination Committee.

Charlotte Brunning, Non-executive Director

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. Charlotte is also Director of Apple Newco Limited; Galaxy Pipeline Assets HoldCo Limited; SGI; Scottish Hydro Electric Transmission plc and Braeburn EquityCo Limited. Charlotte serves as the Chair of the Remuneration Committee. She is also member of the Finance Committee, the Remuneration Committee, the Stakeholder, Environment, Social & Governance Committee and the Nomination Committee.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2025 - continued****James Adam, Non-executive Director**

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. James is also Director of Braeburn EquityCo Limited; Sauna UK BidCo Limited and Western BidCo Limited. He is member of the Nomination Committee.

Martin Catchpole, Non-executive Director

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. He also serves as Director of Galaxy Pipeline Assets HoldCo Limited. Martin is member of the Audit Committee, the Finance Committee and the Nomination Committee.

Paul Trimmer, Non-executive Director

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. He is member of the Advisory Board of Carbon Connect and is a Partner in Atosú. Paul is member of the Remuneration Committee, the Nomination Committee, the Health & Safety Committee and the Stakeholder, Environment, Social & Governance Committee.

Jeffrey Rosenthal, Non-executive Director

Jeffrey joined the Board in June 2022. He 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. Jeffrey is the Chair of the Stakeholder, Environment, Social & Governance Committee and member of the Nomination Committee.

Michael Botha, Non-executive Director

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. Michael is member of the Audit Committee, Nomination Committee and Chair of the Finance Committee.

Scotland Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2025**Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2025 - continued****Christian Fingerle, Non-executive Director**

Christian joined the Board in May 2022 and resigned in September 2024. He 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.

David Demes, Alternate Director

David joined the Board in January 2025. David joined Ontario Teachers' in 2018 and is a Director in the 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.

Matthew Gross, Alternate Director

Matthew joined the Board in January 2024. 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.

Michael Smart, Alternate Director

Michael joined the Board in May 2022. He 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, Alternate Director

Antoine joined the Board in March 2023 and resigned in April 2024. He 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, Alternate Director

Felipe joined the Board in March 2022 and resigned in May 2025. He 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.

Scotland Gas Networks Plc

Directors' Report for the Year Ended 31 March 2025

Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2025 - continued

Charles Thomazi, Alternate Director

Charles joined the Board in October 2017 and resigned in June 2024. He leads the EMEA Infrastructure team in Teachers' Infrastructure Group. He attends Board meetings as a substitute to Charlotte Brunning.

Afonso Gois, Alternate Director

Afonso joined the Board in May 2025. 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.

Mathew Turnell-Henry, Alternate Director

Mathew joined the Board in May 2025. He 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.

Simon Kilonback, Chief Executive Officer

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).

Darren Elsom, Chief Operating Officer

Darren oversees the day to day operations, engineering, asset management and customer service. He joined the Company in December 2023.

Tony King, Chief Financial Officer

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

Antony Green, Chief Strategy and Regulation Officer

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

Penny Meddes, Chief People Officer

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

Devin-Paul O'Brien, Chief of Staff

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

Scotland Gas Networks Plc

Directors' Report
for the Year Ended 31 March 2025

Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2025 - continued

Fungai Makoni, Governance Director & Company Secretary

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

Nicola Graham-Shand, Chief Legal Officer

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.

Nick Porter, General Counsel (Interim)

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.

Abbie Sampson, Chief Corporate Affairs Officer

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

Mark Whitley, Chief Safety Officer

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

David Wilson, Chief Transformation Officer

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

Scotland Gas Networks Plc

Directors' Report
for the Year Ended 31 March 2025

DISCLOSURE IN THE STRATEGIC REPORT

Details on how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the Company during the financial year can be found in the Strategic Report.

AUDITOR

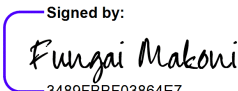
Each of the Directors at the date of this report confirms that:

- 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 that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision 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:

Signed by:

.....3489FBBF03864E7.....
Fungai Makoni - Secretary

Date: 31-07-25 | 9:45 AM BST
.....

Scotland Gas Networks Plc

Directors' Responsibilities Statement for the Year Ended 31 March 2025

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 Company and of its profit or loss for that period. In preparing the 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 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company 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 Directors' Report that complies with that law and those regulations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.
- there is no relevant audit information of which the Company's auditors are unaware; and we have taken all the steps that we ought to have taken as directors in order to make ourselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Report of the Independent Auditor to the Members of Scotland Gas Networks Plc

Opinion

We have audited the financial statements of Scotland Gas Networks plc (the “Company”) for the year ended 31 March 2025 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Cash Flow Statement of cash flows, the statement of changes in equity and the related notes 1 to 30 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).

In our opinion, the financial statements:

- give a true and fair view of the Company’s affairs as at 31 March 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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 public interest 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. Due to the Group’s cash pooling arrangements, the Company is dependent on a letter of support provided by its ultimate parent Company, Scotia Gas Networks Limited. Our evaluation of the Directors’ assessment of the Company’s ability to continue to adopt the going concern basis of accounting included obtaining a copy of the letter of support and considering the Group’s going concern assessment and its ability to provide that support.

The following are the procedures we performed over that Group assessment which supports the Company assessment to the extent necessary to conclude on the Company’s ability to continue as a going concern:

- 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;

Report of the Independent Auditor to the Members of
Scotland Gas Networks Plc

- 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 Company financial statements 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 Company’s ability to continue as a going concern for a period of 12 months (to 31 July 2026) from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company’s ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Valuation of the defined benefit obligation
Materiality	• Overall materiality of £4.4m which represents 2.5% of 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.

Report of the Independent Auditor to the Members of Scotland Gas Networks Plc

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Company. The Company has determined that the most significant future impacts from climate change on its operations will be from the impact of the shift towards a decarbonised energy system on the future of the gas networks and managing changes as we move to a zero-carbon economy. These are explained on page 10 in the principal risks and uncertainties. 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 Company’s business and any consequential material impact on its financial statements.

The Company has explained in the “critical accounting judgements and key sources of estimation uncertainty” on page 83 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 13 to the financial statements supplementary sensitivity disclosures of the impact of the useful life of the Company’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, their climate commitments, the effects of material climate risks disclosed on page 10 and the significant judgements and estimates disclosed in note 2 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures (see notes 2 and 13) following the requirements of FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice). 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.

Report of the Independent Auditor to the Members of
Scotland Gas Networks Plc

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	Key observations communicated to the Audit Committee
Valuation of the defined benefit obligation (£220m, PY comparative £240m) <i>Refer to the Audit Committee Report (page 9); Accounting policies (page 72); and Note 25 of the Financial Statements (page 100)</i> The Company operates a defined benefit pension scheme, whereby estimates and judgements are made in valuing the Company's pension obligation. Due to the quantum of the underlying balance, relatively small changes in key assumptions could have a significant effect on the carrying value of the Company's pension liability. Key assumptions include the discount rate, RPI and CPI inflation rates, pension increases and the mortality rate.	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;	Based on the audit procedures performed, we consider the valuation of the Company'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.

Report of the Independent Auditor to the Members of
Scotland Gas Networks Plc

Risk (continued)	Our response to the risk (continued)	Key observations communicated to the Audit Committee (continued)
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 Company's financial position.	➤ 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 Company's pension scheme.	

Our application of materiality

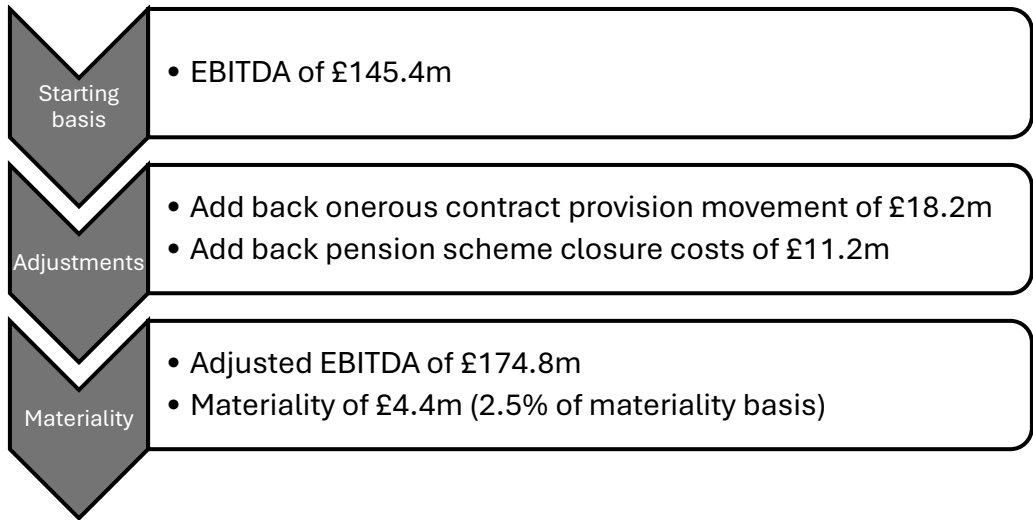
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Report of the Independent Auditor to the Members of
Scotland Gas Networks Plc

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 Company to be £4.4 million (2024: £4.7 million), which is 2.5% (2024: 2% of adjusted EBITDA) of adjusted EBITDA. 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.



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 Company’s overall control environment, our judgement was that performance materiality was 75% (2024: 75%) of our planning materiality, namely £3.3m (2024: £3.5m). We have set performance materiality at this percentage following a quantitative and qualitative assessment of prior year misstatements and our assessment of the Company’s overall control environment.

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 £0.2m (2024: £0.2m), 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.

Report of the Independent Auditor to the Members of Scotland Gas Networks Plc

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained with the annual report.

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to 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' reports 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 57, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Report of the Independent Auditor to the Members of Scotland Gas Networks Plc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company 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 Company operates in a regulated market; it is subject to regulations from the national regulatory authorities in Great Britain.
- We understood how the Company 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 Company'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 Company 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, management and internal audit; reviewing written legal advice provided by external legal counsel; and reviewing internal audit reports and whistleblowing logs.

Report of the Independent Auditor to the Members of Scotland Gas Networks Plc

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.

Other matters we are required to address

Following the recommendation from the audit committee we were appointed by the Company on 30 June 2020 to audit the financial statements for the year ending 31 March 2021 and subsequent financial periods.

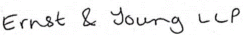
The period of total uninterrupted engagement including previous renewals and reappointments is 5 years, covering the years ending 31 March 2021 to 31 March 2025.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.

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.

DocuSigned by:

DF059373BFB345C...

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
31 July 2025

Scotland Gas Networks PlcProfit and Loss Account
for the Year Ended 31 March 2025

	Notes	2025 £m	2024 £m
TURNOVER	3	386	434
Net operating costs ¹		<u>(310)</u>	<u>(265)</u>
OPERATING PROFIT		76	169
Interest receivable and similar income	5	6	7
Interest payable and similar expenses	6	(59)	(63)
Fair value movement on derivatives	11	<u>(2)</u>	<u>(4)</u>
PROFIT BEFORE TAXATION	7	21	109
Tax charge on profit	8	<u>(6)</u>	<u>(28)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>15</u>	<u>81</u>

¹Included within Net operating costs are exceptional items to the sum of £35m (2024: £1m), see note 10 for more details.

The above results relate to continuing operations in both the current year and previous year.

Scotland Gas Networks PlcStatement of Comprehensive Income
for the Year Ended 31 March 2025

	Notes	2025 £m	2024 £m
PROFIT FOR THE YEAR		15	81
OTHER COMPREHENSIVE INCOME/(LOSS)			
Gain arising on cash flow hedges		7	2
Remeasurement on net pension asset		(6)	(14)
Deferred tax relating to components of other comprehensive loss		<u>-</u>	<u>3</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		<u>1</u>	<u>(9)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u><u>16</u></u>	<u><u>72</u></u>

The notes on pages 72 to 108 form part of these financial statements

Scotland Gas Networks Plc (Registered number: SC264065)Balance Sheet
31 March 2025

	Notes	2025 £m	2024 £m
FIXED ASSETS			
Intangible assets	12	102	106
Tangible assets	13	2,398	2,305
Non-current financial assets	14	<u>2</u>	<u>3</u>
		<u>2,502</u>	<u>2,414</u>
CURRENT ASSETS			
Debtors	15	44	42
Cash at bank and in hand	16	<u>20</u>	<u>18</u>
		64	60
CREDITORS			
Amounts falling due within one year	17	<u>(161)</u>	<u>(177)</u>
NET CURRENT LIABILITIES		<u>(97)</u>	<u>(117)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,405	2,297
CREDITORS			
Amounts falling due after more than one year	18	(1,463)	(1,388)
PROVISIONS FOR LIABILITIES	21	(360)	(342)
DEFERRED INCOME	22	(191)	(187)
PENSION ASSET	25	<u>72</u>	<u>87</u>
NET ASSETS		<u>463</u>	<u>467</u>
CAPITAL AND RESERVES			
Called up share capital	23	49	49
Hedging reserve	24	(14)	(20)
Profit and loss account	24	<u>428</u>	<u>438</u>
SHAREHOLDERS' FUNDS		<u>463</u>	<u>467</u>

The financial statements were approved by the Board of Directors and authorised for issue on 31-07-25 12:53 PM BST..... and were signed on its behalf by:

DocuSigned by:

 9B400FG405DA43D.....
 Rebecca Lumlock (Chair) - Director

The notes on pages 72 to 108 form part of these financial statements

Scotland Gas Networks PlcStatement of Changes in Equity
for the Year Ended 31 March 2025

	Called up share capital £m	Profit and loss account £m	Hedging reserve £m	Total equity £m
Balance at 1 April 2023	49	400	(21)	428
Profit for the year	-	81	-	81
Other comprehensive (loss)/income	-	(10)	1	(9)
Total comprehensive income	-	71	1	72
Dividends	-	(33)	-	(33)
Balance at 31 March 2024	49	438	(20)	467
Profit for the year	-	15	-	15
Other comprehensive (loss)/income	-	(5)	6	1
Total comprehensive income	-	10	6	16
Dividends	-	(20)	-	(20)
Balance at 31 March 2025	49	428	(14)	463

The notes on pages 72 to 108 form part of these financial statements

Scotland Gas Networks PlcCash Flow Statement
for the Year Ended 31 March 2025

	Notes	2025 £m	2024 £m
Cash flows from operating activities			
Cash generated from operations	29	195	285
Interest paid		(49)	(50)
Tax paid		<u>(8)</u>	<u>(13)</u>
Net cash inflow from operating activities		<u>138</u>	<u>222</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(6)	(6)
Purchase of tangible fixed assets		(158)	(151)
Sale of tangible fixed assets		1	-
Customer contributions received		<u>8</u>	<u>9</u>
Net cash outflow from investing activities		<u>(155)</u>	<u>(148)</u>
Cash flows from financing activities			
Issue of debt		70	-
Repayment of debt		(35)	(65)
Payments of interest rate swaps		(1)	(1)
Receipts from inflation-linked swaps		5	5
Dividends paid		<u>(20)</u>	<u>(33)</u>
Net cash inflow/(outflow) from financing activities		<u>19</u>	<u>(94)</u>
Increase/(decrease) in cash and cash equivalents		2	(20)
Cash and cash equivalents at beginning of year	30	<u>18</u>	<u>38</u>
Cash and cash equivalents at end of year	30	<u><u>20</u></u>	<u><u>18</u></u>

The notes on pages 72 to 108 form part of these financial statements

Scotland Gas Networks PlcNotes to the Financial Statements
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES****General information and basis of preparation**

Scotland Gas Networks Plc is a private company limited by shares and is incorporated in Scotland under the Companies Act 2006. The address of the registered office is Axis House, 5 Lonehead Drive, Newbridge, Edinburgh, Scotland, EH28 8TG. The Company's principal activity is the development, administration, maintenance and operation of the Scotland gas distribution system and the supply of gas transportation services. The nature of the Company's operations is set out in the Strategic Report.

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.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

The functional currency of Scotland Gas Networks Plc is considered to be pound sterling because that is the currency of the primary economic environment in which the Company operates. Amounts are expressed in millions of pounds except where noted otherwise.

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited, and the financial statements of the Company are included in the consolidated financial statements of Scotia Gas Networks Limited which can be obtained from St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ, United Kingdom.

The Group has taken advantage of the exemption afforded by FRS 102.33.1A not to disclose transactions between wholly owned members of the Group.

The Company is a qualifying entity as defined by FRS 102 and has taken advantage of the following exemptions available to qualifying entities which are relevant to its financial statements:

- the requirement to disclose information about key management personnel compensation;
- the disclosure requirements of Section 11 paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) in respect of financial instruments of the parent (as equivalent disclosures are included in respect of the consolidated financial statements).

The following principal accounting policies have been applied:

Going concern

The Company's accounts have been prepared on a going concern basis.

The Directors have forecast cash flows of the company for the next twelve months to 31 July 2026 (the going concern period) and have obtained a support letter from Scotia Gas Networks Limited confirming that it can and will support the Company in meeting its liabilities throughout the going concern period.

In assessing the ability of the Company to rely on this support the Directors have considered the going concern assessment undertaken at the Scotia Gas Networks Limited group level, the conclusion of which is that even under severe but plausible downside scenarios there is headroom in relation to both liquidity and covenants.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued**

Consequently, the Directors believe that the Company will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for the going concern period, being twelve months (to 31 July 2026) from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

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.

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.

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 written off 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 amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over their estimated useful economic life of 3 to 10 years. The Company's intangible assets have a remaining useful economic life ranging between 1 - 5 years.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. The cost is the purchase cost of the asset, together with any directly attributable costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. 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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued**

Depreciation is recognised on all tangible fixed assets, other than freehold land, at rates calculated to depreciate 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. The carrying amount of any replaced component is derecognised. 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.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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.

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value in use.

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 (creditors due after more than one year) 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.

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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued****Financial instruments**

FRS 102 sections 11 and 12 give an accounting policy choice for financial instruments. The Company has chosen to apply the recognition and measurement provisions of IAS 39 and the disclosure requirements of FRS 102 in respect of financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

The Company's exposure to funding, liquidity, interest rate, inflation and foreign currency 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.

i. 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).

ii. 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.

iii. 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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued**

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.

iv. Derecognition of financial assets

The Company 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.

v. 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 the estimated cash flows are less than the carrying amount. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

vi. 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 Company 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.

vii. Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

viii. 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 Company 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 Company's documented risk management or investment strategy and information about the Company 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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued**

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.

ix. 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.

x. De-recognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

xi. Derivative financial instruments and hedge accounting

The Company 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.

On inception of the hedge relationship the Company 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 Company documents whether the hedging relationship is highly effective. The Company also uses inflation-linked swaps to hedge the risk arising from its inflation-linked asset base and revenues, which do not qualify for hedge accounting treatment.

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.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES – continued****Taxation**

Current tax, including UK corporation tax and foreign 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 Company's taxable profits and its results as stated in the financial statements that arises from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company 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 Company 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 period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

The Company uses inflation-linked swaps to hedge its inflation-linked regulated asset base and turnover, which do not qualify for hedge accounting treatment however the fair value movements on these financial instruments are disregarded for tax purposes.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued****Employee benefits****i. Defined benefit pension scheme**

The Company participates in a group wide defined benefit pension plan administered by the ultimate parent undertaking, Scotia Gas Networks Limited. The net defined benefit cost of the plan is charged and accounted for based on the proportionate number of members relating to the Company. The contributions payable by the Company is determined on the same basis as the charging policy 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 Company, 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 Company, 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 Company as an income tax.

ii. 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.

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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued****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.

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. Goodwill impairment is not reversed.

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.

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.

Provisions

A provision is recognised in the balance sheet when the Company 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. 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 Company recognises a provision for the present obligation under the onerous contract. If the Company has assets that are dedicated to the contract, these are reviewed for impairment.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**1. ACCOUNTING POLICIES - continued****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 Company 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.

Interest receivable and interest payable

Interest payable and similar expenses include interest payable 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 (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Exceptional items

Management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is considered to be one-off in nature. In determining the facts and circumstances, management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets and inventories, significant changes in provisions, gains or losses on disposals of businesses or investments, or other one-off material events.

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 Company). Management expects these changes to have material impact on the Company's revenue recognition for customer contributions, as well as on leases.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company'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 Company 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 14 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 fixed assets and goodwill - as set out in note 1 above, management has exercised judgement during the company balance sheet review when identifying impairment indicators affecting the fixed assets and goodwill of the Company.
- c** Exceptional items - The categorisation of certain items as exceptional follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is considered to be one-off in nature. See note 10.
- d** Customer contributions and interest paid - Cash inflows from customer contributions are presented as cash flows from investing activities in the Cash flow statement, as these are directly associated with capital investment in the Company's gas network. 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 Company's operations.
- e** Other legal and regulatory cases - Consistent with the nature and size of the Company's operations, the Company 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 Company records a provision at the balance sheet date. Where the recognition criteria for a provision is not yet met, the Company records a contingent liability.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION
UNCERTAINTY – continued**

- f** 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 13 for sensitivity analysis on the life of our network.

Key source of estimation uncertainty

- a** Useful lives of assets - The Company 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, climate change and climate related impacts, 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 the note 'employee benefits' and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Company 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 the note 'employee benefits'.
- 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 provision - in assessing the degree of contamination at the various sites, estimation is required where elements of the contamination are underground. In these cases, it is difficult to assess with any certainty the extent of the contamination. The discount rate is also a source of estimation. See note on provisions.
- e** Onerous contract provision - the Company 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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**3. TURNOVER**

Analysis of turnover by class of business:

	2025	2024
	£m	£m
Transportation of natural gas and the provision of related services	386	434

All 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. EMPLOYEES AND DIRECTORS

The Company had 151 full time equivalent employees as at 31 March 2025 (2024: 166). The average monthly number of full-time equivalent employees during the year was 160 (2024: 177).

	2025	2024
	80	86
Field based staff	71	80
Office and other administrative staff		
	<u>151</u>	<u>166</u>

The Independent Directors received remuneration totalling £88,117 (2024: £106,972) for their services to the Company during the year, of which the highest paid Director's share was £35,858 (2024: £41,400). No retirement benefits are accruing in the year or in the prior year to any Directors under money purchase or defined benefit schemes, in respect of their services to the Company. There are 12 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 SGN Group's shareholders and 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 Company during the year are as follows:

	2025	2024
	£m	£m
Wages and salaries	8	9
Social security costs	1	1
Pension costs (note 25)*	<u>21</u>	<u>10</u>
	<u>30</u>	<u>20</u>

* Pension costs include the amount charged in respect of defined contributions schemes, as well as the current and past service costs and curtailment costs on the defined benefit scheme.

The significant increase in pension costs in the year is due to the closure of the defined benefit pension scheme to future benefit accruals. For further details see note 10 and note 25.

The Company utilises the services of employees contracted to a fellow group company. The cost of these services recharged to the Company in the year were £63m (2024: £58m) which are included within Net operating costs in the Profit and Loss account but excluded from the table above.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2025	2024
	£m	£m
Interest receivable on loans to other group undertakings	2	2
Net defined benefit pension income (note 25)	4	5
	<u>6</u>	<u>7</u>

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2025	2024
	£m	£m
Interest payable on fixed rate instruments	42	38
Interest payable on floating rate instruments	5	8
Interest payable on inflation-linked instruments	11	15
Other interest payable	1	2
	<u>59</u>	<u>63</u>

Included within interest payable on inflation-linked instruments is £12m of accretion on RPI-linked debt instruments (31 March 2024: £15m).

Other interest payable includes facility fees and interest of £nil (2024: £1m) and bond amortisations of £1m (2024: £1m).

7. PROFIT BEFORE TAXATION

The profit is stated after charging/(crediting):

	2025	2024
	£m	£m
Depreciation - owned assets	64	61
(Profit)/loss on disposal of fixed assets	(1)	1
Goodwill amortisation	3	3
Amortisation of intangible assets	7	6
Amortisation of customer contributions	(4)	(4)
Rental under operating leases	2	2

Included within Profit before taxation is Auditor's remuneration for the Company, which comprises:

- Audit of these financial statements £269,148 (2024: £200,282)
- Audit-related assurance services £60,000 (2024: £58,000)
- Other assurance services £41,825 (2024: £32,000)

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**8. TAXATION****Analysis of the tax charge**

The tax charge (2024: charge) on the profit for the year was as follows:

	2025 £m	2024 £m
Current tax:		
UK corporation tax	8	21
Adjustment in respect of previous years	<u>(1)</u>	<u>-</u>
Total current tax charge	<u>7</u>	<u>21</u>
Deferred tax:		
Origination and reversal of timing differences	(2)	7
Adjustment in respect of previous years	<u>1</u>	<u>-</u>
Total deferred tax charge	<u>(1)</u>	<u>7</u>
Tax charge on profit	<u><u>6</u></u>	<u><u>28</u></u>

UK corporation tax has been charged at 25% (2024: 25%).

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than (2024: higher than) the standard rate of corporation tax in the UK. The difference is explained below:

	2025 £m	2024 £m
Profit before tax	<u>21</u>	<u>109</u>
Profit multiplied by the standard rate of corporation tax in the UK of 25% (2024: 25%)	5	27
Effects of:		
Expenses not deductible for tax purposes	1	-
Income not taxable in determining taxable profit	(1)	-
Non-deductible goodwill	<u>1</u>	<u>1</u>
Total tax charge	<u><u>6</u></u>	<u><u>28</u></u>

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**8. TAXATION – continued****Tax effects relating to effects of other comprehensive income**

		2025	
	Gross £m	Tax £m	Net £m
Gain arising on cash flow hedges	7	(1)	6
Remeasurement on net pension asset	<u>(6)</u>	<u>1</u>	<u>(5)</u>
	<u>1</u>	<u>-</u>	<u>1</u>

		2024	
	Gross £m	Tax £m	Net £m
Gain arising on cash flow hedges	2	(1)	1
Remeasurement on net pension asset	<u>(14)</u>	<u>4</u>	<u>(10)</u>
	<u>(12)</u>	<u>3</u>	<u>(9)</u>

Movements in deferred tax take into account the effects of changes in the fair value liability of the Company's inflation-linked swap portfolio. Increases or reductions in the fair value liability of the Company's inflation linked swap portfolio represent an increase or reduction in the present value of the future cash flows that will be payable/receivable on those inflation-linked swaps in future years. Changes to the fair value of the liability are not tax deductible under UK tax regulations as tax deductions are only available as and when the interest payments/receipts are actually accrued. The increase in the fair value of the inflation-linked swap portfolio will therefore create an accounting cost which is not subject to taxation until the cash flow is accrued and therefore creates a timing difference. The fair value of the inflation-linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

9. DIVIDENDS

Interim dividends paid for the year ended 31 March 2025 amount to £20m (40.49p per share) (2024: £33m (65.80p per share)), which were paid in March 2025. No further dividends were proposed.

In the prior year, £12m of dividends were paid in July 2023, £8m in November 2023 and a further £13m in December 2023.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 202510. **EXCEPTIONAL ITEMS**

	2025 £m	2024 £m
Exceptional items included within Net operating costs:		
Onerous provision*	18	1
Restructuring costs**	4	-
Costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals***	11	-
Investigation support costs****	2	-
	35	1
Included within taxation:		
Tax credit on onerous contract	(5)	-
Tax credit on restructuring costs	(1)	-
Tax credit on costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals	(3)	-
Tax credit on investigation support costs	-	-
	(9)	-

*During the year, the Company recognised a cost of £18m (2024: £1m) 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.

**The Company is undergoing an operational transformation programme to improve the efficiency of operations by restructuring the business, which is expected to last until March 2029. During the year the Company recognised £2m of costs relating to a voluntary severance scheme (2024: £nil) and £2m in relation to the transformation programme (2024: £1m, of which £nil was treated as an exceptional item) in response to driving and demonstrating efficiency as a result of the challenge set to us by the Regulator, Ofgem, through the price control, bringing the cumulative restructuring costs to £5m since the beginning of the restructure in 2024. These activities are infrequent and are financially material over the course of the multi-year exercise.

***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 £1m (2024: £nil) and a past service cost of £10m (2024: £nil), totalling £11m (2024: £nil).

****During the year the Company incurred costs associated with supporting the investigation by Ofgem into potential breaches of competition law, totalling £2m (2024: £nil). The Company 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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**11. FAIR VALUE MOVEMENT ON DERIVATIVES**

	2025 £m	2024 £m
Fair value movements on derivatives:		
Net losses on derivative financial instruments*	2	4
Included within taxation:		
Tax credit on net losses on derivative financial instruments	-	(1)

*Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the Statement of Profit and Loss. These exclude gains and losses for which hedge accounting have been effective, which have been recognised directly in the statement of comprehensive income. There was nil impact (2024: £nil) to the cash flow as a result of the fair value movements on financial derivatives. Included within net losses on derivative financial instruments is £5m (2024: £6m) of accretion on CPI-linked swaps.

12. INTANGIBLE FIXED ASSETS

	Goodwill £m	Computer software £m	Totals £m
COST			
At 1 April 2024	143	44	187
Additions	-	6	6
Disposals	-	(5)	(5)
At 31 March 2025	143	45	188
AMORTISATION			
At 1 April 2024	54	27	81
Amortisation for year	3	7	10
Eliminated on disposal	-	(5)	(5)
At 31 March 2025	57	29	86
NET BOOK VALUE			
At 31 March 2025	86	16	102
At 31 March 2024	89	17	106

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**12. INTANGIBLE FIXED ASSETS - continued**

There is no security held against the intangible fixed assets of the Company (2024: none).

The amortisation charge is recognised in Net operating costs in the profit and loss account.

The goodwill, which arose on the acquisitions of the business by the Company on 1 June 2005, is being amortised on a straight-line basis over 50 years, with 30 years remaining. 50 years is the expected life of the network and is consistent with the long-term outlook of the Regulator. See note 13 for sensitivity analysis on the life of our network.

A review for impairment of goodwill is carried out when there are indicators of impairment. As at 31 March 2025, following management's assessment of internal and external impairment indicators, no such indicators were noted. As such no impairment charge has been recorded for the current year (2024: £nil).

During the year, the Company wrote off £5m (2024: £7m) of fully amortised assets, that are no longer in use, in line with the Company's accounting policy.

13. TANGIBLE FIXED ASSETS

	Freehold property £m	Plant and machinery £m	Motor vehicles and office equipment £m	Totals £m
COST				
At 1 April 2024	47	2,950	50	3,047
Additions	1	152	5	158
Disposals	-	(2)	(3)	(5)
At 31 March 2025	<u>48</u>	<u>3,100</u>	<u>52</u>	<u>3,200</u>
DEPRECIATION				
At 1 April 2024	16	691	35	742
Charge for year	2	59	4	65
Eliminated on disposal	-	(2)	(3)	(5)
At 31 March 2025	<u>18</u>	<u>748</u>	<u>36</u>	<u>802</u>
NET BOOK VALUE				
At 31 March 2025	<u>30</u>	<u>2,352</u>	<u>16</u>	<u>2,398</u>
At 31 March 2024	<u>31</u>	<u>2,259</u>	<u>15</u>	<u>2,305</u>

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**13. TANGIBLE FIXED ASSETS - continued**

There is no security held against the tangible fixed assets of the Company (2024: none).

Included within Freehold property is the Net book value of land of £3m (2024: £3m).

Sensitivity to changes in significant estimates

The useful life of the Company's network assets, included in tangible fixed assets above, are significantly impacted by the Company'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 Company'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 life of networks assets ends in:		
2050 (UK Government's net zero target)	19	19
2045	41	41
2040	77	77

14. NON-CURRENT FINANCIAL ASSETS

	2025 £m	2024 £m
Derivative financial instruments - interest rate swaps not in hedge relationships	<u>2</u>	<u>3</u>

15. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2025 £m	2024 £m
Trade debtors	33	35
Corporation tax	6	4
Prepayments and accrued income	<u>5</u>	<u>3</u>
	<u>44</u>	<u>42</u>

An impairment allowance of £2m (2024: £1m) has been set aside relating to trade debtors according to the Company's impairment policy.

For details of Amounts owed by group undertakings see note 17.

16. CASH AT BANK

	2025 £m	2024 £m
Cash at bank	<u>20</u>	<u>18</u>

Cash at bank contains £20m (2024: £18m) of cash which is contractually restricted to be used on designated innovation projects only and is not available for general use.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2025	2024
	£m	£m
£35m 2.407% fixed rate loan due 2025	-	35
Trade creditors	45	40
Amounts owed to group undertakings	47	34
Social security and other taxes	-	3
Other creditors	5	5
Accrued interest	13	12
Deferred income	19	18
Accruals	32	30
	<u>161</u>	<u>177</u>

Amounts owed to group undertakings includes:

- a loan due to Southern Gas Networks plc of £17m (2024: £6m). The loan is repayable on demand and bears interest at the Bank of England Base Rate plus 1 percent (2024: Bank of England Base Rate plus 1 percent); and

- trade balances due to the SGN Group subsidiaries of £30m (2024: £28m).

The loan balance between Southern Gas Networks plc and the Company is significantly different to the loan position as at the previous year end. This is driven by the net cashflow movements, as the loan is the result of the daily automated cash pooling.

In the year ended 31 March 2021, the Company entered into an agreement with Ofgem to deliver a hydrogen gas pilot project in Scotland, known as the H100 Fife Project. In FY21 and FY22, the Company received £26m of upfront funding from the Scottish government, Ofgem and other Gas Distribution Networks, which was recorded as restricted cash and trade creditors on the balance sheet. Scotland Gas Networks plc subsequently entered into an intra-group arrangement with a fellow subsidiary of Scotia Gas Networks Limited, SGN Futures (H100) Limited, which is constructing the project on behalf of the entity. Scotland Gas Networks plc releases the funding to SGN Futures (H100) Limited in line with contractual terms, which is capped at £69m. During the year further funding of £18m was secured from the other GDNs. At 31 March 2025 Scotland Gas Networks plc holds £15m (2024: £4m) within Trade creditors and £5m (2024: £nil) within Cash at bank on the balance sheet in relation to the H100 project.

18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2025	2024
	£m	£m
Borrowings (see note 19)	1,428	1,346
Derivative financial liabilities - interest rate swaps	17	25
Derivative financial liabilities - inflation-linked swaps	18	17
	<u>1,463</u>	<u>1,388</u>

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued**

Included in amounts falling due after more than one year, are public bonds, private placement notes and loans consisting of

	2025 £m	2024 £m
Fixed rate debt:		
£250m 3.25% fixed rate note due 2027*	249	249
£75m 2.74% fixed rate note due 2030	75	75
£75m 1.980% fixed rate note due 2032	75	75
£34m 6.220% fixed rate note due 2032	34	34
£50m 2.04% fixed rate note due 2033	50	50
£75m 2.87% fixed rate note due 2033	75	75
£225m 4.875% fixed rate note due 2034*	225	225
£30m 6.310% fixed rate note due 2035	30	30
£50m 6.220% fixed rate note due 2035	50	50
£70m 6.340% fixed rate note due 2037	70	70
£20m 6.120% fixed rate note due 2038	20	-
£25m 5.740% fixed rate note due 2039	25	-
£25m 5.820% fixed rate note due 2044	25	-
	1,003	933
Inflation-linked debt:		
£50m -0.8818% CPI-linked loan due 2029	59	57
£50m -0.4465% CPI-linked loan due 2032	59	57
£125m 2.317% RPI-linked note due 2039*	227	219
	345	333
Floating rate debt:		
£80m floating rate note due 2043*	80	80
	80	80
Total debt	<u>1,428</u>	<u>1,346</u>

* Listed on the London Stock Exchange.

The above debt instruments are unsecured and are stated after the deduction of unamortised issue costs of £3m (2024: £3m). 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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**18. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued**

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 £104m (2024: £95m) and £18m (2024: £14m) respectively. The amounts recognised in the profit and loss account in relation to RPI- and CPI-linked debt accretion during the year amounted to £8m (2024: £10m) and £3m (2024: £4m) respectively.

The amount of interest in relation to the CPI-linked swaps included in the carrying value of the debt at the yearend is £31m (2024: £27m). The amounts debited to the profit and loss account in relation to these swaps' accretion during the year amounted to £5m (2024: £6m).

The total revolving credit facility is £150m (2024: £150m) and expires in March 2027. The facility was undrawn at the yearend (2024: undrawn).

19. BORROWINGS

An analysis of the maturity of public bonds, private placements and loans is given below:

	2025 £m	2024 £m
Between one and five years	308	249
After five years	<u>1,120</u>	<u>1,097</u>
	1,428	1,346
On demand or within one year	<u>-</u>	<u>35</u>
	<u><u>1,428</u></u>	<u><u>1,381</u></u>

20. FINANCIAL INSTRUMENTS

The Company's exposure to funding, liquidity, interest rate, inflation, foreign currency exchange and credit risks are managed within a framework of policies and guidelines authorised by the Board of Directors. In accordance with these policies, and in accordance with covenants set out as part of bond issuances made by the Company, financial derivatives are used to manage financial exposures.

The Company is a wholly owned subsidiary of SGN MidCo Limited. The financial statements of the Company are included in the consolidated financial statements of the ultimate parent undertaking, Scotia Gas Networks Limited, therefore under FRS 102 the Company is exempt from certain disclosures required under sections 11 and 12.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**20. FINANCIAL INSTRUMENTS - continued****Categories of financial instrument**

The categories of financial assets and liabilities held by the Company are as follows:

	2025 £m	2024 £m
Financial assets held at fair value		
Derivative financial instruments - interest rate swaps	<u>2</u>	<u>3</u>
Total financial assets held at fair value	<u>2</u>	<u>3</u>
 Financial liabilities held at amortised cost		
Trade creditors	45	40
Accrued interest	13	12
Accruals	32	30
Borrowings	<u>1,428</u>	<u>1,381</u>
	<u>1,518</u>	<u>1,463</u>
 Financial liabilities held at fair value		
Derivative financial instruments - interest rate swaps	17	25
Derivative financial instruments - inflation-linked swaps	<u>18</u>	<u>17</u>
	<u>35</u>	<u>42</u>
Total financial liabilities	<u>1,553</u>	<u>1,505</u>

Valuation of derivatives

The Mark to Market ("MtM") value is calculated using a discounted cash flow method, which discounts the contracted future cashflows 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 Company 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 £3m (2024: £6m), of which £2m (2024: £3m) related to inflation-linked swaps and £1m (2024: £3m) to interest rate swaps. £2m (2024: £4m) was credited to the profit and loss account in the line "Fair value movements on derivatives" and £1m (2024: £2m) was credited to other comprehensive income. 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 balance sheet.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**20. FINANCIAL INSTRUMENTS – continued**

The net credit risk adjustment represents the risk of non-performance (or default) of either the counterparty or the Company 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 CVA and DVA are calculated by running two separate Monte Carlo simulations, based on the bilateral credit risk adjustment method. Quoted credit default swap spreads ("CDS") 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 Company when calculating the DVA.

The net credit risk adjustment is made up of a CVA of £1m (2024: £1m) and a DVA of (£4m) (2024: (£7m)). The magnitude of the DVA adjustment as at 31 March 2025 is mainly due to the asymmetric cash flow positions. The Company settles the inflation accretion to the counterparty at maturity on the swap, whereas the Company receives 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 8-15 years, exacerbating the impact of the asymmetric cash flow position.

21. PROVISIONS FOR LIABILITIES

	2025 £m	2024 £m
Deferred tax	<u>330</u>	<u>331</u>
Other provisions:		
Other provisions	24	6
Environmental provisions	<u>6</u>	<u>5</u>
	<u>30</u>	<u>11</u>
Aggregate amounts	<u>360</u>	<u>342</u>
	Deferred tax	Other provisions
	£m	£m
Balance at 1 April 2024	331	11
Net movement in deferred tax	(1)	-
Reassessment during the year	-	24
Utilised in the year	<u>-</u>	<u>(5)</u>
Balance at 31 March 2025	<u>330</u>	<u>30</u>

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**21. PROVISIONS FOR LIABILITIES - continued**

The discount unwind on environmental provisions, included in interest payable and similar expenses in the profit and loss account, was £294,319 (2024: £242,337).

Environmental

The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Company has a legal obligation to restore sites at the balance sheet date. The provision has been discounted and is stated at the present value of the expenditure expected to be required to settle the obligation. The provision is expected to be utilised over the next financial year in line with anticipated regulatory outputs requirements for land remediation.

Other provisions

Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks, including an operational target provision. The other provisions represent management's best estimates of the future expenditure necessary to settle the obligations. The provision has been discounted and is stated at the present value of the estimated expenditure to settle the obligation. The asbestos related provision is expected to be utilised over the next 27 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next financial year.

In May 2025, Ofgem closed their investigations into our failure to attend 97% of reported gas escapes for the reporting period 2022/23 resulting in the Company making a payment to Ofgem's Voluntary Redress Fund totalling £0.7m.

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 £19m (2024: £1m), included within Other provisions, 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.

Deferred tax

Deferred tax is provided as follows:

	2025	2024
	£m	£m
Accelerated capital allowances	317	312
Deferred tax on cash flow hedges	(4)	(6)
Deferred tax on inflation-linked swaps	3	3
Deferred tax on retirement benefit obligations	18	22
Other timing differences	(4)	-
Deferred tax	<u>330</u>	<u>331</u>

Scotland Gas Networks Plc

Notes to the Financial Statements - continued for the Year Ended 31 March 2025

21. PROVISIONS FOR LIABILITIES - continued

The movement in provision for deferred tax is as follows:

	2025 £m	2024 £m
Opening balance	331	327
Charged to profit and loss account	(1)	7
Credited to other comprehensive income	-	(3)
Deferred tax	<u>330</u>	<u>331</u>

The Company 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.

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 the taxation note in the notes to financial statements.

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the Company.

The Company has no unrecognised deferred tax assets or liabilities.

22. DEFERRED INCOME

	2025 £m	2024 £m
Deferred income	<u>191</u>	<u>187</u>

Customer contributions

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

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

The amount deferred under this policy was as follows:

	Connections 2025 £m	Replacement 2025 £m	Total 2025 £m
Customer contributions brought forward	112	75	187
Customer contributions deferred in the year	6	2	8
Amortisation in year	<u>(3)</u>	<u>(1)</u>	<u>(4)</u>
	<u>115</u>	<u>76</u>	<u>191</u>

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**22. DEFERRED INCOME - continued**

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

23. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value: £1	2025 £	2024 £
49,392,787	Ordinary		<u>49,392,787</u>	<u>49,392,787</u>

There is a single class of ordinary shares. There are no restrictions on the distribution of the dividends and the repayment of capital.

24. RESERVES

	Profit and loss account £m	Hedging reserve £m	Totals £m
At 1 April 2024	438	(20)	418
Profit for the year	15	-	15
Dividends	(20)	-	(20)
Movement in cash flow hedges	-	6	6
Remeasurement of net defined benefit asset	<u>(5)</u>	<u>-</u>	<u>(5)</u>
At 31 March 2025	<u>428</u>	<u>(14)</u>	<u>414</u>

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments or foreign exchange risk in firm commitments or highly probable forecast transactions. Amounts accumulated in this reserve are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**25. EMPLOYEE BENEFIT OBLIGATIONS****Defined contribution schemes**

The Company operates a defined contribution retirement benefit scheme for all qualifying employees of the Group.

The amount recognised in the profit and loss account is as follows:

	2025	2024
	£m	£m
Amount charged in respect of defined contribution schemes	<u>8</u>	<u>7</u>

At the balance sheet date, there were outstanding contributions of £nil (2024: £nil).

Defined benefit schemes

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited, which operates the Scotia Gas Networks Pension Scheme, a defined benefit scheme for a significant number of the employees of its subsidiaries who prior to 1 December 2005 were previously members of the Lattice Company Scheme and had joined prior to 31 March 2002. Under the Scheme, the employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). Employees joining the Lattice Company Scheme after 31 March 2002 were entitled to join a defined contribution scheme. Under the Group cost allocation plan, the Company accounts for its agreed share of the total net defined benefit cost, based on the proportionate members relating to the Company.

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.

	As at 31 March 2025	As at 31 March 2024
Key assumptions used:		
Retail price inflation	3.5% p.a.	3.6% p.a.
Consumer price inflation	3.2% p.a.	3.2% p.a.
Rate of increase of pensions payment	3.5% p.a.	3.6% p.a.
Rate of increase of salaries	3.3% p.a.	3.4% p.a.
Discount rate	<u>5.7% p.a.</u>	<u>4.8% p.a.</u>

The discount rate is based on the return of high quality corporate bonds.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**25. EMPLOYEE BENEFIT OBLIGATIONS – continued**

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 expectations on retirement at age 65 are:

As at 31 March	2025		2024		2023	
	Male	Female	Male	Female	Male	Female
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 £000
Discount rate	- 0.1% p.a. + 0.1% p.a.	2,920 (2,840)
Price inflation (RPI measure)*	- 0.1% p.a. + 0.1% p.a.	(2,720) 2,760
Life expectancy	- 1 year + 1 year	(5,240) 5,200

*These movements have been calculated assuming that changes in the inflation assumption affect all inflation linked assumptions.

The analysis of scheme assets and the amount included in the balance sheet arising from the Company's obligations in respect of its defined benefit retirement benefit schemes at the balance sheet date is as follows:

Fair value as at 31 March	2025			2024		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Government bonds [1]	-	142	142	-	152	152
Corporate bonds	67	17	84	59	29	88
Cash	-	4	4	-	10	10
Insurance contracts	-	62	62	-	77	77
Total market value of assets	67	225	292	59	268	327
Actuarial value of liabilities			(220)			(240)
Net pension asset			72			87

[1] Including LDI repurchase agreement liabilities.

The fair value of scheme assets at 31 March 2025 are based on the bid price where available.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**25. EMPLOYEE BENEFIT OBLIGATIONS – continued**

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 £0.2bn (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.

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

	2025 £m	2024 £m
At 1 April	(240)	(242)
Current service cost	(2)	(3)
Past service cost ⁽¹⁾	(10)	-
Interest cost	(11)	(11)
Actuarial gains	35	8
Benefits paid	9	8
Curtailment ⁽²⁾	(1)	-
	<u>(220)</u>	<u>(240)</u>
At 31 March		

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

	2025 £m	2024 £m
At 1 April	327	340
Interest income	15	16
Contributions from the Company	1	2
Remeasurement of scheme assets	(41)	(22)
Benefits paid	(9)	(8)
Administration costs	(1)	(1)
	<u>292</u>	<u>327</u>
As at 31 March		

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.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**25. EMPLOYEE BENEFIT OBLIGATIONS – continued**

The actual loss on plan assets was:

	2025 £m	2024 £m
Loss on plan assets excluding interest income	(41)	(22)
Interest income on plan assets	15	16
Actual loss on plan assets	(26)	(6)

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

	2025 £m	2024 £m
Current service cost ⁽¹⁾	(2)	(3)
Administration costs	(1)	(1)
Past service cost	(10)	-
Curtailment ⁽²⁾	(1)	-
Total charged to net operating costs:	(14)	(4)
Expected return on scheme assets	15	16
Interest charge on scheme liabilities	(11)	(11)
Net interest credit	4	5
Total credit to the profit and loss account	10	1

	2025 £m	2024 £m
Actuarial losses on scheme assets	(41)	(22)
Actuarial gains on scheme obligations	35	8
Losses recognised in other comprehensive income	(6)	(14)

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

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**25. EMPLOYEE BENEFIT OBLIGATIONS – continued**

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 £1m and a past service cost of £10m, totalling £11m, recognised in the profit and loss account as an exceptional item (see note 10) 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 Company's defined benefit pension scheme was contracted out during this period. The Company 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 Company'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 Company 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 Company 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 Company will continue to evaluate the need for additional disclosures or recognition of liabilities as more information becomes available.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**26. COMMITMENTS AND CONTINGENCIES****Capital commitments**

Capital projects contracted for by the Company but not provided in the financial information amounted to £28m at 31 March 2025 (2024: £19m).

Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases for the Company are as follows:

	Vehicles		Land and Buildings	
	2025	2024	2025	2024
	£m	£m	£m	£m
- less than one year	1	1	1	1
- between two to five years	1	1	4	4
- after five years	-	-	3	2
Total	2	2	8	7

Contingent liabilities**Other legal and regulatory claims**

The Company 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 Company.

Contingent assets

During the year, Ofgem expressed their intention to provide £26m of funding for the Company'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 Company, and the receipt of this funding is considered probable, therefore the £26m is not yet recognised as a receivable as at 31 March 2025 but it is disclosed (2024: none).

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**27. RELATED PARTY DISCLOSURES**

The Company is a subsidiary undertaking of SGN MidCo Limited. The ultimate controlling party of the Company is Scotia Gas Networks Limited, a Company registered in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Scotia Gas Networks Limited, St Lawrence House, Station Approach, Horley, RH6 9HJ, United Kingdom. The smallest group in which they are consolidated is that headed by SGN MidCo Limited, St Lawrence House, Station Approach, Horley RH6 9HJ, United Kingdom. Copies of Scotia Gas Networks Limited consolidated financial statements can be obtained from the Company Secretary, St Lawrence House, Station Approach, Horley, Surrey RH6 9HJ, United Kingdom.

Scotia Gas Networks Limited 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 parent company, Scotia Gas Networks Limited, has no single controlling party.

In accordance with FRS102 the Company is exempt from disclosing transactions with subsidiaries that are wholly owned by the Group.

Transactions with Key Management Personnel

The Company's ultimate parent undertaking, Scotia Gas Networks includes the Company in its consolidated financial statements. In these financial statements, the Company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the Key Management Personnel compensation disclosures.

Transactions with shareholders

The Company had no transactions with shareholders or other related parties in the year ended 31 March 2024 and 2025.

28. SUBSEQUENT EVENTS

In April 2025, the Company entered into an uncommitted £150m Private Placement Shelf Facility, which is available until 31 March 2028.

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**29. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	2025	2024
	£m	£m
Profit before taxation	21	109
Depreciation charges	64	61
(Profit)/loss on disposal of fixed assets	(1)	1
Amortisation of deferred income	(4)	(4)
Amortisation charges	10	9
Increase in provisions	16	-
Interest payable and similar expenses	59	63
Fair value movement on derivatives	2	4
Interest receivable and similar income	(6)	(7)
Other operating cash flows	<u>1</u>	<u>(2)</u>
	162	234
(Increase)/decrease in trade and other debtors	-	5
Increase in trade and other creditors	<u>33</u>	<u>46</u>
Cash generated from operations	<u><u>195</u></u>	<u><u>285</u></u>

Scotland Gas Networks PlcNotes to the Financial Statements - continued
for the Year Ended 31 March 2025**30. ANALYSIS OF CHANGES IN NET DEBT**

	At 1 April 2024 £m	Cash flow £m	Other non-cash changes £m	At 31 March 2025 £m
Cash				
Cash at bank	<u>18</u>	<u>2</u>	<u>-</u>	<u>20</u>
	<u>18</u>	<u>2</u>	<u>-</u>	<u>20</u>
Debt				
Debts falling due within 1 year	(35)	35	-	-
Debts falling due after 1 year	<u>(1,346)</u>	<u>(70)</u>	<u>(12)</u>	<u>(1,428)</u>
	<u>(1,381)</u>	<u>(35)</u>	<u>(12)</u>	<u>(1,428)</u>
Derivative financial instruments				
Derivative financial assets	3	-	(1)	2
Derivative financial liabilities	<u>(42)</u>	<u>-</u>	<u>7</u>	<u>(35)</u>
	<u>(39)</u>	<u>-</u>	<u>6</u>	<u>(33)</u>
Total	<u>(1,402)</u>	<u>(33)</u>	<u>(6)</u>	<u>(1,441)</u>

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