Annual Report and Financial Statements 2026

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

Contents

SGN at a glance

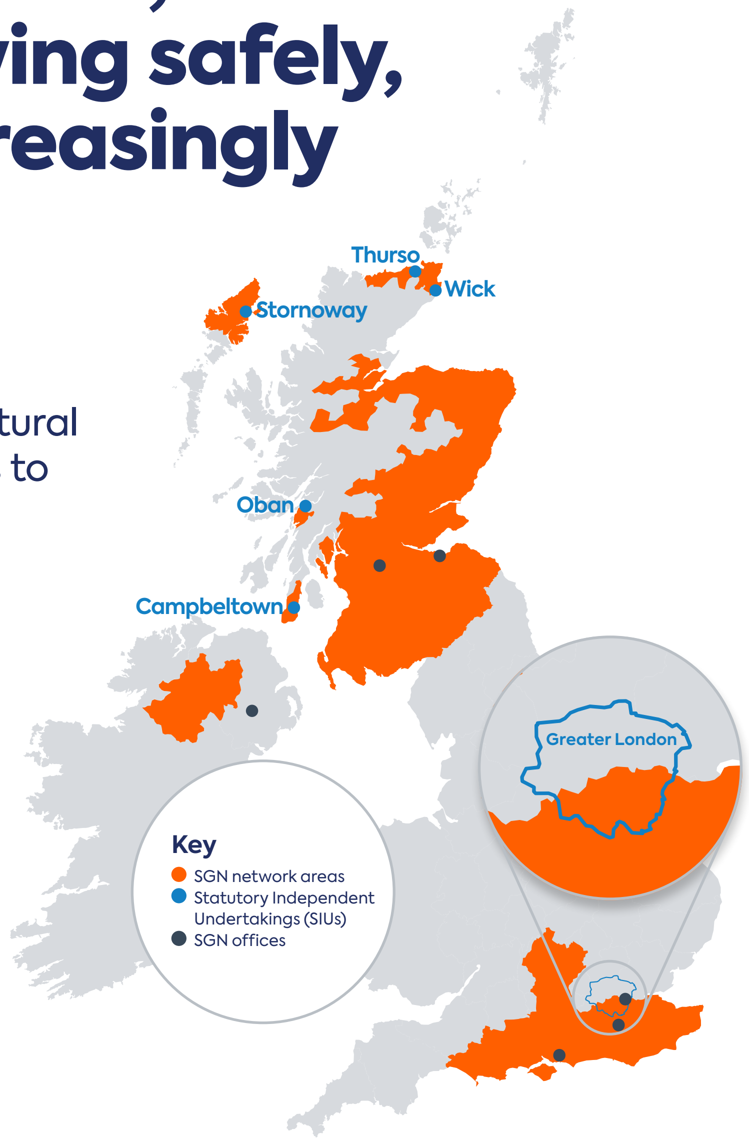
We deliver the energy our customers need, keeping gas flowing safely, securely and increasingly sustainably.

We support UK energy security and resilience by efficiently delivering natural and green gas through our networks to millions of homes and businesses.

Scotland
Our network distributes gas to 1.8 million Scottish homes, including a number of remote communities (SIUs).

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

Northern Ireland
Our Evolve network serves customers in the western region of Northern Ireland.



5.8 million homes
We transport natural and green gas from the national transmission system and local biogas plants to households.

189,000 industrial and commercial customers
Our I&C customers account for 40% of the energy our network delivers and support millions of jobs.

46 biomethane sites
We have sufficient connected biomethane capacity to decarbonise more than 360,000 homes.

75,408km of pipelines
We operate and maintain one of the largest energy networks, part of the UK's critical national infrastructure.

117.9TWh of energy
Our network provides resilience to the energy system, keeping our customers safe and warm whatever the weather.

1,372,894 vulnerable households supported
Since 2021 we've helped more than 1.3 million vulnerable households to use energy safely, efficiently and affordably.

2026 performance summary

A year of delivery

Financial performance

Revenue
£1,373.4m
(2025: £1,267.6m)

Net operating costs
£1,007.6m
(2025: £950.5m)

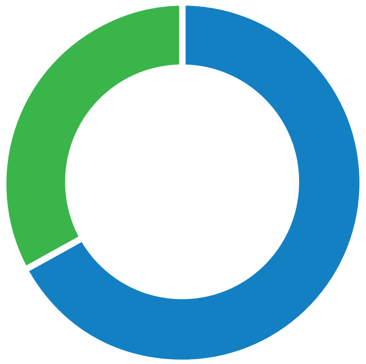
Operating profit
£365.8m
(2025: £317.1m)

Net finance costs and tax
£331.7m
(2025: £256.9m)

Profit for the year
£34.7m
(2025: £59.4m)

EBITDA[1]
£608.8m
(2025: £547.9m)

Network investment[1]
£700.2m
(2025: £620.4m)



Comprising:
- **Replacement expenditure[1]**
  £469.7m invested to replace 1,054.4km of pipelines.
- **Capital expenditure[1]**
  £230.5m invested across fleet, major projects, cyber and IT.

Net debt
£5,693.9m
(2025: £5,406.7m)

Regulatory Asset Value (RAV)[1]
£8,077.9m
(2025: £7,680.9m)

Net debt to RAV[1]
70.5%
(2025: 70.4%)

1 Defined in Alternative Performance Measures (APMs) on page 130.

Operational performance

Network reliability
99.99%
(2025: 99.99%)

Mains replaced
1,054.4km
(2025: 1,013.2km)

Uncontrolled gas emergency response (minimum standard 97%)
99.5%
Scotland
(2025: 99.5%)

98.8%
Southern
(2025: 98.0%)

Total business carbon footprint[2]
10% reduction compared to previous year
(2025: 3% increase)

Total energy through SGN network
117.9TWh
(2025: 124.3TWh)

2 Scope 1 and 2 emissions, including shrinkage.

How we deliver value

In 2025/26, an average household paid £161 for our services.

SGN customer bill breakdown 2025/26
- Network investment
  £91
- Taxes, licence and other fees
  £28
- Providing a 24-hour emergency and repair service
  £22
- Operating and maintaining the network
  £19
- Performance improvement incentives
  £1

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

Our 2026 business highlights

It has been a year of delivery across our business with industry leading customer service, impressive operational delivery, new facilities opened and our transformation under way.

We were number one for customer service, with Scotland again in the top spot and our Southern network advancing to second place. With our partners we also supported hundreds of thousands of vulnerable customers. At the same time we outperformed our agreed mains replacement target while working hard to enhance our safety culture. We continued to invest in both our network and wider operations. In Scotland we opened our new national training centre and across our business the transformation of SGN gathered momentum.

Our commitment to keeping our customers safe and warm is underpinned by our purpose, vision, mission and values

Our purpose
Delivering the energy our customers need today and tomorrow

Our vision
We are a highly-skilled engineering organisation that designs, builds, operates and maintains the energy systems of today and tomorrow

Our mission
We keep the gas flowing safely, securely and increasingly sustainable

Our values
Safety, Respect, Reliability, Openness, Innovation

Number one and two for customer service

For more see page 20

45 apprenticeship and learning opportunities delivered

For more see page 23

Transformation gathers momentum

For more see page 26

600,000 vulnerable households supported

For more see page 20

£700m investment to upgrade and maintain our network

For more see page 33

823 colleagues trained at new national training centre

For more see page 23

LTS Futures live trial delivered

For more see page 25

8 external awards

For more see page 21

1,054.4km of mains pipe replaced

For more see page 17

Chair's statement

"SGN enters this new regulatory period with the momentum, the discipline and the determination to deliver on all our commitments."

Rebecca Lumlock Chair

This year marks a moment of genuine significance for SGN with the completion of the final year of RIIO-GD2 and preparation for the start of RIIO-GD3.

During this time, SGN changed ownership and renewed its Executive team. The strategy and transformation led by Simon Kilonback has delivered strong results, giving confidence as we enter the next chapter of the business.

SGN exits the RIIO-GD2 five-year period in impressive shape. Our Scotland network has been number one for customer satisfaction for ten consecutive years – an astonishing achievement that reflects our relentless focus on our customers. Our Southern network has also performed strongly, moving up to second place for customer service, a significant step forward and a further demonstration that our commitment to high performance is taking hold across the whole business.

Upgrading our network

Britain's gas networks are entering the final stages of a 30-year programme to replace ageing metal infrastructure with modern plastic pipes. This is complex, demanding work and this year our teams outperformed, delivering the highest volume of mains replacement over the last five years. This multi-decade investment has delivered an important, high-quality piece of national infrastructure that will serve Britain for generations. I'm proud of what our teams and supply chain partners have achieved.

The business is now focused on delivering the significant investment set out in our RIIO-GD3 business plan. SGN enters this new regulatory period with the momentum, the discipline and the determination to deliver on all our commitments.

The Board has been closely engaged throughout this period, supporting the business through the RIIO-GD3 process. We have also undertaken a series of site visits that have reinforced my personal conviction about the quality of SGN's people and operations.

Looking ahead to RIIO-GD3

I want to express my sincere gratitude to every one of our colleagues and supply chain partners. The results we are reporting reflect their professionalism, their resilience and their pride in the work they do – maintaining safe and reliable gas supplies for six million business and domestic customers across Scotland, south London and southern England, day in and day out.

As we enter RIIO-GD3, we do so with clear purpose. As the government has acknowledged, 'the gas system will remain central to our energy system for generations to come'. It delivers a level of resilience and energy security that no other infrastructure can match at the scale and reliability many of our industrial and domestic customers depend upon. As such, the gas network is not only a critical national asset today, but a strategic pillar of the UK's future energy system. Continued investment in this infrastructure is therefore vital, to sustain resilience and security, while preserving the flexibility and optionality required to support a balanced, orderly and cost-effective energy transition in the decades to come.

I look forward to working with Simon, the leadership team and colleagues across SGN as we build on this strong foundation and deliver for our customers, our communities and the country.

Rebecca Lumlock
Chair

22 July 2026

Chief Executive Officer's statement

"In the past 12 months we delivered our strongest operating performance of the five-year regulatory period."

Simon Kilonback Chief Executive Officer

These results reflect a year of strong delivery, combining excellent operational performance with increased network investment, all underpinned by a resilient financial position.

We are seeing the results of a strategy I devised and launched mid-way through RIIO-GD2 to transform SGN, built around investment, safety, operational excellence, customer service, and our belief in the enduring role of gas in the UK's energy future. That strategy is now delivering, and I am proud of what this organisation has achieved.

Operational delivery and resilience

In the past 12 months we delivered our strongest operating performance of the five-year regulatory period. Our fundamental responsibility is to keep the public safe and warm and respond quickly when customers report a smell of gas. Despite experiencing some of our busiest days in January, we delivered strongly against Ofgem's standards of service, demonstrating an operational culture that always puts safety first.

Our networks are number one and two in the national customer satisfaction league table with Scotland retaining the top spot for the tenth year in a row. On mains replacement – one of the UK's most significant national infrastructure programmes – we outperformed our agreed HSE approved programme.

Alongside operational excellence we provided record levels of capital investment in our networks while ensuring a resilient financial position.

At a time when energy security and system resilience have rarely been more critical, we continued to play a critical national role – keeping gas flowing safely, securely and increasingly sustainably. Our operational teams delivered network reliability of 99.99%, ensuring dependable supply when it mattered most. On the coldest winter days, Britain's gas network carries up to five times more energy than the electricity system, underlining the essential role we play in the UK's energy system.

We are also enhancing our cyber resilience, investing to protect our network and our customers' data. It is all evidence of our crucial role in the energy system today and the enduring role we will play for decades to come.

We play an important role in the transition to a lower carbon future. Our biomethane connections have the capacity to supply the equivalent of over 360,000 homes, with a clear ambition to reach one million by the early 2030s. We are making it easier for producers to connect to our network and are playing a leading role in the Green Gas Taskforce which is successfully highlighting the many benefits of biomethane to policymakers and the public.

We also successfully completed our world first LTS Futures live trial, demonstrating that our network is capable of safely transporting and distributing 100% hydrogen. We are also continuing to make significant progress on H100 Fife project, a pioneering end-to-end hydrogen production, storage and distribution-to-homes project. Construction is now complete and commissioning is getting under way.

Entering RIIO-GD3 with momentum

I would like to thank all our people for their continued dedication and commitment – they remain our greatest asset. Drawn from the communities we serve, they bring deep local insight and a shared commitment to delivering for our customers.

We are committed to fostering an inclusive culture in which everyone can thrive, supported by strong employee networks across the business. At the same time, we continue to invest in our future workforce, broadening access to our early careers and apprenticeship programmes and actively encouraging applications from individuals of diverse backgrounds.

As a result, today we are a stronger, more focused and higher-performing business than ever before. SGN's transformation will continue into RIIO-GD3, which we embark upon with considerable momentum and optimism.

Simon Kilonback
Chief Executive Officer

22 July 2026

Our strategy

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

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

As we enter RIIO-GD3, we are transforming how we operate: renewing our business, securing the resilience of Britain's energy system and leading the way on decarbonisation. This strategy is designed to create long-term, sustainable value for all our stakeholders.

Our long-term plan

1.

Renewing our business

We are building a stronger business by investing in our people, systems and workplaces – becoming more efficient and planning-led, and using data and technology to improve performance and customer outcomes.

2.

Providing resilience and energy security

Our infrastructure underpins Britain's energy security, carrying up to five times the energy of the electricity network during peak winter demand. We operate 24/7, responding to emergencies and investing to ensure it remains safe and resilient.

3.

Leading on decarbonisation

We are delivering decarbonisation at scale today by working with biomethane producers to carry more green gas, while undertaking pioneering hydrogen trials for tomorrow.

Our RIIO-GD3 strategic priorities

Safety

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

More information on our safety plans

Customers

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

More information on our customer plans

People

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

More information on our people plans

Resilience

We provide critical national energy security and resilience, maintaining 99.99% network reliability to ensure secure, dependable supply when it matters most.

More information on our resilience plans

Productivity

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

More information on our productivity plans

Future

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

More information on our future plans

Five years of delivery

We've invested billions to enhance safety, energy security and resilience by upgrading our network since 2021.

We deployed innovative technologies to improve the safety of our operations, while investing substantially in the skills of our workforce through an expanded apprenticeship programme and hundreds of learning and development opportunities.

Working with charitable and community partners, we supported over one million vulnerable households, four times our original commitment. Our customer satisfaction performance remained industry-leading throughout, with our Scotland network holding Ofgem's top ranking for ten consecutive years and our Southern network advancing to second place.

2021-26 highlights

£138m

investment in major projects

We enhanced the resilience of our network with 215 separate projects completed, including one of Scotland's largest transmission sites at Provan and one of the largest offtakes in our Southern network at Winkfield.

1.3 million

vulnerable households supported

4,556km

pipelines replaced

We invested £2.5bn in our network, including upgrading ageing metal pipes with modern plastic pipes to enhance safety, maintain resilience and ensure our network is ready to support the energy transition in the years ahead.

360,422

homes supplied with green gas/biomethane

Pioneering projects

LTS Futures and H100 Fife

We successfully demonstrated that our network can support a lower carbon future by safely transporting 100% hydrogen, while also achieving significant milestones on our pioneering project to deliver green hydrogen – produced from Scottish wind – to homes and industry.

No 1

for customer satisfaction

Our networks finished RIIO-GD2 on a high, securing No 1 and No 2 in the national customer satisfaction league table. Our Scottish network topped the table for the tenth year in a row!

170

innovation projects delivered

We worked with 150 partners, including a range of businesses and gas and electricity networks, on collaborative, innovative projects worth £140m to enhance the gas network for tomorrow.

619

apprenticeship and training opportunities

Our new five-year plan

In April, we launched our ambitious five-year investment programme to strengthen and future-proof our critical national infrastructure.

This plan will deliver substantial investment across our network, ensuring we continue to provide safe, reliable gas to millions of homes and businesses while supporting the UK's transition to a lower-carbon energy system.

Our network is fundamental to national resilience. Through targeted upgrades and maintenance, we will enhance safety, reliability and operational integrity, protecting communities and ensuring continuity of supply. At the same time, RIIO-GD3 strengthens the UK's energy security by enabling new sources of supply, including biomethane and hydrogen, helping to diversify energy sources and reduce reliance on imports.

We plan to invest over £4bn during this period to upgrade our network, deliver industry-leading service, support the energy transition while all the time providing value for money.

We are committed to supporting our customers – particularly those in vulnerable circumstances – while continuing to improve service standards. Investment in skills and apprenticeships will support a workforce capable of delivering the energy transition and sustaining long-term economic growth.

GD3 also positions us to meet evolving demand from industrial and commercial users, including emerging sectors, by improving access to our network and facilitating the integration of greener gases. This will unlock economic opportunities while reducing emissions.

Our approach is disciplined and responsible: focused on essential investment to maintain safety and resilience, while keeping costs as low as possible for customers.

Our RIIO-GD3 investment plan

£4bn topline investment comprising:

£1.8bn
on mains replacement

£218m
upgrading multi occupancy buildings

£153m
enhancing cyber resilience

£60m
on new and refurbished buildings

£20m
to boost biomethane across our network

Our RIIO-GD3 highlights

Customers and communities

- Top three in the industry for customer satisfaction in both networks
- Support at least 650,000 vulnerable households

Network and delivery

- Deliver 4,275km of Tier 1 Repex
- Complete major site rebuilds at Isle of Grain, Welling and Glenmavis
- Roll out advanced leakage detection

Our people

- Target a maximum 12-hour working day
- Recruit and train 50+ apprentices each year

Efficiency and sustainability

- Reduce our operational carbon footprint
- Deliver enhanced Cyber Assessment Framework (CAF)

Future energy

- Deliver biomethane to the equivalent of 1 million homes
- Decarbonise Wick and Thurso SIUs
- Contribute to Regional Energy Strategic Plans (RESPs)

Building the energy systems of tomorrow

Green gases will play a vital role in the UK's energy transition, helping to decarbonise both domestic and industrial energy use over the coming decades.

SGN is leading the way, with a strong track record in biomethane, hydrogen and ambitious plans to further grow green gas across our network. We will be at the heart of the energy system, helping to ensure a flexible, resilient and low-carbon energy future.

Growing biomethane

By 2050 biomethane has the potential to heat up to 10 million UK homes, making a significant contribution to a lower carbon future.

With 46 biomethane plants connected to our network, we already have sufficient capacity to decarbonise the equivalent of 360,000 homes, with ambitions to reach one million by the early 2030s.

We are also playing a leading role in the Green Gas Taskforce which is championing the potential of biomethane today and tomorrow.

Demonstrating hydrogen

SGN is at the forefront of hydrogen innovation in the UK, building the evidence base for future policy decisions.

H100 Fife is a pioneering end-to-end green hydrogen production, storage and distribution project which is providing critical evidence for the UK government on how we could heat our homes in the future.

It builds on our LTS Futures live trial last summer, which demonstrated the compatibility of the existing Local Transmission System to carry hydrogen.

Decarbonising remote communities

We are committed to ensuring the energy transition reaches every community we serve, including those in the far north of Scotland.

We will utilise locally produced biomethane to provide secure, sustainable energy to households in Wick and Thurso.

This will demonstrate how green gas can deliver decarbonisation where other low-carbon technologies face practical and economic barriers. This place-based approach gives communities the opportunity to reduce their carbon footprint using their existing energy infrastructure.

Chief Operating Officer's statement

Darren Elsom Chief Operating Officer

> "Delivering consistently high performance for customers is a strategic priority."

This year marked a step change in operational performance, demonstrating the operating model's strength since the creation of the COO role and team.

Having spent 2024/25 embedding unified leadership across Operations, Engineering, Asset Management, Customer Service and Operational Support, this year has been about converting that alignment into tangible outcomes: safer behaviours, better customer experiences, improved resilience and a business increasingly ready for the future energy system.

Maintaining energy security and resilience

Our six million customers rely on gas every day, which we deliver with a 99.99% reliability rate. This reliability is particularly important for the energy transition and the gas network's role as a stabilising asset providing confidence and security of supply.

Our business-wide transformation is now delivering results. We completed the move from five to nine regions across the Southern network, enabling more localised decision-making and closer alignment with the communities we serve. In December, we successfully outsourced our logistics operations with no disruption to winter operations and immediate improvements in stock visibility and planning. We also completed preparations for our new CRM platform to go live in April 2026, replacing multiple legacy systems with a single technology system and laying foundations for future scheduling and field service improvements.

A renewed focus

Safety remains core to what we do every day. We matured our internal approach by introducing our Zero Harm initiative, reinforcing a culture where every colleague feels personally responsible for their own safety and the safety of others.

Delivering consistently high performance for customers is a strategic priority and this year we reshaped Operations to ensure customers are at the heart of every decision. Embedding customer service more deeply into our operating structure has strengthened our local presence and responsiveness. This focus has driven customer satisfaction scores to new highs, with our Southern network achieving a score of 9.49, placing it second in Ofgem's customer satisfaction league table among gas distribution networks. Our Scotland network once again retained first place, marking an extraordinary tenth consecutive year at the top. These results reflect the dedication of our people and our ambition to be Britain's best gas network operator.

Preparing SGN for what's next

Our performance depends fundamentally on the capability and confidence of our workforce. This year, we unveiled our new training centre in Glasgow, a significant investment in developing frontline skills for a changing energy landscape. The centre enhances hands-on learning, technical development and long-term career pathways, complementing the recruitment of apprentices and graduates and ensuring our people remain among the most highly trained professionals in the sector.

Finally, we stepped up work to support decarbonisation, connecting new biomethane plants and safely transporting hydrogen during our LTS Futures project and preparing to commission our flagship H100 Fife project later this year.

Taken together, a clearer operating model and focused leadership are delivering real results. We're performing strongly today, while building the capabilities required for tomorrow. I'd like to thank every colleague whose commitment continues to keep our communities safe and warm as we move confidently into the RIIO-GD3 period and beyond.

Darren Elsom
Chief Operating Officer

22 July 2026

Operating review

Investing in our network

We surpassed our annual targets to replace Tier 1 pipes in both our Scotland and Southern networks, which played a significant role in achieving our revised RIIO-GD2 delivery plan.

Southern network

Target 2025/26: **630km**
Actual replaced: **703.9km**

Scotland network

Target 2025/26: **197km**
Actual replaced: **207.9km**

Mains replacement delivery has been a key focus over the last few years and changes introduced are now delivering impressive results. Despite the increasing complexity of our mains replacement programme, we exceeded our agreed targets in both Scotland and southern England.

As the programme progresses, the remaining iron mains are more technically challenging to replace. Our skilled teams and increasingly targeted approach ensure we continue to deliver this critical work safely and efficiently, maintaining momentum as we move into the final phase.

Delivering complex projects and smarter solutions

This year included a number of particularly challenging projects. In Brighton, work at multi-occupancy buildings in Vernon Terrace required the installation of internal risers within heritage properties. We worked closely with conservation specialists and residents to ensure compliance while minimising disruption.

At Livingston railway station, we safely abandoned 2km of pipe located close to the Edinburgh to Glasgow mainline, reinforcing the network with new plastic pipe to improve local resilience. We also used drone footage in a public information video to help communities better understand the scale and complexity of the work.

Alongside project delivery, we are continuing to improve how we operate. Specialist teams are supporting regions with more efficient methods and advanced technologies, including the use of microstop techniques to complete riser replacements without interrupting gas supplies, improving the customer experience, and reducing cost.

We have also equipped frontline teams with new camera technology to survey mains and services. This enables more accurate leak detection and faster, more efficient repairs, supported by a 24-hour response capability to minimise downtime and disruption.

Upgrading our network

Gas has been delivered through our extensive underground network for decades, providing a safe and reliable energy supply to millions of homes and businesses. However, as older iron pipework reaches the end of its useful life it must be replaced to maintain safety, reduce emissions and ensure long-term reliability.

This work forms part of a nationwide programme mandated by the Health and Safety Executive (HSE), often known as the 30/30 programme. It requires iron gas mains within 30 metres of properties to be replaced over 30 years. Spanning Great Britain, it is one of the largest infrastructure programmes ever undertaken, often involving extensive works in local communities. We understand this can be disruptive, so we always plan projects carefully to reduce any impact.

At SGN, we deliver this through our Replacement Expenditure (Repex) programme. Our engineers replace ageing metal mains with modern plastic pipes that are more durable, less prone to leaks and compatible with lower carbon gases such as hydrogen. This keeps the network safe today while supporting the energy system of tomorrow.

It is essential to modernise this critical infrastructure that sits out of sight but underpins daily life. While we are in the final stages of this huge national undertaking there are around 5,000km still to complete by 2032 to ensure a resilient, safe network that is fit for the future.

Southern Tier 1 replacement in RIIO-GD2
2,929km

Scotland Tier 1 replacement in RIIO-GD2
1,051km

Operating review

Safety

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

Responding to emergency gas escapes is one of our core responsibilities. Last year, our engineers attended more than 170,000 gas escapes as the National Gas Emergency Service provider for Scotland and southern England, providing essential 24/7 support to keep communities safe.

We aim to reach all uncontrolled escapes within one hour, and controlled escapes within two hours. In both networks, we attended over 97% of escapes within these target times, exceeding Ofgem's Standards of Service.

Maturing our safety ambitions

We introduced Zero Harm in autumn 2025, our new programme to provide a platform for improvements in our safety performance in the years ahead.

Three core principles underpin Zero Harm: We Care, We Own, We Learn and it's supported by our Lifesaving Rules. Zero Harm is empowering our colleagues to take responsibility for their own, and everyone else's, safety.

We achieved ISO 45001 certification, an organisational first that advances our safety culture ambitions. Building on our ISO 55001 asset management accreditation, this provides independent assurance of a robust safety management system. We're integrating this with ISO 14001, to reinforce our commitment to safe, sustainable operations.

Looking after our colleagues

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

In 2025/26, our Occupational Health and Wellbeing team carried out all required and proactive medicals. Each operational colleague received one clinical appointment while additional clinics were available for office-based employees.

Additionally, proactive wellbeing campaigns were ran throughout the year including on mental health, a cross-network physical challenge, and enhancing wellbeing champions across the business.

Safety embracing innovation

We introduced internally owned and developed safety investigation training to enhance our root cause analysis capabilities so we learn from incidents.

This training uses virtual reality technology to bring the training process to life, creating an immersive experience for attendees. It's the first time this technology has been used in SGN to promote this topic and has received significant praise.

Safe digging trial

All frontline operatives now have immediate access to real-time utility mapping, supporting safer excavation activities and strengthening our approach to avoiding cables.

In partnership with Ordnance Survey, our Oxford region trialled the National Underground Asset Register (NUAR), which provides an interactive digital map of underground infrastructure, during January 2026.

Oxford was selected due to its known mapping gaps, but after a successful trial, NUAR has been rolled out across our Southern operational footprint to ensure our colleagues stay safe while digging.

Reacting fast to emergencies

We responded to 172,704 gas escapes this year. We recorded above 97% attendance within Standards of Service response times, across our Scotland and Southern networks.

	Scotland		Southern	
	Uncontrolled	Controlled	Uncontrolled	Controlled
	99.5%	99.9%	98.8%	99.5%

Predictive Safety Interventions (PSI)

Our PSI project is transforming how we manage risk, using AI to predict and prevent incidents in real time.

Delivered with safety platform FYLD and funded through regulator Ofgem and the UK Research and Innovation (UKRI) fund, PSI shifts safety from reactive processes to continuous, proactive intervention. By analysing live operational and behavioural data, the system identifies high-risk conditions and delivers targeted prompts directly to field teams.

Predictive models reached 69% accuracy during live trials, with interventions deployed on 68% of high-risk jobs.

PSI is embedding smarter, safer decision-making into everyday operations.

Preventing carbon monoxide (CO) harm

Survey results indicate people's CO dangers awareness is increasing thanks to our community conversations. Awareness has risen 52% in 2025/26 to 8.88 out of 10 after delivering more than 250,000 conversations and providing over 43,000 CO alarms to install in houses without the life-saving device.

We've worked closely with partners to ensure our impact to reduce CO harm is maximised. We've reached over 13,000 pupils through school education sessions, while our CO safety activities have reached more than 24,500 young people as part of the Scouts programme.

2025/26 safety performance

Lost Time Incident (LTI) rate[1]: 0.16
2024/25: **0.16**

Total recordable injury rate: 0.22
2024/25: **0.19**

Very serious incidents: 0
2024/25: **5**

High potential incidents: 27
2024/25: **34**

1 Rates include employees and contract partners per 100,000 hours.

Customers

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

Delivering outstanding service for our customers is central to our purpose. We are committed to providing a high-quality, reliable experience, with a strong focus on supporting those in vulnerable circumstances.

By listening to our customers and continually improving how we engage, we ensure their needs are understood and met. Our approach combines operational excellence with compassion, enabling us to provide trusted, responsive and inclusive services across all the communities we serve.

Best in class customer satisfaction

Customers value a quick response to gas emergencies and reinstatement of the areas we've disturbed to access our network. We're focused on reducing disruption and ensuring we efficiently complete required work to the high standard that's expected of us.

We embarked on a bold transformation programme to reshape our Operations directorate to put customers at the heart of every decision, with a particular focus to improve customer satisfaction in our Southern network.

This year, we expanded our regional depots from five to nine, welcomed around 360 new colleagues, and integrated Customer Service within Operations, to strengthen our local presence and drive continuous improvement.

The result? Stronger leadership, deeper local knowledge, and dedicated customer expertise have empowered our frontline teams to deliver outstanding service. Our engineers go beyond resolving gas emergencies – offering energy advice, identifying vulnerability or connecting customers with debt support when they need it most.

Customer satisfaction surged to 9.49 out of 10 in our Southern network, a step change over the last 12 months, with Southern now in second place in the Ofgem customer service rankings. Scotland maintained first place for an incredible tenth year running with a score of 9.56. We are proud to lead on customer service.

Extending our network in Falkirk

We completed the final third of our network extension project in the Falkirk area this year. Our engineers laid 27km of pipe, connecting Falkirk's neighbouring villages to natural gas for the first time, and offering approximately 1,700 households a route out of fuel poverty.

Over RIIO-GD1 and RIIO-GD2 we have connected 33,160 fuel-poor homes to our network.

Customer satisfaction in our Southern network increased to

9.49

out of 10

"Putting customers first is what we do: keeping them safe and warm, and supporting communities when they need us most. We're incredibly proud to see our two networks ranked atop Ofgem's national customer satisfaction league table. This recognition reflects the commitment of our teams and the trust our customers place in us every day."

Maureen McIntosh
Director of Customer Service

Rapidly resolving complaints

When things don't go to plan, we're committed to addressing customer issues swiftly. In 2025/26, 88% of complaints in Southern, and 99% in Scotland were resolved by the next working day. This was our best performance across RIIO-GD1 and RIIO-GD2. Zero complaints were left unresolved after 31 days – an achievement we're extremely proud of.

These fantastic outcomes were a result of rolling out video capture technology to our supply chain partners, as well as updating our day zero process where support is provided at first point of contact for our local teams.

Major milestone in supporting vulnerable people

Our responsibility to customers – particularly those who rely on us most – remains central to our purpose. And this year, we surpassed a landmark achievement having provided vital support to over one million vulnerable households through our Safe & Warm partnership network.

Despite originally committing to supporting 250,000 vulnerable households during RIIO-GD2, we ended the period having supported over 1.3 million. This staggering total is testament to our colleagues who go above and beyond to provide reassurance, practical help and tailored support. It also indicates the scale of need within our communities, and by strengthening the resilience of our operations and improving the ways we communicate, we're not just meeting customer expectations but building valuable trust.

We work with over 140 charities and community organisations and our engineers, who visit approximately 300,000 homes each year, often encounter customers who need extra help. Through the Company's Careline service and referral pathways, these visits frequently lead to direct support for those in need including emergency welfare aid, energy efficiency advice and carbon monoxide (CO) awareness.

We announced the milestone at our Winter Readiness event in Glasgow, which brought together charitable partners, organisations and stakeholders from across the UK to share learning and strengthen collaboration ahead of the colder months ahead.

Kitemark retained

BSI has once again awarded us with its Inclusive Service, Energy Provision kitemark for how we support customers.

Its auditors highlighted the consistent and compassionate service we provide to our customers, particularly those living in vulnerable circumstances.

Customer service awards

We've been recognised with 32 awards related to our world-class levels of customer service. This year, we won:

CCA Global Excellence Awards 2025 golds in the following categories:
- **Most Effective Vulnerability Strategy**
- **Innovation in Customer Service**
- **Excellence in Inclusivity and Accessibility**
- **Great Places to Work**

Credit Strategy Awards 2025:
- **Best Outsourcing and Partnership Initiative**

Scottish Fundraising Awards 2025:
- **Best Partner Relationship in partnership with Positive Action in Housing**

Alzheimer's Society People Awards 2025:
- **Better Together Award**

Our commitment to customers

479,840

debt and benefit advice sessions delivered between April 2021 and March 2026

Helping people access the benefits they deserve

A pension-aged couple, living with health conditions including cancer, arthritis and CMT, had never previously sought support.

We referred them to the Priority Services Register and introduced them to IncomeMax, helping them access a range of benefits, grants and support schemes.

With IncomeMax's guidance, the couple successfully claimed Attendance Allowance, received a home energy audit and secured support with their energy bills, collectively increasing their annual income by £12,115.

This case highlights the impact of IncomeMax, which has helped thousands of people unlock vital financial support and is one of many partnerships through which SGN supports vulnerable customers to use energy safely, efficiently and affordably.

Operating review

People

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

Our people are at the heart of our success. We are dedicated to creating an inclusive and supportive environment where everyone can thrive, feel valued and contribute their best.

By embracing diversity, investing in development and promoting wellbeing, we empower our workforce to demonstrate their talents and reach their potential. This not only strengthens our organisation but also ensures we continue to deliver for our stakeholders with skill, care and professionalism.

Recruiting to support a transforming business

Our Recruitment team directly supported major restructuring, operational resilience and the evolution of corporate functions as the organisation continues to transform.

A more disciplined sourcing model delivered targeted hires while controlling cost and improving pace. In total, we achieved £1.17m in cost avoidance.

A larger, more diverse team helped embed fairer, more inclusive practices, most notably through CV-less hiring, which is now influencing improved EDI outcomes. And, to ensure leadership capability matched our future ambitions, we introduced structured assessment centres for senior roles, enhancing both rigour and consistency.

Together, these changes reflect a recruitment strategy which fills roles and strengthens SGN for the long-term.

Building an inclusive workforce

SGN led a landmark National Inclusion Week event for the gas distribution networks (GDNs), bringing more than 100 industry colleagues together, in Brighton to collaborate on EDI. The event combined keynote talks, panel discussions and interactive workshops covering inclusive leadership, neurodiversity, race equity and LGBTQ+ inclusion.

A sector-wide EDI pledge was the most significant outcome from September's event: "We pledge to foster a culture where every colleague feels safe, valued and empowered to be their true, authentic self."

We're moving the conversation from awareness to action – creating alignment, accountability and momentum across all GDNs. Northern Gas Networks will host the next event, ensuring this collaborative journey continues.

Our commitment to people

5.5%

of our colleagues are currently in an earn-and-learn position

Championing skills for the future

Key to strengthening SGN's apprenticeship and technical programmes, our Head of Talent & Early Careers Michael Gillies was appointed to the Scottish Apprenticeship Advisory Board this year.

He boasts over 25 years' experience in training and workforce development, opening doors for people to build long-term careers in our industry.

Michael's appointment recognises his deep commitment to developing colleagues and ensuring skills remain aligned to the energy sector's future needs. He'll help influence apprenticeship policy, champion high-quality training, and bring frontline insight into Scotland's skills agenda – reinforcing SGN's dedication to investing in the next generation of engineers and technicians.

Targeted hires and improving recruitment pace avoided costs of

£1.17m

Accolade for apprentices commitment

Just a year after joining The 5% Club scheme, SGN achieved Gold Membership in recognition of our position as one of the UK's leading employers in workforce development.

We've demonstrated strong commitment to earn-and-learn pathways, with 5.5% of our colleagues now in apprenticeships, graduate programmes or trainee roles. Over the past year we delivered 45 apprenticeship and learning opportunities.

New national training centre opened

Our new national training centre in Glasgow has been purpose built to empower our frontline workforce with the skills, confidence and capability needed for a changing energy landscape. Earlier this year we were delighted to welcome Energy Minister Michael Shanks to officially open the facility, which he said would equip the next generation of Scottish engineers with the skills to power Britain.

The facility strengthens hands-on learning and technical development, ensuring our colleagues remain among the best trained in the sector. It features a 'Safety Street' with replica properties and high-pressure control rigs, combining advanced technology with realistic environments.

Specialist multi-skilled trainers deliver tailored courses for each frontline role, with a strong focus on safety-critical tasks. Since opening, 823 colleagues have received training at the facility.

Operating review

Future

We innovate to ensure we maintain the highest standards and deliver a fairer, more sustainable tomorrow.

Through innovation and forward-thinking, we are adapting our network to meet the challenges of a changing energy system while maintaining the highest standards of safety and reliability.

By investing in new technologies and exploring low-carbon solutions, we are helping to deliver the transition to net zero, ensuring our business continues to create long-term value for customers, communities and the wider environment. Much of this is achieved through important industry schemes which foster collaboration and new ways of working.

Enhancing performance through machine learning

Our Intelligent Gas Grid (IGG) project is transforming how we manage and decarbonise our networks, using digitalisation, AI and machine learning to enhance safety, and environmental performance.

Delivered through Ofgem's Strategic Innovation Fund, IGG is a major collaborative effort between the UK's gas networks and Utonomy to build an autonomous system capable of predicting issues, reducing emissions and optimising biomethane injection. Building on our existing remote-control technologies, IGG shifts us from reactive maintenance to proactive, data-driven management.

Early field trials show strong results: AI-powered pressure optimisation cut methane leakage by an average of 16% and reduced governor pressures by up to 31%. With advanced anomaly detection continually learning from live data, IGG acts as an always-on monitoring system. The project demonstrates how intelligent networks will support a safer, cleaner and more flexible energy system.

We've helped deliver innovative projects worth £140m over the last five years.

Ensuring fairness for customers in the future

As greener gases play an increasing role in our network, our ongoing Real Time Settlement Methodology (RTSM) programme will update the way energy is measured and billed, safeguarding fairness, accuracy and transparency for customers.

The programme bridges innovation and regulation, turning a complex industry challenge into an opportunity to shape future-proof solutions. Collaboration sits at the heart of this work, and a collective drive with industry partners will steer our progress to a cleaner, smarter and fairer gas system.

New tech rolled out to reduce physical demand

We deployed an innovative electric barhole tool designed to modernise the way engineers carry out gas leak detection activities.

Traditionally, creating barholes requires repetitive manual or percussive methods, which can be physically demanding and time consuming. But our new battery-powered solution allows engineers to create barholes quickly, consistently and with significantly less physical effort. This improves safety and user experience, while maintaining the effectiveness of leak detection operations.

The tool has been developed through extensive field trials, user feedback and safety assessments to ensure it is practical for real-world use across SGN's network. Early results have shown strong support from engineers, with benefits including reduced manual effort, improved consistency of hole creation and improvements in survey time.

As part of a wider programme of innovation, the electric barhole tool demonstrates our commitment to adopting new technologies that enhance workforce safety and support the delivery of a safe and reliable gas network for customers.

Designing more accessible CO alarms

We're transforming carbon monoxide safety by designing alarms that are clearer, more accessible and easier to act on.

Research revealed that traditional sound-only alerts can be confusing, particularly for older people and those with sensory or cognitive impairments, risking delayed or missed responses.

Our solution combines spoken voice alerts with smartphone notifications, clearly stating the issue, from CO detection to low battery or faults. Connected features allow alerts to be shared with trusted contacts, offering an additional layer of reassurance.

Developed with expert partners, this innovation aims to make life-saving warnings more intuitive, inclusive and effective for every household.

Maintaining gas supplies during repairs to damaged mains

We introduced an innovative solution designed to maintain gas supplies while emergency repairs to damaged mains are carried out nearby.

The Gas Stent Bag allows engineers to create a temporary internal seal around a defect, enabling gas to still flow through the network while repair activities take place.

This reduces large-scale interruptions to customer supplies, minimising disruption and creating a safer working environment by reducing the size of exclusion zones and limiting engineer exposure to active gas escapes.

The Gas Stent Bag also significantly reduces excavation requirements and repair durations while reduced plant usage and vehicle movements aid environmental performance.

Collaborating with industry

Over the last five years, SGN has played a leading role in industry-wide innovation projects, collaborating with more than 150 partners. Working with specialist businesses and other gas and electricity networks, we have helped deliver projects worth £140m.

The Network Innovation Allowance (NIA) and Strategic Innovation Fund (SIF) are vital for funding high-risk, low-carbon gas research. They accelerate the transition to low-carbon alternatives including hydrogen and biomethane and ensure gas networks remain safe, reliable, and ready to support the energy transition.

AI-powered pressure optimisation cut methane leakage by an average of

16%

Our commitment to the future

30km

stretch of pipeline has been repurposed to transport hydrogen

Hydrogen project scoops award

Our £31m LTS Future programme – demonstrating how existing gas transmission infrastructure can play a vital role in the UK's clean energy transition – won the Infrastructure Award at the 2026 Hydrogen UK Awards.

By repurposing a representative 30km stretch of our Local Transmission System and delivering a series of world-first hydrogen operations, LTS Futures has proven our pipelines can be safely and effectively adapted to transport hydrogen.

These findings offer a national blueprint for converting the UK's wider LTS network, helping shape future government policy and providing regional customers with low-carbon energy options.

LTS Futures reinforces our broader innovation pathway to developing practical, scalable solutions that accelerate UK decarbonisation.

Operating review

Productivity

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

We are on a journey of transformation which has gathered momentum over the past year. Highlights included preparing for state-of-the-art technology platforms to be introduced, centralising back-office functions, restructuring our Southern region, investing in our property portfolio and creating a dedicated Shared Services Centre as a one-stop shop for staff services.

£18.4m

invested in modern facilities that support our people to perform at their best

Investing in major technology programmes

We've commenced work on two new major technology programmes.

As we close out the year we are ready to implement the first phase of our front office platform. This will strengthen our operational processes, improve the technology and equipment our frontline teams use each day and fundamentally modernise our business and support our customers. Salesforce will go live in phases starting in 2026/27.

Separately, a corporate services programme was launched to support our People, Payroll, Procurement and Finance functions. Oracle Fusion will be deployed in 2026/27 to improve end-to-end process and ensure data quality is maintained. This implementation will ensure the business is simpler, more responsive, and more adaptable to changing demands.

Scaling our Shared Services Centre

We launched our Shared Services Centre in 2025/26 to provide a single point of contact for our finance, procurement and people services.

This centre enables us to modernise our service, driving consistency and quality.

We've continued to scale the centre through the year and more services are coming online.

Enhancing our logistics services

We transitioned our depot logistics and stores management to a strategic partner GXO, as part of a wider plan to enhance our logistics activities.

This partnership enables more effective inventory optimisation, improves the availability and reliability of equipment, and streamlines processes across the supply chain.

As a result, we're improving delivery performance, reducing wastage and providing stronger support to our frontline teams – helping to boost operational resilience and quality of service to our customers.

Operations reshaped in southern England

We reshaped our Operations model in our Southern network, moving from a five-region approach to a nine-region setup.

This allows us to drive operational performance, while improving accountability and financial control of the business.

This structure is simpler and better for our teams, customers and communities as smaller regions means streamlined operations. Having engineers closer to the communities they serve has enhanced our overall safety standard as workload is more evenly distributed, travel times between jobs have reduced, and customer problems have been solved more quickly.

Fostering a culture of productivity

Continuous improvement and optimised performance are embedded in our culture. We have a mindset of eliminating waste, harnessing knowledge and simplifying processes.

This year, 15 time and money saving initiatives owned, partnered or supported by our Lean Central Practice team have been completed, with 29 more in progress.

One of which went live in early 2026 following a successful trial in our Scotland North region, gives our leaders clearer visibility of invoices raised and value recovered when billing for damages. New electronic job cards have been introduced and a tracker has been redesigned to ensure 100% job completion or recorded exceptions, which will deliver significant time savings and increase revenue recovery through more accurate, consistent billing.

Investing in modern workplaces

Our Property Strategy is reshaping SGN's estate to better reflect how we work today – creating efficient, modern environments that support our people to perform at their best.

During the 2025/26 financial year, we made significant progress across our estate, investing more than £18m including key developments at Farringdon and Godstone, alongside strategic projects in Aberdeen, Galashiels and the Scotland Training Centre.

We also created new satellite depots at Elgin in Scotland and on the Isle of Wight and Sittingbourne, alongside refurbishments at Poole, Oxford, Edinburgh and Paisley.

We are strengthening long-term security through a targeted move from leasehold to freehold tenure, exiting legacy sites and replacing outdated buildings with high-quality, fit-for-purpose workplaces.

By the end of RIIO-GD3, these changes will see our estate streamlined from 68 to 53 assets, delivering a more focused, sustainable and future-ready portfolio.

2025/26 property projects

We made significant progress across our estate, investing more than £18m in our two regions.

Scotland

- Setup of Business Service Centre in Glasgow Fullarton House
- Opened National Training Centre in Glasgow
- Acquisition of Aberdeen depot
- New satellite depot at Elgin
- Refurbishments of Axis House Edinburgh and Paisley

Southern

- Farringdon level 3 office facility
- New regional hub at Godstone
- New satellite depot on Isle of Wight
- New satellite depot at Sittingbourne
- Refurbishments of Poole and Oxford

Operating review

Resilience

We enhance national energy resilience, maintaining 99.99% network reliability to ensure secure, dependable supply when it matters most.

Providing a safe, dependable and resilient network is central to our purpose and underpins everything we do.

We deliver gas safely and securely 24 hours a day, keeping homes warm, businesses running and essential services operating without interruption, whatever the weather.

During cold winter periods, when renewable generation is often low, the gas grid can carry up to five times the energy of the electricity network, playing a vital role in meeting peak demand.

We do this across two very different and challenging geographies. In Scotland, our network spans major cities as well as some of the most remote communities in the UK. It has the largest geographic area of any gas network and witnesses some of the coldest conditions, with winter temperatures regularly falling below zero.

In contrast, our Southern network serves densely populated and highly urbanised areas, including south London. We operate in complex, congested environments, travelling significant distances along busy roads to reach our customers.

Careful planning, targeted investment and proactive asset management ensures gas continues to flow, even in the most challenging of circumstances.

Overseeing a modern, resilient gas network

Our System Operations team brings together the full suite of capabilities required to run a modern, resilient gas network. This includes long-term system planning, emergency planning, demand management, safe control of operations, and the 24/7 Gas Control Centre.

The Gas Control Centre is the operational heart of our network. It monitors and manages system flows and pressures around the clock, forecasts short-term customer gas demand, and responds immediately to any incidents or alerts at our high-pressures sites. Our network supports gas imports from LNG terminals and a growing number of biomethane producers connected directly to our system.

Our long-term planning and demand management teams analyse current and future gas requirements across our footprint. Our most recent forecast published in October 2025, found annual gas consumption is projected to increase by 8.6% by 2035. Teams work closely with major industrial and commercial customers to understand how their operations are evolving. This insight is essential as we

215

transmission sites upgraded or replaced over the past five years

support these critical businesses through the UK's energy transition, ensuring our network remains safe, reliable, and ready for the future.

Preparing for wild winter weather

The weather presented challenges for our teams during the colder months, but we enacted our readiness plans early to ensure minimal impact to our customers.

Storm Amy brought driving wind and rain conditions across Scotland in October. We secured our streetworks sites ahead of the storm's arrival. Backup diesel generators strategically placed across Scotland meant there were no gas supply interruptions despite 15 sites losing power.

In early January, workload spiked as temperatures dropped below freezing. To support our customers and reduce demands on our call centre colleagues, we launched geo-targeted social media posts, directing households to the right number to call in an emergency and providing a self-help video to tackle the most common weather-related boiler issues.

Despite heavy snowfall making travel more difficult in parts of Scotland, our emergency response times remained largely unaffected. Even in severe conditions, the resilience of the gas network was evident, with relatively few faults reported during the period.

Investing in our transmission network

We have continued to invest significantly in our transmission network over the last five years. This critical infrastructure underpins the safe and reliable delivery of gas across our regions and supports the wider energy system.

During RIIO-GD2, we invested £138 million in a total of 215 upgrade or replacement projects at our sites in Scotland and southern England. This includes the full rebuild of one of Scotland's largest transmission sites at Provan, as well as key rebuilds at Westerham and Winkfield in the south.

These upgrades strengthen the resilience and reliability of our network, ensuring it continues to operate safely under increasing demand and adapts to future energy needs. Our transmission system is a cornerstone of the wider energy system, enabling us to transport gas efficiently over long distances and respond to peaks in demand.

A further £147 million will be invested over the next five years. This investment will support 330 projects to modernise our infrastructure to ensure its long-term resilience and enhance security requirements in accordance with the latest government guidelines. The RIIO-GD3 programme will ensure our assets remain robust, flexible and fully prepared to support future energy needs.

Energy resilience in Northern Ireland

In a region where natural gas has only been available for nine years, our Evolve business is helping customers move away from oil and coal, increasing energy choice and reducing emissions. The 'Gas to the West' pipeline has made gas available to more than 36,000 properties, supporting the Northern Ireland Executive's Path to Net Zero Energy Strategy.

During 2025/26, Evolve strengthened its role in developing green gas infrastructure. Following its direct-to-grid injection of biomethane in 2023 – the first such project on the island – the company has continued engaging policymakers and industry stakeholders on support needed to scale biomethane production.

Over the past five years, we have continued to invest significantly in our transmission network.

Supporting third-party pipeline development

In 2025/26, we committed to supporting the development of third-party pipeline assets operating above 7 barg across our network areas. As part of this, we published guidance on our website explaining how we will assess these assets in advance (an ex ante audit), giving developers greater clarity on our requirements (the SLO1).

We also created a standard Audit & Adoption Agreement, setting out the terms for reviewing these assets and, where appropriate, adopting them into our network.

Organisations interested in this process can request further information or copies of the documents by contacting us at SGNSLO1Enquiries@sgn.co.uk.

Our commitment to resilience

157,000

customer gas supplies secured

Provan gas works rebuild

The rebuild of our Provan distribution hub was completed this year, securing gas supplies for 157,000 customers. The three-year programme, from design through to commissioning, involved the full reconstruction of the 120-year-old Provan Gas Works site, addressing long-term risks and maintenance challenges. The upgraded facilities strengthen network resilience, reduce environmental impact and ensure a safe, reliable gas supply for Glasgow well into the future.

This was a technically demanding project on a constrained, complex and contamination-affected site. Throughout construction of the project, every overhead pipeline remained live, requiring exceptional precision to protect operational assets. We installed 350m of 18" high-pressure steel pipe and 530m of large-diameter plastic pipe, including the biggest diameter ever laid in Scotland.

Our regulatory framework

The implications of regulation on our business model

Gas Distribution Networks (GDNs) are natural monopolies in their operational regions. They are regulated by Ofgem under a stable and predictable regulatory regime. The last five-year regulatory period, RIIO-GD2, ended on 31 March 2026; RIIO-GD3 will run from April 2026 to March 2031.

Networks generate revenue under the RIIO framework through a combination of regulated revenue streams, incentives and efficiency savings. The framework is set out through a set of 'regulatory building blocks' that are designed to ensure a stable and predictable regulatory regime with incentives to improve services, innovate, and operate efficiently for the benefit of consumers and the environment.

Revenue for a GDN comes from charges for using the gas network. These charges are paid by gas shippers, who then pass them on to suppliers and their customers through the customer bill. The charges are authorised by Ofgem. They are designed to cover the cost of maintaining and operating the gas network, ensuring safety, as well as providing a return on the capital invested.

Revenue from customer bills is combined with investment of both debt and equity and used to fund network investments and improved customer outcomes. Maintaining a low risk, stable regulatory environment for investors helps to keep the cost of debt and returns necessary to support investment to minimal levels, reducing the overall cost to consumers.

The framework also incentivises companies to meet certain performance targets. These targets can include customer service, reliability, and safety. Companies can earn extra revenue if they exceed these targets. Failing to meet targets can result in financial penalties. If companies are able to reduce costs and improve service quality any savings will be shared between the Company and its customers.

In addition to the incentive framework, the RIIO structure has defined outputs to be delivered during RIIO-GD3, that cover infrastructure delivery, environmental improvements, and safety obligations. If there is an unforeseen event, adjustments can be made through either set re-opener mechanism or volume drivers. This keeps the RIIO-GD3 price control stable, whilst providing a level of protection for changes that may happen during the price control period.

RIIO-GD3 building blocks

Revenue Supports network operations, future investment and the delivery of agreed customer outcomes.	=	**Incentives** Encourages improved efficiency and service performance in customer-priority areas.	+	**Innovation** Enables the development and deployment of new technologies that support decarbonisation.	+	**Outputs** Reflect the delivery of our commitments and the quality of service provided to customers and stakeholders.

How regulated returns enable network investment

Regulated returns, set by Ofgem, are not simply an addition to customer bills. They are a core part of the financing model that services debt, rewards equity investors, supports long term investors and enables sustained investment in energy networks.

Customer bills	+	**Debt and equity capital**	=	**Network investment**	+	**Customer benefits**

Why returns matter

- Equity and debt providers are mostly pension funds and require dividends and interest respectively to provide pension returns
- The allowed returns set by Ofgem cover these dividend yields and debt interest costs
- There is significant global competition for infrastructure funds so returns need to be reasonable, to enable investment to take place and reduce financing risk
- Lower risk helps keep long-term financing available and at a lower cost for customers

Commercial business activities

The SGN Group operates several non-regulated business activities, and this section breaks down this year's key highlights from our commercial ventures. We maintain strict business separation principles between our regulated and non-regulated activities.

250,000
connections to our joint venture mua's electricity, gas and water networks

Commercial services and metering

We accelerated our growth across the UK with new maintenance and emergency response contracts wins. Our ten-year contract to manage Mutual Energy's 251km gas network across Northern Ireland and Scotland launched, while we're expanding biomethane services to all Northern Irish gas network operators.

We're also gearing up metering services for the UK's first domestic hydrogen customers, with operations set to begin in 2026. Pioneering projects such as H100 Fife strengthen our position in emerging low-carbon energy services, and we continue to pursue further contracts that build on our core strengths.

Green Gas Solutions

Green Gas Solutions (GGS) is continuing to support growth in water sector biomethane projects including its partnership with Yorkshire Water. The partnership is moving into its operational phase on budget and with a strong safety record. Final pipeline work is taking place at Blackburn Meadows in Sheffield, while construction is progressing well in Leeds at Knostrop. The sites are due for commissioning in late 2026 and early 2027. Together, they will generate 125GWh of renewable gas each year and heat over 10,000 homes.

GGS expanded its maintenance portfolio to nine UK sites after adding three new Scottish locations this year. One investment site exited with capital repaid, while the team continues major maintenance for the client.

Biomethane flows have increased at the Portsdown Hill injection hub after Acorn BioEnergy unveiled its new Anaerobic Digestion (AD) facility in Winchester. GGS continues to manage logistics at Portsdown Hill and over 7GW of biomethane was injected during the busiest months of the year.

mua

Our 50:50 joint venture business with Murphy Group, is fast becoming one of Britain's leading independent multi-utility network operators, delivering energy and water to customers nationwide.

mua has now surpassed 250,000 connections to its electricity, gas and water networks, with 550,000 contracted connections in the pipeline ranging from residential developments to hyperscale data centres.

mua connect last-mile utilities across a range of sectors, from new housing developments to renewable energy projects and critical data centres, as well as electric vehicle charging hubs and commercial businesses.

Realising value and continued operational benefits

FYLD combines safety video risk assessments with enhanced job visibility, helping to improve both workforce safety and operational productivity.

While it remains an important operational partner, with the platform continuing to be used across SGN's regulated field workforce, SGN monetised its 10% shareholding in FYLD after it successfully completed a Series B funding round during 2025/26.

The funding round attracted a number of new investors and validated the continued growth and market appeal of its technology platform. It reflects the strength of FYLD and its expansion beyond the utilities sector. The business has continued to attract customers across multiple industries and now operates internationally, serving clients in North America and Australia. The growth demonstrates the scalability of the platform and reinforces the value created through SGN's early support and adoption of the technology.

Financial review

Tony King Chief Financial Officer

"We enter RIIO-GD3 off the back of a record year of investment (£700.2m), delivering strong operational performance and continuing at pace our transformation programme, which will support delivery of our RIIO-GD3 commitments."

This has been a good year for SGN, delivering strong operational performance, while also achieving solid financial performance in the year, marginally outperforming expectations. Our balance sheet remains resilient, and we have made record investments in our networks, operational assets and cyber security, while continuing to invest in our people, our communities and in the long-term future of our gas networks.

This was the final year of the RIIO-GD2 regulatory period, and the Group has delivered record levels of capital investment in its networks whilst navigating a challenging macroeconomic environment shaped by persistent inflationary pressures, geopolitical uncertainty, and tightening conditions in the construction and engineering supply chain.

Ofgem issued its Final Determination for the RIIO-GD3 regulatory period in December 2025, marking the beginning of a new chapter for the business. The Group enters RIIO-GD3 with a resilient financial position, having demonstrated its ability to invest efficiently in network safety and reliability whilst delivering for customers. Our multi-year transformation programme continues to drive operational efficiencies, and the successful completion of the LTS Futures live hydrogen trial in summer 2025 demonstrates SGN's commitment to playing a leading role in the UK's energy transition.

Operating financial performance

For the year ended 31 March 2026, the Group generated revenues of £1,373.4m (2025: £1,267.6m), operating profits of £365.8m (2025: £317.1m), and invested £700.2m (2025: £620.4m) in network assets. These results reflect our continued commitment to operational control, regulatory compliance and the safe delivery of energy to our customers across Scotland, southern England and Northern Ireland.

Regulated charges for gas transportation, governed by Ofgem and the Utility Regulator (NI), accounted for 98.8% (2025: 95.6%) of revenue. The year-on-year increase in allowed revenue was primarily driven by two factors. First, the comparative period (2024/25) included true-up adjustments for prior-year cost over-recoveries, notably in relation to shrinkage and NTS costs, as well as delayed tax relief on capital expenditure. Second, the 2025/26 year benefitted from higher pass-through costs and increased inflation recovery.

Non-regulatory revenue amounted to £16.9m (2025: £55.7m). The movement in non-regulated income was primarily driven by the timing of property disposals. The comparative year benefitted from significant site sales at Croydon and Rotherhithe, whereas unregulated property disposals in 2025/26 were immaterial in value.

Operating profit increased by £48.7m year-on-year, driven by a £105.8m rise in revenue as detailed above. This was partially offset by a £57.1m increase in operating costs, largely reflecting higher pass-through costs, movement in the H100 onerous provision and depreciation of fixed assets.

In managing and reporting the performance of the business, the Group uses Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as an alternative performance measure[1] (APM). EBITDA is a widely used financial metric as a measure of underlying operating performance. It is a non-FRS 102 measure, presented alongside statutory results to aid comparability between periods. The nearest equivalent FRS 102 measure to EBITDA is profit for the year, which is presented in the consolidated income statement and reconciled below:

	Ref[2]	2026 £m	2025 £m
Profit for the year		34.7	59.4
Add:			
Tax	11	26.2	35.9
Net finance costs	8,9,10	305.5	221.0
Share of (gain)/loss of JV entities		(0.6)	0.8
Total operating profit		**365.8**	317.1
Add:			
Depreciation and amortisation	14,15	243.0	230.8
EBITDA		**608.8**	547.9

2 Ref refers to notes to the consolidated financial statements.

EBITDA for the year ended 31 March 2026 increased to £608.8m (2025: £547.9m), reflecting higher revenue partly offset by increased pass-through costs.

1 Defined in Alternative Performance Measures (APMs) on page 130.

Exceptional items

The Group recognised the following exceptional items in the profit and loss account during the year (see note 6 to the financial statements for further detail):

	2026 £m	2025 £m
Restructuring costs	10.2	11.0
Closure of the DB pension scheme	–	28.1
Investigation support costs	0.7	5.0
Onerous contract	8.5	(0.4)
Total exceptional items (charged to operating profit)	**19.4**	43.7

The Group's multi-year transformation programme continued during the year, incurring exceptional costs of £10.2m (2025: £11.0m) in relation to restructuring costs and significant systems upgrades.

During the year the Group recognised an adjustment to the onerous provision in respect of the H100 Fife project of £8.5m (2025: £0.4m credit) as a result of utilisation of the provision coupled with a revision to the forecast total cost and stage of completion of the project.

Cash flow

The Group's ability to convert revenue into cash is fundamental to maintaining its investment programme and financial resilience. The following summarises the key components of cash flow for the year:

	2026 £m	2025 £m
Cash generated from operations	586.1	541.7
Net cash used in investing activities	674.7	573.5
– of which: capital expenditure on PP&E and intangibles	700.3	619.7
Net cash from/(used in) financing activities	169.7	529.4
– of which: proceeds from new debt	744.1	963.3
– of which: debt repayments	(462.2)	(446.9)

Cash generated from operations was £586.1m (2025: £541.7m), as a result of an increase in operating profit, and depreciation and amortisation of fixed assets, and partially offset by an increase in debtors' working capital.

Net cash used in investing activities was £674.7m (2025: £573.5m), of which £700.3m (2025: £619.7m) related to capital expenditure on property, plant and equipment and intangible assets. The increase in capital expenditure reflects the record level of network investment delivered in the final year of the RIIO-GD2 period, with particular growth in Repex activity.

Cash flows from financing activities included £744.1m (2025: £963.3m) of proceeds from new debt issuance and £462.2m (2025: £446.9m) of debt repayments during the year. Further details are provided in the Debt Issuance section below and in notes 20 and 21 to the financial statements.

Record investment in network safety and reliability

The Group invested £700.2m (2025: £620.4m) in fixed assets during the year, a record level of capital investment that reflects the Group's continued commitment to maintaining a safe, reliable and resilient gas distribution network.

Replacement expenditure (Repex), primarily the replacement of cast-iron and steel pipes with polyethylene (PE), totalled £469.7m (2025: £431.2m), with 1,054.4km of mains replaced (2025: 1,013.2km). This represents a record level of Repex delivery in both value and volume terms. Repex delivery in the Southern region was particularly impacted by supply chain pressures, as competition for skilled labour and construction resources from concurrent electricity and water sector infrastructure programmes continued to drive up contractor costs in the region. The Group has worked closely with its supply chain partners to manage these pressures and maintain delivery against its regulatory commitments.

Other capital expenditure of £230.5m (2025: £189.2m) included upgrades to our fleet of vehicles to enhance reliability, and software and cyber resilience investments.

The total Regulatory Asset Value (RAV) for Southern Gas Networks plc and Scotland Gas Networks plc rose by 5.2% during the year from £7.68bn to £8.08bn. In Northern Ireland, the RAV grew to £45.5m as at the regulatory year end of 31 December 2025 (2024: £44.9m).

RIIO-GD2 close-out and RIIO-GD3

The year ended 31 March 2026 marks the conclusion of the RIIO-GD2 regulatory period. The gross capital investment in our networks in RIIO-GD2 was £2.53bn (nominal prices, excluding any customer contribution). It has been a challenging regulatory period and we have worked very hard to deliver our regulatory commitments and outputs in a challenging environment. As a result of these headwinds we have overspent our allowances by 7.9% or £300m (2025/26 prices) over the five year period (£225m in 2018/19 prices).

Ofgem issued its final determination for the RIIO-GD3 regulatory period in December 2025. The RIIO-GD3 regulatory period started in April 2026 and runs through to March 2031. The final determination sets the licence which then shapes the Group's investment programme and financial performance expectations over the next five years.

The RIIO-GD3 settlement has been the result of an extensive process of planning and stakeholder engagement. The final determination set a very challenging target for us to work with in RIIO-GD3 with a 15% reduction in allowances compared to the Business Plan request. This has lead to us challenging the final determination at the CMA on three grounds of appeal.

Financial review

Delivering efficiencies through the transformation programme

The Group's multi-year transformation programme launched in 2024 has gathered pace during 2025/26. The past year has seen us implement a number of productivity improving changes including restructuring our Southern network from five regions to nine regions, as well as continuing to embed our Business Service Centre for transactional back office processes. We delivered a successful new Logistics partnership with our partner GxO taking on our distribution logistics. Finally, we continued to deliver major property upgrades in support of our front line operations.

2025/26 also saw us accelerate into major technology programmes with the implementation programme for Salesforce in our front office operations on track to deliver value in 2026/27. In our back office, our Oracle Fusion implementation programme is now up and running and will deliver value in 2027/28 across our people, finance, procurement and payroll functions. These major new technologies will deliver benefit in the RIIO-GD3 regulatory period and ensure that SGN is well positioned when entering the subsequent regulatory period (RIIO-GD4).

Exceptional costs for restructuring of £10.2m were recognised in net operating costs in the year (2025: £11.0m). The programme delivered annualised efficiency savings of £57m during the year, contributing to a reduction in the underlying cost base.

The programme is expected to continue throughout the RIIO-GD3 period.

The future of energy

SGN is committed to decarbonising energy whilst maintaining the safe and reliable supply of gas to our customers. We recognise that there is no single solution to decarbonisation, and our investments span a range of technologies and partnerships in support of the UK's net zero ambitions.

During the year, the Group successfully completed a live trial of the LTS Futures project, a £31.1m capital investment funded through Ofgem's reopener mechanism.

The project demonstrated the technical viability of repurposing existing high-pressure pipeline assets to transport hydrogen.

Together with the Group's other future of energy projects, including H100 Fife and the expansion of biomethane connections, SGN continued to invest in delivering its commitment to net zero targets.

Treasury and financial management

Net debt and regulatory gearing

A key financial performance indicator for the Group is the adjusted net debt to RAV[1] ratio (regulatory gearing), monitored at both individual network and consolidated SGN MidCo group level. Adjusted net debt (see reconciliation to net debt below) expressed as a percentage of RAV indicates the level of debt utilised to fund our regulated business.

Covenants

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

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

Management has assessed compliance throughout the year and confirmed there have been no breaches, and that no breaches are forecast over the going concern period (i.e. until the end of July 2027).

Debt issuance

The Group's financing strategy is to raise additional capital to fund network investment when the right opportunities present whilst maintaining the appropriate level of gearing. Southern Gas Networks plc issued the following new debt in the financial year up to March 2026:

- £350m 14 year fixed rate public bond on 7 May 2025
- £50m 7 year RPI-linked private placement on 4 November 2025
- CHF 53m 10 year RPI-linked private placement on 11 December 2025
- £75m 7 year term loan on 26 March 2026

Reconciliation to net debt

	Southern Gas Networks plc		Scotland Gas Networks plc		SGN MidCo Group	
	2026 £m	2025 £m	**2026 £m**	2025 £m	**2026 £m**	2025 £m
Net debt	**3,691.9**	3,683.7	**1,568.0**	1,430.4	**5,744.9**	5,592.0
Derivatives	**150.8**	130.2	**36.2**	31.3	**187.0**	161.5
Net intercompany loan/(cash)	**24.0**	(15.1)	**(17.0)**	21.2	**–**	–
Cash & cash equivalents (non-restricted)	**(226.9)**	(339.9)	**–**	–	**(238.0)**	(346.8)
Adjusted net debt	**3,639.8**	3,458.9	**1,587.2**	1,482.9	**5,693.9**	5,406.7
RAV	**5,554.8**	5,272.1	**2,523.1**	2,408.8	**8,077.9**	7,680.9
Adjusted net debt to RAV ratio	**65.5%**	65.6%	**62.9%**	61.6%	**70.5%**	70.4%

1 Defined in Alternative Performance Measures (APMs) on page 130.

Scotland Gas Networks plc issued the following new debt in the financial year up to March 2026:

- CHF 55m 10 year fixed rate private placement on 15 October 2025
- £70m 5 year term loan on 28 November 2025

SGN Midco Limited issued a £100m 10 year fixed rate private placement on 26 March 2026.

On 21 October 2025, Southern Gas Networks repaid two RPI-linked public bonds with a total principal of £233.3m (£484.9m including accretion).

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

Liquidity

As at 31 March 2026, liquidity within the Group was provided by a combination of cash and cash equivalents and undrawn committed bank facilities. Cash balances totalled £287.9m (2025: £413.4m), of which £8.2m (2025: £28.4m) was restricted cash. Committed revolving credit facilities totalled £600m (2025: £600m), of which £600m was undrawn at the year end (2025: fully undrawn). The Group maintained at least 12 months of forward liquidity throughout the year.

Net finance costs

The Group had net finance costs, including accretion on inflation-linked debt and derivatives, of £274.5m during the year (2025: £216.2m), excluding interest on shareholder loans, DB pension scheme interest and fair value movements on derivatives. This primarily comprised:

- Scotland Gas Networks plc – net interest payable £68.7m (2025: £63.2m)
- Southern Gas Networks plc – net interest payable £181.5m (2025: £138.1m)
- SGN MidCo Ltd – net interest payable £14.6m (2025: £15.8m)

The Group's effective interest rate (including accretion on inflation-linked liabilities and shareholder loan interest but excluding derivative fair value movements) was 4.75% (2025: 4.6%). The Group's effective cash cost of interest (excluding accretion on inflation-linked liabilities) was 3.31% (2025: 2.5%). Debt issued at higher interest rates in the last few years has increased both cash cost of interest and effective interest rates. The Group has held lower average cash balances in the year reducing cash interest income.

Credit ratings

Southern Gas Networks plc and Scotland Gas Networks plc carry public credit ratings. Each is rated by the same rating agencies, with the following ratings and outlook at 31 March 2026:

- Fitch: Senior unsecured rating of BBB+ stable (2025: BBB+ stable)
- Moody's: Baa1 stable (2025: Baa1 stable)
- Morningstar DBRS: A low (2025: Not rated)

Morningstar DBRS was added as a credit rating agency on 4 February 2026. Southern Gas Networks plc and Scotland Gas Networks plc were both rated A low (stable). S&P was removed as a credit rating at our request on 6 March 2026. Southern Gas Networks plc and Scotland Gas Networks plc were both rated BBB (stable) at the time of removal. The latest credit ratings and reports/publications for Moody's and Fitch can be found on the debt investor relations section of the SGN website.

Interest rate – risk management

Southern Gas Networks entered into the following interest rate swap derivatives:

- CHF 53m swapped to £50.7m for 10 years on 11 December 2025
- £50.6m swapped to CPI at 3.1295% for 10 years on 11 December 2025
- £75m swapped to fixed rate at 5.665% to 26 March 2033 on 31 March 2026

Scotland Gas Networks entered into the following interest rate swap derivatives:

- £70m swapped to fixed rate at 3.617% to 28 November 2030 on 4 December 2025
- CHF 55m swapped to £51.5m at a fixed rate of 5.997% on 15 October 2025

As at 31 March 2026, the gross debt exposure to fixed interest rates (post derivatives) within the Group was:

- Group (consolidated): 71.6% (2025: 66.8%)
- SGN MidCo group: 68.4% (2025: 64.6%)
- Scotland Gas Networks plc: 67.1% (2025: 65.2%)
- Southern Gas Networks plc: 74.0% (2025: 64.6%)

As at 31 March 2026, the gross debt exposure to inflation (post derivatives) within the Group was:

- Group (consolidated): 28.4% (2025: 33.2%)
- SGN MidCo group: 31.6% (2025: 35.4%)
- Scotland Gas Networks plc: 32.9% (2025: 34.8%)
- Southern Gas Networks plc: 26.0% (2025: 35.4%)

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

Financial review

Distributions

Our dividend policy is to make distributions after careful consideration of the forward cash requirements of the business, including our investment programmes, regulatory gearing, financial covenants and credit metrics, and the broader macroeconomic environment. The Board takes a multi-year view of cumulative performance and forward projections rather than assessing any single year in isolation, and robustly considers our obligations to customers, employees and investors before approving any distribution. For RIIO-GD2, Scotland Gas and Southern Gas combined paid dividends that represent a return on notional equity of 2.0%[1] compared to Ofgem's allowed cost of equity of 5.1%.

During the financial year, Scotia Gas Networks Ltd paid scheduled shareholder loan interest totalling £20.5m and capitalised £25.3m (2025: £32.1m capitalised). Dividends of £75.2m were declared in the year ended 31 March 2026 (2025: £nil). At 31 March 2026, Scotia Gas Networks Ltd had £1,529.3m (2025: £1,459.7m) in available distributable reserves.

Taxation

We have recognised a total tax charge to the statement of profit and loss for the year of £26.2m (2025: £35.9m). Our effective rate of corporation tax for the year is 43.0% (2025: 37.7%). The effective tax rate is higher than the standard rate of 25%, the reasons for which are detailed in note 11 to the financial statements.

Our contribution in respect of UK taxes borne and collected during the year ended 31 March 2026 amounted to £321.5m (2025: £323.7m), comprising £239.8m of direct taxes (2025: £222.2m) and £81.6m of indirect taxes (2025: £101.5m).

During the year, and in accordance with our obligations under Finance Act 2016 Schedule 19, we published our Tax Strategy statement (which can be found on the reports and publications pages of www.sgn.co.uk). We remain committed to being a responsible and compliant taxpayer.

Following the annual business review carried out by HMRC in the prior year, and subsequent engagement, we continue to maintain our low-risk rating.

Pension commitments

The Group operates pension arrangements on behalf of its employees. A proportion of employees are members of the Scotia Gas Networks Pension Scheme (the DB Scheme), which was closed to new entrants in 2002 and closed to future accruals on 31 March 2025. Membership of the defined contribution scheme is offered to all new employees.

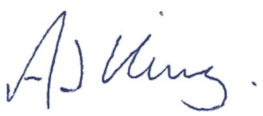
As at 31 March 2026, the DB Scheme remained in a surplus position of £199.9m (2025: surplus of £180.4m). The liabilities have reduced over the year, primarily due to the increase in AA corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities. The reduction has been offset to a lesser extent by an increase in assumed future inflation. The assets have also reduced over the year due to the Liability Driven Investment (LDI) funds held by the scheme decreasing in a similar way to the liabilities. The overall impact was an increase in the surplus over the period.

The Group made no contributions to the DB Scheme in the year (2025: £1.8m) following the closure of the scheme to future accruals in March 2025. See note 29 to the financial statements for further details.

Supplier payment practices

We remain steadfast in our commitment to treating all supply chain partners fairly and maintain our status as a signatory to the Prompt Payment Code, committing us to settling 95% of all invoices within 60 days with a 30-day payment window for small businesses.

Our most recent reporting confirms we paid 98% (2025: 99%) of all invoices within 60 days, with average days to pay of 14 days (2025: 14 days). We continue to monitor and enhance our payment processes to further improve transparency and timeliness for all our suppliers.



Tony King
Chief Financial Officer

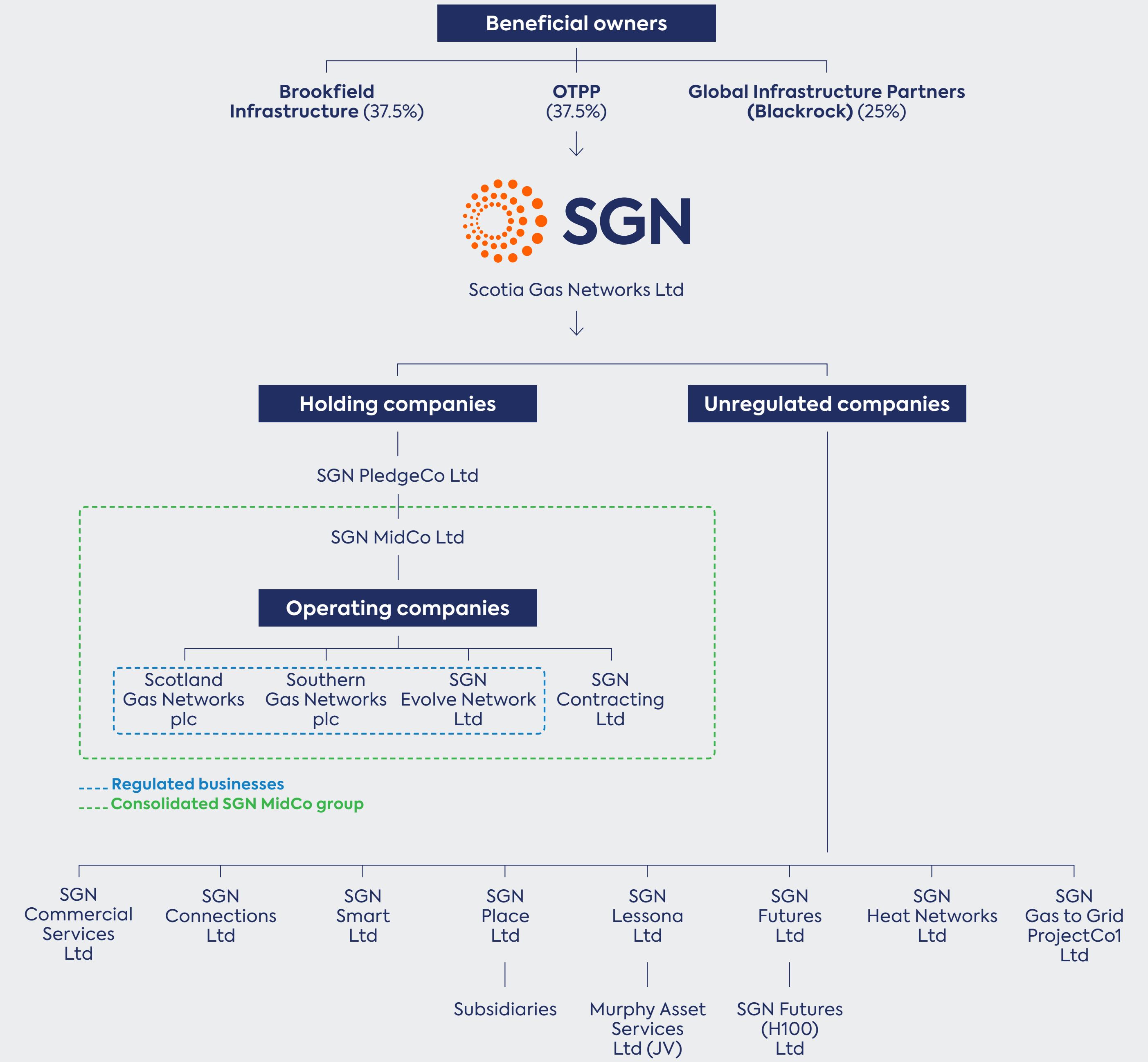
22 July 2026

1 Return on notional equity is calculated as an annual percentage by dividing the average dividend paid by the equity share of the RAV within the notional company structure.

Ownership structure

SGN has three supportive shareholders in place. They oversee the three regulated operating companies in Scotland, southern England and Northern Ireland as well as the holding company and a number of unregulated operating companies.

SGN's shareholders are long-term infrastructure investors that invest capital on behalf of pension holders and other long-term institutional investors. Their investment approach is focused on stable, long-term infrastructure assets that provide reliable cash flows over extended periods, aligning shareholder interests with the long-term stewardship and resilience of essential energy infrastructure.



Further details regarding the shareholding entities can be found on page 128, note 30.

Financial review

SGN financial and operational KPIs

We measure our success in achieving our objectives through the use of quantitative and qualitative assessments. Our key performance indicators (KPIs), which are used to assess the Group's performance, are set out below.

Financial

Turnover

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

2026 **£1,373.4m**

2025 **£1,267.6m**

2024 **£1,375.3m**

Operating profit

Group operating profit is the net of turnover (above) less the costs of operating the distribution network together with depreciation and amortisation (see note 4 of the financial statements).

2026 **£365.8m**

2025 **£317.1m**

2024 **£520.7m**

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.

2026 **£469.7m**

2025 **£431.2m**

2024 **£312.5m**

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

Capital expenditure[1]

Additions to tangible fixed assets include new distribution mains and storage, new connections to existing mains, new governors and meters, new investment in IT, land and buildings, and vehicles and plant.

2026 **£230.5m**

2025 **£189.2m**

2024 **£178.8m**

Cash flow after investing activities[1]

Cash flow after investing activities is the operating cash flow (excluding interest paid) of the business after investment in fixed assets, including both replacement expenditure and capital expenditure. More detail is provided in the consolidated cash flow statement.

2026 **–£120.4m**

2025 **–£56.5 m**

2024 **£237.1m**

Net debt to Regulated Asset Value (RAV) ratio[1]

RAV is defined by our regulators and consists of the RAV of the regulated entities in the Group. Net debt excludes shareholders' loans and liabilities arising from derivative financial instruments and is net of cash and cash equivalents. The percentages stated are as at 31 March. The definitions of consolidated SGN MidCo group and regulated businesses can be found in the ownership structure on page 37.

Consolidated SGN MidCo group

2026 **70.5%**

2025 **70.4%**

2024 **70.2%**

Regulated businesses

2026 **64.7%**

2025 **64.3%**

2024 **64.4%**

EBITDA[1]

Earnings before interest, tax, depreciation and amortisation is used as a measure of underlying operating performance.

2026 **£608.8m**

2025 **£547.9m**

2024 **£740.9m**

Operational

Lost time incidents

This is defined as the number of incidents per 100,000 hours worked that result in employees and contract partners taking time off work. This is one of the key operational metrics that is monitored on a consistent basis. Safety is one of our core Company values and is monitored closely by the Board.

2026 **0.16**

2025 **0.16**

2024 **0.16**

Gas escape attendance

This represents the proportion of uncontrolled gas escapes attended within one hour (target 97%). Uncontrolled gas escapes are defined as those where the smell of gas persists and where the gas supply is still 'on' at the time the customer calls. We responded to a total of 172,704 gas escapes (uncontrolled and controlled) during the year ending 31 March 2026.

Scotland Gas Networks

2026 **99.5%**

2025 **99.5%**

2024 **99.5%**

Southern Gas Networks

2026 **98.8%**

2025 **98.0%**

2024 **98.4%**

Customer satisfaction (score out of 10)

Results for customer satisfaction surveys (10 = very satisfied).

Scotland Gas Networks

2026 **9.56**

2025 **9.45**

2024 **9.33**

Southern Gas Networks

2026 **9.49**

2025 **9.28**

2024 **9.19**

Business carbon footprint[2]

Our business carbon footprint includes Scope 1 and 2 emissions, excluding shrinkage, reported in tonnes of CO_2e. Further details can be found on page 61.

2026 **18,404 tCO_2e**

2025 **17,852 tCO_2e**

2024 **18,210 tCO_2e**

1 Defined in Alternative Performance Measures (APMs) on page 130.

2 2025 figure updated following external assurance.

Principal risks and uncertainties

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

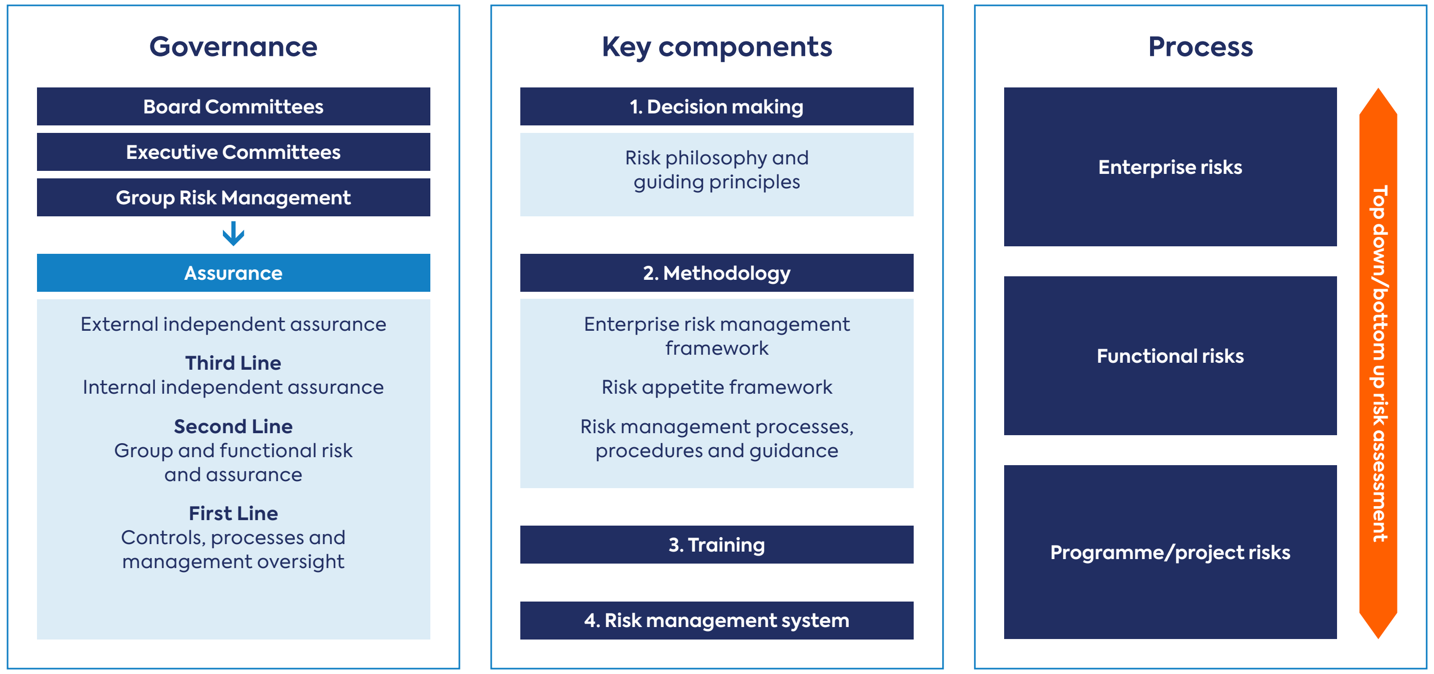
SGN enterprise risk management framework

Across the organisation, risks are identified and addressed through an integrated enterprise risk management 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 management 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, distinguishing the roles of different functions. The first line consists of functions that own and manage risks, while second line functions oversee and monitor these risks. The third line provides independent assurance, ensuring that risk management processes are effective.

SGN enterprise risk management framework



SGN enterprise risks

Our full Enterprise Risk Register was reviewed twice by the Board, to ensure alignment with our strategic priorities of safety, customers, resilience, people, productivity and future.

Short-Term (0-2 years)			
Risk	**What is the risk?**	**How do we manage it?**	**More information**
Health and Safety **Strategic Priorities:** Safety Customers People	There is a risk of a major health and/or safety incident which impacts upon SGN customers and/or employees or contractors.	Through SGN's safety management framework and system, plus occupational health framework.	See pages 18 to 19 and 73 for detail on activity during 2025/26.
Critical Network Information Systems **Strategic Priorities:** Safety Customers Resilience Productivity	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.	Through SGN's information security, asset management, procurement and supply chain, and business continuity frameworks.	See pages 7 and 73 for detail on activity during 2025/26.
People **Strategic Priorities:** Safety People Resilience Productivity	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.	Through workforce and succession planning, recruitment and reward, competency and training, diversity and inclusion frameworks, and ongoing trade union engagement.	See pages 22, 23, 26 and 27 for detail on activity during 2025/26.
Operational Delivery **Strategic Priorities:** Safety Customers Resilience Productivity	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.	Through SGN's safe control of operations framework, Repex delivery programme, procurement and supply chain, and business continuity frameworks.	See pages 16 to 18 and 20 for detail on activity during 2025/26.
Supply Chain Continuity **Strategic Priorities:** Safety Customers Resilience Productivity	There is a risk of significant disruption to supply chain continuity.	Through SGN's procurement and supply chain framework.	See page 45 for detail on activity during 2025/26.

Principal risks and uncertainties

Short-Term (0-2 years) continued

Risk	What is the risk?	How do we manage it?	More information
IT Resilience **Strategic Priorities:** Safety Customers Resilience Productivity	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.	Through SGN's IT operations, information security, procurement and supply chain and business continuity frameworks.	See pages 26 and 33 for detail on activity during 2025/26.
Transformation **Strategic Priorities:** Resilience Productivity Future	There is a risk that SGN fails to successfully implement and embed key transformational initiatives, resulting in misalignment with strategic objectives.	Through executive-level oversight, supported by formal transformation governance and delivery tracking.	See pages 26 and 34 for detail on activity during 2025/26.

Short/Medium-Term (0-9 years)

Risk	What is the risk?	How do we manage it?	More information
Legal and Regulatory **Strategic Priorities:** Safety Customers People	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.	Through SGN's legal and regulatory compliance framework, supported by the speak up framework.	See pages 30, 33, 45 and 51 for detail on activity during 2025/26.
Governance and Controls **Strategic Priorities:** Safety Resilience Customers	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.	Through SGN's corporate governance, enterprise risk management, financial control and assurance frameworks.	See pages 40 to 43, 50 to 51, 54, and 62 to 77 for detail on activity during 2025/26.
Leadership and Culture **Strategic Priorities:** Safety People	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.	Through SGN's Vision and Values, Code of Conduct, leadership development, diversity and inclusion and speak up frameworks.	See pages 4, 16, 22 to 23, 66, 70 and 73 to 74 for detail on activity during 2025/26.
Political and Public Policy **Strategic Priorities:** Future	There is a risk that SGN is unable to shape or respond to the pace of change in the political and public policy landscape.	Through engagement with government, regulators and industry stakeholders, and contribution to policy development.	See pages 45 and 55 to 57 for detail on activity during 2025/26.

Medium-Term (3-9 years)

Risk	What is the risk?	How do we manage it?	More information
Financial Resilience **Strategic Priorities:** Productivity Resilience Future	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.	Through SGN's treasury and financial control frameworks.	See pages 32 to 39 and 72 for detail on activity during 2025/26.

Medium/Long-Term (3-10+ years)

Risk	What is the risk?	How do we manage it?	More information
Climate Change **Strategic Priorities:** Safety People Resilience Future	There is a risk of failing to assess, mitigate and adapt to the impact of climate change on our business.	Through SGN's environmental sustainability and asset management frameworks.	See pages 47 to 48 and 54 to 61 for detail on activity during 2025/26.

Long-Term (10+ years)

Risk	What is the risk?	How do we manage it?	More information
Future of Energy **Strategic Priorities:** Resilience Future	There is a risk that the shift towards a decarbonised energy system results in SGN assets becoming stranded without adequate compensation.	Through engagement with government and industry stakeholders and developing evidence for decarbonisation pathways.	See pages 34, 58 and 24 to 25 for detail on activity during 2025/26.
Security of Supply and Network Asset Management **Strategic Priorities:** Safety Customer Resilience	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.	Through SGN's asset management, procurement and supply chain, physical security, information security, and business continuity frameworks.	See pages 7, 10 to 13, 16, 28 to 29 and 33 for detail on activity during 2025/26.

Engaging with SGN stakeholders

We believe that understanding the needs, priorities and concerns of those we serve and those who depend on us leads to better decisions for our customers, our business and the communities we operate in.

SGN key stakeholder groups

2025/26 was a year in which the quality and depth of that engagement mattered enormously. We received Ofgem's RIIO-GD3 Final Determination and subsequently submitted a CMA appeal. We progressed our Climate Transition Plan and advanced the H100 Fife hydrogen-for-heat trial. We delivered material transformation benefits while maintaining high levels of customer satisfaction and operational performance. In each of these areas, stakeholder insight directly shaped the decisions the Board made and the direction we took.

"Through active stakeholder engagement and a sustained focus on our ESG priorities, the Committee continues to shape SGN's strategy so that it delivers sustainable long-term outcomes for our customers, communities and the environment, including through the critical transition into the RIIO-GD3 period."

Jeffrey Rosenthal
Strategy, Stakeholder and Environment Committee Chair

Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires a Director to act in the way they consider, in good faith, would be
most likely to promote the success of the Company for the benefit of its members as a whole. In doing so, Directors must have regard to the following factors:

a) Long-term consequences of decisions
b) Interests of the Company's employees
c) Fostering business relationships with suppliers, customers and others
d) Impact of operations on the community and environment
e) Maintaining a reputation for high standards of business conduct
f) Acting fairly between members of the Company

The Board recognises that not every decision it takes will produce a positive outcome for every stakeholder group, and that balancing competing interests is an inherent part of responsible governance. What it commits to is that the interests of all relevant stakeholders are considered, that the long-term consequences of decisions are weighed carefully, and that the Company's reputation for integrity and high standards is protected.

Throughout 2025/26, the Directors received information across a broad range of formats, including Board papers, Committee reports, financial and operational performance updates, regulatory briefings, customer and employee survey results, and outputs from specific engagement exercises, to ensure they had a comprehensive and up-to-date picture of stakeholder interests and concerns when making decisions.

The following pages set out, for each of SGN's six key stakeholder groups, how the Board engaged and the decisions taken as a result.

Conclusion

The Directors believe that the engagement and decision-making described in this section demonstrates how they have, throughout 2025/26, had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006 in promoting the long-term success of the Company for the benefit of its members as a whole.

1. Customers

We safely and reliably deliver gas to over six million homes and businesses across Scotland and the south of England every day.

How we engaged

The Board considered customer responsibilities with a focus on satisfaction performance, support for vulnerable customers and a fair energy transition. It monitored SGN's strong satisfaction scores and RIIO-GD3 customer output commitments, and received detailed reporting on vulnerable customer outcomes and VCMA fund delivery, including qualitative research on the lived experience of vulnerable households that informed enhancements to frontline training and the Safe and Warm programme. The Board approved continued investment in the vulnerable customer assistance programme, endorsed the refreshed RIIO-GD3 Vulnerability Strategy, and approved targeted investment in digital customer channels to improve accessibility. It also supported SGN's decarbonisation pathway, focusing on least-cost consumer outcomes and transparent communication of future energy choices.

2. Government and regulators

We work collaboratively with Ofgem, UREGNI, the HSE, and both the UK and Scottish governments on the regulatory, safety and policy frameworks that govern our operations.

How we engaged

The Board maintained close engagement with Ofgem throughout the RIIO-GD3 Final Determination process, reviewing its implications and engaging proactively with the CMA following the decision to appeal, and maintained dialogue on cybersecurity and network resilience. It also engaged with the UK and Scottish governments on decarbonisation policy, hydrogen, biomethane, consumer vulnerability and energy security. The Board approved the CMA appeal submission and RIIO-GD3 Cyber Programme, endorsed SGN's Climate Transition Plan which will be aligned with the transition plan taskforce and outlining our long-term pathway to net zero, and approved the Group's advocacy strategy and updated regulatory reporting frameworks to reflect RIIO-GD3 obligations.

3. Our people

We employ approximately 4,800 highly skilled and dedicated people across our networks, support functions and specialist teams.

How we engaged

The Board received regular updates on employee engagement and workforce sentiment, and monitored delivery of the People Plan across attraction, retention, capability and inclusion. It reviewed pay negotiation outcomes and EDI performance – including SGN's recognition as a top-ten performer for women in leadership in the 2025 POWERful Women State of the Nation report – and maintained oversight of the Safe to Speak Up and whistleblowing framework. The Board approved executive objectives and incentive frameworks, the annual salary review, and the refreshed Zero Harm Vision and Safety Culture Maturity Roadmap, noting improvements in safety performance including a reduction in lost-time injuries and achievement of ISO 45001 certification.

4. Suppliers, contractors and partners

Our suppliers, contractors and joint venture partners are essential to delivering safe, reliable and innovative services for our customers and communities.

How we engaged

The Board maintained oversight of key supplier and contractor relationships, focusing on supply chain resilience, ESG compliance and delivery performance as SGN enters the RIIO-GD3 investment cycle. It monitored strategic IT and infrastructure contracts, engaged with joint venture partners on the H100 Fife hydrogen-for-heat trial, and received updates on procurement improvements including the Fairmarkit sourcing tool. The Board approved major IT Supplier Services Frameworks, key infrastructure contracts, and the Modern Slavery Statement, while endorsing the procurement governance framework to ensure value for money, transparency and effective competition.

5. Communities and the environment

We operate across Scotland and southern England, and our activities, from major infrastructure works to our environmental footprint, have a direct and lasting impact on local communities and the natural environment.

How we engaged

The Board maintained oversight of SGN's environmental performance, including progress against the RIIO-GD2 Environmental Action Plan and key metrics such as methane leakage and operational carbon. It engaged in developing SGN's Climate Transition Plan – aligned with the transition plan taskforce and outlining our long-term pathway to net zero – and received updates from the Independent Stakeholder Group. The Board approved investment in Advanced Leakage Detection technology, endorsed ESG reporting frameworks, and supported community benefit programmes including the VCMA fund.

6. Shareholders and debt investors

SGN's shareholder base comprises three major infrastructure and pension fund investors: Brookfield, Ontario Teachers' Pension Plan, and Global Infrastructure Partners (a Blackstone portfolio company), alongside a diverse debt investor base across public bonds, private placements and bank lending.

How we engaged

The Board maintained regular dialogue with shareholder representatives and debt investors, keeping shareholders informed of the RIIO-GD3 Final Determination, the rationale for the CMA appeal, and the Group's RIIO-GD3 delivery strategy. It engaged on long-term financial strategy including credit rating management, capital allocation and distribution policy. The Board approved the CMA appeal submission, a distribution in March 2026, the financing programme, the appointment of Morningstar DBRS replacing Standard & Poor's, and the disposal of SGN's minority stake in FYLD.

ESG report
Transforming our business

About this report

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

WEF pillars

Planet | People | Prosperity | Principles of Governance

United Nations SDGs

External benchmarking

For the past nine years, we have reported through CDP. In 2025, we received a 'C' score on Climate and Water, as well as a 'B' score for our Supplier Engagement Assessment. We are actively reviewing our CDP submission, with an aim to improve on our 'C' score in 2026.

CDP
DISCLOSURE INSIGHT ACTION

Our progress

This report provides an overview of our ESG performance for the 2025/26 financial year, comparing it to the previous year's disclosures and relevant targets.

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

For the fourth consecutive year, we are reporting in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (see pages 53 to 61).

Further reporting

Our 2026 Annual Environmental Report will be published on our website in October 2026 and will provide further details on how we are transitioning to a net zero future, while delivering positive environmental outcomes.

Our 2026 Vulnerability and Carbon Monoxide Allowance report is available on our website now and details how we are reaching communities who need it the most.

Next steps

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

"Climate change remains one of the defining challenges of our time and requires coordinated action across industry, government and society. As a gas distribution network, we recognise the important role our infrastructure can play in supporting the UK's transition to net zero. Alongside reducing emissions from our own operations, we continue to invest in solutions such as biomethane, a low-carbon technology that is available today and can help decarbonise heat using existing networks.

In addition to decarbonising our own operations and enabling the wider energy transition, we must continue to support those who need it most. Over the past year, we have supported 605,944 vulnerable customers and will continue to provide this support as we enter the RIIO-GD3 period.

We are proud of the progress made to date and remain focussed on delivering practical, long-term solutions that support our customers and the wider energy transition."

Jeffrey Rosenthal
Strategy, Stakeholder and Environment Committee Chair

Environment

Our operations, supply chains, and network usage all have a direct impact on the environment. If not effectively managed, these activities can contribute to wider environmental and societal impacts. We are therefore committed to reducing our impact through continuous improvement and by embedding sustainability considerations throughout our business.

SGN material aspect	Non-financial KPI	Target/tracking	2025/26	2024/25	2023/24	2022/23
Decarbonising the gas grid and innovating to provide our customers with cleaner energy	Volume of new biomethane in the network	Tracking	1,294,200 scm/h	5,655,273 scm/h	170,689 scm/h	0 scm/h
	Growth in biomethane	Capacity to supply the equivalent of 450,000 households with biomethane by 31 March 2026	360,422	334,127	289,620	259,000
Tracking the carbon impact of our business today, including emissions from leakage	Greenhouse Gas (GHG) emissions	As we enter the RIIO-GD3 price control period, we will review our long-term net zero target to ensure it remains aligned with the evolving policy landscape and supports the delivery of our long-term climate ambitions. We also have a medium-term target, which is to reduce our Scope 1 and 2 emissions (including shrinkage) by 44% compared to our 2019 baseline by 2031. Our RIIO-GD2 target was to reduce Scope 1 and emissions (excluding shrinkage) by 25% compared to our 2019 baseline. At the end of RIIO-GD2, we managed to reduce these emissions by 21%. See our Streamlined Energy and Carbon Reporting (SECR) on page 48.				
Nature loss	Biodiversity studies	128 by 31 March 2026	0	0	78	50
	Improvement projects	Tracking	37	12	9	6
Conservation of water	Water consumption and withdrawal in water-stressed areas. This metric, which is part of the WEF framework, is not material to our business.					
Responding to physical risks of climate change through adaptation and improvement	TCFD implementation	See our TCFD Report on pages 53 to 61.				

ESG report
Environment

Streamlined energy and carbon reporting

	2025/26	2024/25	% change
Scope 1 and 2 (direct emissions)			
Scope 1: Gas usage from our occupied/operational sites (tCO_2e)	**437**	790	-44.7%
Scope 1: Natural gas shrinkage (leakage, theft of gas and own use of gas) (tCO_2e)	**617,831**	692,653	-10.8%
Scope 1: Business mileage Company owned/controlled vehicles (tCO_2e)	**15,172**	14,605	+3.9%
Scope 2: Purchased electricity (location based) (tCO_2e)	**2,795**	2,457	+13.8%
Total Scope 1 and 2 (tCO_2e)	**636,235**	710,505	-10.5%
Scope 1 and 2 energy consumption (kWh)	**615,722,205**	680,327,663	-9.5%
Intensity metric: Total Scope 1 and 2 per £1m turnover (tCO_2e/£m)	**463**	532	-12.9%
Intensity metric: Total Scope 1 and 2 per km gas pipe in network (tCO_2e/km)	**8.8**	9.8	-10.2%
Intensity metric: Total Scope 1 and 2 per energy throughput (tCO_2e/GWh)	**5.4**	5.7	-5.3%
Scope 3 (indirect emissions)			
Business travel (rail, air, ferry, car hire, grey fleet) (tCO_2e)	**1,376**	1,111	+23.9%

Methodology

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

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

Commentary on changes

Natural gas shrinkage remains the most significant contributor to our carbon footprint. During 2025/26, emissions from shrinkage reduced by 10.8%, from 692,653 tCO_2e to 617,868 tCO_2e. This reduction reflects continued progress in reducing leakage across our network and demonstrates the effectiveness of our ongoing mains replacement programme in reducing leakage.

As a result, total Scope 1 and 2 emissions reduced by 10.5%, from 710,505 tCO_2e to 636,272 tCO_2e. Emissions associated with business mileage and purchased electricity increased during the year, while emissions from gas consumption at our occupied and operational sites decreased.

Overall, the reduction in shrinkage emissions continues to demonstrate the importance of targeted investment in network modernisation and leakage reduction, supporting our progress towards reducing operational emissions while maintaining a safe and reliable gas network.

"Our environmental programme has provided challenges as well as opportunities. I am particularly encouraged by the delivery on biodiversity where this year alone we delivered 37 improvement projects and also the consistent improvement of reduction on leakage from our network. Since baseline year in 2019 we have reduced shrinkage emissions by 19.3%, or 147,453 tonnes of CO_2e."

Carolina Karlstrom
Head of Sustainability

Social

People are central to SGN. Protecting their safety and supporting their wellbeing remains our highest priority. Alongside this, we are committed to attracting, developing and retaining talented individuals while nurturing a diverse and inclusive workplace. By continuing to invest in our people and champion equality, we are building a culture where everyone has the opportunity to succeed.

SGN material aspect	Non-financial KPI	Target/tracking	2025/26	2024/25	2023/24	2022/23
Making sure SGN is a great and inclusive place to work, where all people thrive and develop careers	Diversity and inclusion – gender	Tracking	81% male 19% female	81% male 19% female	81% male 19% female	81% male 19% female
	Diversity and inclusion – ethnicity	Tracking	86% white 7% ethnic minority 7% data not held	87% white 6% ethnic minority 7% data not held	87% white 6% ethnic minority 7% data not held	86% white 3.6% ethnic minority 9.6% data not held
	Diversity and inclusion – disability	Tracking	4% yes 23% no 1% prefer not to say 72% data not held	5% yes 25% no 1% prefer not to say 70% data not held	5% yes 27% no 1% prefer not to say 67% data not held	8% yes 38% no 2% prefer not to say 52% data not held
	Diversity and inclusion – age group	Tracking	<1% under 20 18% 20s 33% 30s 23% 40s 18% 50s 7% 60s <1% 70s	<1% under 20 19% 20s 32% 30s 22% 40s 18% 50s 7% 60s <1% 70s	<1% under 20 17% 20s 32% 30s 22% 40s 19% 50s 8% 60s <1% 70s	<1% under 20 15% 20s 32% 30s 22% 40s 20% 50s 9% 60s <1% 70s
Recruiting and retaining a diverse range of talented people excited about shaping the UK's energy future	Pay equality	Please refer to our Gender Pay Gap reports: Scotland Gas Networks, Southern Gas Networks, SGN Contracting				
	Wage level	We are a living wage employer. We do not have access to robust up-to-date data for gauging local minimum wage that would allow comparison against our own data and don't anticipate that this data will become readily available in the short- to medium-term. Where necessary and relevant, we benchmark salaries for roles within our organisation using an external consultancy to ensure we are paying a fair market rate.				
	Training provided: total investment	Tracking	£4.5m	£5.8m	£8.6m	£4.9m
Securing the safety and wellbeing of all customers and colleagues	Health and safety – number of fatalities as a result of work related injury	0	0	0	0	0
	Injury rates: total recordable injury rate	0.18	0.22	0.20	0.26	0.13
	Utilisation rate of employee assistance programme	8-12%	26.1% (over 12-month period)	12% (over 12-month period)	4.6% (over 9-month period)	8% (over 12-month period)

ESG report
Governance

SGN material aspect	Non-financial KPI	Target/tracking	2025/26	2024/25	2023/24	2022/23
Creating a sustainable future for our business while providing a safe, reliable and affordable service	Economic contribution	Financial review, pages 32 to 39				
	Financial investment contribution	Financial review, pages 32 to 39				
	Total research and development investment	Tracking	£73.2m[1]	£61.2m[2]	£1.6m	£2.6m
Maintaining an attractive and flourishing business respected by a wide range of stakeholders	New employee hires	Tracking	430	620	860	771
	Employee turnover	Tracking	10%	9%	9%	11%
	Total tax paid	Financial review, pages 32 to 39				
Delivering an excellent service for customers and stakeholders	Emergency response service – controlled gas escapes	Scotland: 97% regulatory standard	99.86%	99.86%	99.80%	96.60%
		Southern: 97% regulatory standard	99.50%	98.55%	98.90%	92.94%
	Emergency response service – uncontrolled gas escapes	Scotland: 97% regulatory standard	99.50%	99.46%	99.49%	97.17%
		Southern: 97% regulatory standard	98.76%	98.03%	98.39%	91.86%
	Network reliability (as % of full liability)	Scotland: 100%	99.99%	99.99%	99.99%	99.99%
		Southern: 100%	99.99%	99.99%	99.99%	99.99%
	Gas transported	Tracking	117.9TWh	124.3TWh	121.1TWh	131.8TWh
	Customer satisfaction	Scotland: 9	9.56	9.45	9.33	9.30
		Southern: 9	9.49	9.28	9.19	9.02
	Complaints metric	Scotland: <5.00	0.04	0.51	1.62	1.71
		Southern: <5.00	1.2	1.82	3.61	4.74
	Additional services referrals	Tracking	18,887	13,056	7,433	7,083
	Priority services register	Tracking: the referrals include those made through partners	101,845	65,573	32,982	17,153
	Fuel poor connections	Tracking	573	539	268	649
Creating an ESG strategy that reflects and underpins our Company culture	Setting purpose	Our purpose is to deliver the energy our customers need today and tomorrow. See page 4.				
	Quality of governing body	SGN governance structure, see pages 65 to 67.				
	Material issues impacting stakeholders	Please refer to our material issues for our ESG reporting on pages 47, 49, 50 and 51 and how we engage with stakeholders on pages 44 and 45.				
	Stakeholder relationship satisfaction	Tracking	8.2	8.0	8.0	8.2
Ethical behaviour	Anti-corruption, compliance training and awareness sessions	Tracking	2281	5,107	15,541	14,867
	Anti-corruption incidents	We treat the number and proportion of corruption incidents as confidential Company information.				
Protected ethics advice and reporting mechanism	Speak up reports	Tracking	73	58	59	44
Risk and oversight opportunity	Integrating risk and opportunity into business process	Principal risks and uncertainties, see pages 40 to 43.				

"As we reflect on RIIO-GD2, I am proud of the progress we have made in strengthening our emergency response performance. Over the last three years, we have significantly improved our response to controlled and uncontrolled gas escapes, while maintaining exceptional levels of network reliability and ensuring we have a safe and dependable service for our customers."

Jeremy Deveney
Director of Engineering and Network Strategy

1 In 2024/25, we undertook a review of how we define and report investment in innovation. As a result, we have broadened the scope of what we consider innovation-related activity to include our entire Future of Energy portfolio. This change reflects the strategic importance of these projects in delivering decarbonisation, environmental improvement and long-term system transformation. We recognise that this revised approach has significantly increased the reported investment figure, from £1.6m in 2023/24 to £61.2m in 2024/25 and now £73.2m in 2025/26. However, we believe this is a more accurate and transparent reflection of our ongoing innovation efforts. It also provides a consistent baseline for reporting as we enter the RIIO-GD3 price control period.

2 The 2024/25 comparative has been restated to reflect the correction of double counting identified following publication of the previous report.

ESG report

Simon Kilonback Chief Executive Officer

Looking forward

The upcoming financial year marks a pivotal moment for SGN as we enter the first year of the RIIO-GD3 regulatory period. Establishing strong momentum from the outset will be critical to delivering on the environmental and social commitments set out in our RIIO-GD3 Business Plan, while continuing to progress towards our net zero ambitions.

Our Climate Transition Plan, which we will publish later in 2026, will build on the commitments already set out in our RIIO-GD3 Business Plan by bringing together our strategic approach to decarbonising our operations and supporting the wider energy transition across the UK. The plan will provide greater transparency on how we intend to deliver our climate ambitions, strengthening our approach and ensuring we are prepared for the scale of change required in the years ahead.

We are also updating our materiality assessment to ensure that our reporting in RIIO-GD3 reflects the issues that matter most to our business and to our stakeholders. This will help ensure our disclosures remain relevant, transparent, and aligned to evolving expectations.

As the sustainability landscape continues to develop, we are closely monitoring emerging best practice, reporting standards and potential regulatory requirements, including developments under the UK Sustainability Reporting Standards. By remaining proactive and adaptable, we are positioning SGN to meet future obligations with confidence.

We recognise that continued collaboration with our stakeholders will be essential as we move forward. Together, we aim to deliver progress that is measurable, meaningful, and lasting. Our strategic ambition is to have a safe and resilient network, which meets the needs of our customers and minimises potential impacts to the environment.

"As we transition from RIIO-GD2 into RIIO-GD3, we remain focussed on delivering measurable progress across our environmental and social commitments. We believe the gas network will continue to play an important role in the UK's energy transition, particularly through low-carbon solutions that are available today, such as biomethane. Through collaboration, innovation and transparency, we are positioning SGN to deliver long-term value for our customers, communities and the wider energy system."

TCFD report

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

Aligning disclosures

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

We are compliant with all TCFD disclosure requirements and have taken steps over the past year to better quantify the financial impacts of our climate-related risks, particularly those associated with extreme weather events. We have also began developing our first Climate Transition Plan, which has involved reviewing our climate-related risks and opportunities, as well as our scenario analysis. However, we recognise there is still work to be undertaken in relation to better understand and disclose the financial impacts of our climate-related opportunities, which is an area we will look to address in the future.

Disclosure requirement	Section
Governance	**Governance** – Pages 40 to 43, 54, 65 to 67
Strategy – Principal risks and opportunities	**Strategy** – Page 55
Strategy – Business impacts	**Strategy** – Pages 55 and 58
Strategy – Climate resilience and scenario analysis	**Strategy** – Pages 56 to 58
Risk management	**Risk management** – Pages 40 to 43 and 59
Metrics and targets	**Metrics and targets** – Pages 46 to 52 and 60 to 61

TCFD report
Governance

Board's oversight of climate-related risks and opportunities

Our Board is responsible for setting the strategic direction of SGN and overseeing performance and governance across the short, medium and long term. This includes consideration of climate-related risks and opportunities, which are discussed at Board meetings, as appropriate. Further details on Board roles, responsibilities, and organisational structure can be found on pages 65 to 67.

The Board has overall accountability for risk management. It reviews the full Enterprise Risk Register twice a year, including the identification and management of climate-related risks, and considers emerging risks through horizon scanning activities.

The Executive Committee, comprising the Operational Executive Committee and the Strategic Executive Committee, is responsible for the ongoing management of the enterprise risk management framework. Each enterprise risk is assigned to an Executive Sponsor, who is accountable for monitoring risk exposure, determining appropriate management actions, and ensuring risks are maintained within agreed tolerance levels. The current enterprise risk profile consists of 15 risks, including climate change. Further information on our governance framework is provided on pages 65 to 67.

Oversight of climate-related risks and opportunities is also provided by the Strategy, Stakeholder and Environment Committee (SSEC), a Board committee chaired by a Non-Executive Director. The SSEC supports the Board in overseeing both physical and transition risks associated with climate change and meets four times a year.

Climate-related KPIs are reported to both the SSEC and the Board, providing oversight of performance against our climate and emissions reduction targets.

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

Our Environment Policy, signed by the CEO, sets out the overarching framework and principles guiding our approach to managing the environmental and climate-related impacts of our operations.

The policy reflects our commitment to identifying, managing and mitigating climate-related risks and impacts associated with our assets and activities.

For the 2025/26 financial year, overall management responsibility for sustainability, including the strategic risk of climate change, sits with the Chief Strategy and Regulation Officer and the Head of Sustainability.

Risks are managed through our enterprise-wide risk management framework, with functional teams responsible for identifying, assessing, monitoring and managing risks within their areas. Climate-related risks and opportunities are embedded within this framework through risk registers, with environmental considerations forming part of our risk impact assessment methodology.

To support effective oversight and information sharing, climate-related data and KPIs are regularly reported to the Executive team and senior management:

- Our 'Corporate Scorecard', a company dashboard, includes climate-related business information and KPIs and is shared monthly with the Operational Executive Committee.
- Climate-related metrics are reported monthly to the Chief Operating Officer's leadership team, including senior managers responsible for our network, asset management, and operations.
- Our Condition Review Group meets monthly to provide governance and oversight of risks relating to the distribution pipe network. Asset Managers also assess climate-related risks associated with network performance and resilience.

This information supports informed decision-making across the business, including investment planning and strategic and financial decision-making.

Strategy

Climate-related risks and opportunities over time

At a Group level, climate-related risks and opportunities have been identified through a cross-functional team of senior management stakeholders.

Our process involved the following steps:

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

A significant financial impact is defined as:

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

The material climate-related risks and opportunities identified through this process are outlined on pages 57 and 58. In this context, materiality refers to issues that could significantly impact our operations. These risks and opportunities have been assessed over the period to 2045 across the following time horizons:

- Short term – one to two years into the future
- Medium term – three to 10 years into the future, aligning with Ofgem's price control periods
- Long term – 11+ years into the future, aligned with our net zero goal

Impact on business, strategy and financial planning

Taking into account our material climate-related risks and opportunities, alongside climate-related scenario analysis (see page 56), we have developed a Company strategy that is robust, adaptable, and focused on delivering long-term value to our customers, colleagues, shareholders and other key stakeholders.

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

Climate resilience strategy

Our climate resilience strategy, published in December 2024, sets out our approach to ensuring our assets remain resilient to a changing climate over the short, medium and long term. In line with our material climate-related risks, the strategy identifies increasing extreme weather events as a key risk to our network and outlines the actions we are taking to mitigate these impacts. These include proactive survey programmes for river crossings, targeted river and coastal remediation, and ongoing pipeline repair work.

The strategy also recognises the need to establish clear metrics and a baseline for climate resilience to enable effective monitoring of progress over time. We are committed to implementing these measures and are developing a long-term Asset Management Strategy through to 2050.

Alongside this, we continue to engage with the UK and Scottish governments to support policy development and minimise adverse impacts on our network, while enabling growth opportunities. We contribute to consultations on the future role of gas networks to help inform strategic decisions on the transition to net zero.

We support a whole systems approach to decarbonisation, recognising the role of multiple technologies in delivering net zero. This includes providing customers with choice in how they meet their energy needs. We are enhancing our network insight and data-led capabilities to better understand customer behaviour, including the uptake of alternative heat technologies, and the potential implications for our network.

Opportunities to grow unregulated business streams

While a verified Science Based Targets initiative (SBTi) methodology for the oil and gas sector is not yet available, we continue to explore opportunities to decarbonise the network and assess the associated costs. Our focus is on identifying emissions reduction initiatives aligned with a 1.5˚C pathway for our Scope 1 and 2 emissions, including shrinkage, which remains our largest source of emissions.

We also recognise that Scope 3 emissions, including those arising from customers' use of the gas we distribute, may be incorporated into future SBTi methodologies. These emissions are not currently included within our carbon footprint under the GHG Protocol.

This presents a strategic opportunity to grow our unregulated business by supporting the supply of green gases, including biomethane and hydrogen. Through this, we aim to contribute to the decarbonisation of the wider energy system while positioning ourselves to play a key role in the transition to a low-carbon economy.

Building on the success of SGN Commercial Services' biomethane projects with Thames Water, construction is now substantially complete on two further gas-to-grid facilities at Yorkshire Water sites. Together, these projects will have the capacity to supply up to 215GWh of biomethane annually, equivalent to heating around 18,000 homes.

TCFD report
Strategy

The opportunity for biomethane continues to strengthen. The Green Gas Support Scheme has been extended by the UK government, with a successor support mechanism under development. Industry-led analysis through the Green Gas Taskforce has also reinforced the important role biomethane can play in a cost-effective net zero transition, with recent studies indicating significant growth potential across the UK.

Opportunities to decarbonise our network

The regulated part of our business is focused on enabling and accelerating biomethane connections to our network. By the end of the RIIO-GD2 price control period, we have installed 46 connections and developed the capacity to supply biomethane to the equivalent of 360,422 homes.

Looking ahead to 2031, we will continue to work collaboratively to maximise biomethane injection and reduce connection times for producers. Our ambition is to have the capacity to supply the equivalent of one million homes with biomethane by the end of the RIIO-GD3 price control period.

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

Climate-related scenario analysis

Over the past financial year, we have reviewed our climate-related scenario analysis to inform our Climate Transition Plan, which will be published later in 2026. This involved reviewing the National Energy System Operator's (NESO) Future Energy Scenarios (FES). To ensure alignment with the scenario analysis undertaken to inform our RIIO-GD3 Business Plan, we evaluated the 'Falling Behind' and 'Holistic Transition' pathways, as well as our own internal modelling.

As part of this scenario analysis, we also took into consideration SGN's 2025 Long Term Development Statement, NESO's 10-year Plan, as well as other market participants view. Together, these forecasts, alongside our evaluation of the FES pathways, provide a well-rounded view of potential transition pathways and associated uncertainties.

Regardless of the pathway realised, we will continue to invest in the safety and reliability of our network, while minimising emissions and enabling the wider energy transition.

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

The work undertaken throughout 2025/26 builds on the climate-related scenario analysis historically undertaken by the business. This includes evaluating two GHG emissions scenarios aligned with the Intergovernmental Panel on Climate Change (IPCC). These scenarios, known as Representative Concentration Pathways (RCPs), provide insight into potential climate outcomes:

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

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

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

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

Transition pathway	Description
NESO FES – Falling Behind	• Slower progress towards decarbonisation, with net zero not achieved by 2050 • Continued reliance on unabated fossil fuels, particularly for heat and power • Lower deployment of low-carbon technologies and reduced system flexibility • Increased pressure on energy security and system resilience
NESO FES – Holistic Transition	• Net zero is achieved through a mix of electrification and hydrogen, with strong policy support and consumer engagement • Energy demand shifts significantly, supported by efficiency improvements and flexible technologies • High renewable generation, with unabated gas largely phased out by 2050 • Strong system flexibility enabled by storage and interconnection

Material climate-related risks and opportunities

Our assessment identified four material climate-related risks and two material climate-related opportunities that could affect SGN's business model, strategy and financial performance.

Material climate-related risks

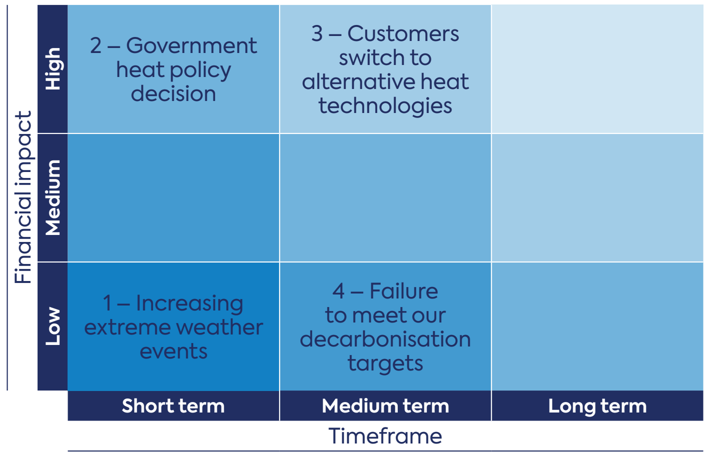
The four material risks identified through our assessment are:

1 Increasing extreme weather events
2. Government heat policy decision
3. Customers switching to alternative heat technologies
4. Failure to meet our decarbonisation targets

The heat map to the right illustrates the relative financial impact and primary impact timeframe of these risks. The assessment provides a qualitative comparison of risks and is aligned with our enterprise risk management framework.

Increasing extreme weather events remain our principal physical risk, reflecting the potential impacts of more frequent and severe weather events on the safety, resilience and operator of our network. Government heat policy decisions, customer adoption of alternative heat technologies and delivery of our decarbonisation commitments represent our most significant transition risks, reflecting the pace and direction of the energy transition and the evolving role of gas networks in a net zero economy.

Historical pipeline washout data provides insight into the financial implications of increased extreme weather events on our network. The graph on the following page details the number and costs of washout remediation projects undertaken over the RIIO-GD2 price control period.

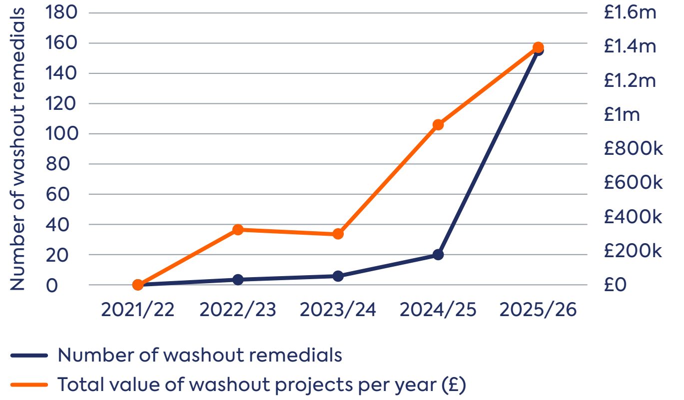


Principal impacts and how we are responding

Material risk/opportunity	Principal impact	How we are responding
Short term: Increasing extreme weather events (physical risk)	Increased repair and insurance costs, disruption to network and operations and potential impacts on security of supply.	Delivering our climate resilience strategy through weather modelling, targeted asset investment, flood mitigation and pipeline remediation projects.
Short term: Government heat policy decisions (transition risk)	Reduced demand for gas, uncertainty over future network utilisation and potential asset decommissioning.	Engaging with governments, Ofgem and industry stakeholders to support evidence-based policy and the role of gas networks in a decarbonised energy system.
Medium term: Customers switching to heat alternative heat technologies (transition risk)	Reduced network demand, affordability pressures for remaining customers and increased risk of underutilised assets.	Developing data-led network planning, supporting biomethane and hydrogen development, and adopting a whole systems approach to future energy planning.
Medium term: Failure to meet our decarbonisation targets (transition risk)	Reputational impacts and reduced access to capital.	Delivering our emissions reduction programme, improving emissions data quality, obtaining independent assurance and tracking progress against targets.
Medium term: Growth in new commercial low-carbon energy business streams (transition opportunity)	Increased revenue and growth through development of low-carbon energy assets and services.	Developing new commercial opportunities in biomethane, and other low-carbon energy solutions to support the wider energy transition.
Medium term: Hydrogen blending and biomethane use (transition opportunity)	Supports decarbonisation of the energy system while maintaining long-term utilisation and value of network assets.	Working with other GDNs and industry partners to progress hydrogen blending, expand biomethane connections and enable greater renewable gas injection into the network.

TCFD report
Strategy

Financial cost of pipeline washouts



Material climate-related opportunities

Alongside these risks, we have identified two material opportunities:

1. Growth in new commercial non-regulated business streams which favour low-carbon energy, such as biomethane, hydrogen and heat networks
2. Support for blending of hydrogen and biomethane use in the low-carbon transition

These opportunities support the decarbonisation of the energy system, help maintain the long-term value and utilisation of network assets, and provide potential growth opportunities through the development of low-carbon energy solutions.

Impact on SGN business model and strategy

Falling behind

In this scenario, physical risks would be high to very high, with severe and potentially irreversible impacts, such as rising sea levels and more frequent extreme weather events. In contrast, transition risks would be more limited, reflecting slower adoption of decarbonisation technologies and less ambitious policy intervention.

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

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

As a result, our business strategy has evolved to support a whole-systems approach to decarbonisation. We recognise that no single technology will deliver the energy transition and therefore support electrification where appropriate, alongside biomethane, hydrogen blending, full hydrogen networks and heat networks.

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

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

Holistic transition

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

- Physical risk: In recent years, the world has experienced sustained periods where average global temperatures have reached around 1.5°C above pre-industrial levels, making this scenario closely aligned with today's reality. Over the last financial year, we recorded 25 pipeline washouts, which represented the most significant physical risk to our network. A sustained temperature increase of between 1.5°C to 2°C would likely result in increased risks to our infrastructure.
- Transition risk: This would present opportunities for our non-regulated business, particularly in areas such as biomethane, hydrogen (primarily for industrial and system balancing uses), and carbon capture, usage and storage (CCUS). At the same time, increasing electrification may reduce demand for gas in some areas, potentially leading to the decommissioning of parts of the gas distribution network as energy systems evolve.

Next steps

- Assess and quantify the potential financial impacts of our climate-related opportunities
- Publish our first Climate Transition Plan in 2026
- Continue to develop our long-term Asset Management Strategy

Risk management

Identifying and assessing climate-related risks

At an operational level, we identify and assess sources of risks, including climate-related risks, through our Environmental Management System. This includes determining significant environmental aspects and impacts across our operations.

We also use a range of mapping tools, including data from the Environment Agency and the Scottish Environment Protection Agency (SEPA), to identify and assess physical risks to our network.

Responsibility for identifying and assessing strategic environmental risks sits within the Strategy and Regulation directorate, which applies the enterprise risk impact matrix. The sustainability team plays a key role in this process by providing subject matter expertise and guidance on environmental and climate-related issues.

Managing climate-related risks

Risk management is embedded across the organisation, with functional risk registers owned by each directorate. These registers capture relevant risks within each business area, which are assessed and scored using a consistent risk assessment framework and then escalated into the enterprise risk management system.

Each risk is evaluated based on its likelihood and impact across nine categories: Health and Safety, Finance, People, Operations, Change, Asset Management and Process Safety, Environment, Reputation, Legal and Regulatory. These scores are combined to determine the overall risk rating.

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

Issues and associated actions are formally recorded, with clear ownership and timelines. These action plans are used to manage and mitigate risks and are subject to ongoing monitoring by both the Executive team and the Board. Climate risk is recognised as one of our enterprise-level risks.

Integration into overall risk management

Oversight of the enterprise risk management framework is Board-led, with ongoing input from the Executive Leadership Team to provide visibility of the nature and scale of risks facing the organisation. Oversight of enterprise risks, including climate change, is maintained through established governance processes throughout the year.

To further strengthen risk governance, we have introduced a new Risk Review and Challenge Group, which provides a structured forum for cross-functional review and constructive challenge of risk information prior to escalation to the Risk, Audit and Assurance Committee (RAAC) and the Board. This enhances consistency, transparency and alignment across the organisation.

Next steps

- We will further develop the process for keeping climate-related risks and opportunities updated by incorporating it into business-wide risk management procedures and reporting to the Board on a regular basis.
- On a quarterly basis all directorates will continue to conduct a review of their risk register, supported by the Group Risk function. The outcomes of these reviews inform the quarterly RAAC meetings, as well as the biannual Board risk discussions.
- The RAAC aims to foster a more integrated and less siloed approach to risk and assurance activities. Enterprise risks, including climate change, are a standing item on the agenda, and the Executive sponsors for these risks are in attendance to ensure appropriate oversight and alignment.

TCFD report
Metrics and targets

Key climate-related metrics

We use a range of metrics to track and assess progress against our targets. Key climate-related metrics are summarised in the table over the page, mapped to the most relevant climate-related risk or opportunity.

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

We have a long-term bonus scheme (LTIP) for senior executive participants. One of the bonus incentives in the LTIP is linked to the achievement of our environmental targets and initiatives in our Environmental Action Plan. Our annual short-term incentive plan (STIP) links a wider group of managers and personal contract holders to progression against targets including year-on-year reduction of our Scope 1 and 2 carbon emissions, including shrinkage.

In our ESG Report (pages 46 to 52) we disclose performance against KPIs for our Scope 1 and 2 carbon footprint, including shrinkage, as well as network leakage metrics and the number of biomethane connections.

Scope 1, Scope 2, and Scope 3 GHG emissions

The largest contributor to climate change impacts within our operations is Scope 1 emissions, primarily from network shrinkage, particularly leakage from the gas distribution network. We continue to address this through the replacement of older metal mains with polyethylene (PE) pipes, alongside effective pressure management and the deployment of innovative operational solutions.

We are also continuing to strengthen our Scope 3 data collection and assessment through engagement with our supply chain. This remains an evolving area, and we will continue to enhance our understanding of Scope 3 emissions as we move into the RIIO-GD3 price control period.

The table over the page presents historic Scope 1, 2 and 3 emissions since the 2019 baseline.

Targets and performance

We have set a net zero by 2045 target (absolute) for our operations and networks covering all Scope 1, 2 and 3 (standard categories) emissions. This represents our long-term emissions reduction target and is aligned with the science-based methodology of the Paris Agreement.

As we enter the RIIO-GD3 price control period, we will assess our long-term net zero target to ensure it continues to align with the evolving policy landscape and supports our long-term transition planning.

Alongside this long-term target, we also set short- and medium-term targets which are outlined in the table over the page. The table includes details on the outcome of our short-term targets.

Next steps

- Continue to disclose progress on medium-term climate-related targets

Key metric	Relevant climate-related risk or opportunity	Performance
Number of connections of biomethane to the network (equivalent homes supported)	3) Customer switch to alternative heat technologies 6) Support for hydrogen and biomethane use in the low carbon transition	See page 47
Volume of new biomethane in the network (measured in scm/h, standard cubic metres per hour)	3) Customer switch to alternative heat technologies 6) Support for hydrogen and biomethane use in the low-carbon transition	See page 47
Scope 1, 2 and 3 emissions	4) Failure to meet our decarbonisation targets	See page 48

GHG emissions	2025/26	2024/25	2023/24	2022/23	2021/22	2020/21	2019/20
Scope 1 (including shrinkage) tCO_2e	**633,440**	708,048	687,187	713,857	740,163	759,994	785,292
Scope 1 (shrinkage) tCO_2e	**617,831**	692,653	671,481	696,634	721,448	740,826	765,284
Scope 1 (excluding shrinkage) tCO_2e	**15,609**	15,395	15,706	17,222	18,715	19,168	20,008
Scope 2 (location-based) tCO_2e	**2,795**	2,457	2,504	2,622	2,652	3,111	3,274
Scope 3 tCO_2e	**39,959**	44,052	35,050	31,859	19,303	22,378	35,843

Targets	Target date	Target achieved	2025/26	2024/25	2023/24	2022/23
Short-term targets						
25% reduction in Scope 1 and 2 (excluding shrinkage) emissions compared to 2019 baseline	April 2026	Not achieved – slower electrification of commercial fleet than was anticipated at the beginning of the RIIO-GD2 price control period	**21%**	23%	22%	15%
19% reduction in shrinkage emissions compared to 2019 baseline	April 2026	Achieved	**19.3%**	9.5%	12%	9%
Capacity to supply the equivalent of 450,000 customers with biomethane	April 2026	Not achieved – connections outside of SGN control	**360,422**	334,127	289,620	259,000
Medium-term targets						
44% reduction in Scope 1 and 2 (including shrinkage) emissions compared to 2019 baseline	April 2031	On track – actions identified to reduce shrinkage throughout the RIIO-GD3 price control period	Progress against this target will begin during the RIIO-GD3 price control period. At the end of RIIO-GD2, we had achieved a 19.3% reduction in Scope 1 and 2 (including shrinkage) emissions compared to our 2019 baseline.			
Capacity to supply the equivalent of 1,000,000 customers with biomethane	April 2031	At risk – connections outside of SGN control	Progress against this target will begin during the RIIO-GD3 price control period. At the end of RIIO-GD2, our network had the capacity to supply the equivalent of 360,422 customers with biomethane.			

Chair's introduction to governance

Rebecca Lumlock Chair

"Against this backdrop, the Board's role in providing strategic direction, rigorous oversight and independent challenge remains critical for the future."

On behalf of the Board, I am pleased to present our Corporate Governance Report for 2025/26.

This report outlines how we maintain the high standards of governance expected of a regulated gas distribution company, ensuring we meet the expectations of our wider stakeholders, regulators and shareholders. We have applied the Wates Corporate Governance Principles for Large Private Companies, and our approach to each principle is set out on the following pages.

The year was one of the most significant in SGN's recent history. We received Ofgem's RIIO-GD3 Final Determination, submitted our appeal to the Competition and Markets Authority, and entered the new regulatory period, while continuing to deliver a programme of operational, technological and cultural transformation at pace. Against this backdrop, the Board's role in providing strategic direction, rigorous oversight, and independent challenge has been critical in ensuring the Group remains well-positioned for the future.

During the year, there were a number of changes to the Board. I would like to thank Paul Jeffery, who stepped down after more than nine years of service, including as a highly effective Chair of the Audit Committee. I would like to welcome Martin Catchpole to the role of Audit Committee Chair, taking over from Paul. I also congratulate Charlotte Brunning, who stepped back from her role as Chair of the Remuneration Committee to commence maternity leave. During her absence, Nick Salmon has served as Interim Remuneration Committee Chair. I would also like to note the departure of Matthew Gross, who served as an Alternate Director, and thank him for his contribution during his time on the Board. We were pleased to welcome Chris Murray as a Sufficiently Independent Director (SID) during the year and to reappoint Joanna Whittington for a further term. Joanna and Chris, in their capacity as SIDs, sit on our Regulated Companies at Southern Gas Networks and Scotland Gas Networks and attend the SGN Board.

Governance highlights of the year

The Board was actively engaged in a broad range of significant decisions during the year, with a continued focus on strategic oversight, regulatory positioning and long-term value creation.

Key highlights included:

- **RIIO-GD3 Final Determination:** Close oversight of the Company's regulatory response, including approval of escalation to a CMA appeal
- **Transformation programme:** Oversight of the delivery of the Group's transformation programme, realising material efficiency benefits
- **H100 Fife hydrogen project:** Continued oversight of the H100 Fife hydrogen-for-heat trial, reinforcing the Group's position in low-carbon innovation
- **Budget and long-term planning:** Approval of the annual budget and consideration of the next Business Plan cycle, supported by long-term energy scenario modelling
- **Property and infrastructure investment:** Approval of a portfolio of strategic property decisions, including major campus development, targeted asset disposals

Board effectiveness and looking ahead

A Board effectiveness review will be undertaken during 2026/27.

Looking ahead to RIIO-GD3, the Board remains focused on delivering safe and reliable services, embedding a disciplined transformation programme, maintaining financial resilience, and advancing our safety culture. We will also progress our long-term ambitions in green gas and play a leading role in shaping the future of energy.

I would like to thank my fellow Board members, the Executive team, and all colleagues across SGN for their continued commitment to strong governance and high-quality service.

Rebecca Lumlock
Chair

22 July 2026

Wates Corporate Governance Principles

SGN, under the Companies (Miscellaneous Reporting) Regulations 2018, has applied the Wates Corporate Governance Principles for Large Private Companies. This report sets out how the Wates Principles were applied.

Principle 1: Purpose and leadership

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

What we did in FY 2025/26	Where you can find further information
The Board remained focused on embedding SGN's purpose, vision and values, including overseeing the launch of the refreshed Zero Harm Vision, endorsing the Safety Culture Maturity Roadmap, and receiving long-term energy scenario modelling to 2070. The Board also prioritised visible leadership through site visits and structured employee feedback sessions.	Purpose, vision and values: page 2

Principle 2: Board composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

What we did in FY 2025/26	Where you can find further information
The Board oversaw the transition of the Audit Committee Chair, appointed Chris Murray as an SID, reappointed Joanna Whittington for a further three-year term, and appointed the CEO and CFO to the Regulated Boards: Southern Gas Networks plc and Scotland Gas Networks plc. SGN was recognised in the 2025 POWERful Women State of the Nation report as one of the top ten performers for women in leadership across the UK energy sector.	Board composition and biographies: pages 68 and 69 Nomination Committee Report: page 74

Principle 3: Director responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

What we did in FY 2025/26	Where you can find further information
The Board approved new Terms of Reference for the Health, Safety and Security Committee and the Strategy, Stakeholder and Environment Committee, formalising expanded oversight of cyber and physical security and strategic and regulatory planning, respectively. The Board exercised its responsibilities across major commercial contracts, strategic investments, financing transactions and regulatory approvals. Governance at Scotland and Southern Gas Networks was further strengthened through the re-appointment and appointment of the SIDs.	Committee reports: pages 72 to 74

Wates Corporate Governance Principles

Principle 4: Opportunity and risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks.

What we did in FY 2025/26	Where you can find further information
The Board approved updates to the Group's Enterprise Risk Register, including three new risks (Operational Delivery, RIIO-GD3 and Transformation) and reviewed Risk Appetite Statements for Critical Network Information and IT Resilience risks.	Enterprise risk management framework and strategic risks: page 40

Principle 5: Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, considering pay and conditions elsewhere in the company.

What we did in FY 2025/26	Where you can find further information
During the year, the Board focused on aligning remuneration structures with the Group's strategic priorities under RIIO-GD3, ensuring a clear link between pay, performance and long-term value creation. This included the development and refinement of short- and long-term incentive frameworks, incorporating a balanced range of financial, operational, safety, people and stakeholder measures. The Board also maintained oversight of market positioning and affordability, informed by external benchmarking and multi-year trend analysis, and supported the implementation of annual pay awards reflecting both internal priorities and external conditions.	Remuneration Committee activities: page 73

Principle 6: Stakeholder relationships and engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce and having regard to their views when taking decisions.

What we did in FY 2025/26	Where you can find further information
The Board prioritised workforce engagement and oversight of structured feedback sessions from the workforce. It oversaw an extensive programme of regulatory and government engagement and maintained close oversight of customer performance, including support for vulnerable customers. Environmental and community considerations included oversight of progress against the RIIO-GD2 Environmental Action Plan and development of SGN's Climate Transition Plan, aligned with the transition plan taskforce and outlining our long-term pathway to net zero.	Stakeholder engagement and Section 172 statement: pages 44 and 45 Strategy, Stakeholder and Environment Committee Report: page 74

SGN governance structure

Governance framework

The delivery of SGN's strategy is supported by a well-established governance framework that defines clear decision-making authorities, accountabilities and controls. This framework is underpinned by SGN's Articles of Association, Shareholders' Agreement, Schedule of Matters Reserved, Board Committee Terms of Reference and financial approval framework.

During 2025/26, the Board continued to strengthen and evolve this framework to reflect the increasing complexity of SGN's operating environment as it enters the RIIO-GD3 regulatory period, with enhancements focused on improving strategic alignment, strengthening oversight of emerging risks, and ensuring governance arrangements remain fit for purpose.

Chair

The Board is led by the Chair, who is responsible for its effective leadership, governance and overall performance. The roles of Chair and Chief Executive Officer remain clearly separated, ensuring an appropriate balance of responsibilities, accountability and independent oversight.

Board of Directors

The Board comprises Non-Executive and Executive Directors, and is the Company's principal decision-making body. It is collectively responsible for setting strategy, overseeing performance and ensuring a robust system of internal control and risk management. The Board operates within a formal Schedule of Reserved Matters, ensuring that material decisions are subject to appropriate scrutiny and approval.

Board composition and evolution

The Board structure reflects both shareholder representation and regulatory requirements, including the presence of SIDs who provide dedicated oversight of the regulated entities. During the year, the Board oversaw a number of changes to its composition and Committee leadership.

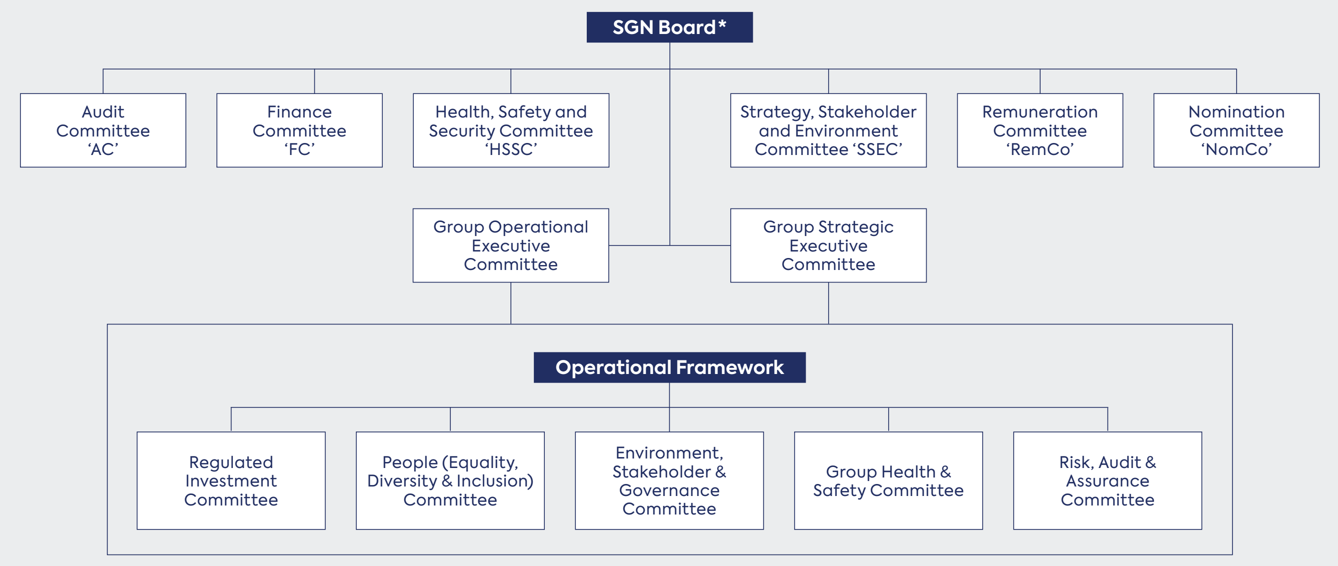
Full details of Board composition, biographies and the Nomination Committee's work are set out under Principle 2 above and on pages 68 and 69.

Board Committees

During 2025/26, the Board was directly assisted in the discharge of its duties by six Board Committees. While Committees operate within defined Terms of Reference, the Board retains overall responsibility and decision-making authority.

During the year, the Board enhanced Committee structures to strengthen alignment with strategic priorities and emerging risks. This included expanding safety oversight to incorporate security risks and strengthening the strategic focus on stakeholder, environmental and regulatory governance.

Board Committees' hierarchy



* A full version of the ownership structure below Scotia Gas Networks can be found on page 37

SGN governance structure

The following table summarises the six Board Committees and their Chairs for 2025/26.

Committee	Chair 2025/26	Principal responsibilities	Report
Audit Committee (AC)	Paul Jeffery (to Dec 2025) Martin Catchpole (from Jan 2026)	Financial reporting integrity; external audit; internal audit; risk management and internal controls; compliance; regulatory filings	Page 72
Finance Committee (FC)	Michael Botha	Financing and refinancing strategy; distributions; credit rating strategy; treasury policy; financial risk management; investment approvals	Page 72
Health, Safety and Security Committee (HSSC)	Nick Salmon	Health and safety performance and strategy; safety culture; occupational health and wellbeing; compliance and assurance; cyber security governance; physical and personnel security; operational resilience	Page 73
Strategy, Stakeholder and Environment Committee (SSEC)	Jeffrey Rosenthal	Corporate strategy and energy transition planning; stakeholder and political engagement; advocacy; environmental performance and Climate Transition Plan; customer outcomes; ESG performance	Page 74
Remuneration Committee (RemCo)	Charlotte Brunning (to Nov 2025) Nick Salmon (Interim from Nov 2025)	Executive remuneration; STIP and LTIP frameworks; executive objectives; broader workforce pay considerations; succession and talent pipeline	Page 73
Nomination Committee (NomCo)	Rebecca Lumlock	Board composition; Director appointments and reappointments; SID independence assessments; Committee Chair recommendations; diversity and inclusion	Page 74

Board effectiveness

The Board remains committed to continuous improvement in its effectiveness, governance practices and strategic oversight. A full Board effectiveness review is planned for 2026/27, following the recent enhancements to governance structures.

Board engagement

The Board continued to prioritise direct engagement with employees, regulators and wider stakeholders throughout the year. This included site visits, employee engagement sessions and participation in stakeholder and policy discussions. Full details of Board engagement with stakeholders can be found on pages 44 and 45.

Executive governance

Executive responsibility for the day-to-day management of the Group is delegated to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), supported by an Executive Management Team. During the year, governance at the regulated-entity level was strengthened by appointing the CEO and CFO to the regulated Boards, enhancing accountability and alignment between strategic oversight and operational delivery.

The Executive Committee operates through dedicated forums focused on operational performance and strategic planning, supported by a structured framework of sub-committees to ensure effective management, oversight and assurance across the business.

Board and Executive reporting

The Board continues to enhance the quality, clarity and effectiveness of the information it receives. Improvements during the year include clearer classification of Board papers, more targeted reporting and greater use of delegated authority to ensure Board time remains focused on matters of strategic importance. The Company Secretary supports the Board in ensuring the timeliness, quality and integrity of information flows, and provides advice on governance and best practice.

Board and Executive reporting cycle

Conflicts of interest

The Board maintains robust processes to identify, manage and mitigate conflicts of interest, supported by formal policies and regular review procedures. Conflicts of interest are a standing agenda item at Board meetings, ensuring ongoing transparency and oversight.

During the year, this included Ontario Teachers' Pension Plan declaring and managing a conflict of interest in relation to the FYLD divestment, with the relevant Director withdrawing from discussion and decision, and individual SIDs withdrawing from relevant items at the Nomination Committee.

Shareholders

SGN has three supportive shareholders: Brookfield, Ontario Teachers' Pension Plan, and Global Infrastructure Partners (a Blackrock portfolio company). The Board maintains regular and constructive engagement with its shareholders, ensuring alignment on strategic priorities while acting fairly between members. As an entity with Brookfield as a shareholder, SGN confirms compliance with the Walker Guidelines for FY 2025/26.

Meeting attendance, April 2025 to March 2026

Directors	Board meetings (6)	Audit Committee meetings (5)	Finance Committee meetings (7)	Health, Safety & Security Committee meetings (5)	Remuneration Committee meetings (4)	Strategy, Stakeholder & Environment Committee meetings (4)	Nomination Committee meetings (1)
Rebecca Lumlock	6/6	–	–	5/5	4/4	4/4	1/1
Michael Botha	6/6	5/5	7/7	–	–	–	1/1
Jeffrey Rosenthal	6/6	–	–	–	–	4/4	1/1
Nick Salmon	6/6	5/5	–	5/5	4/4	–	1/1
Charlotte Brunning[1]	4/4	–	4/4	–	2/2	3/3	1/1
James Adam[2]	6/6	–	1/2	–	–	0/1	1/1
Martin Catchpole	6/6	5/5	7/7	–	–	–	1/1
Paul Trimmer	6/6	–	–	5/5	4/4	4/4	1/1
Paul Jeffery[3]	4/4	4/4	4/4	–	–	–	1/1
Joanna Whittington	6/6	–	–	5/5	4/4	4/4	1/1
Chris Murray[4]	2/2	1/1	3/3	–	–	–	1/1
Michael Smart[5]	6/6	–	–	–	–	–	1/1
Matthew Gross[6]	6/6	–	–	–	–	–	–

- Full attendance (x/x)
- Partial attendance (x/y where x<y), or partial-year membership
- Not a member of this Committee

1 Charlotte Brunning commenced maternity leave in November 2025. She was absent from the Remuneration Committee, Finance Committee and SSEC for the November 2025 and March 2026 meetings, and from the Board for the January 2026 and March 2026 meetings. Nick Salmon was appointed as Interim Remuneration Committee Chair for the duration of her absence.
2 James Adam has been a Director throughout 2025/26 (appointed 30 January 2025). He joined the Finance Committee as a member, replacing Paul Jeffery and Charlotte Brunning from January 2026 (attended 28 January; absent 26 March). He was an SSEC member from March 2026 but was absent on 25 March.
3 Paul Jeffery resigned as a Sufficiently Independent Non-Executive Director on 31 December 2025. Attendance figures reflect only meetings held during his period of service (18 June to 27 November 2025): the Board (4 meetings), Audit Committee (4 meetings), Finance Committee (4 meetings), and Nomination Committee (1 meeting).
4 Chris Murray was ratified as Sufficiently Independent Non-Executive Director at the Nomination Committee on 26 November 2025 and became a member of the Board with effect from 1 January 2026. His attendance figures reflect meetings held since his appointment. He joined the Audit Committee as a member in March 2026 and the Finance Committee in January 2026. He attended the Nomination Committee on 26 November 2025 (declaring an interest and withdrawing from the item relating to his own appointment).
5 Michael Smart attended meetings in his capacity as an Alternate Director for Stepstone Group throughout the year. From November 2025, he is listed as a Director in attendance at Board meetings. Alternate Directors appear in this table where they attended meetings in their capacity as Alternate Directors during the financial year.
6 Matthew Gross attended meetings as an Alternate Director for Brookfield throughout 2025/26 and resigned from the Board on 31 March 2026.
7 Attendance numbers for each committee shown in brackets in the column header reflect the total number of meetings held during the financial year, not the number of meetings for which each individual was eligible.

Board of Directors

Chair

Rebecca Lumlock

Date of appointment 22 March 2022

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

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

Sufficiently Independent Non-Executive Directors (SIDs)

Chris Murray MBE

Date of appointment 10 September 2025

Biography Chris's expertise stems from over 45 years of experience in the UK Energy sector. In addition to being a three-time CEO, Chris has 30 years of Non-Executive experience and is currently Chair at Water Resources South East, Chair of Northern Powergrid's Independent Stakeholder Group, a Board Member of the MS Society and a Board Member of the Leicestershire Hospice.

Key external appointments and changes during the period
Chair at Water Resources South East; Chair of Northern Powergrid ISG; Trustee and Board Member of the MS Society; Trustee and Board member of the Leicestershire Hospice (LOROS)

Joanna Whittington

Date of appointment 30 October 2023

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

Key external appointments and changes during the period
Non Executive Director of Payment Systems Regulator, Non-Executive Director of Northern Endurance Partnership, Vice President of the British Institute of Energy Economics and a board member of POWERful Women

Shareholder Non-Executive Directors

Charlotte Brunning

Date of appointment 2 May 2018

Biography Charlotte joined the Board in May 2018. She is a member of the EMEA Infrastructure and Natural Resources team and has been with Ontario Teachers' since 2015. She has been involved in a number of direct investments, including London City Airport, ADNOC, SGI and SGN Smart. Charlotte holds a BSc from the London School of Economics and an MBA from the London Business School.

Key external appointments and changes during the period
Director of Apple Newco Limited; Director of Galaxy Pipeline Assets HoldCo Limited; Director of SGI; Director of Scottish Hydro Electric Transmission plc; Director of Braeburn EquityCo Limited

Nick Salmon

Date of appointment 14 March 2019

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

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

James Adam

Date of appointment 30 January 2025

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

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

Shareholder Non-Executive Directors (continued)

Martin Catchpole

Date of appointment 23 March 2022

Biography Martin joined the Board in March 2022 and is a Principal at Global Infrastructure Partners (GIP) focusing on its energy and utility infrastructure investments across EMEA. Previously, he spent 16 years at Credit Suisse where he most recently was Co-Head of the Energy Group and Investment Banking. Martin is also a Chartered Accountant, qualifying with EY prior to his career in investment banking.

Key external appointments and changes during the period
Member of ENI CCUS Ltd Board and Skyborn Renewables

Paul Trimmer

Date of appointment 23 March 2022

Biography Paul joined the Board in March 2022 and is a Senior Advisor to Global Infrastructure Partners (GIP) focusing on its energy sector. He has been a Board Director of FluxSwiss, CLH-PS and Interconnector UK and is an Advisory Board Member for Carbon Connect (an entity supporting the UK's transition to net zero). Previously, Paul spent 32 years at Shell, including as an Executive Director of Comgas and Transredes.

Key external appointments and changes during the period
Member of the Advisory Board of Carbon Connect; Partner in Atosú

Jeffrey Rosenthal

Date of appointment 24 November 2022

Biography Jeffrey is an Operating Partner in Brookfield's Infrastructure Group. He also provides risk management, capital expenditure and ESG oversight as the Group's Chief Risk Officer.

Michael Botha

Date of appointment 22 March 2022

Biography Michael joined the Board in March 2022 and is an Operating Partner in Brookfield's Infrastructure Group overseeing operations, risk management and asset management activities. He has held senior positions across the organisation, including the Chief Risk Officer in Brookfield's Infrastructure Group, and COO and CFO of Brookfield's private infrastructure funds business. Prior to joining Brookfield, Michael worked in the audit practice of a Big Four accounting firm.

Michael Smart

Date of appointment 27 May 2022

Biography Michael is a member of the infrastructure and real assets team at StepStone. Prior to joining StepStone, Michael was a Director in KPMG's Infrastructure Advisory Group, where he led the Energy Transition Strategy team. Michael was previously at National Grid in a variety of roles across operations, strategy, investor relations and M&A.

Alternate Directors

David Demes
Date of appointment 30 January 2025

Afonso Gois
Date of appointment 16 May 2025

Mathew Turnell-Henry
Date of appointment 16 May 2025

Director resignations

Felipe Ortiz
Date of resignation: 8 May 2025

Matthew Gross
Date of resignation: 31 March 2026

Board and Committee membership key

- Board
- Audit Committee
- Finance Committee
- Remuneration Committee
- Health, Safety and Security Committee
- Strategy, Stakeholder and Environment Committee
- Nomination Committee

SGN Executive Team

Simon Kilonback
Chief Executive Officer

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

Date of appointment 18 September 2023

Tony King
Chief Financial Officer

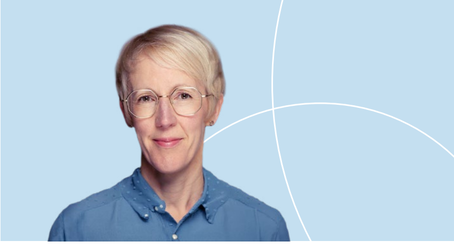
Key responsibilities
Tony oversees all financial planning, treasury and control activities, along with supply chain management, property and facilities, and business services.

Date of appointment 2 December 2024

Darren Elsom
Chief Operating Officer

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

Date of appointment 19 December 2023



Emily Smith-Reid
General Counsel (Appointed)

Key responsibilities
Emily is responsible for providing legal counsel and governance oversight to the Board and Executive Team, managing legal risk and regulatory compliance.

Date of appointment 28 July 2026

Patrick/Fungai Makoni
Company Secretary

Key responsibilities
Patrick is responsible for the governance and secretariat function across the SGN Group, supporting the Board and its Committees in discharging their duties effectively. He oversees statutory compliance, corporate governance frameworks, and provides counsel on regulatory and governance developments.

Date of appointment 1 April 2025

Corporate information

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

Auditor
Ernst & Young LLP
Statutory Auditor
London

Registered number
04958135

Board activities during 2025/26

The Board remained actively engaged throughout the year in steering the Group through a period of significant regulatory, operational and strategic change.

Board focus: Strategy

The Board's strategic focus was shaped by the RIIO-GD3 regulatory process, the transition to the new price control period, and the evolving energy landscape. The Board exercised close oversight of the Company's response to Ofgem's Draft and Final Determinations, culminating in the approval of a CMA appeal to secure an appropriate regulatory outcome and support the Group's long-term investment requirements.

Long-term strategic positioning remained a key priority. The Board considered detailed scenario modelling of future energy pathways, which informed its approach to asset management, regulatory engagement, and the Group's role in the energy transition. The Board also maintained oversight of major strategic programmes, including the H100 Fife hydrogen project, and oversaw the delivery of the Group's transformation programme, supporting the realisation of efficiency benefits, digital capability enhancement, and organisational change.

Financial strategy remained closely aligned to these priorities, with the Board approving financing and distribution decisions to support investment, maintain credit strength and ensure long-term financial resilience.

Board focus: Performance

The Board maintained close oversight of operational, financial and organisational performance. Safety remained a core priority, with the Board monitoring performance at every meeting and supporting implementation of initiatives to strengthen safety culture and reduce risk, including the launch of the Zero Harm Vision.

Financial performance remained strong, supported by disciplined cost management and delivery of transformation benefits. Operational performance remained robust, with sustained high levels of customer satisfaction and significant progress in supporting vulnerable customers. The Board maintained oversight of workforce engagement and capability, including employee feedback, diversity and inclusion, and investment in training and development.

Cybersecurity and operational resilience remained areas of heightened focus.

Board focus: Governance

The Board continued to strengthen governance arrangements to ensure alignment with the Group's evolving risk profile, regulatory requirements and strategic priorities. The Board exercised its responsibilities across major commercial contracts, strategic investments, financing transactions and regulatory approvals.

Risk management remained a key focus, with the Board reviewing and refining the Group's enterprise risk management framework, including emerging risks related to regulatory delivery, transformation and operational performance. The Board also maintained oversight of key legal and regulatory matters and approved a range of policies and frameworks to support compliance, ethical conduct and effective decision-making.

Board Committees

Audit Committee

"The Committee has continued to strengthen the Group's governance through its oversight of financial reporting, risk management and internal controls, while ensuring compliance with regulatory and ethical standards. The year also marked the transition of the important role of Committee Chair, as we thanked Paul Jeffery for his service as he stepped down."

Martin Catchpole Audit Committee Chair

What the Committee has done this year

The Committee reviewed and recommended approval of the Annual Report and Accounts, half-year financial statements and key regulatory submissions. Significant accounting judgements included: the annual goodwill impairment assessment (no impairment required); the H100 Fife total forecast cost to complete the project within the Group; and the transitional tax impact from forthcoming FRS 102 changes. We also maintained oversight of the external audit process, oversaw delivery of the Internal Audit programme, reviewed the Group's system of internal control and risk management, and maintained oversight of key regulatory obligations and filings.

Looking forward

Key priorities for 2026/27 include overseeing the FRS 102 transition (mandatory from 1 April 2026), monitoring the regulatory recovery of the anticipated £50m transitional tax impact, further strengthening internal controls and assurance processes, and implementing the Global Internal Audit Standards.

This report was approved by the Audit Committee and signed on its behalf by Martin Catchpole, Committee Chair.

Finance Committee

"The Committee remains focused on safeguarding SGN's financial resilience through disciplined financing activity, proactive credit rating management and rigorous oversight of financial risk."

Michael Botha Finance Committee Chair

What the Committee has done this year

The Committee oversaw the Group's £297m financing programme for Scotland and Southern Gas Networks, executed through private placements and bank term loans. We also approved the removal of Standard & Poor's as a credit rating agency and the appointment of Morningstar DBRS alongside Moody's and Fitch, which is expected to result in savings exceeding £1m over RIIO-GD3. Further, we approved the disposal of the Group's minority stake in FYLD, realising gross proceeds of approximately £3m.

Looking forward

Key priorities for 2026/27 include overseeing the execution of refinancing programmes, maintaining disciplined capital allocation, and ensuring continued alignment between financing strategy and regulatory outcomes.

This report was approved by the Finance Committee and signed on its behalf by Michael Botha, Committee Chair.

Remuneration Committee

"The Committee oversaw the normal annual cycle for setting the annual Short Term Incentive Plan and the three-year Long Term Incentive Plan for senior executives, and for determining the outturns as the respective plans matured. We also supported management in agreeing remuneration packages for a number of critical executive appointments and strengthened the focus on succession planning."

Charlotte Brunning Remuneration Committee Chair

What the Committee has done this year

The 2025/26 executive and senior leadership performance and reward cycle was completed, with incentive outcomes assessed against agreed targets. The 2026/27 STIP and 2026-29 LTIP performance measures were approved, and a new long-term incentive framework for senior leaders was agreed in principle. Several significant executive appointments and leadership transitions were supported, alongside the development of a strengthened succession planning framework. A comprehensive review of executive remuneration from 2021 to 2026 confirmed that overall costs have remained broadly stable and that remuneration remains proportionate and appropriately governed. Workforce reward and people initiatives were reviewed, with oversight applied to the design and calibration of incentive performance measures.

Looking forward

Key priorities for 2026/27 include embedding the strengthened succession planning approach, finalising and implementing the new senior Executive long-term incentive framework, supporting continued Executive leadership development and ensuring remuneration arrangements remain aligned to performance, market competitiveness and long-term shareholder value creation. The Committee will also continue to oversee Executive capability, succession and reward governance as SGN enters the new regulatory period.

This report was approved by the Remuneration Committee and signed on its behalf by Charlotte Brunning, Committee Chair.

Health, Safety and Security Committee

"This has been a year of strong and measurable progress. We achieved ISO 45001 certification for the first time and launched our refreshed Zero Harm Vision. These achievements, alongside significant improvements in key safety performance indicators, reflect the commitment of our teams and the increasing maturity of our safety and security governance."

Nick Salmon Health, Safety and Security Committee Chair

What the Committee has done this year

The Committee oversaw the improving safety performance in leading and lagging indicators for FY 2025/26, including an improvement in both our Very Serious Incidents and High Potential Incidents. The Committee also oversaw the FY 2025/26 health and safety assurance programme, and the development and launch of the refreshed Zero Harm Vision and approved a multi-year Safety Culture Maturity Roadmap. A key milestone was achieving ISO 45001 certification. The mean time to contain security incidents remained within SLA, and the RIIO-GD3 Cyber Programme was approved by the Board. Following the expansion of its remit, the Committee began formally overseeing physical and personnel security arrangements. During the year it was decided to add Security to the Committee's remit, including cyber, physical and personal security.

Looking forward

Key priorities for 2026/27 include progressing the next phase of the Safety Culture Maturity Roadmap, overseeing delivery of the RIIO-GD3 cyber programme, and further developing the Group's security and resilience frameworks.

This report was approved by the Health, Safety and Security Committee and signed on its behalf by Nick Salmon, Committee Chair.

Board Committees

Strategy, Stakeholder and Environment Committee

"As SGN transitions into RIIO-GD3, the Committee's expanded strategic remit has become increasingly important. The evolution of the Committee reflects the scale of the strategic challenges and opportunities facing the Group."

Jeffrey Rosenthal Strategy, Stakeholder and Environment Committee Chair

What the Committee has done this year

The Committee played a more prominent role in overseeing the strategic direction and long-term planning for the energy transition. It oversaw SGN's advocacy strategy, including developing the Group's advocacy plan and strengthening relationships with key decision-makers. A major biomethane developer engagement event in January 2026, attended by over 100 participants, featured a keynote by a Member of Parliament. We maintained oversight of environmental performance and the development of the Group's Climate Transition Plan (aligned with the transition plan taskforce and outlining our long-term pathway to net zero, with EY appointed to provide independent challenge). Further, we also noted the completion of 1,000km of Advanced Leakage Detection trials and oversaw ESG reporting and the Independent Stakeholder Group.

Looking forward

Key priorities for 2026/27 include overseeing delivery of the RIIO-GD3 advocacy strategy, strengthening engagement with key stakeholders and regulators, and supporting the development and implementation of the Climate Transition Plan.

This report was approved by the Strategy, Stakeholder and Environment Committee and signed on its behalf by Jeffrey Rosenthal, Committee Chair.

Nomination Committee

"The Committee met during the year to oversee Board composition and the effectiveness of SGN's governance arrangements. The decisions taken reflect a continued focus on maintaining a balanced, independent and effective Board."

Rebecca Lumlock Nomination Committee Chair/SGN Chair

What the Committee has done this year

The Committee maintained oversight of Board composition, managing changes in an orderly manner. Paul Jeffery's departure after more than nine years was noted with gratitude. Joanna Whittington was reappointed as an SID for a further three-year term to 30 July 2028, following confirmation of her independence across the criteria set by Ofgem. Chris Murray was ratified as a new SID for an initial term to 30 July 2028. The Committee oversaw leadership changes, including the transition of the Audit Committee Chair and appointment of an interim RemCo Chair. SGN's recognition in the 2025 POWERful Women State of the Nation report was noted.

Looking forward

Key priorities for 2026/27 include maintaining an appropriate balance of skills, experience and independence across the Board, supporting diversity and inclusion objectives, and contributing to the planned Board effectiveness review.

This report was approved by the Nomination Committee and signed on its behalf by Rebecca Lumlock, Committee Chair.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare Group and parent financial statements for each financial year. Under that law they are required to prepare the Group and parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy. Each of the Directors, whose names and functions are listed on pages 68 and 69, confirm that, to the best of their knowledge:

- the Group and Company Financial Statements, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Company; and
- the Directors' report contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

So far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

Signed on behalf of the Board of Directors of Scotia Gas Networks Limited:

Rebecca Lumlock
Chair

22 July 2026

Directors' report

The Directors present their report and the audited consolidated financial statements for the year ended 31 March 2026.

The financial statements consolidate the financial statements of the Company and its subsidiary undertakings (together the 'Group'). This report must be read in conjunction with the Strategic Report found on pages 1 to 61.

Principal activities

The Company is a holding company which does not trade. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 1 to the financial statements. The Group's principal activity is the development, administration, maintenance and safe operation of the Gas Distribution Networks in Scotland, southern England and Northern Ireland and the supply of associated transportation, connection and metering services. It will continue these activities for the foreseeable future.

Directors

The Directors of the Company who served during the year ended 31 March 2026 and up to the date of signing can be found on page 67.

Directors' insurance and indemnities

The Directors of the Company have the benefit of the indemnity provisions in the Company's Articles of Association. The Directors have been granted a qualifying third-party indemnity provision which was in force throughout the year. In addition, the Company has purchased and maintained throughout the year Directors' and officers' liability insurance in respect of itself, the Group, the Directors and other senior Executives of the Group.

Principal risks

The review of business for the year, including an analysis using key performance indicators and an indication of likely future developments in the business, together with a description of the principal risks and uncertainties facing the Group are set out in the Strategic Report on pages 1 to 60.

Employee engagement

The Group places considerable value on the involvement of its employees. It has continued to keep them informed on matters affecting them and on the various factors affecting the Group. Participation by employees generally is encouraged through team meetings, briefings, a digital app and an intranet site. The CEO and other senior Executives regularly communicate with employees through these channels and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

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

Stakeholder engagement

Details of how the Directors have engaged with stakeholders can be found in the section 172 (1) statement on pages 44 and 45.

Corporate responsibility

Corporate responsibility continues to remain an integral part of the Group's business. The Group's approach, priorities and objectives in the corporate responsibility arena, specific to the environment and communities in which we work, are published, communicated and embedded within the business as part of the Group's overarching Strategic Pillars and ESG reporting. Further detail is set out in the Strategic Report on pages 1 to 60.

Research and development

The Group is dedicated to innovation of methods and techniques, focusing on areas such as enhanced safety delivery, the development and integration of new materials and working techniques, energy efficiency and information modelling. Further detail on innovation is set out in the Strategic Report on pages 1 to 60.

Political contributions

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

Results and dividends

The consolidated profit and loss account is set out on page 85. The Group paid dividends of £1.2m in September 2025 and a further £74m in March 2026.

Financial risk management

The Group's funding, liquidity and exposure to interest rates, foreign exchange and credit risks are managed within a framework of policies and guidelines which are authorised by the Board of Directors. Further detail on financial risk management is set out in the Strategic Report on page 40.

Interest rate risk and inflation rate risk

The Group has interest bearing liabilities and as a matter of policy, a minimum of 70% of debt, excluding shareholder loans, is maintained at either fixed or inflation-linked rates of interest. The Group uses interest rate swaps and inflation-linked swaps, where necessary, in order to achieve the desired profile.

Liquidity risk

The Group maintains a mixture of long-term funding, short-term liquid funds and committed facilities, in order to ensure there are sufficient funds available for the Group's current and planned operations.

Foreign exchange risk

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

Credit risk

The Company transacts with banks for the provision of interest rate and inflation rate hedging transactions. The Company takes reasonable steps to maintain a minimum credit rating requirement as set out in its hedging policy. In respect of short-term cash management, counterparties are subject to review and approval according to defined criteria. Trade receivables predominantly relate to transportation income from gas shippers. Credit risk arising from the Group's regulated business is managed in accordance with industry standards as set out by the Unified Network Code.

Pricing risk

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

Going concern

The Group's financial position, cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future performance and the Group's principal risks and uncertainties are set out in the Strategic Report on pages 40 to 43. The Group's financial risk management objectives and risk exposures are set out above.

As stated in the Strategic Report, the Group operates the regulated gas distribution networks in the south of England, Scotland and Northern Ireland. The revenue of the Group is regulated by Ofgem (for the south of England and Scotland) and UREGNI (for Northern Ireland) through established price control mechanisms based on the distribution network capacity. The Group has considerable financial resources together with committed financing facilities as discussed in note 21 of the financial statements, to finance the current and future operations.

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

These forecasts show the Group would be able to operate within its available committed liquidity (cash and bank facilities).

As a consequence, the Directors believe the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and for a period of at least 12 months following the approval of the Annual Report and Accounts (i.e. until 31 July 2027). Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Disclosure of information to Auditors

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

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

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

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

By Order of the Board.

Fungai Makoni
Company Secretary

22 July 2026

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

Opinion

In our opinion:

- Scotia Gas Networks Limited's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2026 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Scotia Gas Networks Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 March 2026 which comprise:

Group
Consolidated balance sheet as at 31 March 2026
Consolidated profit and loss account for the year then ended
Consolidated statement of comprehensive income for the year then ended
Consolidated statement of changes in equity for the year then ended
Consolidated cash flow statement for the year then ended
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies

Parent company
Balance sheet as at 31 March 2026
Statement of changes in equity for the year then ended
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- Understanding and walking through management's process for and controls relating to assessing going concern, including discussing with management to ensure all key factors were taken into account;
- Obtaining management's going concern model and performing mechanical integrity testing thereon. This is for the period to 31 July 2027, and includes details of facilities available, covenant calculations, and the results of management's sensitivity analysis;
- Comparing both the maturity profile of the debt and the covenants that are required to be met within the going concern period to the debt agreements;
- Challenging key assumptions within the forecasts with reference to the RIIO-GD3 regulatory regime;
- Challenging management's forecasts with reference to the audited results for the year ended 31 March 2026;
- Evaluating how these forecasts have been revised to reflect any impact of climate change;
- Evaluating management's historical forecasting accuracy by comparing budgets to actual results;
- Assessing the consistency of the going concern assessment with information obtained from other areas of the audit;
- Performing reverse stress testing on the going concern model by understanding what reduction in EBITDA would be required before liquidity is exhausted and considering the likelihood of the events required to breach the covenants;
- Evaluating the Group's ability to undertake mitigating actions in the base case and severe but plausible downside scenarios and considering whether those actions are within the Group's control and the timing of when they could be implemented; and
- Reviewing the going concern disclosures in the Annual Report and Accounts to determine whether they are in accordance with the relevant reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of 12 months (to 31 July 2027) from when the financial statements are authorised for issue.

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

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of 3 components and audit procedures on specific balances for a further 4 components. In addition, we performed specific audit procedures on specific balances for a further 6 components.
Key audit matters	• Valuation of the defined benefit obligation.
Materiality	• Overall Group materiality of £15.4m which represents 2.5% of the Group's adjusted EBITDA. • EBITDA is adjusted to exclude the year-on-year movement in the H100 onerous contract provision. This is a charge in the Consolidated Profit and Loss Account and has been disclosed as an exceptional item.

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

Tailoring the scope

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

We identified 3 components as individually relevant to the Group due to materiality or financial size of the component relative to the Group, or a significant risk or an area of higher assessed risk of material misstatement of the Group financial statements being associated with the components. We identified a further 7 components as individually relevant to the Group due to relevant events and conditions underlying the identified risks of material misstatement of the Group financial statements being associated with the components or a pervasive risk of material misstatement of the Group financial statements.

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

We then considered whether the remaining Group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the Group financial statements. We selected 3 components of the Group to include in our audit scope to address these risks.

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

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

Of the 13 components selected, we designed and performed audit procedures on the entire financial information of 3 components ('full scope components'). For 4 components, we designed and performed audit procedures on specific significant financial statement account balances or disclosures of the financial information of the component ('specific scope components'). For the remaining 6 components, we performed specified audit procedures to obtain evidence for one or more relevant assertions.

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

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

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on their operations will be from the impact of the shift towards a decarbonised energy system on the future of the gas networks and managing changes as we move to a zero-carbon economy. These are explained on page 53 in the Task Force On Climate Related Financial Disclosures. All of these disclosures form part of the 'Other information', rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on 'Other information'.

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

The Group has explained in the 'critical accounting judgements and key sources of estimation uncertainty' section on page 98 of the financial statements how climate change has been reflected in the financial statements. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset valuations under the requirements of United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice). In note 15 to the financial statements supplementary sensitivity disclosures of the impact of the useful economic life of the Group's network assets as a result of the UK Government's 2050 net zero target have been provided.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, and ensuring that the effects of material climate risks have been appropriately reflected by management in reaching their judgements in relation to the useful economic life of the networks and the impairment of fixed assets, and in the associated sensitivity disclosures. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

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

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

Key audit matters

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

Risk	Our response to the risk
Valuation of the defined benefit obligation (£523.5m, PY comparative £550.1m) *Refer to the Audit Committee Report (page 9); Accounting policies (page 94); and Note 29 of the Consolidated Financial Statements (page 124)* The Group operates a defined benefit pension scheme, whereby estimates and judgements are made in valuing the Group's pension obligation. Due to the quantum of the underlying balance, relatively small changes in key assumptions could have a significant effect on the carrying value of the Group's pension liability. Key assumptions include the scheme duration, discount rate, RPI and CPI inflation rates, pension increases and the mortality rate. There is a risk that if one (or several assumptions in aggregate) are outside of an acceptable range, the defined benefit obligation would be incorrectly valued, which would have a significant impact on the Group's financial position.	We performed the following audit procedures: • Performed walkthroughs of the pension process to verify our understanding and identify the key controls in place around the valuation assumptions; • Assessed the independence, objectivity and competence of the external actuarial specialist; • With support from our pension actuarial specialists, independently benchmarked the key assumptions used in valuing the defined benefit obligation against an EY range derived from market data, to determine whether the assumptions were within an appropriate range. This included the discount rate, RPI and CPI inflation rates, pension increases and the mortality rate; • 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 the scheme Trustees, to confirm the completeness of accounting for any pension scheme transactions that have occurred in FY 2026; and • Assessed the compliance of the related disclosures under FRS 102, including the disclosure around the potential impact of the Virgin Media Limited v NTL Pension Trustees II Limited High Court ruling in June 2023 which was upheld in Court in July 2024 on the Group's pension scheme.

Key observations communicated to the Audit Committee

Based on the audit procedures performed, we consider the valuation of the Group's defined benefit obligation for the year ended 31 March 2026 to be appropriate.

The assumptions used in valuing the obligation were within acceptable EY ranges.

We consider the disclosures to be appropriate and in accordance with FRS 102.

How we scoped our audit to respond to the risk

We performed audit procedures over this risk in 2 full scope components, which covered 100% of the risk amount.

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

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

Our application of materiality

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

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £15.4m (2025: £14.1m), which is 2.5% (2025: 2.5%) of adjusted EBITDA so as to exclude the year-on-year movement in the H100 onerous contract provision that has been charged in the Consolidated Profit and Loss Account and has been disclosed as an exceptional item. We believe that adjusted EBITDA provides us with the most relevant performance measure to the stakeholders of the entity and therefore have used this as the basis for determining materiality.

We determined materiality for the Parent Company to be £15.8m (2025: £15.5m), which is 0.8% (2025: 0.8%) of total assets. However, since the Company is a full scope component, for accounts that were relevant for the Group's financial statements, a performance materiality of £2.3m (2025: £2.1m) was applied.

Starting basis	• EBITDA of £608.8m
Adjustments	• Add back charge relating to the year-on-year movement in the H100 onerous contract provision of £8.5m
Materiality	• Adjusted EBITDA of £617.3m • Materiality of £15.4m (2.5% of materiality basis)

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

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2025: 75%) of our planning materiality, namely £11.6m (2025: £10.6m). We have set performance materiality at this percentage following a quantitative and qualitative assessment of prior year misstatements and our assessment of the Group's overall control environment.

Audit work was undertaken across our components for the purpose of responding to the assessed risks of material misstatement of the Group financial statements. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £2.3m to £9.3m (2025: £2.1m to £8.3m).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.8m (2025: £0.7m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report and Accounts set out on pages 1 to 77, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report and Accounts.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 75, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Report of the Independent Auditor

to the members of Scotia Gas Networks Limited

which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those that relate to the reporting framework (FRS 102 and the Companies Act 2006) and the local tax legislation. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being laws and regulations relating to health and safety, environmental protection and employee matters, notably pensions. In addition, the Group operates in a regulated market; it is subject to regulations from the national regulatory authorities in Great Britain and Northern Ireland.
- We understood how the Group is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and correspondence received from regulatory bodies, and noted that there was no contradictory evidence to the responses provided to our enquiries.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was susceptibility to fraud. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing journal entries that met our defined risk criteria based on our understanding of the business, testing a sample of journals which included manual postings to revenue, and challenging the assumptions and judgements made by management in areas where judgement is required including those referred to in the key audit matters section above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved understanding management's internal controls over compliance with laws and regulations; enquiry of internal legal counsel, external legal counsel, Group management and internal audit; reviewing written legal advice provided by external legal counsel; and reviewing internal audit reports and whistleblowing logs.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

22 July 2026

Consolidated profit and loss account

for the year ended 31 March 2026

	Notes	**2026 £m**	2025 £m
Turnover	3, 4	**1,373.4**	1,267.6
Net operating costs(1)	4	**(1,007.6)**	(950.5)
Operating profit	4	**365.8**	317.1
Interest receivable and similar income	8	**27.6**	42.4
Interest payable and similar expenses	9	**(299.7)**	(256.3)
Fair value movements on derivatives	10	**(33.4)**	(7.1)
Share of profit/(loss) of investments in JV entities	16	**0.6**	(0.8)
Profit before tax	5	**60.9**	95.3
Tax charge	11	**(26.2)**	(35.9)
Profit for the year	26	**34.7**	59.4

(1) Included within operating costs are exceptional items to the sum of £19.4m (2025: £43.7m), see note 6 for more details.

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

The accompanying notes form part of these financial statements.

Consolidated statement of comprehensive income

for the year ended 31 March 2026

	Notes	2026 £m	2025 £m
Profit for the financial year	26	**34.7**	59.4
Cash flow hedges:			
– Profit arising on cash flow hedges	26	**8.0**	12.8
Remeasurement on net pension asset	26, 29	**10.4**	(14.1)
Deferred tax movement relating to components of other comprehensive income:			
– Cash flow hedges	26	**(2.0)**	(3.2)
– Pension asset	26	**(2.6)**	3.5
Other comprehensive income/(loss) for the year		**13.8**	(1.0)
Total comprehensive income		**48.5**	58.4

The accompanying notes form part of these financial statements.

Balance sheets

as at 31 March 2026

	Notes	Group 2026 £m	Group 2025 £m	Company 2026 £m	Company 2025 £m
Fixed assets					
Intangible assets	14	**345.1**	336.0	**–**	–
Tangible assets	15	**8,311.3**	7,868.9	**–**	–
Investments	16	**12.3**	13.9	**2,028.5**	2,030.7
Non-current financial assets	19	**21.4**	6.9	**–**	–
		8,690.1	8,225.7	**2,028.5**	2,030.7
Current assets					
Inventories	17	**29.3**	29.9	**–**	–
Debtors	18	**199.3**	166.0	**32.5**	31.5
Short term deposits		**272.4**	383.2	**–**	–
Cash at bank and in hand		**15.5**	30.2	**6.1**	–
		516.5	609.3	**38.6**	31.5
Creditors: amounts falling due within one year	20	**(612.4)**	(827.3)	**(0.1)**	(14.9)
Net current (liabilities)/assets		**(95.9)**	(218.0)	**38.5**	16.6
Total assets less current liabilities		**8,594.2**	8,007.7	**2,067.0**	2,047.3
Creditors: amounts falling due after more than one year	21	**(6,149.1)**	(5,544.1)	**(412.9)**	(387.6)
Provisions for liabilities	23	**(1,156.9)**	(1,141.4)	**–**	–
Deferred income	24	**(511.9)**	(499.7)	**–**	–
Net assets excluding pension asset		**776.3**	822.5	**1,654.1**	1,659.7
Defined benefit pension asset	29	**199.9**	180.4	**–**	–
Net assets including pension asset		**976.2**	1,002.9	**1,654.1**	1,659.7
Capital and reserves					
Called up share capital	25	**200.0**	200.0	**200.0**	200.0
Hedging reserve		**(9.0)**	(15.0)	**–**	–
Profit and loss account		**785.2**	817.9	**1,454.1**	1,459.7
Shareholders' funds	26	**976.2**	1,002.9	**1,654.1**	1,659.7

The accompanying notes form part of these financial statements.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 from presenting the parent company profit and loss account. The Company's profit for the year amounted to £69.6m (2025: loss of £28.8m).

The financial statements of Scotia Gas Networks Limited, registered number 04958135, were approved by the Board of Directors and authorised for issue on 22 July 2026.

Signed on behalf of the Board of Directors

Rebecca Lumlock
Chair

Consolidated statement of changes in equity

for the year ended 31 March 2026

	Notes	Called up share capital £m	Hedge reserve £m	Profit and loss account £m	**Total £m**
Group:					
At 1 April 2024		200.0	(24.6)	769.1	**944.5**
Profit for the financial year		–	–	59.4	**59.4**
Cash flow hedges		–	12.8	–	**12.8**
Remeasurement of net defined benefit pension asset		–	–	(14.1)	**(14.1)**
Deferred tax movements relating to items of other comprehensive income:					
– Cash flow hedges		–	(3.2)	–	**(3.2)**
– Pension asset		–	–	3.5	**3.5**
Total comprehensive income		–	9.6	48.8	**58.4**
Transactions with owners, recognised directly in equity					
Dividends paid	13	–	–	–	**–**
At 31 March 2025		200.0	(15.0)	817.9	**1,002.9**
Profit for the financial year		–	–	34.7	**34.7**
Cash flow hedges	26	–	8.0	–	**8.0**
Remeasurement of net defined benefit pension asset	26, 29	–	–	10.4	**10.4**
Deferred tax movements relating to items of other comprehensive income:	26				
– Cash flow hedges		–	(2.0)	–	**(2.0)**
– Pension asset		–	–	(2.6)	**(2.6)**
Total comprehensive income		–	6.0	42.5	**48.5**
Transactions with owners, recognised directly in equity					
Dividends paid	13	–	–	(75.2)	**(75.2)**
At 31 March 2026		200.0	(9.0)	785.2	**976.2**

The accompanying notes form part of these financial statements.

Company statement of changes in equity

for the year ended 31 March 2026

	Notes	Called up share capital £m	Profit and loss account £m	**Total £m**
Company:				
At 1 April 2024		200.0	1,488.5	**1,688.5**
Loss for the financial year	12	–	(28.8)	**(28.8)**
Total comprehensive loss		–	(28.8)	**(28.8)**
Transactions with owners, recognised directly in equity				
Dividends paid	13	–	–	**–**
At 31 March 2025		200.0	1,459.7	**1,659.7**
Profit for the financial year	12	–	69.6	**69.6**
Total comprehensive income		–	69.6	**69.6**
Transactions with owners, recognised directly in equity				
Dividends paid	13	–	(75.2)	**(75.2)**
At 31 March 2026		200.0	1,454.1	**1,654.1**

The accompanying notes form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 March 2026

	Notes	2026 £m	2025 £m
Cash flows from operating activities			
Operating profit	4	**365.8**	317.1
Depreciation and software amortisation	14, 15	**233.5**	221.2
Goodwill amortisation	14	**9.5**	9.6
Amortisation of deferred income	24	**(11.9)**	(12.2)
Loss on disposal of fixed assets		**1.8**	1.5
(Increase)/decrease in inventories	17	**(0.8)**	9.4
(Increase)/decrease in debtors	18	**(20.4)**	31.5
Increase/(decrease) in creditors and employee benefits	20, 21, 29	**4.2**	(28.4)
Increase/(decrease) in provisions	23	**4.4**	(8.0)
Cash generated by operations		**586.1**	541.7
Interest paid		**(199.8)**	(166.5)
Tax paid		**(31.8)**	(24.7)
Net cash inflow from operating activities		**354.5**	350.5
Cash flows from investing activities			
Interest received		**20.6**	21.8
Purchase of fixed assets		**(660.8)**	(598.8)
Purchase of intangible fixed assets	14	**(39.5)**	(20.9)
Sale of tangible fixed assets		**3.3**	2.8
Customer contributions received		**24.0**	21.6
Fixed asset investment disposal		**2.7**	–
Investment in short term deposits		**(25.0)**	–
Net cash outflow from investing activities		**(674.7)**	(573.5)
Cash flows from financing activities			
Shareholder loan interest paid		**(20.5)**	–
Issue of debt		**744.1**	963.3
Dividend paid	13	**(75.2)**	–
Repayment of debt		**(462.2)**	(446.9)
Payments of interest rate swaps		**(2.6)**	(0.8)
Payments of cross currency swaps		**(39.9)**	(11.7)
Receipts from inflation-linked swaps		**23.1**	22.4
Receipts from cross currency swaps		**2.8**	3.0
Receipts from interest rate swaps		**0.1**	0.1
Net cash inflow from financing activities		**169.7**	529.4
Net (decrease)/increase in cash and cash equivalents		**(150.5)**	306.4
Cash and cash equivalents at beginning of the year		**413.4**	107.0
Cash and cash equivalents at the end of the year[1, 2]		**262.9**	413.4

(1) Cash and cash equivalents of £262.9 includes £8.2m of cash which has specific restrictions over its use (2025: £28.4m of £413.4m). See note 1 for further details.
(2) Short term deposits as at 31 March 2026 include £25m (2025: £nil) of 6-month deposits, which do not meet the criteria of 'cash and cash equivalents'.

The accompanying notes form part of these financial statements.

Notes to the financial statements

for the year ended 31 March 2026

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

The financial statements of the Group present the results for the year ended 31 March 2026. The comparative period presented is the year ended 31 March 2025.

A summary of the more significant Group accounting policies, which have been applied consistently in both years is as follows.

General information and basis of preparation
Scotia Gas Networks Limited is a private company limited by shares and is incorporated in England and Wales under the Companies Act 2006. The address of the registered office is St. Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ, United Kingdom. The registered number is 04958135. The Company and its subsidiary undertakings together form the 'Group' for which consolidated financial statements are drawn up. The Group's principal activity is the development, administration, maintenance and operation of the Southern and Scotland gas distribution networks, the supply of gas transportation services and other gas related services.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102) issued by the Financial Reporting Council. There were no material departures from that standard. Amounts are expressed in millions of pounds, except where noted otherwise.

The functional currency of Scotia Gas Networks Limited and its subsidiary undertakings is considered to be Pound Sterling because that is the currency of the primary economic environment in which the Company and its subsidiary undertakings operate. Amounts are expressed in millions of pounds, except where noted otherwise.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

Basis of consolidation
The financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 March each year. Subsidiaries are those entities controlled by the Group or the Company.

Subsidiaries acquired are consolidated in the financial statements of the Group from the date that control commences until the date control ceases, using the acquisition method of accounting.

Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements.

Going concern
As at 31 March 2026 the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

After reviewing the Group's forecasts and projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and for a period of 12 months following the approval of the Annual Report and Accounts (i.e. until 31 July 2027). A significant proportion of the Group's revenue is fixed by the regulatory charging methodology improving the predictability of cash flows and mitigating risks. The base case scenario assumes that there will be no subsequent debt issuance in the forecast period that has not been secured before the reporting date. In addition, the base case scenario includes £250m of debt due for repayment in March 2027. The Group's forecast and projections consider the impact of the RIIO-GD3 determination on the Group's future cash flows, cost of equity, cost of debt, allowed returns, and capital allocation.

Notes to the financial statements

for the year ended 31 March 2026

1. Principal accounting policies (continued)

The cost-of-living crisis has impacted the global economy and, in light of this, the Group has performed additional analysis of its going concern of the Group as a whole, including performing scenario testing and sensitivity analysis. Considerations are made by the Directors for severe but plausible downside scenarios. These downside scenarios include, most notably, a reduction in transportation revenue due to a decline in demand and an increase in operating costs as a result of supply chain pressures. In these downside scenarios, the business has sufficient headroom on its existing banking facilities to maintain sufficient liquidity in the short and long term, and to satisfy the lenders' covenants.

Additionally, management performed reverse stress testing to overstretch the Group's liquidity. These scenarios are considered remote due to the predictability of the Group's cash flows under the regulatory mechanism.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for the foreseeable future and for a period of 12 months following the approval of the Annual Report and Accounts (i.e. until 31 July 2027) and consequently have prepared the financial statements on a going concern basis.

The UK Government's commitment to reduce greenhouse gas emissions to net zero by 2050 has a profound impact on the future of our gas network. As outlined in the Overview and Strategic Report, the Group is dedicated to decarbonisation while ensuring the resilience and reliability of the network remains uncompromised. The Group is therefore allocating significant resources to ensure that the networks can be repurposed to transport greener gases, thereby extending the life of our networks to 2050 and beyond.

Intangible assets – goodwill
Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over its useful economic life, which is estimated to be 50 years. Impairment indicators for goodwill are assessed on an annual basis at each balance sheet date in line with FRS 102 requirements.

Intangible assets – software
Software assets are included at cost, net of depreciation and any provision for impairment. Amortisation is provided on a straight-line basis over a period of three to ten years, which is their estimated useful economic life. The Group's intangible assets have a remaining useful economic life ranging between one to five years.

Tangible fixed assets
Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. In accordance with Ofgem guidance for gas transportation licensees and as allowable under FRS 102, costs include an element of capitalised overheads which are, as far as reasonably practicable, allocated in accordance with the activities which lead to the generation of the assets. These costs are directly attributable to the associated assets. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings:	Up to 50 years
Leasehold land and buildings:	Over the shorter of lease term and 50 years
Plant and machinery:	
– Mains and services:	55 to 65 years
– Regulating equipment:	30 to 50 years
– Gas storage:	40 years
– Motor vehicles and office equipment:	3 to 10 years

Site remediation costs are depreciated over the life of the asset.

In line with the relevant accounting standards replacement expenditure is capitalised and the useful life is based on the range within mains and services above. Tangible fixed assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Major components are treated as separate assets where they have significantly different patterns of consumption of economic benefits and are depreciated separately over their useful lives.

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Interest receivable and Interest payable
Interest payable and similar expenses include interest payable on borrowings recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account.

Interest receivable and similar income includes interest receivable on funds invested and net foreign exchange gains.

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

Fixed asset investments
Fixed asset investments are stated at cost less a provision for any impairment in value. Costs of the investments include all costs directly related to the acquisition of the investments.

Other fixed asset investments are held at cost.

The Group recognises disposals when substantially all risks and rewards of ownership are transferred to the buyer. Disposal proceeds are measured at the fair value of consideration received or receivable. Transaction costs directly attributable to the disposal are deducted from the proceeds. The gain or loss on disposal is recognised in the profit or loss account.

Investments in joint ventures
The Group's joint ventures are accounted for using the equity method of accounting where the joint venture investments are carried at historical cost plus the Group's share of post-acquisition results, less any impairment in value. The Group recognises its share of the results of these equity-accounted operations after tax and interest in the income statement.

Construction contracts
Turnover and cost of sales attributable to construction contracts is recognised using a percentage of completion method based on cost incurred to date plus profit, where profit can be reliably measured.

Inventories
Inventories are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using a weighted average method. A provision is made for obsolete, slow-moving or defective items where appropriate.

Through the Group's property companies, there is land in the course of remediation, sale or development which is included within 'Work in progress' within inventories. It is measured at the lower of cost (inclusive of the associated provision for the expected future cost to demolish any gas holders and remediate land to a statutory level) and net realisable value.

Impairment of non-financial assets
Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Goodwill impairment
The recoverable amount of goodwill is the higher of the value in use or the fair value less cost to dispose. This is derived from measurement of the present value of the future cash flows of the business. Any impairment loss is allocated first to the goodwill, and then to other assets on a pro-rata basis. The Company considers there to be two separate cost generating units (CGUs) for the purpose of goodwill impairment: Southern Gas Networks plc and Scotland Gas Networks plc. Goodwill impairment is not reversed.

Other non-financial assets
Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs, the reversal is applied to the assets (other than goodwill) on a pro-rata basis.

Taxation
Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Notes to the financial statements

for the year ended 31 March 2026

1. Principal accounting policies (continued)

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

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

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

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Turnover

Turnover is stated net of value added tax and is attributable to the continuing activity of transportation of natural gas and the provision of related services. Turnover is recognised to the extent that there is a right to consideration and is recorded at the value of the consideration due.

Turnover also includes income from sales of surplus land through the Group's property companies. Turnover is recognised at the point of completion and is stated net of value added tax.

Turnover attributable to construction contracts is recognised using a percentage of completion method based on cost incurred to date plus profit, where profit can be reliably measured.

Fair value movements on derivatives

Fair value movements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it is not effective.

Employee benefits

Defined benefit pension scheme

The Group operates a Group-wide defined benefit pension plan. The Company is the entity legally responsible for the Group-wide defined benefit pension plan. The net defined benefit cost of the plan is charged to participating entities based on the proportionate number of members relating to each company. The contributions payable by the participating entities are determined on the same basis as the charging policy detailed above.

For defined benefit schemes the amounts charged to operating profit are administration charges for the year. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

When the calculation results in a net asset to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling. Any deduction made by the tax authorities in the event of a refund of a surplus would be regarded by the Group as an income tax.

Defined contribution pension scheme

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Borrowing costs capitalised

Borrowing costs which are directly attributable to the construction of qualifying tangible fixed assets are capitalised as part of the cost of those assets. Qualifying tangible fixed assets are considered to be those of significant size or complexity, which typically are under construction for in excess of one year and/or where project costs exceed a pre-determined threshold. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress.

Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Borrowing costs are not capitalised in respect of construction projects which do not meet the defined thresholds or relate to replacement expenditure.

Grants and contributions

1) Customer contributions

Customer contributions for connections to the network and for replacement expenditure diversions are treated as capital grants. They are accounted for as deferred income and released to profit and loss on a straight line basis over the estimated life of the related asset. The corresponding asset is capitalised within fixed assets and is depreciated over its useful economic life. Customer contributions which have been received by the end of the financial year, for which the corresponding asset has not yet been delivered, are treated as creditors due within one year.

2) Government grants

Government grants in respect of additions to fixed assets are treated as deferred income and released to turnover in the profit and loss account over the estimated life of the related assets.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are discounted where the impact of discounting the expected future cash flows is material. Change in estimates are recognised in profit or loss unless they are related to inventory, in which case such changes are recognised in inventory. No provision is required for the repair of gas pipes as these are replaced on an agreed basis with the Regulator.

Onerous contracts

A contract is considered onerous, where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. The unavoidable costs reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The Group recognises a provision for the present obligation under the onerous contract. If the Group has assets that are dedicated to the contract, these are reviewed for impairment.

Contingent liabilities

Through the ordinary course of operations, the Company is party to various litigation, claims and investigations. Where management consider the settlement of these to be possible or the amount of the obligation cannot be estimated reliably, the Group treats this as a contingent liability until such a time that it becomes probable that the Group will be required to make a payment or the obligation can be estimated reliably.

Contingent assets

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

Financial instruments

FRS 102 sections 11 and 12 give an accounting policy choice for financial instruments. The Group has chosen to apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments.

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

Notes to the financial statements

for the year ended 31 March 2026

1. Principal accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Short term deposits
Short term deposits comprise of cash deposits that are available with notice of more than 24 hours (one day). These relate to money market funds with an original maturity date of six months or less.

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

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of disposal in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy and information about the Group is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

De-recognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments
The Group uses derivative financial instruments for risk management purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Hedge accounting
Where the derivative is designated as a hedging instrument, on inception of the hedge relationship, the Group documents the relationships between the hedged item and the hedging instrument along with the risk management objectives and its strategy for undertaking various transactions. Furthermore, at inception of the hedge and on an ongoing basis the Group documents whether the hedging relationship is highly effective.

Changes in fair value of derivatives that are designated and are effective as hedges of future cash flows are recognised directly in equity within the hedge reserve. The ineffective portion of the hedge is recognised through the profit and loss account.

Hedge accounting is discontinued when the hedge instrument expires or is terminated. Financial assets and financial liabilities are offset where they are settled net as a matter of practice and there is legal right to offset.

Notes to the financial statements

for the year ended 31 March 2026

1. Principal accounting policies (continued)

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

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

New and amended standards and interpretations
Following the Periodic Review 2024, the Financial Reporting Council issued an update to the FRS 102 accounting standard in September 2024, which will introduce significant changes to revenue recognition and accounting for leases. The effective date for these amendments is accounting periods beginning on or after 1 January 2026 (i.e. the year ended 31 March 2027 for the Group). Management anticipates that these changes will have a material impact on the Group's accounting for customer contributions and leases. However, at the date of signing this report, the magnitude of the impact cannot be reasonably estimated, as the Group's assessment is still in progress and consultations with external technical advisors have not yet been concluded.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting judgements

a. Cost classification – The Group incur significant staff and contractor costs for fulfilling normal business activities. Management judgement is required to allocate costs between capital, replacement and operating expenditure depending on the nature of the work being performed. Capital and replacement expenditure as reported in the Strategic Report on page 38 are both recognised as additions to plant and equipment within tangible fixed assets. Operating expenditure is recognised within Net operating costs within the Profit and Loss account.

b. Impairment of goodwill – As set out in note 1 above, management has exercised judgement during the Group balance sheet review when identifying impairment indicators impacting the goodwill on the CGUs.

c. Exceptional items – The categorisation of certain items as exceptional follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. See note 6.

d. Customer contributions and interest paid – Cash inflows from customer contributions are presented as cash flows from investing activities in the Consolidated cash flow statement, as these are directly associated with capital investment in the Group's gas networks. Cash outflows from interest paid are presented in Net cash inflow from operating activities, as the loans these interest payments relate to are directly associated with funding the Group's operations.

e. Galpin's Road Investigation – Management judgement is required in assessing if the recognition criteria for a provision has been met in relation to the Galpin's Road incident as at 31 March 2026 (as described on page 123). Based on external legal advice, management has concluded that the investigation is not sufficiently progressed to reliably estimate the financial impact or timing of any future obligation. As such the case has been disclosed as a contingent liability (see note 28) until the point at which any economic transfer can be reliably estimated.

f. Other legal and regulatory cases – Consistent with the nature and size of the SGN Group's operations, the Group is, from time to time, subject to certain legal and regulatory claims. Judgement is exercised by management as to the probability of future cash outflows and the extent to which any outflows can be reliability estimated. Where a future cash flow is assessed as probable and can be reliably estimated, the Group records a provision at the balance sheet date. Where the recognition criteria for a provision is not yet met, the Group records a contingent liability.

g. Use of our networks beyond 2050 – Climate change poses a global challenge and we have a key role to play in mitigating its effects by reducing our carbon emissions, and assisting our customers in doing the same. Several elements of our financial statements are contingent on the future utilisation of our network.

The UK's aim to achieve net zero emissions by 2050 will reshape the use of fossil fuels, thereby affecting our network's operations. Uncertainties persist regarding key aspects of the UK's energy plans, with scenarios range from hydrogen integration via our existing network to gradual decarbonisation favouring a high electrification solution. We are actively evaluating how these scenarios would impact the lifespan of our assets, and are heavily investing in demonstrating hydrogen based solutions. Based on available information we conclude that our network will continue to transport gas (methane, hydrogen, biomethane or other alternatives) beyond 2050.

As mentioned in Point a. within Significant estimates below, the useful lives of assets are significantly impacted by our capability of using the network beyond 2050. See note 15 for sensitivity analysis on the life of our network.

Significant estimates

a. Useful lives of assets – The Group depreciates its assets over their useful economic lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The useful economic lives of assets can vary depending on a variety of factors, including technological innovation, 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 note 29 and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Group takes advice from independent actuaries on the appropriateness of these assumptions. Assumptions made in relation to the closure of the pension scheme for future accruals in the prior year are also set out in note 29.

c. Valuation of financial instruments – Where financial instruments are recognised at fair value there are uncertainties in forward yield curves used in discounted cash flow calculations.

d. Environmental and demolition provision – In assessing the degree of contamination at the various sites estimation is required where elements of the contamination are underground. Additional uncertainty exists for the costs to demolish the gas holders. In these cases, it is difficult to assess with any certainty the extent of the contamination and demolition required. The discount rate is also a source of estimation. See note 23.

e. Onerous contract provision – the Group recognises an onerous provision in respect of the obligation to complete the H100 Fife project to construct an end-to-end hydrogen system for approximately 300 homes in Scotland. The provision represents management's best estimates of the future expenditure necessary to settle the obligations net of contributions received and receivable from third parties.

3. Turnover

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

	2026 £m	2025 £m
Transportation of natural gas and the provision of related services	**1,351.0**	1,198.6
Gas asset services	**14.0**	17.3
H100 Fife construction contract	**5.5**	13.3
Property sales	**2.0**	37.0
Property rental	**0.9**	1.4
Total turnover	**1,373.4**	1,267.6

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.

Notes to the financial statements

for the year ended 31 March 2026

4. Operating profit and net operating costs

	2026 £m	2025 £m
Turnover	**1,373.4**	1,267.6
Cost of sales	**(33.6)**	(45.8)
Operational and administrative expenses	**(743.8)**	(688.8)
Depreciation	**(212.5)**	(201.0)
Amortisation	**(30.5)**	(29.8)
Loss on disposal of fixed assets	**(1.8)**	(1.5)
Other operating income	**14.6**	16.4
Total net operating costs	**(1,007.6)**	(950.5)
Operating profit	**365.8**	317.1

Other operating income relates to a claim settlement awarded to the Group, amortisation of customer contributions and Northern Ireland Sustainable Energy Programme credits.

5. Profit before taxation

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

	2026 £m	2025 £m
Auditor's remuneration	**1.0**	1.1
Amortisation of goodwill	**9.5**	9.6
Amortisation of intangible assets	**21.0**	20.2
Depreciation of tangible fixed assets	**212.5**	201.0
Amortisation of customer contributions	**(11.9)**	(12.2)
Reversal of impairment of tangible fixed assets	**–**	(0.5)
Loss on disposal of fixed assets	**1.8**	1.5
Rental under operating leases	**8.3**	6.0

Auditor's remuneration for the Group comprises:

- Audit of these financial statements £40,000 (2025: £38,000)
- Audit of financial statements of subsidiaries of the Company £799,900 (2025: £746,000)
- Audit-related assurance services £126,000 (2025: £120,000)
- Other assurance services £35,000 (2025: £151,800)

6. Exceptional items

	2026 £m	2025 £m
Exceptional items included within net operating costs:		
Onerous contract (1)	**8.5**	(0.4)
Restructuring costs (2)	**10.2**	11.0
Costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals (3)	**–**	28.1
Investigation support costs (4)	**0.7**	5.0
Included within taxation:		
Tax credit on onerous contract	**(0.9)**	(2.0)
Tax credit on impact of restructuring costs	**(2.6)**	(2.8)
Tax credit on costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals	**–**	(7.0)
Tax credit on investigation support costs	**(0.2)**	(1.3)
Total tax credit included within taxation	**(3.7)**	(13.1)

(1) During the year, the Group recognised £8.5m (2025: £0.4m) 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 utilisation of the provision coupled with a revision to the forecast total cost and stage of completion of the project.

(2) The Group is undergoing an operational transformation programme to improve business processes and safety by restructuring the business , which is expected to last until March 2029. During the year the Group recognised £1.3m of costs relating to redundancies (2025: £5.6m) and £8.9m in relation to the transformation programme (2025: £5.4m), bringing the cumulative restructuring costs to £24.1m since the beginning of the restructure in 2024. These activities are infrequent and are financially material over the course of the multi-year exercise.

(3) 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. For the year ended 31 March 2025, the scheme closure and pension credits resulted in a curtailment cost of £1.8m and a past service cost of £26.3m, totalling £28.1m. No comparable costs were recognised for the year ended 31 March 2026.

(4) During the year the Group incurred costs associated with supporting the investigation by Ofgem into potential breaches of competition law, totalling £0.7m (2025: £5.0m). These were considered exceptional costs in the previous financial year due to their material and one-off nature. Whilst they are no longer material in the current financial year, they remain exceptional costs for comparative purposes. This matter does not meet the FRS 102 definition of a contingent liability or a provision. This investigation concluded in the year ended 31 March 2026, with no breach found.

7. Employee information and Directors' emoluments

The Group had 4,851 full time equivalent employees as of 31 March 2026 (2025: 4,865). The average monthly number of full time equivalent employees during the year was 4,921 (2025: 4,726).

	2026	2025
Field based staff	**2,569**	2,604
Office and other administrative staff	**2,282**	2,261
Total	**4,851**	4,865

The Independent Directors received aggregate remuneration of £150,643 (2025: £176,235) for their services to the Group during the year, of which the highest paid Director's share was £64,357 (2025: £71,715). There are nine (2025: seven) Directors who did not receive any remuneration in respect of services to the Company. These Directors are employed by the Company's shareholders, do not specifically receive any remuneration in respect of the Company, and the time spent working as a Board member on SGN was deemed immaterial.

Notes to the financial statements

for the year ended 31 March 2026

7. Employee information and Directors' emoluments (continued)

Staff costs for the Group during the year are as follows:

	2026 £m	2025 £m
Staff costs		
Wages and salaries	**268.9**	255.1
Social security costs	**35.9**	28.2
Pension costs (see note 29)	**35.7**	63.0
Total	**340.5**	346.3

The Company had 3 employees as of 31 March 2026 (2025: 4).

The significant decrease in pension costs in the year is due to the closure of the defined benefit pension scheme to future benefit accruals in the previous financial year. For further details see note 6 and note 29.

8. Interest receivable and similar income

	2026 £m	2025 £m
Net defined benefit pension income (see note 29)	**10.2**	10.5
Other interest receivable	**17.4**	31.9
Total	**27.6**	42.4

Included within other interest receivable is interest receivable on temporary deposits of £16.3m (2025: £23.8m).

9. Interest payable and similar expenses

	2026 £m	2025 £m
Interest payable on fixed rate instruments	**208.6**	170.2
Interest payable on floating rate instruments	**5.2**	5.0
Interest payable on inflation-linked instruments	**29.5**	37.5
Interest payable on shareholder loan	**34.8**	32.1
Other interest payable	**21.6**	11.5
Total	**299.7**	256.3

Included within interest payable on inflation-linked instruments is £37.8m of accretion on RPI-linked debt instruments (2025: £41.2m).

Other interest payable includes facility fees and interest of £1.3m (2025: £1.6m), bond amortisations of £11.0m (2025: £7.8m), foreign exchange losses of £7.1m (2025: foreign exchange gains included in other interest receivable of £5.4m), unwinding of provisions of £1.6m (2025: £1.5m) and other interest payable of £0.6m (2025: £0.6m).

10. Fair value movements on derivatives

	2026 £m	2025 £m
Fair value movements on derivatives:		
Net losses on derivative financial instruments (1)	**33.4**	7.1
Included within taxation:		
Tax credit on derivative financial instruments	**(8.4)**	(1.8)

(1) Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the Consolidated profit and loss account. These exclude gains and losses for which hedge accounting has been effective, which has been recognised directly in the Consolidated statement of comprehensive income. Included within net losses on derivative financial instruments is £27.0m (2025: £24.0m) of accretion on CPI-linked swaps. There was £nil impact (2025: £nil) to the cash flow as a result of the fair value movements on financial derivatives.

11. Tax charge on profit

a) Analysis of the tax charge on profit

	2026 £m	2025 £m
Current tax		
UK corporation tax on profits for the year	**27.9**	30.7
Adjustment in respect of previous years	**(8.8)**	0.5
Total current tax charge	**19.1**	31.2
Deferred tax		
Origination and reversal of timing differences	**6.2**	–
Adjustments in respect of previous years	**0.9**	4.7
Total deferred tax charge	**7.1**	4.7
Total tax charge on profit	**26.2**	35.9

b) Factors affecting the total tax charge for the year

	2026 £m	2025 £m
Profit before tax	**60.9**	95.3
Profit multiplied by standard rate of corporation tax in the UK of 25% (2025: 25%)	**15.2**	23.8
Effects of:		
Expenses not deductible for tax purposes	**1.8**	1.3
Income not taxable in determining taxable profit	**–**	(2.9)
Goodwill amortisation	**2.1**	2.1
Depreciation of non qualifying assets	**0.9**	0.6
Current year deferred tax not recognised	**7.5**	5.8
Adjustment in respect of prior years	**(7.9)**	5.2
Transfer pricing adjustments	**6.6**	–
Total tax charge on profit	**26.2**	35.9

12. Profit of the Company for the financial year

The Company's profit for the year amounted to £69.6m (2025: loss of £28.8m). The Company's interest receivable and payable on loans to and from Group undertakings during the year ended 31 March 2026 amounted to £1.5m (2025: £1.6m) and £(0.3)m (2025: £(0.4)m) respectively. In accordance with the exemption available under section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

13. Dividends

	2026 £m	2025 £m
Equity shares		
Interim dividends paid of 16.0062p (2025: nil)	**75.2**	–

The Company paid dividends of £1.2m in September 2025 and a further £74.0m in March 2026. There were no dividends paid in the year ended 31 March 2025.

Notes to the financial statements

for the year ended 31 March 2026

14. Intangible fixed assets

Group	Goodwill £m	Software £m	Total £m
Cost			
At 1 April 2025	477.6	131.3	608.9
Additions	–	39.6	39.6
Disposals	–	(30.6)	(30.6)
At 31 March 2026	**477.6**	**140.3**	**617.9**
Amortisation			
At 1 April 2025	189.7	83.2	272.9
Charge for the year	9.5	21.0	30.5
Eliminated on disposal	–	(30.6)	(30.6)
At 31 March 2026	**199.2**	**73.6**	**272.8**
Net book value			
At 31 March 2026	**278.4**	**66.7**	**345.1**
At 31 March 2025	287.9	48.1	336.0

The goodwill, which arose on the acquisitions of Scotland Gas Networks plc and Southern Gas Networks plc on 1 June 2005, is being amortised on a straight-line basis over 50 years, with 29 years remaining. See note 15 for sensitivity analysis on the life of our network.

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

	2026 £m	2025 £m
Southern Gas Networks plc	**190.4**	196.9
Scotland Gas Networks plc	**88.0**	91.0
	278.4	287.9

The carrying value of goodwill was reviewed at the reporting date and assessed for any indicators of impairment. Where indicators of impairment are identified, a full impairment test of goodwill is required. As at 31 March 2026, 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 (2025: £nil).

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

There is no security held against the intangible fixed assets (2025: none).

During the year, the Group wrote off £30.6m (2025: £16.9m) of fully depreciated assets, with a nil net book value.

15. Tangible fixed assets

Group	Short leasehold properties £m	Freehold properties £m	Plant and machinery £m	Motor vehicles and office equipment £m	Total £m
Cost					
At 1 April 2025	0.7	164.9	10,070.3	155.0	10,390.9
Additions	–	18.4	610.1	32.1	660.6
Disposals	(0.1)	(0.1)	(24.4)	(9.6)	(34.2)
At 31 March 2026	**0.6**	**183.2**	**10,656.0**	**177.5**	**11,017.3**
Depreciation					
At 1 April 2025	0.3	68.0	2,343.6	110.1	2,522.0
Charge for the year	–	5.7	194.3	12.5	212.5
Disposals	–	–	(18.9)	(9.6)	(28.5)
At 31 March 2026	**0.3**	**73.7**	**2,519.0**	**113.0**	**2,706.0**
Net book value					
At 31 March 2026	**0.3**	**109.5**	**8,137.0**	**64.5**	**8,311.3**
At 31 March 2025	0.4	96.9	7,726.7	44.9	7,868.9

There is no security held against the fixed assets. Included within freehold properties is the Net book value of land of £23.6m (2025: £19.2m).

The Company had no tangible fixed assets in either year.

Sensitivity to changes in significant estimates

The useful life of the Group's network assets, included in tangible fixed assets above, are significantly impacted by the Group's capability of using its network beyond the UK Government's net zero target of 2050. The following sensitivity analysis indicates the financial impact a reduction in the life of our network assets would have on the Group's profit and loss and net assets.

	2026 reduction in profit and loss £m	2026 reduction in net assets £m
Additional depreciation charge if useful economic life of network assets end in 2050 in line with the UK Government's net zero target	**126.0**	**126.0**
Additional depreciation charge if useful economic life of network assets end in 2045	**206.1**	**206.1**
Additional depreciation charge if useful economic life of network assets end in 2040	**340.0**	**340.0**

Notes to the financial statements

for the year ended 31 March 2026

16. Fixed asset investments

	Group		Company	
Cost	**2026 £m**	2025 £m	**2026 £m**	2025 £m
Shares in Group undertakings				
At 1 April	**–**	–	**2,028.4**	2,028.4
Additions	**–**	–	**–**	20.0
Impairment charge (3)	**–**	–	**–**	(20.0)
At 31 March	**–**	–	**2,028.4**	2,028.4
Investments in joint ventures				
At 1 April	**11.5**	12.3	**–**	–
Additions	**–**	–	**–**	–
Share of profit/(loss) in joint venture	**0.6**	(0.8)	**–**	–
At 31 March	**12.1**	11.5	**–**	–
Other investments (1)				
At 1 April	**2.4**	2.4	**2.3**	2.3
Disposal (2)	**(2.2)**	–	**(2.2)**	–
At 31 March	**0.2**	2.4	**0.1**	2.3
Total investments	**12.3**	13.9	**2,028.5**	2,030.7

(1) Other investments are investments in companies over which the Group is not considered to have significant influence.
(2) During the year the Company sold its 10% stake in Fyld Limited. The £0.5m profit arising on this disposal has been recognised in 'Net operating costs' in the profit and loss account.
(3) During the previous financial year, the Company has provided a £20.0m capital injection to its subsidiary undertaking, SGN Futures Limited, to further finance the H100 Fife project. As at 31 March 2025, management identified impairment indicators in relation to its investment in SGN Futures Limited, and thus the recoverable amount of the investment was assessed and consequently the investment was impaired down to £nil. The impairment losses are included within 'Net operating costs' in the profit and loss account in the comparative period.

Subsidiary undertakings, joint ventures and other investments

The undertakings in which the Company's interest at the year-end is 20% or more as follows:

Name	Description of shares held	% of shareholding	Country of registration	Principal activities
Subsidiaries – directly held				
SGN PledgeCo Limited	2,517,000,001 ordinary shares of £0.01	100%	England & Wales	Holding company
SGN Place Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Connections Limited	1 ordinary share of £1	100%	England & Wales	Dormant
SGN Commercial Services Limited	1 ordinary share of £1	100%	England & Wales	Meter asset manager and supply of commercial services
SGN Smart Limited	1 ordinary share of £1	100%	England & Wales	Supply of managed services
SGN Lessona Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Futures Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Heat Networks Limited	1 ordinary share of £1	100%	England & Wales	Dormant
Subsidiaries – indirectly held				
Southern Gas Networks plc	160,174,771 ordinary shares of £1	100%	England & Wales	Development, administration, maintenance and operation of regional gas distribution system and supply of transportation services
Scotland Gas Networks plc	49,392,787 ordinary shares of £1	100%	Scotland	Development, administration, maintenance and operation of regional gas distribution system and supply of transportation services
SGN Contracting Limited	1 ordinary share of £1	100%	England & Wales	Dormant
SGN Evolve Network Limited	1 ordinary share of £1	100%	England & Wales	Development, administration, maintenance and operation of regional gas distribution system and supply of transportation services
SGN MidCo Ltd	2,815,000,001 ordinary shares of £1	100%	England & Wales	Holding company
SGN Property Holdings Limited	18,022,565 ordinary shares of £1	100%	England & Wales	Property development
SGN Property Services Limited	340,856 ordinary shares of £1	100%	England & Wales	Property development
SGN Belvedere Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Brighton Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Southampton Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Epsom Limited	373,414 ordinary shares of £1	100%	England & Wales	Property development
SGN Greenwich Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Motspur Park Limited	1,539,420 ordinary shares of £1	100%	England & Wales	Property development
SGN Old Kent Road Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Rotherhithe Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Rotherhithe Holdco Limited	1 ordinary share of £1	100%	England & Wales	Holding company
SGN Croydon Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Crayford Limited	1 ordinary share of £1	100%	England & Wales	Dormant
SGN Futures (H100) Limited	1 ordinary share of £1	100%	England & Wales	Property development
SGN Silvertown LLP	Equity	100%	England & Wales	Dormant
SGN Gas to Grid ProjectCo1 Limited	1 ordinary share of £1	100%	England & Wales	Development of biomethane gas-to-grid plants
Joint ventures				
Murphy Asset Services Limited	250 ordinary shares of £1	50%	England & Wales	Operation of utility distributions systems
SGN Mitheridge Limited	1 ordinary share of £1	50%	England & Wales	Property development
Tonbridge Riverside Regeneration Limited	1 ordinary share of £1	50%	England & Wales	Property development
Other fixed asset investments				
XoServe Limited	23,020 ordinary shares of £0.01	23.02%	England & Wales	Provision of transportation services on behalf of all the major gas network transportation companies

The registered address of Scotland Gas networks plc is Axis House, 5 Lonehead Drive, Newbridge, Edinburgh, EH28 8TC. The registered address of all other subsidiaries above is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ.

The Board of Directors have approved the winding up of SGN Croydon Limited, SGN Rotherhithe Limited, SGN Rotherhithe Holdco Limited, SGN Smart Limited, SGN Brighton Limited and SGN Silvertown LLP. These subsidiaries are therefore preparing accounts as at 31 March 2026 on an 'other than going concern' basis and are due to be liquidated.

Notes to the financial statements

for the year ended 31 March 2026

16. Fixed asset investments (continued)

The address of Murphy Asset Services Limited's registered office is Hiview House, Highgate Road, London, NW5 1TN. The joint venture's financial year end is 31 December. The aggregate amount of capital and reserves of the undertaking as at 31 March 2026 was £16.8m (2025: £18.2m). Its profit for the year then ended was £1.2m (2025: loss of £1.7m).

The address of SGN Mitheridge Limited's registered office is Langham Hall UK Services LLP, 8th Floor, 1 Fleet Place, London, EC4M 7RA. The aggregate amount of capital and reserves of the undertaking as at 31 March 2026 was £20.1m (2025: £15.7m). Its loss for the year then ended was £4.4m (2025: £3.9m).

Tonbridge Riverside Regeneration Limited is a joint venture, accounted for using the equity method of accounting. The registered address of Tonbridge Riverside Regeneration Limited is St Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ, United Kingdom. The aggregate amount of capital and reserves of the undertaking as at 31 March 2026 was £0.4m (2025: £0.3m). Its loss for the year then ended was £0.1m (2025: £0.1). Other fixed asset investments are held at cost.

The address of the registered office of XoServe Limited is Lansdowne Gate, 65 New Road, Solihull, B91 BDL. The XoServe Limited operating results for the year ended 31 March 2026 are not considered material to the Group's financial statements.

17. Inventories

	Group		Company	
	2026 £m	2025 £m	**2026 £m**	2025 £m
Work in progress	**15.1**	16.9	**–**	–
Materials and supplies	**14.2**	13.0	**–**	–
	29.3	29.9	**–**	–

Included within work in progress is £15.1m (2025: £16.9m) of land.

The amount of inventory recognised as an expense in the year amounted to £6.4m (2025: £20.1m). In the prior year £12.6m of the £20.1m expense related to two site sales. There were no transactions of similar magnitude in the current financial year.

18. Debtors

	Group		Company	
	2026 £m	2025 £m	**2026 £m**	2025 £m
Trade debtors	**118.3**	107.6	**–**	–
Prepayments and accrued income	**45.6**	44.4	**–**	–
Amounts owed by Group undertakings	**–**	–	**32.5**	31.5
Other debtors	**24.2**	14.0	**–**	–
Corporation tax	**11.2**	–	**–**	–
	199.3	166.0	**32.5**	31.5

Included in debtors are amounts falling due after more than one year of £11.4m (2025: £11.5m).

Amounts owed by Group undertakings for the Company include loans due to SGN Commercial Services Limited amounting to £4.6m (2025: £8.9m); due from SGN Place Limited amounting to £8.1m (2025: £7.7m); and due from SGN Lessona Limited amounting to £27.7m (2025: £25.8m).

The loan due to SGN Commercial Services Limited bears interest at the Bank of England Base Rate, all others charge interest at Bank of England Base Rate plus 1% per annum. All loans are repayable on demand.

Also included in the balance are trade balances due from the SGN Group subsidiaries of £1.3m (2025: £6.9m).

Other debtors include a loan due from Murphy Asset Services Limited of £6.9m (2025: £5.5m). Included in this amount is accrued interest of £0.7m (2025: £0.2m). The loan is repayable on demand and interest is charged at 8% per annum on the principal amount of the loan only.

Other debtors also includes £16.2m (2025: £7.1m) incurred so far in the building of two biomethane facilities. On completion they will be treated as finance leases, where the Group will be the Lessor. Thus, the facilities are not recognised as fixed assets in the accounts of the Group.

In addition, other debtors also includes £0.9m (2025: £1.4m) of cash deposit paid to the Gas Market Operator for Northern Ireland (GMO NI) in line with the requirements of the NI Network Gas Transmission Code.

19. Non-current financial assets

	Group		Company	
	2026 £m	2025 £m	**2026 £m**	2025 £m
Derivative financial instruments – interest rate swaps not in hedge relationships	**3.9**	2.3	**–**	–
Derivative financial instruments – cross-currency swaps in hedge relationships	**17.5**	4.6	**–**	–
	21.4	6.9	**–**	–

20. Creditors: amounts falling due within one year

	Group		Company	
	2026 £m	2025 £m	**2026 £m**	2025 £m
£150m 2.066% RPI-linked note due 2025[1]	**–**	306.5	**–**	–
£83.3m 2.013% RPI-linked note due 2025[1]	**–**	170.2	**–**	–
£250m 3.25% fixed rate note due 2027[1]	**249.8**	–	**–**	–
Trade creditors	**91.2**	82.7	**0.1**	2.1
Other taxation and social security	**13.2**	11.6	**–**	1.7
Other creditors	**19.1**	17.9	**–**	–
Accrued interest	**77.4**	68.5	**–**	11.1
Accruals	**128.4**	124.7	**–**	–
Deferred income	**33.3**	45.2	**–**	–
	612.4	827.3	**0.1**	14.9

(1) Listed on the London Stock Exchange.

The Group held the following committed bank facilities at 31 March 2026:

- £150.0m (2025: £150.0m) revolving credit facility at Scotland Gas Networks plc maturing in March 2029. This facility was undrawn at 31 March 2026 (2025: undrawn).
- £450.0m (2025: £450.0m) revolving credit facility at Southern Gas Networks plc maturing in March 2029. This facility was undrawn as at 31 March 2026 (2025: undrawn).
- £25.0m (2025: £25.0m) debt service reserve facility at SGN MidCo Ltd was renewed in the year and is maturing in January 2027. This facility was undrawn at 31 March 2026 and at 31 March 2025.

Notes to the financial statements

for the year ended 31 March 2026

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

	Group		Company	
Borrowings	**2026 £m**	2025 £m	**2026 £m**	2025 £m
Fixed rate debt				
£250m 3.25% fixed rate note due 2027[1]	**–**	249.5	**–**	–
£375m 4.875% fixed rate note due 2029[1]	**374.8**	374.7	**–**	–
£100m 2.90% fixed rate note due 2030	**99.2**	99.1	**–**	–
£75m 2.74% fixed rate note due 2030	**74.9**	74.9	**–**	–
£75m 2.74% fixed rate note due 2030	**74.9**	74.9	**–**	–
€500m 3.50% fixed rate note due 2030[1]	**433.5**	415.4	**–**	–
£250m 1.25% fixed rate note due 2031[1]	**248.7**	248.5	**–**	–
£200m 1.25% fixed rate note due 2031[1]	**155.0**	147.0	**–**	–
£75m 1.98% fixed rate note due 2032	**74.8**	74.8	**–**	–
£34m 6.220% fixed rate note due 2032	**33.9**	33.9	**–**	–
£50m 2.04% fixed rate note due 2033	**49.9**	49.9	**–**	–
£185m 3.02% fixed rate note due 2033	**183.6**	183.4	**–**	–
£75m 2.87% fixed rate note due 2033	**74.9**	74.9	**–**	–
£75m 2.87% fixed rate note due 2033	**74.9**	74.9	**–**	–
$66m 5.630% fixed rate note due 2033	**49.5**	51.0	**–**	–
£100m 2.27% fixed rate note due 2034	**99.7**	99.7	**–**	–
£225m 4.875% fixed rate note due 2034[1]	**224.8**	224.8	**–**	–
$101m 5.770% fixed rate note due 2034	**75.8**	78.1	**–**	–
£30m 6.310% fixed rate note due 2035	**29.9**	29.9	**–**	–
£50m 6.220% fixed rate note due 2035	**49.8**	49.8	**–**	–
$66m 5.730% fixed rate note due 2035	**49.5**	51.0	**–**	–
£300m 6.625% fixed rate note due 2035[1]	**298.9**	298.7	**–**	–
CHF 55m 1.910% fixed rate note due 2035	**51.9**	–	**–**	–
£400m 3.10% fixed rate note due 2036[1]	**398.5**	398.3	**–**	–
£60m 5.640% fixed rate note due 2036	**59.8**	59.8	**–**	–
$101m 5.870% fixed rate note due 2036	**75.8**	78.1	**–**	–
£100m 6.330% fixed rate note due 2036	**99.6**	–	**–**	–
£70m 6.340% fixed rate note due 2037	**69.9**	69.9	**–**	–
£15m 3.11% fixed rate note due 2038	**14.8**	14.8	**–**	–
£20m 6.120% fixed rate note due 2038	**19.9**	19.9	**–**	–
£50m 6.120% fixed rate note due 2038	**49.8**	49.8	**–**	–
£50m 6.120% fixed rate note due 2038	**49.8**	49.8	**–**	–
¥9,350m 2.650% fixed rate note due 2038	**44.3**	48.2	**–**	–
£25m 5.740% fixed rate note due 2039	**24.9**	24.9	**–**	–
£56m 5.740% fixed rate note due 2039	**55.8**	55.8	**–**	–
£350m 6.250% fixed rate note due 2039[1]	**347.1**	–	**–**	–
£225m 6.375% fixed rate note due 2040[1]	**224.3**	224.2	**–**	–
£25m 5.820% fixed rate note due 2044	**24.9**	24.9	**–**	–
£50m 5.820% fixed rate note due 2044	**49.8**	49.7	**–**	–
	4,491.8	4,226.9	**–**	–

	Group		Company	
Borrowings (continued)	**2026 £m**	2025 £m	**2026 £m**	2025 £m
Inflation-linked debt				
£15m 2.580% RPI-linked loan due 2028	**29.1**	27.7	**–**	–
£50m -0.8818% CPI-linked note due 2029	**60.7**	58.9	**–**	–
£50m -0.4465% CPI-linked note due 2032	**60.7**	58.9	**–**	–
£50m 2.960% RPI-linked note due 2032	**49.8**	–	**–**	–
£37.5m 0.11% RPI-linked note due 2033	**55.1**	53.0	**–**	–
£83.3m 2.013% RPI-linked note due 2035[1]	**178.3**	170.2	**–**	–
CHF 53m 1.900% RPI-linked note due 2035	**50.1**	–	**–**	–
£87.5m 0.28% RPI-linked note due 2038	**129.0**	123.7	**–**	–
£125m 2.317% RPI-linked note due 2039[1]	**237.8**	228.2	**–**	–
	850.6	720.6	**–**	–
Floating rate debt				
£70m floating rate term loan due 2030	**69.8**	–	**–**	–
£75m floating rate term loan due 2033	**74.6**	–	**–**	–
£80m floating rate note due 2043[1]	**79.8**	79.8	**–**	–
	224.2	79.8	**–**	–
Total external borrowings	**5,566.6**	5,027.3	**–**	–
Shareholders' loans[2] (see note 30)	**412.9**	387.6	**412.9**	387.6
Total borrowings	**5,979.5**	5,414.9	**412.9**	387.6
Derivative financial instruments				
Inflation-linked swaps (see note 22)	**129.9**	95.3	**–**	–
Interest rate swaps (see note 22)	**14.8**	16.9	**–**	–
Cross-currency swaps (see note 22)	**24.9**	17.0	**–**	–
Total creditors falling due after more than one year	**6,149.1**	5,544.1	**412.9**	387.6

The shareholder loans, which are subordinated, are redeemable at par on 9 April 2043 and carry a fixed interest rate of 8.6%. The Company may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to shareholders.

(1) Listed on the London Stock Exchange.
(2) £206.5m of the shareholder loan is listed on The International Stock Exchange (2025: £193.8m).

Maturity of borrowings

	Group	
	2026 £m	2025 £m
Due within one year	**249.8**	476.7
Between one and five years	**1,216.8**	809.8
After five years	**4,762.7**	4,605.1
	6,229.3	5,891.6

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

Scotland Gas Networks plc and Southern Gas Networks plc debt instruments are unsecured, while SGN MidCo Ltd's debt instruments are secured, and all are stated after the deduction of unamortised issue costs of £65.1m (2025: £71.5m). 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.

Notes to the financial statements

for the year ended 31 March 2026

21. 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 2026 is £282.4m (2025: £499.7m) and £21.4m (2025: £17.8m) respectively. The amount in relation to the CPI-linked swaps included in the carrying value of the debt at 31 March 2026 is £187.0m (2025: £161.5m).

22. Financial instruments and risk management

In the normal course of business, the Group is exposed to financial risks including, but not limited to, market, credit and liquidity risk. This note explains the Group's exposure to these risks, how they are measured and assessed, and summarises the policies and processes used to manage them.

The Group operates a centralised treasury function which is responsible for the management of financial risks of the Group as a whole and each of the regulated entities on a standalone basis. Financial risks comprise exposure to funding risk, liquidity risk, counterparty credit risk, interest rate risk, inflation risk, credit spread risk and foreign exchange risk. The treasury function does not operate as a profit centre, nor does it enter into speculative transactions.

The Group's treasury activities are overseen by the Finance Committee, which meets on a periodic basis throughout the financial year. The Finance Committee comprises four Directors (one from each of the Group's shareholders) plus one statutory independent Non-Executive Director. The Group's Director of Corporate Finance & Treasury reports on a regular basis to the Finance Committee.

The Board reviews and approves all major treasury decisions.

Liquidity risk
Liquidity risk represents the risk of having insufficient funds to meet its liabilities in any particular subsidiary as and when they fall due.

To manage this risk the Group has a policy of actively maintaining a mixture of medium-term and long-term debt alongside committed facilities and short-term cash investments to ensure that the Group has sufficient available funds to meet forecast requirements over the short term to medium term. As part of their regulatory licence Scotland Gas Networks plc and Southern Gas Networks plc are required to submit an annual certificate to their Regulator, which includes a confirmation of sufficiency of financial resources (liquidity looking forward 12 months).

To prevent over-reliance on individual sources of liquidity, funding is accessed across a range of instruments including: public bonds, bank loan facilities (including the RCF) and private placements.

The Group currently has external financing (including undrawn revolving credit facilities) outstanding across four of the Group's subsidiaries:

- Scotia Gas Networks Limited: £412.9m shareholder loans;
- SGN MidCo Ltd: £184.0m inflation-linked private placements; £397.2m fixed rate private placements; and £25.0m undrawn debt service reserve facility;
- Scotland Gas Networks plc: £474.6m fixed rate bonds; £79.8m floating rate bonds; £69.8m floating rate term loans; £237.8m inflation-linked bonds; £579.8m fixed rate private placements; £150.0m (undrawn) bank RCF; and £121.3m inflation-linked bank term loan facility; and
- Southern Gas Networks plc: £2,480.8m fixed rate bonds; £307.3m inflation-linked debt; £809.4m fixed rate private placements; £74.6m floating rate term loans; and £450.0m bank RCF (undrawn).

Group subsidiaries are also funded through a combination of share capital, retained earnings and loans with Group undertakings. Cash pooling structures are used to centralise surplus cash balances held by subsidiaries where possible to minimise external borrowings and interest costs. The treasury function seeks to minimise cash balances by conducting a detailed cash flow forecast process and timing funding issuance appropriately, however where surplus cash balances do arise these are invested in highly-rated bank deposits and money market funds.

As part of these processes the Group ensures that there is appropriate segregation between cash flows generated within the regulated businesses and those generated by other Group subsidiaries.

A summary of the Group's contractual maturity of its financial assets and liabilities are shown in the following tables. The amounts shown are gross cash inflows/(outflows) (including interest) with the exception of financial derivatives settled on a net basis where the amounts represent undiscounted net cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to relevant conditions existing at the reporting date.

2026

	0-6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	>5 years £m	Contractual cash flows £m	Interest/ discounting £m	Carrying value £m
Financial liabilities loans and borrowings								
Shareholder loans	(5.9)	(17.8)	(35.5)	(106.5)	(889.5)	(1,055.2)	642.3	(412.9)
Bank facility	–	–	–	–	–	–	–	–
Bonds	(111.5)	(336.3)	(190.6)	(1,322.9)	(5,293.8)	(7,255.1)	1,438.7	(5,816.4)
	(117.4)	(354.1)	(226.1)	(1,429.4)	(6,183.3)	(8,310.3)	2,081.0	(6,229.3)
Derivative financial liabilities								
Inflation-linked swaps	(11.2)	(13.1)	(24.5)	(5.9)	241.7	187.0	(316.9)	(129.9)
Interest rate swaps	0.9	0.6	1.1	3.6	14.9	21.1	(35.9)	(14.8)
Cross-currency swaps	23.5	23.6	47.1	560.2	536.4	1,190.8	(1,215.7)	(24.9)
	13.2	11.1	23.7	557.9	793.0	1,398.9	(1,568.5)	(169.6)
Other financial liabilities								
Trade creditors	(91.2)	–	–	–	–	(91.2)	–	(91.2)
Total financial liabilities	(195.4)	(343.0)	(202.4)	(871.5)	(5,390.3)	(7,002.6)	512.5	(6,490.1)

The Group expects to meet its obligations from cash balances, operating cash flows and refinancing.

The corresponding amounts for 2025 were as follows:

2025

	0-6 months £m	6-12 months £m	1-2 years £m	2-5 years £m	>5 years £m	Contractual cash flows £m	Interest/ discounting £m	Carrying value £m
Financial liabilities loans and borrowings								
Shareholder loans	(16.6)	(16.6)	(33.3)	(100.0)	(832.9)	(999.4)	611.8	(387.6)
Bank facility	–	–	–	–	–	–	–	–
Bonds	(79.4)	(564.4)	(409.3)	(943.3)	(4,815.9)	(6,812.3)	1,308.3	(5,504.0)
	(96.0)	(581.0)	(442.6)	(1,043.3)	(5,648.8)	(7,811.7)	1,920.1	(5,891.6)
Derivative financial liabilities								
Inflation-linked swaps	(10.4)	(12.3)	(22.8)	(70.2)	326.3	210.6	(305.9)	(95.3)
Interest rate swaps	0.8	0.7	1.4	4.5	18.9	26.3	(43.2)	(16.9)
Cross-currency swaps	9.6	9.6	30.1	134.2	853.0	1,036.5	(1,053.5)	(17.0)
	–	(2.0)	8.7	68.5	1,198.2	1,273.4	(1,402.6)	(129.2)
Other financial liabilities								
Trade creditors	(82.7)	–	–	–	–	(82.7)	–	(82.7)
Total financial liabilities	(178.7)	(583.0)	(433.9)	(974.8)	(4,450.6)	(6,621.0)	517.5	(6,103.5)

Credit risk
Credit risk represents the risk that a counterparty does not settle an obligation for full value when that amount becomes due.

The Group is primarily exposed to credit risk arising from the extension of credit to its customers, cash deposits, derivatives and amounts due from external financing counterparties arising on certain committed facilities and financial instruments.

Notes to the financial statements

for the year ended 31 March 2026

22. Financial instruments and risk management (continued)

The maximum exposure to credit risk is the carrying value of financial assets as follows:

	2026 £m	2025 £m
Net trade receivables	118.3	107.6
Accrued income	15.5	18.3
Other debtors	24.2	14.0
Short term deposits	272.4	383.2
Cash	15.5	30.2
Derivative financial instruments – interest rate swaps	3.9	2.3
Derivative financial instruments – cross-currency swaps	17.5	4.6
	467.3	560.2

Trade and other receivables:
Our principal debtor exposure is governed by the credit rules within the Uniform Network Code. This sets out the level of credit relative to the RAV for each credit rating. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed daily. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary.

Trade debtors predominantly relate to transportation income from gas shippers. Credit risk arising from the Group's regulated business is managed in accordance with industry standards as set out by the Unified Network Code. The Group contracts with shippers having investment grade ratings only, or where suitable collateral or cash prepayments are made. The Group currently holds £34.1m of security in respect of its trade counterparties (2025: £24.8m). These are included in trade creditors as at the year end.

Trade debtors from non-transportation income relates to consumers and businesses in relation to works for alterations, diversions, meters or damage repairs. In the year ending 31 March 2026 non-transportation debtors (£13.2m) (2025: (£16.3m)) were 11.2% (2025: 15.1%) of net trade debtors (£118.3m) (2025: (£107.6m)). An impairment allowance of £11.5m (2025: £11.0m) has been set aside according to the Group's impairment policy.

The largest transportation debtor is £25.8m (2025: £18.8m). There is no material credit exposure to any one customer.

The ageing of trade debtors net of impairment allowance is:

	2026 £m	2025 £m
Not past due	105.1	98.0
Past due 0-30 days	1.7	0.3
Past due 31-90 days	(1.5)	0.5
Past due over 90 days	13.0	8.8
	118.3	107.6

The maximum exposure to credit risk at the reporting date is the fair value of each class of debtors mentioned above.

At the end of each reporting year a review of the provision for bad and doubtful debts is performed taking into account the age, status and risk of recovery for each debtor.

Financial instruments:
The Group seeks to minimise its exposure to counterparties under financial instruments by agreeing individual exposure limits with the Finance Committee for financial instruments (based on instrument types and counterparty credit ratings) and by diversifying exposure across a range of counterparties. Counterparty credit ratings are monitored by the treasury function on a regular basis and ISDA agreements are in place with all counterparties to permit net settlement of assets and liabilities across certain financial instruments.

Counterparty credit risk arising from financial derivatives are managed through the maintenance of financial limits according to defined criteria, subject to a minimum credit rating of A-/A3 for new transactions and at credit ratings below this level counterparties are required to cash post collateral for mark to market positions owed to the regulated businesses within the Group. Investments of cash through deposits in the short term are also subject to review and approval according to defined criteria agreed by the Finance Committee and Board.

The Group conducted a review of counterparty credit risk and its own credit risk, and concluded that an adjustment was required to reflect the net credit risk in arriving at the fair value of financial instruments stated in the balance sheet. The net credit risk adjustment reduced liabilities by £21.9m (2025: £16.6m). The net credit risk adjustment related to inflation-linked swaps, interest rate swaps and cross-currency swaps. £20.8m (2025: £14.6m) was credited to the consolidated profit and loss account in the line 'Fair value movements on derivatives' as this relates to financial instruments held at fair value through profit and loss and £1.1m (2025: £2.0m) was credited to other comprehensive income as this relates to financial instruments designated as hedging instruments. The net credit risk adjustment was debited to 'Derivative financial liabilities' within 'Creditors: amounts falling due after more than one year' as presented in the consolidated balance sheet.

The net credit risk adjustment represents the risk of non-performance (or default) of either the counterparty or the Group in relation to financial instruments that require fair value measurements. These adjustments are respectively called Credit Value Adjustments (CVA) and Debit Value Adjustments (DVA).

The Mark to Market (MtM) value is calculated using a discounted cash flow method, which discounts the contracted future cash flows of derivatives using a risk-free rate (SONIA). The valuation is subsequently adjusted for the default risk of both the bank counterparty and the SGN entity respectively, by applying the CVA and DVA (together the 'net credit risk adjustment').

The CVA and DVA are calculated by running a Monte Carlo simulation based on the bilateral credit risk adjustment method. Quoted credit default swap (CDS) spreads are used to determine counterparty credit curves when calculating the CVA. Z-spreads of senior unsecured public bonds are used to construct a credit curve for the Group when calculating the DVA. The net credit risk adjustment is made up of a CVA of £3.4m (2025: £1.9m) and a DVA of £(25.3)m (2025: £(18.5)m). The magnitude of the DVA adjustment as at 31 March 2026 is mainly due to the asymmetric cash flow positions. SGN settles the inflation accretion to the counterparty at maturity on the swap, whereas the Group receive cash flows from the counterparty at every interest rate settlement date (every six months) through to maturity. The inflation linked swaps are long dated with tenors of between 10 to 15 years, exacerbating the impact of the asymmetric cash flow position.

Market risk

Market risk represents the risk of losses or other adverse effects resulting from adverse changes in market prices or from unfavourable market conditions.

The Group is primarily exposed to market risk on UK interest rate; UK inflation rates, credit spreads and foreign exchange in general.

Interest rate risk:
The Group's interest rate risk arises as a result of two primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses; and
- New and existing borrowings and financial instruments net of cash and cash equivalents, with the primary exposures arising from fluctuations in Sterling interest rates.

Certain of the Group's financing arrangements carry requirements to maintain exposure to fixed interest rates or inflation-linked above a certain level/within a range.

The Group manages its exposure to interest rate risk by targeting issuance in the most efficient markets available to achieve desired size and duration and using derivative financial instruments to manage the ultimate exposure to fixed/floating interest rates if required. In addition, the Group aims to maintain a smooth maturity profile across all debt instrument to ensure that there is no significant concentration of interest rate exposure when refinancing maturing debt.

Notes to the financial statements

for the year ended 31 March 2026

22. Financial instruments and risk management (continued)

The following table represents the annualised impact (net of deferred tax) of 100 basis point increase in short-term interest rates at the reporting date in relation to equity and profit and loss account. The analysis assumes that all other variables remain constant.

	2026 £m	2025 £m
Impact ((charge)/credit) on profit and loss account		
Floating rate instruments	**(2.3)**	(0.8)
Fixed to floating swaps	**(0.9)**	(0.9)
Floating to fixed swaps	**2.4**	0.9
	(0.8)	(0.8)
Impact on equity		
Floating to fixed swaps	**0.8**	0.8

Inflation risk:
The Group's inflation risk arises as a result of three primary sources:

- The mechanisms that the regulators have implemented to determine revenues for the Group's regulated businesses;
- Impact on controllable and non-controllable costs; and
- New and existing borrowings and financial instruments net of cash and cash equivalents, with the primary exposures arising from fluctuations in UK CPI and RPI.

Certain of the Group's financing arrangements carry requirements to maintain exposure to fixed interest rates or inflation-linked above a certain level/within a range.

The Group manages its exposure to inflation rate risk by targeting issuance in the most efficient markets available to achieve desired size and duration and using derivative financial instruments to manage the ultimate exposure to inflation if required.

Certain of the Group's inflation-linked borrowings and financial instruments, including interest liabilities are exposed to a risk of changes in the carrying value due to changes in the UK Retail Price Index (RPI) and UK Consumer Price Index (CPI). The movements in these forms of liability offer a correlation to the movements in the Group's regulatory asset value which in the RIIO-GD2 price control is linked to CPIH due to the pricing mechanism imposed by the Regulator. The turnover capacity charges are also linked to CPIH. There is currently limited capacity in capital and financial markets to provide borrowings or financial instruments that are linked to CPIH.

By matching liabilities and assets in this way, inflation-linked borrowings and financial instruments partially hedge the exposure to changes in inflation.

The following table shows the illustrative effect on the profit and loss account that would result from a 100 basis point increase in CPIH (affecting transportation income), CPI and RPI (impacting inflation-linked bonds and inflation-linked swaps) before the effects of tax.

	2026 £m	2025 £m
Impact (credit/(charge)) on profit and loss		
Inflation-linked bonds	**8.1**	12.0
Inflation-linked swaps	**9.1**	8.3
Transportation income	**(13.3)**	(11.8)
Total	**3.9**	8.5

Credit spread risk:
The Group's credit spread risk arises as a result of the capital structure that is maintained, currently with external committed debt and facilities totalling £6,693.6m (2025: £6,746.8m) (including undrawn bank facilities but excluding shareholder loans and gross of unamortised issue costs). Lenders and investors assess the credit quality of the borrowing entity and charge a spread above benchmark rates to determine the overall return they require (and as a result the interest rate that the borrowing entity pays). Credit spreads can be impacted by both the specific credit risk of the borrower and macro events as well as general investor appetite for debt investments.

The Group manages its exposure to credit spreads by maintaining access to a diversified range of debt markets so that there is less exposure to a single group of investors/lender. The Group also maintains credit ratings with Fitch, Moody's and Standard & Poor's (S&P), with regular meetings and dialogue to support their appraisal, which ensures that a clear independent indication of the Group's credit risk is available to investors. In addition, the Group aims to manage its maturity profile across all debt instrument to ensure that there is no significant concentration of credit spread exposure when refinancing maturing debt.

Foreign exchange risk – transaction:
The Group is exposed to movements in foreign exchange rates due to its commercial trading transactions, however the volume of foreign denominated payments and receivables is not considered material and no active hedging of foreign exchange transactions is undertaken.

Foreign exchange risk – translation:
The Group is required to match the currency of borrowings to the currency of its underlying investments. As the Group's assets are materially denominated in Sterling the Group and its subsidiaries seek to predominantly source Sterling debt. Debt is sourced from the most appropriate market or markets available at the time of raising new finance (including foreign currency markets) and appropriate derivative financial instruments transacted to manage the proceeds into the appropriate currency. In the year ended 31 March 2026, two Swiss Frank private placements were issued (CHF108m in total). These were all swapped into Sterling at issuance using cross currency swaps. In the previous financial year, the Group issued USD and JPY denominated private placement notes. The JPY denominated private placement note was issued in the US where the underlying exposure is USD. On this transaction the noteholder has transacted a derivative financial instrument to swap the USD exposure into JPY. All exposures are fully hedged back to Sterling at issuance using cross currency swaps. The Group also issued a EUR denominated bond from the EMTN programme, which has been fully hedged back to Sterling at issuance using cross-currency swaps. As a result, the Group does not have exposure to USD, EUR, CHF and JPY under the transactions.

Cash flow hedges
Cash flow hedges comprise a floating to fixed interest rate swap at Scotland Gas Networks plc, hedging future floating rate interest payments on a floating rate bond, and cross-currency swaps put in place at Southern Gas Networks plc and Scotland Gas Networks plc to fully hedge the principal and interest payments on certain USD, JPY and CHF denominated private placement notes and EUR bonds. The forecast cash flows are expected to affect profit or loss over the remaining terms of the hedged instruments, being between October 2030 and March 2043. Receipts and payments for the swaps and the underlying bonds are exactly matched and in accordance with IAS 39 any gain or loss that is deferred to equity is recognised in profit or loss over the period that the floating rate interest payments impact on profit.

Interest rate swaps:
The interest rate swap at Scotland is in place to hedge future interest outflows on the floating rate bond and is therefore an effective hedging instrument. The fair value of this swap was £12.0m as at 31 March 2026 (2025: £15.3m).

The movement before deferred tax taken to the hedging reserve in equity in respect of this cash flow hedge in the year was a £3.3m gain (2025: £7.1m gain) and the ineffective portion of this hedge of £nil was credited to the profit and loss account (2025: £nil). The hedge reserve movement is expected to unwind in profit or loss over the life of the swaps. The notional principal amount of the outstanding cash flow hedges at 31 March 2026 was £80.0m (2025: £80.0m). As at 31 March 2026 and 31 March 2025, the fixed rate of interest on this swap was 7.0575% and the floating rate was SONIA + 1.1193%. The uncompounded SONIA rate as at 31 March 2026 was 3.7296% (2025: 4.4554%).

Cross-currency swaps:
The movement before deferred tax taken to the hedging reserve in equity in respect of cross-currency swaps in the year was a £4.7m profit (2025: £5.8m). The notional principal amount of the pay leg of the outstanding cross-currency swaps at 31 March 2026 amounted to £844.8m (2025: £742.8m), while the receive leg totalled $334.0m; €500.0; CHF 108.0m and ¥9,350.0m (2025: $334.0m; €500.0m and ¥9,350.0m). As at 31 March 2026, the fixed rates of interest paid on these swaps were between 5.2302% and 6.2800% (2025: between 5.2302% and 6.2800%). The fixed rates of interest received were between 1.90% and 5.87% (2025: 5.87% and 2.65%).

See further details on cross-currency swaps on pages 119 to 120.

Notes to the financial statements

for the year ended 31 March 2026

22. Financial instruments and risk management (continued)

Categories of financial instruments

The categories of financial assets and liabilities held by the Group were as follows:

	Book value 2026 £m	Book value 2025 £m
Financial assets held at amortised cost		
Trade debtors[(1)]	**118.3**	107.6
Short term deposits[(1)]	**272.4**	383.2
Other debtors	**24.2**	14.0
Cash	**15.5**	30.2
	430.4	535.0
Financial assets at fair value		
Derivative financial instruments – interest rate swaps	**3.9**	2.3
Derivative financial instruments – cross-currency swaps	**17.5**	4.6
	21.4	6.9
Total financial assets	**451.8**	541.9

(1) The carrying amount of financial assets approximates to their fair value.

	Book value 2026 £m	Book value 2025 £m
Financial liabilities held at amortised cost		
Trade creditors	**91.2**	82.7
Accrued interest	**77.4**	68.5
Accruals	**128.4**	124.7
Borrowings	**5,816.4**	5,504.0
Shareholder loans	**412.9**	387.6
	6,526.3	6,167.5
Financial liabilities at fair value		
Derivative financial instruments – inflation-linked swaps	**129.9**	95.3
Derivative financial instruments – interest rate swaps	**14.8**	16.9
Derivative financial instruments – cross-currency swaps	**24.9**	17.0
	169.6	129.2
Total financial liabilities	**6,695.9**	6,296.7

The carrying amount of financial liabilities approximates to their fair value except for bonds and shareholder loans, the fair value of which is disclosed on the next page.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: Valued using unadjusted quoted prices in active markets for identified financial instruments;
- Level 2: Valued using techniques based significantly on observable market data. Instruments in this category are valued using valuation techniques where all of the inputs that have a significant impact on the valuation are directly or indirectly based on observable market data;
- Level 3: Instruments in this category have been valued using a valuation technique where at least one input (which has a significant input on the financial instruments' valuation) is not based on observable market data. Where inputs can be observed from market data with not undue cost and effort, the observed input is used. Otherwise management determines a reasonable estimate for the input.

An analysis of financial assets and liabilities that are recorded at fair value at 31 March 2026 is as follows:

2026	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– Derivative financial instruments – interest rate swaps	–	3.9	–	3.9
– Derivative financial instruments – cross-currency swaps	–	17.5	–	17.5
	–	21.4	–	21.4
Financial liabilities				
At fair value through profit and loss				
– Derivative financial instruments – inflation-linked swaps	–	129.9	–	129.9
– Derivative financial instruments – interest rate swaps	–	14.8	–	14.8
– Derivative financial instruments – cross-currency swaps	–	24.9	–	24.9
	–	169.6	–	169.6

2025	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
At fair value through profit and loss				
– Derivative financial instruments – interest rate swaps	–	2.3	–	2.3
– Derivative financial instruments – cross-currency swaps	–	4.6	–	4.6
	–	6.9	–	6.9
Financial liabilities				
At fair value through profit and loss				
– Derivative financial instruments – inflation-linked swaps	–	95.3	–	95.3
– Derivative financial instruments – interest rate swaps	–	16.9	–	16.9
– Derivative financial instruments – cross-currency swaps	–	17.0	–	17.0
	–	129.2	–	129.2

Cross-currency swaps

In March 2024, Southern Gas Networks plc issued a total of $202.0m in private placement notes, following drawings which occurred in April and June 2024:

- $101.0m 5.77% fixed rate notes due 2034;
- $101.0m 5.87% fixed rate notes due 2036.

In October 2024, Southern Gas Networks plc issued a total of €500.0m in 3.50% fixed rate bonds due 2030, for which the drawings occurred in October 2024.

In March 2025, Southern Gas Networks plc issued a total of ¥9,350.0m in 2.650% fixed rate private placement notes due 2038, for which the drawings occurred in March 2025.

In September 2025, Scotland Gas Networks plc issued CHF55.0m 1.910% fixed rate private placement notes due 2035, for which drawings occurred in October 2025.

In November 2025, Southern Gas Networks plc issued CHF53.0m 2.960% fixed rate private placement notes due 2037, for which drawings occurred in December 2025.

Notes to the financial statements

for the year ended 31 March 2026

22. Financial instruments and risk management (continued)

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

- $20.0m converted to £15.7m with fixed 5.496% GBP interest payable, due 2034, effective June 2024;
- $30.0m converted to £23.6m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- $51.0m converted to £40.1m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- $20.0m converted to £15.7m with fixed 5.625% GBP interest payable, due 2036, effective April 2024;
- $30.0m converted to £23.6m with fixed 5.627% GBP interest payable, due 2036, effective April 2024;
- $51.0m converted to £40.1m with fixed 5.627% GBP interest payable, due 2036, effective April 2024;
- €200.0m converted to £167.5m with fixed 5.2352% GBP interest payable, due 2030, effective October 2024;
- €300.0m converted to £251.3m with fixed 5.2302% GBP interest payable, due 2030, effective October 2024;
- ¥9,350.0m converted to £49.4m with fixed 6.0070% GBP interest payable, due 2038, effective March 2025;
- CHF55.0m converted to £51.5m with fixed 5.9970% GBP interest payable, due 2035, effective October 2025;
- CHF53.0m converted to £50.6m with fixed 5.8850% GBP interest payable, due 2035, effective December 2025.

Fair values
The Group's financial instruments recorded at amortised cost are shown below together with their fair values:

	31 March 2026		31 March 2025	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Borrowings	5,816.4	5,474.7	5,504.0	5,647.1
Shareholder loans	412.9	409.0	387.6	399.9
	6,229.3	5,883.7	5,891.6	6,047.0

Fair values of borrowings and shareholder loans have been determined by reference to closing quoted market values where available or otherwise by discounting future cash flows at their market interest rate.

The carrying value of all other financial assets and liabilities approximates to their book value.

23. Provisions for liabilities

	Environmental and demolition £m	Deferred tax £m	Other provisions £m	Total £m
Group				
At 1 April 2025	29.2	1,060.8	51.4	1,141.4
Reassessments during the year	(0.2)	–	56.2	56.0
Utilised during the year	(3.3)	–	(50.5)	(53.8)
Net movement in deferred tax	–	11.7	–	11.7
Amortisation of discount	1.3	–	0.3	1.6
At 31 March 2026	**27.0**	**1,072.5**	**57.4**	**1,156.9**

Environmental and demolition
The environmental provision represents the Directors' best estimate of environmental restoration costs, where the Group has a legal obligation to restore sites at the balance sheet date. The provision has been discounted at the nominal rate of 4.46% (2025: 3.90%) and is stated at the present value of the estimated expenditure to settle the obligation. The provision is expected to be utilised next year in line with anticipated regulatory output requirements for land remediation.

The demolition provision is an obligation to demolish the gas holders on sites held in inventories. The provision is based on third-party valuations that have been discounted at the nominal rate of 4.46% (2025: 3.90%) to the present value of the estimated expenditure to settle the obligation. They are expected to be utilised over the next 2 years.

Deferred tax
The net movement on the deferred tax provision has arisen mainly as a result of movements in the defined benefit pension asset, offset by other movements in the year of which £7.1m (2025: £4.7m) is recorded as a debit (2025: debit) to the profit and loss account and £4.6m (2025: £0.3m) is recorded as a loss (2025: gain) to the statement of comprehensive income.

Deferred tax recognised in the financial statements is as follows:

	Group		Company	
	2026 £m	2025 £m	2026 £m	2025 £m
Accelerated capital allowances	(1,019.3)	(1,014.3)	–	–
Deferred tax on cash flow hedges	3.0	3.8	–	–
Deferred tax on inflation-linked swaps	(13.4)	(13.9)	–	–
Deferred tax on defined pension benefits	(50.0)	(45.1)	–	–
Other timing differences	7.2	8.7	–	–
Total deferred tax liability	**(1,072.5)**	(1,060.8)	**–**	–

Other timing differences relate to elimination of intergroup profits and the unwinding of discount on provisions.

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

The movement in provision for deferred tax is as follows:

	Group	
	2026 £m	2025 £m
At 1 April	(1,060.8)	(1,056.4)
Debited to profit and loss account	(7.1)	(4.7)
(Debited)/credited to other comprehensive income	(4.6)	0.3
At 31 March	(1,072.5)	(1,060.8)

The Group is not expecting a reversal of deferred tax in the next financial year. There is no expiry date on timing differences, unused tax losses or tax credits.

The Group has not recognised deferred tax assets in respect of £234.5m (2025: £235.0m) of unutilised tax losses, £66.8m (2025: £66.8m) of capital losses and £163.9m (2025: £133.2m) of corporate interest restriction disallowances. These assets have not been recognised as the Group is uncertain that there will be sufficient future taxable profits against which to utilise the assets. Deferred tax has been measured based upon corporation tax rates substantively enacted at the balance sheet date (information regarding rates of corporation tax can be found in note 11 to the financial statements).

The Company has not recognised deferred tax on £234.5m (2025: £235.0m) of unutilised tax losses and £163.9m of corporate interest restriction disallowances.

Other provisions
Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks. 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 26 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next financial year.

Notes to the financial statements

for the year ended 31 March 2026

23. Provisions for liabilities (continued)

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 £42.5m (2025: £34.1m) reflects the unavoidable costs under the contract, which are the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The provision represents management's best estimates of the future expenditure necessary to settle the obligations net of contributions received and receivable from third parties.

The Company has £nil (2025: £nil) of other provisions for redundancies and legal claims.

24. Deferred income

Group	Connections £m	Replacement £m	**Total 2026 £m**	Total 2025 £m
Customer contributions				
Customer contributions brought forward	298.8	200.9	499.7	490.3
Customer contributions deferred in the year	13.6	10.5	24.1	21.6
Amortisation in year	(7.9)	(4.0)	(11.9)	(12.2)
Total customer contributions	**304.5**	**207.4**	**511.9**	**499.7**
Government grants				
Government grants brought forward	–	–	–	0.4
Government grants amortisation	–	–	–	–
Government grants utilised in the year	–	–	–	(0.4)
Total government grants	**–**	**–**	**–**	**–**
Total deferred income	**304.5**	**207.4**	**511.9**	**499.7**

The Group has received customer contributions relating to plant and machinery. In accordance with the Group's accounting policy, the assets are capitalised within fixed assets and the contributions are recognised as deferred income in the balance sheet. The connections contributions are from customers being connected to the network and replacement contributions are related to the diversion of gas mains. The deferred income is released/amortised to the profit and loss account over the estimated lives of the related assets.

The Company has no deferred income.

25. Share capital

	31 March 2026		31 March 2025	
Allotted, called up and fully paid shares	**Number**	**Value £m**	Number	Value £m
'A' ordinary shares of 42.55p (2025: 42.55p) each	**235,025,002**	**100.0**	235,025,002	100.0
'B' ordinary shares of 42.55p (2025: 42.55p) each	**117,512,501**	**50.0**	117,512,501	50.0
'C' ordinary shares of 42.55p (2025: 42.55p) each	**117,512,501**	**50.0**	117,512,501	50.0
Total	**470,050,004**	**200.0**	470,050,004	200.0

The 'A', 'B' and 'C' ordinary shares rank pari passu in all respects. There are no restrictions on the distribution of the dividends and the repayment of capital.

26. Reconciliation of movements in Group shareholders' funds

	2026 £m	2025 £m
Profit for the financial year	**34.7**	59.4
Dividend paid on equity shares (see note 13)	**(75.2)**	–
Cash flow hedges (net of deferred tax)	**6.0**	9.6
Actuarial gain/(loss) on defined benefit pension scheme (net of related deferred tax)	**7.8**	(10.6)
Movement in shareholders' funds	**(26.7)**	58.4
Opening shareholders' funds	**1,002.9**	944.5
Closing shareholders' funds	**976.2**	1,002.9

27. Operating lease commitments

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

	Vehicles		Land and buildings	
	2026 £m	2025 £m	**2026 £m**	2025 £m
Within one year	**3.1**	3.1	**4.9**	3.3
Within two to five years	**3.8**	4.3	**18.5**	12.0
After five years	**–**	–	**33.8**	24.9
Total	**6.9**	7.4	**57.2**	40.2

The Company has no operating lease commitments in either year.

28. Commitments and contingencies

Capital commitments
Capital projects contracted for by the Group but not provided in the financial statements amounted to £43.8m at 31 March 2026 (2025: £72.3m). The Company has capital commitments of £nil at 31 March 2026 (2025: £nil).

Contingent liabilities
Galpin's Road investigation
The Group has been subject to a detailed investigation by the police and Health and Safety Executive regarding the gas explosion at Galpin's Road on 8 August 2022. The Group is continuing to support the investigation. Due to the current stage of the investigation, and the wide range of potential outcomes due to the nature of the sentencing guidelines, it is not possible for management to reliably estimate the financial impact or timing of any future obligation as at 31 March 2026.

Other legal and regulatory claims
The Group is party to various litigation, claims and investigations, including in relation to health and safety and regulatory matters. These proceedings include claims and litigation matters which, based on the advice of legal counsel, management believes may result in potential liabilities. As of the reporting date, the ultimate outcome of these proceedings is either uncertain or the amount of the obligation cannot yet be reliably estimated. Accordingly, no provision has been recognised in the financial statements for these contingent liabilities.

Management continuously evaluates the progress of legal proceedings and assesses the likelihood of any potential loss, taking into account available information and legal advice. Should circumstances arise where it becomes probable that a loss will be incurred and the amount can be reliably estimated, appropriate provisions will be recognised in the financial statements at that time.

It is possible that the resolution of these proceedings could have a material adverse effect on the financial position, results of operations, or cash flows of the Group.

Notes to the financial statements

for the year ended 31 March 2026

28. Commitments and contingencies (continued)

Contingent assets

During the previous financial year, Ofgem expressed their intention to provide £26.0m of funding for the Group's H100 Fife Project. Their 'minded-to' position is subject to consultation, as part of the RIIO-GD2 close out process, the outcome of which is uncertain as at 31 March 2026. Management considers this funding to meet the FRS 102 definition of a contingent asset. i.e. it is a possible asset whose existence will only be confirmed by the occurrence of an uncertain future event, not within the control of the Group, and the receipt of this funding is considered probable. Therefore the £26.0m is not yet recognised as a receivable as at 31 March 2026 but it is disclosed (2025: £26.0m).

29. Pension commitments

A significant proportion of the Group's employees are members of the Scotia Gas Networks Pension Scheme ('the Scheme'). Under the Scheme, the employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). The Scheme provides final salary defined benefits for employees who joined the Lattice Group Scheme prior to 31 March 2002. A defined contribution section was added to the Lattice Group Scheme from 1 April 2002 for employees joining the Lattice Group Scheme from that date. Employees of the Group who were previously members of the Lattice Group Scheme transferred to the Scotia Gas Networks Pension Scheme on 1 December 2005.

a) Defined Benefit Scheme

The Scheme is operated by the Group and is funded with assets held in separate trustee administered funds. It is subject to independent valuations at least every three years, on the basis of which the qualified actuary determines the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the Scheme's assets, are expected to be sufficient to fund the benefits payable under the Scheme.

The most recent triennial valuation of the Scheme was carried out at 31 March 2024. The Company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the Company to measure the Scheme's liabilities on the financial statements, as well as adjusting for benefit accrual and benefits paid by the Scheme. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. In accordance with FRS 102, a limited actuarial review has been carried out by Broadstone Corporate Benefits Limited at 31 March 2026 using the projected unit method.

The following financial assumptions have been used:

As at 31 March	2026	2025	2024	2023
Discount rate[(1)]	**6.10%**	5.65%	4.75%	4.65%
Retail price inflation	**3.60%**	3.45%	3.55%	3.50%
Consumer price inflation	**3.38%**	3.15%	3.15%	3.10%
Rate of increase of salaries[(2)]	**N/A**	3.25%	3.35%	3.30%
Rate of increase of pensions payment	**3.60%**	3.45%	3.55%	3.50%

(1) The discount rate is based on the return of high quality corporate bonds.
(2) On 31 March 2025, the Group 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.

The assumptions relating to longevity underlying the pension liabilities reflect the characteristics of the Scheme membership ('VitaCurves') for base mortality with an allowance for further improvements in life expectancy in line with the medium cohort adjustments subject to a 1.5% p.a. underpin in the longevity assumption. The assumed life expectancy in years for a member once they reach age 65 is as follows:

	2026		2025		2024	
As at 31 March	Male	Female	Male	Female	Male	Female
Members currently aged 65	**21.9**	**23.0**	21.6	22.9	21.8	24.3
Members currently aged 45	**23.9**	**25.3**	23.5	25.2	23.8	26.4

The approximate effects of movements in the key assumptions on the defined benefit obligation are shown in the table below:

	Sensitivity	Approximate change in DBO £m
Discount rate	– 0.1% p.a.	6.7
	+ 0.1% p.a.	(6.6)
Price inflation (RPI measure)[(1)]	– 0.1% p.a.	(6.2)
	+ 0.1% p.a.	6.4
Life expectancy	– 1 year	(12.0)
	+ 1 year	11.8

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

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

As at 31 March	2026 Quoted £m	2026 Unquoted £m	2026 Total £m	2025 Quoted £m	2025 Unquoted £m	2025 Total £m
Government bonds[(1)]	**–**	**368.6**	**368.6**	–	355.5	355.5
Corporate bonds	**179.7**	**17.5**	**197.2**	167.3	43.4	210.7
Cash	**–**	**8.3**	**8.3**	–	9.3	9.3
Insurance contracts	**–**	**149.3**	**149.3**	–	155.0	155.0
Total market value of assets	**179.7**	**543.7**	**723.4**	167.3	563.2	730.5
Actuarial value of liabilities			**(523.5)**			(550.1)
Surplus in scheme			**199.9**			180.4

(1) Including LDI repurchase agreement liabilities.

The fair value of scheme assets at 31 March 2026 are based on the bid price where available.

To reduce the risk of volatility in the Scheme's funding level, a liability driven investment (LDI) strategy forms part of the assets employed within the investment strategy of the Scheme. The LDI strategy contributes to overall hedging levels for the Scheme of 95% for interest rates and 95% for inflation as at 31 March 2026 with respect to the pension scheme liabilities of £0.5bn (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. The recognition of the net defined benefit asset in relation to the Scheme reflects legal and actuarial advice that management have taken regarding recognition of surpluses under IFRIC 14. Management have concluded that the Group has an unconditional right to a refund from the plan, in the event of a winding-up. The Trustees must seek the agreement of the Group to any benefit augmentation beyond the provisions set out in the Scheme Rules.

Movement in fair value of Scheme assets

	2026 £m	2025 £m
At 1 April	**730.5**	817.6
Interest income	**40.6**	38.3
Contributions from the Group	**–**	1.8
Remeasurement of Scheme assets	**(15.6)**	(102.5)
Benefits paid	**(31.0)**	(23.2)
Administration costs	**(1.1)**	(1.5)
As at 31 March	**723.4**	730.5

Notes to the financial statements

for the year ended 31 March 2026

29. Pension commitments (continued)

Movement in fair value of Scheme liabilities

	2026 £m	2025 £m
At 1 April	(550.1)	(599.4)
Current service cost	–	(6.4)
Past service cost (1)	–	(26.3)
Interest cost	(30.4)	(27.8)
Actuarial gains	26.0	88.4
Benefits paid	31.0	23.2
Curtailment (2)	–	(1.8)
At 31 March	**(523.5)**	**(550.1)**

Deficit contributions were not payable in the year ended 31 March 2026, nor in the year ended 31 March 2025.

(1) As part of the closure of the defined benefit pension scheme to future benefit accruals in the previous financial year, pension credits granted to members as additional years of pensionable service represented a plan amendment under FRS 102, resulting in past service costs.
(2) The curtailment cost in the prior year 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.

The actual loss on plan assets was:

	2026 £m	2025 £m
Loss on plan assets excluding interest income	(15.6)	(102.5)
Interest income on plan assets	40.6	38.3
Actual gain/(loss) on plan assets	**25.0**	**(64.2)**

The cumulative amount of actuarial gains recognised in the statement of comprehensive income since adoption total £406.8m (2025: £380.8m).

Analysis of the amounts recognised in the profit and loss account

	2026 £m	2025 £m
Amount charged to net operating costs:		
Current service cost	–	(6.4)
Administration cost	(1.1)	(1.5)
Past service cost	–	(26.3)
Curtailment	–	(1.8)
Total charge to net operating costs	(1.1)	(36.0)
Analysis of the amount credited/(charged) to finance income/expense:		
Interest income on pension scheme assets	40.6	38.3
Interest cost on pension scheme liabilities	(30.4)	(27.8)
Net finance income	10.2	10.5
Net credit/(charge) to the profit and loss account	9.1	(25.5)

Analysis of the amount recognised in other comprehensive income

	2026 £m	2025 £m
Actual loss on scheme assets	(15.6)	(102.5)
Actuarial gains on scheme liabilities	26.0	88.4
Gain/(loss) recognised in other comprehensive income	**10.4**	**(14.1)**

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 granted as follows, as long as the member remains in employment:

- 50% of credits granted on 1 April 2025
- 25% of credits granted on 1 April 2026
- 25% of credits granted on 6 April 2026

For the 2025 disclosures management have assumed that all service credits were applied in full on 31 March 2025, on the assumption that the majority of members would remain in employment until at least 6 April 2026 in the knowledge that they would receive benefit improvements should they do so. Members were protected from loss of credits due to redundancy or ill-health terminations before 31 March 2026.

The scheme closure and pension credits resulted in one-off curtailment costs of £1.8m and past service costs of £26.3m, totalling £28.1m, recognised in the profit and loss account as an exceptional item (see note 6) for the year ended 31 March 2025.

Impact of Virgin Media Ruling

In July 2024, the Court of Appeal upheld a High Court ruling in Virgin Media Ltd v NTL Pension Trustees II Ltd, determining that amendments to contracted-out defined benefit pension schemes made between 6 April 1997 and 6 April 2016, affecting Section 9(2B) rights, are void unless accompanied by written actuarial confirmation under Section 37 of the Pension Schemes Act 1993.

The Group's defined benefit pension scheme was contracted out during this period. Between 2005 and April 2016, five deeds were executed to establish and amend the pension scheme, including deeds of establishment, amendments, and trustee resolutions. The Scheme's legal advisors are not aware of any amending deeds which would require the sort of certification that was central to the Virgin Media case (s37).

b) Defined contribution schemes

The amounts recognised in the profit and loss account are as follows:

	2026 £m	2025 £m
Amount charged in respect of defined contribution schemes	34.6	28.5

Notes to the financial statements

for the year ended 31 March 2026

30. Related parties

The Company is owned by Braeburn EquityCo Limited (37.5%) which is indirectly wholly-owned by Ontario Teachers' Pension Plan Board, UK Gas Distribution 2 Limited (37.5%), which is indirectly owned by Brookfield Super-Core Infrastructure Partners, and Speyside Bidco Limited (25.0%) which is wholly-owned by funds managed by Global Infrastructure Partners (GIP). It is the opinion of the Directors that the Group and Company have no single controlling party.

Transactions with key management personnel
Total compensation of key management personnel in the year amounted to £7.2m (2025: £6.7m). Directors are also deemed to be key management personnel and their remuneration is disclosed in note 7.

Transactions with shareholders
Amounts owed to shareholders and loans from shareholders are set out below:

	Group	
	2026 £m	2025 £m
Shareholders' loans:		
UK Gas Distribution 2 Limited	**154.8**	145.4
Speyside Bidco Limited	**103.3**	96.8
Braeburn DebtCo Limited	**154.8**	145.4
	412.9	387.6
Interest owed to shareholders:		
UK Gas Distribution 2 Limited	**–**	4.2
Speyside Bidco Limited	**–**	2.8
Braeburn DebtCo Limited	**–**	4.2
	–	11.2

The aggregate interest expense charged to the profit and loss account in respect of shareholders' loans was £34.8m (2025: £32.1m). Interest accrues on the shareholders' loans at a fixed rate of 8.6% per annum and is payable semi-annually in arrears on 30 November and 31 May each year. The Group may, upon giving due notice, elect to pay some or all of the interest payable through the issuance of further loans to its shareholders. During the financial year, the Company paid scheduled shareholder loan interest totaling £20.5m and capitalised £25.3m (2025: £32.1m capitalised).

Transactions with other related parties
The Group accounted for a share of its profit of a Joint Venture investment, Murphy Asset Services Limited, totalling £0.6m to the year ended 31 March 2026 (2025: share of loss of £0.8m). As at 31 March 2026, a shareholder loan of £6.2m was outstanding from Murphy Asset Services Limited (2025: £5.3m), which is presented in Other debtors. £0.7m of interest accrued on the loan in the year ended 31 March 2026 (2025: £0.2m), which is also included in Other debtors. The loan is repayable on demand and interest is charged at 8% per annum on the principal amount of the loan only.

The Group has accounted for a share of Tonbridge Riverside Regeneration Limited's loss to the period ended 31 March 2026 of £nil (2025: £nil). A shareholder loan balance of £0.4m is outstanding from Tonbridge Riverside Regeneration Limited to the Scotia Group as at 31 March 2026. The loan is interest free.

The Company contributed £nil (2025: £1.8m) to Scotia Gas Networks Pension Scheme during the year.

As at 31 March 2026, the Company has a loan balance due to SGN Commercial Services Limited amounting to £4.6m (2025: £8.9m); £8.1m (2025: £7.7m) due from SGN Place Limited; and £27.7m (2025: £25.8m) due from SGN Lessona Limited.

The loan due to SGN Commercial Services Limited bears interest at the Bank of England Base Rate, all others charge interest at Bank of England Base Rate plus 1% per annum. All loans are repayable on demand. They are presented in Amounts owed by Group undertakings in note 18. Also included in this balance are trade balances due from the SGN Group subsidiaries of £1.3m (2025: £6.9m).

In accordance with FRS 102, the Company is exempt from disclosing transactions with subsidiaries that are wholly-owned by the Group.

31. Analysis of changes in net debt

Analysis of changes in net debt	2025 £m	Cash flow £m	Other non-cash movements(1) £m	**2026 £m**
Net cash and cash equivalents				
Cash at bank	30.2	(14.7)	–	**15.5**
Short term deposits(2)	383.2	(135.8)	–	**247.4**
	413.4	(150.5)	–	**262.9**
Financial liabilities, loans and borrowings				
Debt due within one year (note 20)	(476.7)	462.2	(235.3)	**(249.8)**
Debt due after one year (note 21)	(5,414.9)	(744.1)	179.5	**(5,979.5)**
	(5,891.6)	(281.9)	(55.8)	**(6,229.3)**
Derivative financial assets	6.9	–	14.5	**21.4**
Derivative financial liabilities	(129.2)	–	(40.4)	**(169.6)**
Total	(5,600.5)	(432.4)	(81.7)	**(6,114.6)**

(1) Other non-cash movements in borrowings relate to the reclassification of loans from due after more than one year to due within one year. In addition, it also includes amortisation of borrowing fees, loan accretion accruals and foreign exchange variances. Non-cash movements in derivative financial instruments relate to fair value movement and accretion accruals.
(2) Short term deposits as at 31 March 2026 on the balance sheet include £25m (2025: £nil) of 6-month deposits, which do not meet the criteria of 'cash and cash equivalents'.

32. Subsequent events

The Group maintains a total revolving credit facility of £600.0m (2025: £600.0m), which matures in March 2029. As at 31 March 2026, the facility was allocated between Southern Gas Networks plc (£450.0m) and Scotland Gas Networks plc (£150.0m), consistent with the prior year allocation (2025: £450.0m and £150.0m, respectively). Subsequent to the balance sheet date, the allocation of the facility was revised, with £300.0m allocated to each of Southern Gas Networks plc and Scotland Gas Networks plc.

Alternative performance measures

When assessing and discussing the Group's reported financial performance, financial position and cash flows, management makes reference to Alternative Performance Measures (APMs) that are not defined or specified under UK GAAP.

APMs are presented to enhance the reader's evaluation of ongoing performance and to facilitate meaningful comparison of results between reporting periods. The APMs used in this report are consistently applied across reporting periods.

Management uses these APMs to evaluate ongoing operations and in reporting to investors and regulatory bodies.

Group APM	Closest equivalent UK GAAP measure	Adjustments to reconcile to primary statements	Rationale for adjustments
Cash flow after investing activities	Operating cash flow	Excluding interest paid and including net cash flow from investing activities.	Due to the nature of the business cash flow from core activities are considered to be operating activities and investment in our gas infrastructure.
Net debt to Regulated Asset Value (RAV)	Borrowings	Net debt (before issue costs) excluding shareholders' loans and liabilities arising from derivative financial instruments and net of cash and cash equivalents. RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Governed by specific licence conditions and covenants imposed on us due to the nature of the business.
Capital expenditure	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions excluding replacement expenditure.	This is an Ofgem driven performance measure. Due to the nature of the business replacement expenditure is material to the financial statements and thus it should be disclosed separately.
Replacement expenditure	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions excluding capital expenditure.	
Regulated Asset Value (RAV)	Tangible and intangible assets	RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Governed by specific licence conditions due to the nature of the business.
Network investment	Tangible and intangible additions	Total of tangible and intangible additions.	Illustrates total capital and replacement expenditure across the networks, being a key performance measure.
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	Operating profit	Add back depreciation and amortisation.	Illustrates underlying operating performance, which is a key performance measure.

Glossary of key terms

AC – Audit Committee
AGM – Annual General Meeting
AI – Artificial Intelligence
APMs – Alternative Performance Measures
BEIS – Department for Business, Energy and Industrial Strategy
CAF – Cyber Assessment Framework
CCA – Customer Contract Association
CCUS – Carbon Capture, Usage and Storage
CDP – Carbon Disclosure Project
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CGUs – Cost Generating Units
CMA – Competition and Markets Authority
CMT – Charcot-Marie-Tooth
CO – Carbon Monoxide
Consolidated SGN MidCo group – Consists of SGN MidCo Ltd, Scotland Gas Networks plc, Southern Gas Networks plc, SGN Natural Gas Ltd, and SGN Contracting Ltd
COO – Chief Operating Officer
CPI – Consumer Price Index
CRM – Customer Relationship Management
CV – Curriculum Vitae
Defra – Department for Environment Food & Rural Affairs
DESNZ – Department for Energy Security and Net Zero
DNO – Distribution Network Operator
EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation
ECN – Exit Capacity
EDI – Equality, Diversity and Inclusion
EIB – European Investment Bank
EMEA – Europe, the Middle East and Africa
ENA – Energy Networks Association
ESG – Environmental, Social and Governance
FC – Finance Committee
FES – Future Energy Scenarios
FRC – Financial Reporting Council
FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland
FVTPL – Fair Value Through Profit or Loss
FY – Financial Year
FYLD – Digital, mobile platform, using speech and image recognition
GB – Great Britain
GDN – Gas Distribution Network
GGS – Green Gas Solutions
GHG – Greenhouse Gas
GIP – Global Infrastructure Partners
HMRC – His Majesty's Revenue and Customs
HSC – Health & Safety Committee
HSE – Health and Safety Executive
HSSC – Health, Safety and Security Committee
I&C – Industry and Commerce
IGG – Intelligent Gas Grid
IPCC – Intergovernmental Panel on Climate Change
IT – Information Technology
JV – Joint Venture
KPI – Key Performance Indicator
LDI – Liability Driven Investment
LGBTQ+ – Lesbian, Gay, Bisexual, Transgender, and Queer (and more)
LNG – Liquefied Natural Gas
LTI – Lost Time Incident
LTIP – Long-term Incentive Plan
LTS – Local Transmission System
MOB – Multi-occupancy Building
NESO – National Energy System Operator
NIA – Network Innovation Allowance
NomCo – Nomination Committee
NTS – National Transmission System
NUAR – National Underground Asset Register
Ofgem – Office of Gas and Electricity Markets Ofgem is responsible for regulating the gas and electricity markets in the UK to ensure customers' interests are protected
OT – Operational Technology
PE – Polyethylene
PP&E – Property, Plant and Equipment
PSI – Predictive Safety Intervention
RAAC – Risk, Audit and Assurance Committee
RAV – Regulated Asset Value
RCF – Revolving Credit Facility
RCP – Representative Concentration Pathways
Regulated businesses – Consists of Scotland Gas Networks plc, Southern Gas Networks plc, and SGN Natural Gas Ltd
RemCo – Remuneration Committee
Repex – Replacement expenditure
RESP – Regional Energy Strategic Plan
RIIO-GD1 – The regulatory price control period that ran from 1 April 2013 to 31 March 2021; the first that used the RIIO framework for setting allowances
RIIO-GD2 – The regulatory price control period that ran from 1 April 2021 to 31 March 2026
RIIO-GD3 – The regulatory price control period that will run from 1 April 2026 to 31 March 2031
RIIO-GD4 – The future regulatory price control period, anticipated to begin in 2031
RPI – Retail Price Index
RRP – Regulatory Reporting Pack
RTSM – Real Time Settlement Methodology
SBTi – Science Based Targets initiative
SDG – Sustainable Development Goal
SECR – Streamlined Energy and Carbon Reporting
SEPA – Scottish Environment Protection Agency
SID – Sufficiently Independent Director
SIF – Strategic Innovation Fund
SIUs – Scottish Independent Undertakings
SoLR – Supplier of Last Resort
SONIA – Sterling Overnight Index Average
SMF – Safety Management Framework
SSEC – Strategy, Stakeholder and Environment Committee
STIP – Short-term Incentive Plan
TCFD – Task Force on Climate-related Financial Disclosures
The Group – The Company and its subsidiary undertakings (together the Group)
UKCP18 – UK Climate Projections 2018
UKRI – UK Research and Innovation
UN – United Nations
UREGNI – Utility Regulator for Northern Ireland
VCMA – Vulnerability and Carbon Monoxide Allowance
WEF – World Economic Forum

Designed and produced by Thunderbolt Projects

If you smell gas or are worried about gas safety you can call the **National Gas Emergency Number** on **0800 111 999**

Carbon monoxide (CO) can kill.
For more information visit
sgn.co.uk/help-and-advice

SGN
St Lawrence House
Station Approach
Horley
Surrey
RH6 9HJ

0800 912 1700

customer@sgn.co.uk

@sgngas

sgn.co.uk