

Southern Gas Networks Plc
Strategic Report, Directors' Report and
Audited Financial Statements for the Year Ended 31 March 2024

Southern Gas Networks Plc (Registered number: 05167021)

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for the Year Ended 31 March 2024

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Southern Gas Networks Plc

Company Information
for the Year Ended 31 March 2024

DIRECTORS:

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

SECRETARIES:

Nicola Shand
Megan Rose Birtwistle

REGISTERED OFFICE:

St Lawrence House
Station Approach
Horley
Surrey
RH6 9HJ

REGISTERED NUMBER:

05167021

AUDITOR:

Ernst & Young LLP
1 More London Place
London
SE1 2AF

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Strategic Report
for the Year Ended 31 March 2024

The Directors present their strategic report for the year ended 31 March 2024.

This strategic report sets out the main trends and factors underlying the development and performance of Southern Gas Networks Plc ("the Company") during the year ended 31 March 2024 as well as those matters which are likely to affect our future development and performance.

THE BUSINESS, ITS OBJECTIVES AND STRATEGY

The Company operates the regulated gas transportation business for the South and South East of England gas distribution network, one of eight regional gas distribution networks in Great Britain. Its gas distribution network comprises approximately 50,000 kilometres of gas mains delivering natural gas to approximately 4.2 million domestic, commercial and industrial customers. The network stretches from Milton Keynes in the north, to Dover in the east and Lyme Regis in the west, including London boroughs to the south of the River Thames, distributing gas to around 90% of households.

The Company is a wholly owned subsidiary of SGN MidCo Limited. The ultimate parent undertaking is Scotia Gas Networks Limited ("**SGN**"), which is registered at St. Lawrence House, Station Approach, Horley, Surrey, RH6 9HJ. Scotia Gas Networks Limited is owned by Apple Newco Limited (37.5%) which is indirectly wholly-owned by Ontario Teachers' Pension Plan Board, UK Gas Distribution 2 Limited (37.5%), which is indirectly owned by Brookfield Super-Core Infrastructure Partners, and Speyside Bidco Limited (25.0%) which is wholly-owned by funds managed by Global Infrastructure Partners (GIP).

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

Objectives and Strategy

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

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

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

Our purpose is to keep everyone safe and warm. As outlined in our RIIO-GD2 business plan, our strategy is to deliver long-term value for existing and future customers, stakeholders and shareholders. This strategy is based on strong financial management and a governance framework, and underpinned by our detailed business plan and five strategic pillars:

1. Delivering safe and efficient service

We will deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.

2. Making a positive impact

We will make a positive impact on society, by supporting vulnerable communities and providing excellent service.

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3. Building a shared future

We will build a shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.

4. Creating value and growing our service

We will create value by accelerating commercial opportunities which complement the core; maximise the value from our existing asset base; invest in opportunities for the sustainability of our network and keep SGN at the forefront of the delivery of heat.

5. Focusing on talent, skills and opportunities for our people

We will create and maintain an inclusive and diverse workplace where our people can develop and thrive.

External and regulatory environment

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

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

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

Factors affecting the business

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

- **Regulatory price controls**

The prices that can be charged for the use of the Company's networks are determined in accordance with regulator approved price controls. The year ended 31 March 2024 was the third year of the RIIO-GD2 price control, which set the key elements of revenue, outputs and allowed returns until 31 March 2026.

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

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- **Safety and reliability of the networks**

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

For all of us at Southern Gas Networks plc, August 2022 will be remembered for an explosion in Galpin's Road, south London, which tragically claimed the life of a young girl and left several people with injuries. The Company is continuing to support the police and Health and Safety Executive with their investigation of this incident.

- **Efficiency**

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

- **Interest rates**

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

- **Inflation rates**

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

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PRINCIPAL RISKS AND UNCERTAINTIES

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

Enhancing our risk framework

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

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

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

The Board has overall accountability for risk management. Our most significant risks are reported to the Board quarterly, with progress against interventions. Twice a year, the Board carries out a review of the full Enterprise Risk Register, makes decisions on how these should be managed and also considers new or emerging risks. They will also be considering risk appetite in 2024/25.

The Board is supported by the Audit Committee, who oversees internal controls within the Company.

The Executive Committee owns and oversees the Enterprise Risk Management Framework. They delegate risk management to the dedicated Risk, Audit and Assurance Committee comprising all Executive Committee members. Each Enterprise Risk is assigned to one or more Executive Owners responsible for monitoring the exposure and nature of the risk, deciding how it should be managed and taking the necessary action to bring it back to the desired target level. The Risk, Audit and Assurance Committee sits quarterly to discuss, review, and challenge our Enterprise Risks and associated interventions, receive reports on functional risks escalated by the Risk and Resilience Review and Challenge Group, and considers audit and assurance activities.

The Risk and Resilience Review and Challenge Group includes representation from all parts of the business and sits quarterly at divisional level to review and challenge functional risks, interventions, and resilience activities.

The risk function provides expertise, support, monitoring and challenge, on risk related matters.

Functional management are responsible for identifying, responding to, monitoring, and assuring key risks.

Our current enterprise risk profile consists of 14 risks, which are covered on the following pages.

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PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk title	Risk description	Key mitigations
Timeframe: Short term (0-2 years)		
Health and Safety	There is a risk of a major health and/or safety incident which impacts upon SGN customers and/or employees or contractors. There is also a risk of ineffective management of mental health in the workforce.	<ul style="list-style-type: none"> - Safety management framework (SMF) - Safety management system (SMS) - Occupational health control framework - Asset management control framework - Competency and training control framework - New Chief Operating Officer function incorporating operational safety
Cyber	There is a risk that SGN fails to detect, prevent or effectively respond to cyberattacks.	<ul style="list-style-type: none"> - Information security control framework - Procurement & supply chain control framework - Cyber security investment programme - Business continuity and disaster recovery procedures
Recruitment, Competency & Retention	There is a risk that SGN fails to recruit, develop and retain a sufficiently competent and diverse workforce and leadership team resulting in inability to meet business and regulatory requirements.	<ul style="list-style-type: none"> - Establishment, workforce, and succession plans - Recruitment and reward management - Competency and training control framework - Diversity and inclusion strategy
Delivery	There is a risk that SGN fails to successfully design and deliver key recovery programmes or projects for the delivery of regulatory outputs and/or SGN's strategic objectives.	<ul style="list-style-type: none"> - Enterprise programme governance framework - Procurement & supply chain control framework - New Chief Operating Officer function - Future of Energy Directorate
Legal & Regulatory Compliance	There is a risk of SGN failing to comply with legal and regulatory requirements, including licence conditions and regulatory outputs. There is also a risk of losing regulator confidence in SGN's ability to meet these requirements in future.	<ul style="list-style-type: none"> - Legal & compliance control framework, including Speak Up Policy - Regulatory control framework - Procurement & supply chain control frameworks

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PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk Title (continued)	Risk description (continued)	Key Mitigations (continued)
Legal & Regulatory Compliance (continued)	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.	<ul style="list-style-type: none"> - Safety management framework (SMF) and safety management system (SMS) - Information security control framework
Supply Chain Continuity	There is a risk of significant disruption to supply chain continuity.	<ul style="list-style-type: none"> - Procurement & supply chain control framework - Supplier relationship management, performance, and compliance monitoring across key areas - Developing and harnessing new suppliers - Online sourcing and contract management system
IT Resilience	There is a risk of IT Service(s) failure which can be triggered by an internal, external or cyber based event.	<ul style="list-style-type: none"> - Hardware and network resilience/segmentation in place - Maintenance plan and activities to manage the risk of IT failure - Information security control framework - Business continuity and disaster recovery procedures

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PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk Title (continued)	Risk description (continued)	Key Mitigations (continued)
Timeframe: Short term/medium term		
Governance & Controls	There is a risk that SGN's Enterprise Governance framework (including board governance, enterprise risk management, internal controls and quality/ compliance assurance) is not optimal and/or operated in an effective manner.	<ul style="list-style-type: none"> - Corporate governance framework - Enterprise risk management framework - Safety management framework (SMF) and safety management system (SMS) - Finance manual - Internal audit programme
Leadership & Culture	There is a risk of misalignment between our cultural values with leadership commitment and actions, employee behaviours, or organisational systems. Also, there is a risk of Leadership not being alert, agile & able to react to new cultural challenges as they emerge.	<ul style="list-style-type: none"> - SGN Vision and Values - Code of Conduct and policies to guide expected behaviours - Diversity and inclusion strategy - Leadership training and development programmes - Speak Up framework
Timeframe: Medium term (3-9 years)		
Financial Resilience	There is a risk that SGN is unable to live within its allowances, maintain access to capital markets including investment grade credit ratings, and therefore have sufficient liquidity to service existing debt and contractual obligations as they fall due.	<ul style="list-style-type: none"> - Treasury management policy and finance manual - Manage external credit ratings - Financial planning cycle and business planning - Daily cash reporting - Relationship management with Ofgem - RIIO-GD3 business planning
Political & Public Policy	There is a risk that SGN is unable to shape or respond to the pace of change in the political and public policy landscape.	<ul style="list-style-type: none"> - Advocacy plan - Influencing government and industry stakeholders - Creation of and participation in industry coalitions

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PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk Title (continued)	Risk description (continued)	Key Mitigations (continued)
Political & Public Policy (continued)	There is a risk that SGN is unable to shape or respond to the pace of change in the political and public policy landscape.	<ul style="list-style-type: none"> - Contributing to development of UK government policy - Engagement with Ofgem and Future System Operation to shape whole systems approach
Timeframe: Medium term/long term		
Climate change	There is a risk of failing to assess, mitigate and adapt to the impact of climate change on our business.	<ul style="list-style-type: none"> - Environmental Sustainability Strategy and Environmental Action Plan - Stakeholder engagement including SGN Environment Advisory Panel, supply chain and industry peers - Maintaining ISO 14001:2015 Environmental Management System certification - Assessing climate risk to occupied sites and our network - Hydrogen programme
Timeframe: Long term (10 years+)		
Network Asset Management	There is a risk that SGN will fail to effectively manage its assets and maintain a safe, reliable network and/or fail to respond effectively to an external event which causes significant network disruption.	<ul style="list-style-type: none"> - Asset management control framework - Asset investment strategy out to March 2026 - Long-term horizon scanning to capture network asset changes - Cyber security investment programme - Repex delivery programme
Future of Energy	There is a risk that the shift towards a decarbonised energy system results in SGN assets becoming stranded without adequate compensation.	<ul style="list-style-type: none"> - Future of Energy Directorate - Influencing government and industry stakeholders - Utilising innovation funding and working to deliver evidence for potential decarbonisation pathways - Co-ordination of hydrogen programme evidence and activity

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Stakeholders

The Company has a range of external stakeholders including gas consumers, employees, investors, suppliers and contractors, its regulator Ofgem, the HSE and local governments and communities. The Company adopts an open and constructive approach, both in terms of the way it operates, the services it provides and the impact that its activities have on each of its stakeholders. The Company encourages and enables its employees to be active citizens in the communities in which they live and work, through schemes which support staff who are either raising money for, or giving their time to, UK charities, local community or youth sports groups. The Company matches eligible fund raising by individual members of staff.

SECTION 172(1) STATEMENT

Section 172(1) of the Companies Act 2006 requires a Director of a Company to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole.

In doing so Section 172(1) requires a Director to have regard (among other matters) to:

- a. The likely consequences of any decisions in the long term.
- b. The interests of the Company's employees.
- c. The need to foster the Company's business relationships with suppliers, customers and others.
- d. The impact of the Company's operations on the community and environment.
- e. The desirability of the Company to maintain a reputation for high standards of business conduct.
- f. The need to act fairly between members of the Company.

In discharging their Section 172 duty, the Directors of the Company have regard to the factors set out above. We acknowledge that every decision the Board makes will not necessarily result in a positive outcome for all of our stakeholders.

During the period, the Directors received information to help them understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups).

As a result of this, the Directors have had an overview of engagement with stakeholders and other relevant factors which allows them to understand the nature of the stakeholders' concerns and to comply with their Section 172 duty to promote the success of the Company.

On the following page, we have set out an example of how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) when discharging their Section 172 duty and the effect of those on decisions taken by them.

Further details on how the SGN Board operates and how it reaches decisions, including some of the matters discussed and debated during the year, are detailed in this section and on pages 31 to 48.

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Board decision:

The Company's Vulnerability and Carbon Monoxide Allowance (VCMA) strategy to provide support to the most vulnerable customers and ensure access to a safe heat network

Section 172 factors

Long-term impact

Directors' consideration of Section 172 Factors

Following the cost-of-living crisis, there has been more need than ever to provide support to the most vulnerable members of society. The Company is committed to taking care of our customers and making a positive impact on the communities we serve. There is a strategy in place to identify vulnerable households and ensure they are able to access energy safely, efficiently and affordably for the foreseeable future and beyond.

Impact on employees

The Company is committed to being a company our employees can be proud to work for. Taking action to support vulnerable people in the community encourages a caring culture and also allows employees an opportunity to be part of making a positive impact. More information on how we engage with our people can be found on page 14.

Nurturing business relationships

The Company continues to collaborate and work alongside industry peers, the government, local authorities, key charities and Ofgem to support communities and ensure a collaborative effort to provide effective assistance where it's needed.

Impact on community and environment

Providing support to vulnerable customers improves the lives of not just those the Company assists directly, but also those around them. Part of the commitment of the Company is to ensure that energy is accessed safely minimising risk to the community and the environment.

Enhanced corporate reputation

The Company campaigns to ensure those who need support most are prioritised and are committed to reviewing the strategy of meeting vulnerable customers' needs. Allocating business funds to support those in need demonstrates that the Company has more than just profit in focus and is committed to providing safe access also.

Acting fairly between members

SGN has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally, including ensuring that adequate procedures are in place to address any conflicts of interests that could arise and ensuring equal access to information. With this in consideration, the Board acknowledges the support from its members and also support the ongoing development of the vulnerable customer programme and activities to ensure the safety of the network and those that use it.

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Board decision:
Supporting the development of the Company's commitment to cyber resilience and digitisation

Section 172 factors

Long-term impact

Directors' consideration of Section 172 Factors

The Company has an approved programme of works to improve mitigation of Cyber Risk and has a strategy for upgrading this plan and adopting more efficient digital solutions to improve the ways of working for employees and a smoother customer experience.

Impact on employees

The Company is committed to providing job security for our colleagues and a safe environment for them work within. As cyber risks grow and technology advances, it is important that all mitigations are taken to ensure the cyber safety of SGN colleagues and make improvements to the digital tools they use in completing their roles. More information on how we engage with our people can be found on page 14.

Nurturing business relationships

The Company continues to collaborate and work alongside industry peers, the government, experts and Ofgem to make improvements to cyber security and the digital tools available within the industry. Third-party experts are particularly key to this area and have been involved in providing information and assurance to both the management teams and the Board of Directors.

Impact on community and environment

An extreme cyber event could prevent us from distributing gas to our 4.2 million customers. Investment is essential to ensure our cyber defence continues to adapt and improve to the ever-evolving cyber threat landscape, as well as to minimise the risk and impact of cyber events on our core business.

Enhanced corporate reputation

The Company endeavours to provide efficient and effective service to customers and the wider community and a cyber-attack or the use of sub-standard digital tools could cause significant disruption to doing so.

Acting fairly between members

SGN has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally, including ensuring that adequate procedures are in place to address any conflicts of interests that could arise and ensuring equal access to information. With this in consideration, the SGN Board acknowledges the support from its members and also support the ongoing development of the strategy to improve cyber resilience and upgrade digital tools and software.

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Board decision:

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

Section 172 factors

Long-term impact

Directors' consideration of Section 172 Factors

Safety is critical. It's the Company's number one priority to ensure we have a zero-harm business and that everyone goes home safe and well every day. It's an integral value and is central to all our decision making and our drive for business excellence. To continue this prioritisation, the Company has introduced the PROTECT framework and Life Saving Rules, which is used in all aspects of our work, now and for the future.

Impact on employees

PROTECT and the Life Saving Rules was created in partnership by direct interaction and input from employees on what matters to them (as well as our other stakeholders). Achieving zero-harm is a commitment shared by all employees where each takes individual ownership of Safety. To further ensure the success of this approach and keeping our people in mind, the Company provides regular PROTECT updates and training to ensure our people are kept informed and can confidently make their commitment visible on a daily, even hourly basis, through their actions and words. Helping to ensure that the right option and the safe option is always chosen for every job and task. More information on how we engage with our people can be found on page 14.

Nurturing business relationships

The Company continues to collaborate and work alongside industry peers, the government, local authorities and our regulators to ensure safety is at the top of our agenda.

Impact on community and environment

One of three core principles of PROTECT is that any and all harm to people, property and the planet is preventable. Therefore, our Life Saving Rules aim to ensure that all of the Company's activities are harm free for our customers, communities and the environment by making the appropriate risk assessments, using the right tools for the job, being competent and by following policies and procedures.

Acting fairly between members

SGN's has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally. With this in consideration, the SGN Board acknowledges the support from its members and also supports our safety value being SGN's top priority along with achieving zero-harm through the PROTECT initiative and Life Saving Rules.

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ENGAGING WITH STAKEHOLDERS

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

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

We encourage genuine two-way engagement with our six key stakeholder groups to gain valuable insight and expertise to help inform our decision-making. Stakeholder engagement takes place at both the operational day-to-day level within the business and at Board level, as part of an extensive engagement programme with our six key stakeholders:

- Customers
- Our People
- UK Government and Regulators
- Communities and the Environment
- Suppliers, Contractors and Partners
- Shareholders and Debt Investors

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

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

OUR PEOPLE

We employ approximately 317 highly skilled and dedicated people across the south of England.

Why we engage

We will only deliver our vision if we recruit, upskill, and retain the best talent and develop a flexible, motivated, efficient, diverse and engaged team.

How we engage

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

Stakeholder issues raised

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

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Outcomes of engagement on key decisions

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

Key Board decisions

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

CUSTOMERS

We keep gas flowing safely and reliably to 4.2 million homes and businesses, all day, every day.

Why we engage

Understanding our existing and future customer needs and behaviours helps us to achieve our vision of giving our customers the best clean energy experience.

How we engage

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

Stakeholder issues raised

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

Outcomes of engagement on key decisions

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

Key Board decisions

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

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COMMUNITIES AND THE ENVIRONMENT

We've established multiple strategic and long-term partnerships with third-sector organisations representing hard-to-reach and vulnerable groups within our communities, as well as environmental bodies.

Why we engage

Engaging with communities locally, regionally and nationally enables us to build our shared net zero future by accelerating decarbonised energy solutions and minimising our environmental impact, while also ensuring the support we provide to vulnerable groups is delivering tangible benefits to those most in need of help to stay safe and warm at home.

How we engage

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

Stakeholder issues raised

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

Outcomes of engagement on key decisions

- We have entered into a commercial partnership with Acorn BioEnergy on the development of a biomethane injection hub
- Biomethane is currently producing c.19TWh of biogas in the UK, which is enough to heat 1.6 million homes and has the potential to provide enough gas to offset natural gas demand of 6.4 million homes, reducing emissions by 6%.

Key Board decisions

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

SUPPLIERS, CONTRACTORS AND PARTNERS

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

Why we engage

Our suppliers, contractors and partners play a critical role in enabling us to deliver a safe and efficient service and collectively reduce our environmental impact.

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How we engage

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

Stakeholder issues raised

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

Outcomes of engagement on key decisions

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

Key Board decisions

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

GOVERNMENT AND REGULATORS

We work constructively and collaboratively with the UK Government as well as regulatory bodies such as Ofgem and the HSE.

Why we engage

Understanding what drives government and regulatory policy decisions helps us to ensure we deliver on our regulatory outputs to keep our customers safe and warm.

How we engage

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

Stakeholder issues raised

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

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2024

Outcomes of engagement on key decisions

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

Key Board decisions

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

SHAREHOLDERS AND DEBT INVESTORS

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

Why we engage

Understanding our shareholders' and debt investors' needs helps us access a cost-effective, stable, diversified financing base for the business. This also ensures we have access to low-cost debt and equity capital to support growth, which delivers long-term value for existing and future customers.

How we engage

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

Stakeholder issues raised

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

Outcomes of engagement on key decisions

- 2023 AGM attended by the Board with new shareholders. All resolutions passed.
- New Board Director appointments
- Awareness that the priorities and strategic imperatives of shareholders will not all be the same. The Board aims to understand the views of shareholders and to act fairly as between members of the Group.
- New Independent Non-Executive Director Appointment.

Key Board decisions

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

Southern Gas Networks Plc (Registered number: 05167021)Strategic Report
for the Year Ended 31 March 2024**Key performance indicators**

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

Key performance indicator	Description	Year ended 31 March 2024	Year ended 31 March 2023
Revenue	Income relating to the transportation of natural gas and provision of related services	£901m	£821m
Operating profit	Profit before financing costs and taxation	£363m	£291m
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.	£97m	£89m
Replacement expenditure [1]	Replacement expenditure represents the investment in renewing sections of gas network with modern polyethylene pipes to improve future safety and reliability. The sections replaced include mains and smaller diameter service pipes, which connect customers to mains.	£231m	£185m
Net Debt to RAV ratio	Regulated Asset Value (RAV) is defined by our regulators. Net debt excludes shareholders' loans and liabilities arising from derivative financial instruments and is net of cash and cash equivalents. The percentages stated are as at 31 March.	65.2%	64.8%

Southern Gas Networks Plc (Registered number: 05167021)Strategic Report
for the Year Ended 31 March 2024**Key performance indicators (continued)**

Key performance indicator	Description	Year ended 31 March 2024	Year ended 31 March 2023
Customer satisfaction - planned interruptions	Results from customer satisfaction surveys (10 = very satisfied). Planned interruptions on our replacement, capital or routine maintenance works are where timing can be predicted and the customer has been notified in advance.	8.99 [2]	8.90 [2]
Customer satisfaction - unplanned interruptions	Results from customer satisfaction surveys (10 = very satisfied). Unplanned interruptions arise through leakage or other emergencies.	9.59 [2]	9.40 [2]
Escapes attendance (uncontrolled)	Proportion of uncontrolled escapes attended in one hour - percentage (target 97%). Uncontrolled gas escapes are defined as those where the smell of gas persists and where the gas supply is still 'on' at the time the customer calls.	98.4%	91.8%
Escapes attendance (controlled)	Proportion of controlled escapes attended in one hour - percentage (target 97%). Controlled gas escapes are defined as those where the gas supply is turned off at the time the customer calls.	98.9%	92.9%

[1] The sum of capital expenditure and replacement expenditure equal the total additions of intangible and tangible fixed assets as reported in notes 12 and 13 respectively.

[2] Based on customer satisfaction survey reports.

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Strategic Report
for the Year Ended 31 March 2024

Alternative performance measures

When assessing and discussing the Company's reported financial performance, financial position and cash flows, management makes reference to Alternative Performance Measures (APMs) that are not defined or specified under UK GAAP.

APMs are presented to enhance the reader's evaluation of ongoing performance and to facilitate meaningful comparison of results between reporting periods. The APMs used in this report are consistently applied across reporting periods.

Management uses these APMs to evaluate ongoing operations and in reporting to investors and regulatory bodies.

	APM 1: Net debt to Regulated Asset Value (RAV) ratio	APM 2: Capital expenditure	APM 3: Replacement expenditure
Closest equivalent UK GAAP measure	Borrowings	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions
Adjustments to reconcile primary statements	Net debt (before issue costs), excluding shareholders' loans and liabilities arising from derivative financial instruments and net of cash and cash equivalents. RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Tangible and intangible fixed asset additions excluding replacement expenditure	Tangible and intangible fixed asset additions excluding capital expenditure
Rationale for adjustments	Governed by specific licence conditions and covenants imposed on us due to the nature of the business.	This is an Ofgem driven performance measure. Due to the nature of the business, replacement expenditure is material to the financial statements and thus it should be disclosed separately.	

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2024

Alternative performance measures (continued)

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

Resources

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

The Company's distribution network comprises approximately 50,000 kilometres of gas mains, together with associated services, plant and machinery and storage facilities.

The Company had 317 full time equivalent employees at 31 March 2024 (2023: 369). It places considerable value on the involvement of employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company during the year. It continues to invest in the development and training of its people in order to ensure both individual developmental needs and business skill requirements are met.

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report for the Year Ended 31 March 2024

FINANCIAL REVIEW

The Company sets out below its financial review for the year ended 31 March 2024. The comparative figures presented are for the year ended 31 March 2023, as reported in the audited financial statements, unless otherwise stated.

In September 2023, the Company welcomed a new Chief Finance Officer, Simon Kilonback, to collaborate with the Chief Executive Officer, Mark Wild and other leaders to drive the transformation of the Company and enhance performance for our customers. The primary focus has been on understanding the challenges the Company faces, and developing a revised business plan for the current regulatory period. This plan is designed to significantly recover the Company's operational efficiency following a challenging 2022/23, deliver on the Company's regulatory obligations, address additional cost pressures, and bolster the Company's resilience to provide a safe network for its customers.

In May 2024, it was announced that our CEO, Mark Wild, will be moving to a new role in the coming year having been asked by the Government to lead the high-speed rail project HS2. The search for his successor is already under way.

During the year the Company generated revenues of £901m (2023: £821m), delivering £363m (2023: £291m) of operating profits, and enabling £328m (2023: £274m) to be invested on new and existing assets.

The majority of turnover was generated from charges to gas shippers for transporting gas through the network, with prices regulated by the governing body, Ofgem. The annual revenues are predominantly fixed in accordance with the profile outlined by the price control settlement, which dictates the pricing of the Company's services to gas shippers. The year on year increase is predominantly as a result of increased allowances due to inflationary increases, and the inclusion of the Governments 'super tax' deduction scheme. These and other allowances, such as totex and non-operational costs are recovered through SGN's capacity and commodity charges.

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

Replacement expenditure, linked to the ongoing replacement of predominantly cast-iron pipes with polyethylene pipes, amounted to £231m (2023: £185m). The year on year movement was due to an increase in contractor costs used to fulfil the replacement of 535km of pipe (2023: 562km).

Capital expenditure (excluding replacement expenditure) during the year amounted to £97m (2023: £89m). This increase was driven by the purchase of new vehicles to upgrade the Company's aged fleet, as well as the phasing of other investments across the RIIO-GD2 period.

During the year, the Company had a £300m fixed rate public bond that matured in October 2023, and additionally the Company prepaid £300m of outstanding EIB loans in October 2023. These repayments were refinanced through capital market activity in 2022/23 and by further capital issuance of £500m in fixed rate public bonds in September 2023.

In the coming financial year, the Company has a £350m fixed rate public bond maturing in February 2025.

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report for the Year Ended 31 March 2024

This has been part-refinanced by £325m (equivalent) of fixed rate private placement notes that were priced in March 2024 and drawn after the balance sheet date in April and June 2024.

The Company paid dividends of £25m (2023: £47m) during the year. No further dividends were declared for 2023/24.

Treasury policies and capital structure

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

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

Liquidity risk

Liquidity is maintained through a mixture of long-term borrowings and short-term liquid funds in order that there are sufficient funds available for the Company's current and planned operations. Committed facilities are in place in order to provide funding for future capital and replacement expenditure as well as to provide sufficient available facilities to meet the seasonal working capital requirements of the Company. The revolving credit facility totalled £600m for the Group (2023: £360m) and is in place until March 2027; as at 31 March 2024 £60m was drawn (2023: undrawn). During the year the commitment split between Scotland Gas Networks plc and the Company for the Group's RCF was amended such that at 31 March 2024 the Company's committed revolving credit facility amounted to £450m (2023: £340m), of which £60m was drawn (2023: undrawn). This was fully repaid in April 2024.

Counterparty credit risk

The Company transacts with banks for the provision of deposits, interest rate, inflation and currency hedging transactions. Under the Group's hedging policy, counterparties must maintain minimum credit ratings with appropriate collateral posting and replacement thresholds based on each counterparty's long-term credit ratings. At the year end the Company had £91m payable relating to financial instruments with bank counterparties (2023: £74m).

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

Pension commitments

A proportion of the Company's employees are members of the Scotia Gas Networks Pension Scheme, which was closed to new entrants in 2002, and which provides final salary defined benefits for members.

The Company accounts for any pension asset or liability in accordance with FRS 102. The net pension surplus as at 31 March 2024 was £131m (2023: £148m). The Company's normal pension contributions remain at 37.3% in line with previous years. Deficit contributions were not payable in the year ended 31 March 2024, nor in the year ended 31 March 2023.

Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2024

Dividend policy

The Company's policy is to manage the level of distributions after taking into consideration the expected cash flows and investment plans across the business, compliance with applicable regulatory requirements, the level of committed funding available as well as the financial covenants and credit metrics of the Company, and targets set by the Board. The inherent risk in the business and the wider economy is also considered.

Accounting policies

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

OPERATIONAL REVIEW

Safety

Board responsibility

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

Gas escapes standards of service

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

In our capacity as the National Gas Emergency Service, we responded to over 121,400 reported gas escapes across the network during 2023/24. During the year ended 31 March 2024 we attended 98.4% (2023: 91.8%) of uncontrolled gas escapes within one hour and 98.9% (2023: 92.4%) controlled gas escapes within two hours.

Gas networks' regulation

The year ended 31 March 2024 was the third year of the RIIO-GD2 price control, which set the key elements of revenue, outputs and allowed returns until 31 March 2026.

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

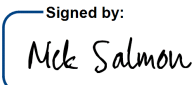
Southern Gas Networks Plc (Registered number: 05167021)

Strategic Report
for the Year Ended 31 March 2024

Further details

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

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY:

Signed by:

.....B044CB5BC6E1453.....
Nicholas Robin Salmon (Chair) - Director

Date: 25-07-24 | 5:09 PM BST
.....

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

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

PRINCIPAL ACTIVITY

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

DIVIDENDS

The Company paid an interim dividend of £25m (2023: £47m). The Directors do not recommend the payment of any final dividend for the year (2023: £nil).

FUTURE DEVELOPMENTS

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

EVENTS SINCE THE END OF THE YEAR

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

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2023 to the date of this report.

Charlotte Brunning
Paul Jeffery
Charles Thomazi (Alternate)
Nicholas Robin Salmon (Chair)
Michael Botha
Martin Catchpole
Rebecca Lumlock
Felipe Ortiz
Paul Trimmer
Jeffrey Rosenthal
Christian Fingerle
Michael Oswald Smart
Antoine Kerrenneur

Other changes in directors holding office are as follows:

Laura Sandys - resigned 31 October 2023
Matthew Jonathan Gross - appointed 4 January 2024
Joanna Sarah Whittington - appointed 19 October 2023
Antoine Kerrenneur – resigned 15 April 2024
Charles Thomazi (Alternate) – resigned 12 June 2024

DIRECTORS' INSURANCE AND INDEMNITIES

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

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

REVIEW OF BUSINESS

The review of business for the year, including an analysis using key performance indicators, together with a description of the principal risks and uncertainties facing the Company are set out in the strategic report.

FINANCIAL RISK MANAGEMENT

The Company's funding, liquidity and exposure to interest rates, foreign exchange and credit risks are managed within a framework of policies and guidelines which are authorised by the Board of Directors.

Interest rate risk

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

Inflation rate risk

The Company's regulated asset base and turnover are linked to inflation as measured by CPIH, which can decrease as well as increase. The Company partially manages this risk by maintaining a level of inflation-linked debt, whereby the interest and final principal payment on this debt is linked to inflation. As a matter of policy the Company aims to maintain around 35% of its debt portfolio in inflation linked. The Company also uses inflation-linked swaps, where necessary, to achieve this profile. This policy is kept under review and is updated as deemed necessary by the Board.

Foreign exchange risk

The majority of the Company's borrowings are denominated in Pound Sterling, so there is no foreign exchange risk on these borrowings. 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.

In March 2024, Southern Gas Networks plc issued \$202m (£202m equivalent) in private placement notes, for which the drawings occurred in April and June 2024. 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.

The Company is party to contracts for the provision of various goods and services where the payment currency for the contract is not in Pound Sterling. The Company may enter into short-term foreign exchange transactions, including derivative financial instruments, to hedge any foreign exchange risk arising from payments under these contracts. As a result the Company does not carry a material exposure to foreign exchange.

Liquidity risk

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

Credit risk

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

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

Pricing risk

The Company's gas transportation charges are subject to price control formulae set within the regulatory regime. The Company's maximum allowed revenue in a given price period is dependent upon a number of factors that are not known in advance and therefore the maximum allowed annual revenue is not known until the end of the relevant period.

However, transportation tariffs are set on a prospective basis, so actual revenue received or receivable in any one year may differ from the maximum allowed revenue. Where revenues received or receivable differ from the maximum allowed annual revenue, adjustments are made to future prices to reflect this over or under recovery.

EMPLOYEES

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

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

GOING CONCERN

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

The Directors have forecast cash flows of the company for the next twelve months to 31 July 2025 (the going concern period) and have obtained a support letter from Scotia Gas Networks Limited confirming that it can and will support the Company in meeting its liabilities throughout the going concern period.

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

Consequently, the Directors believe that the Company will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for the going concern period, being twelve months (to 31 July 2025) from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2024**ENVIRONMENT AND SUSTAINABILITY**

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

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

	2023/24		2022/23		Annual Movement Decrease/(increase)	
	Tonnes of CO2e	Tonnes of CO2e per £1m turnover	Tonnes of CO2e	Tonnes of CO2e per £1m turnover	Annual Tonnes of CO2e	Tonnes of CO2e per £1m turnover
Scope 1						
Energy consumption (excluding electricity)	586	0.65	2,730	3.32	(2,144)	(2.67)
Transport (direct commercial vehicles and business miles)	7,556	8.39	7,033	8.57	523	(0.18)
Scope 2						
Electricity consumption	35	0.04	20	0.02	15	0.02
Scope 3						
Rail, air and ferry travel	22,444	24.91	21,223	25.85	1,221	(0.94)
Total (excluding shrinkage)	30,621	33.99	31,006	37.76	(385)	(3.77)
Shrinkage	492,467	546.58	513,709	625.71	(21,242)	(79.13)
Total carbon emissions	523,088	580.57	544,715	663.47	(21,627)	(82.90)

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

Methodology

Data provided here is in line with annual regulatory reporting of carbon footprint to Ofgem using Defra conversion factors. Greenhouse gas emissions are calculated in alignment with the Greenhouse Gas Protocol, operational control. Conversion factors are updated annually. Where market-based factors are stated, these are provided annually by our electricity suppliers. Total annual net emissions figure uses market-based methodology.

Commentary on changes

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

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

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

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

Our business travel has again increased this financial year compared to last. It is worth noting that our business travel emissions are still much lower than they were pre-pandemic.

Using technology and video calls have become more embedded in our ways of working. We know that the biggest impact of our Scope 3 comes from products and services that we procure. We are working towards capturing material Scope 3 categories and provide full disclosure.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

The Board has considered the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations'). For accounting years beginning on or after 1 January 2019, companies that meet certain thresholds are required to report under four corporate governance reporting regimes:

1. Employee Engagement - A statement on how Directors have engaged with employees and how Directors have had regard to employee interests.
2. Stakeholder Engagement - A statement on how directors have engaged with stakeholders and how directors have had regard to stakeholder interests.
3. Section 172 - A statement on how Directors have had regard to their Section 172 duty to promote the success of the Company, as set out in the Companies Act 2006.
4. Corporate Governance - A statement on the Company's Corporate Governance Arrangements and how these have been applied.

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

Wates Principles

For the year ended 31 March 2024, under the Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018. A full copy can be viewed on its website under www.frc.org.uk/directors/corporate-governance-andstewardship/governance-oflarge-private-companies.

The Wates Principles provide a framework for the SGN Board to monitor corporate governance of the Company and see where governance standards can be raised to a higher level across the business. We believe this, in turn, will result in better engagement with our stakeholder base.

The governance framework will also provide the right environment for the Board to make decisions for the long-term success of the Company. Throughout 2024/25, the Board will support the Company in implementation of its new Corporate Governance Structure.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

The six Wates Principles are as follows:

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.

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.

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.

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.

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.

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.

Corporate Governance

In the following section of the Directors' Report, we describe how we have applied the Wates Principles in line with its 'comply or explain' model and confirm full compliance with its principles for the reporting year ended 31 March 2024:

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.

Our purpose is to serve our communities by keeping everyone safe and warm. It's why we exist. Our values are safety, innovation, reliability, openness and respect. Our vision is to give our customers the best clean energy experience.

The Board is responsible for ensuring that values, strategy and culture are aligned with our corporate purpose. Our strategy embeds our purpose, vision and values as key elements to ensure our stakeholders' interests are central to our long-term success.

During the financial year, there was a renewed focus on our purpose, vision and values to cultivate a safe, efficient and engaging culture.

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We have ensured both directors and management engage with employees via informal sessions with the CEO, CFO and other members of the leadership as well as more formal team meetings. Looking ahead to FY 2024/25, we will continue to embed our purpose, vision and values and proceed with a renewed focus on our frontline employees.

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.

The Board comprises eight shareholder nominated Non-Executive Directors, including the Chair to ensure that the balance of responsibilities, accountabilities and decision making across the SGN Group are effectively maintained. The Chief Executive, Chief Financial Officer and Company Secretary attend each Board meeting. Two Independent Non-Executive Directors also sit on the Board of Southern Gas Networks plc.

The Independent Non-Executive Directors bring outside experience in utilities, energy policy and finance, and provide constructive challenge and influence. The composition of the Board is partly determined by the Shareholders' Agreement, and it is considered to be in the best interests of the Company for the CEO, CFO and each shareholder to be represented at meetings. There is an intention for the CEO and the CFO to be added to the Board of Directors in 2024. We consider that there is an appropriate combination of skills, backgrounds, experience and knowledge that promotes accountability.

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

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

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

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.

The Company has a separate Chair and CEO to ensure that the balance of responsibilities, accountabilities and decision making are effectively maintained. The Board receives regular reports on financial and operational performance, customers, people and stakeholders and management of key business risks along with updates on activities and decisions of its committees. Independent Non-Executive Directors provide constructive challenge to the Board's decision-making process.

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

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

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.

The Board seeks out opportunity while mitigating risk. Long-term strategic opportunities and high value investments are presented to the Board. The Executive Committee ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner updating the risk register for any changes in underlying conditions and reporting this through to the Board. Operational and safety risks are regularly reviewed by the Risk, Audit and Assurance Committee and financial risks by the Audit Committee.

The Board formally reviewed and challenged the key strategic risks both at the half and full year point. This encompassed a formal review of emerging risks taking insights from independent sources to help shape this discussion. The Board reviewed the target risks to ensure these reflect the RIIO-GD2 plan and pathway to decarbonisation as well as engagement with regulators to plan RIIO-GD3. The Board also reviewed key investment opportunities.

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

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.

The Remuneration Committee (previously the People & Reward Committee) has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Company's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking. The primary objective is to set remuneration at a level that will enhance the Company's resources by securing and retaining quality people who can deliver our purpose, vision and values and long-term goals for its existing and future stakeholders.

In FY 2023/24, the Board (following a recommendation from the Remuneration Committee) approved the annual salary review of all employees and agreed to proposed changes to both the short-term and long-term incentive plan framework for the Financial Year ensuring these measured both the financial and non-financial performance.

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With the support of the Remuneration Committee the Board is committed to ensure that the talent and succession for the Company's Executive is suitable for the Company's long-term success and diversity and inclusion plays a key role. A Talent Review is planned and will be combined with diversity and inclusion data. This will then be used to feed into the review of the remuneration for key talent.

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.

The Board is aware of the broader impact it has on its various environments, its customers and society in general, and has established corporate social responsibility policies and practices for the SGN Group. The Board is committed to social responsibility, community engagement and environmental sustainability as underpinned by our strategic priorities.

Our priority continues to be our core purpose, to keep everyone safe and warm, with the carbon impact of the gas network and creating a sustainable future for the business also becoming increasingly important priorities. Regular two-way engagement with our stakeholders has been central to this, and their feedback continues to shape our decision-making.

Our Stakeholder, Environment, Social and Governance Committee (SESG) continued to meet during the year, taking account of stakeholder feedback and insight as they continued in their commitments to decarbonise the gas network and further develop our ESG strategy and reporting framework.

We will continue to build our engagement by agreeing a formal, but dynamic, Board stakeholder engagement plan to ensure we continue to foster relationships and put stakeholders at the heart of how we deliver our business.

SGN Governance Structure

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

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

Chair

Our Board is led by our Chair, Nick Salmon, who was appointed on 1 March 2021 and is responsible for the effective running and management of the Board. The roles of Chair and Chief Executive Officer are separate, with clear divisions of responsibilities.

Board of Directors

The Board of Directors is comprised entirely of Non-Executive Directors and is the principal decision-making forum for the Company. Directors are nominated to the Board in accordance with the terms of the Shareholders' and Governance Agreement.

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The Board is collectively responsible for the long-term success of the Company and for setting of a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders. It provides the leadership necessary for the Company to meet its business objectives while ensuring a sound system of internal control and risk management is in place. The powers and the duties of the Directors are determined by legislation and by the Company's Articles of Association. The Board has also adopted a formal schedule of matters detailing key aspects of the Company's affairs reserved to it for decision.

Board constitution and appointments

The Board of Directors comprises eight Non-Executive Directors. This consists of a Non-Executive Chair and seven Non-Executive Directors.

Each of the non-executive Directors are chosen for their diversity of skills and experience.

The Non-Executive Directors scrutinise, measure and review the performance of management; constructively challenge and assist in the development of strategy; review the Company financial information; and ensure systems of internal control and risk management are appropriate and effective.

Roles and responsibilities for each Board Member, Chief Executive Officer, Chief Financial Officer and Group Company Secretary can be found on page 49 followed by their biographies on page 50.

Board Committees

During the year the Board was directly assisted in the discharge of its duties by six Board Committees, whose remit, authority and composition are monitored to ensure continued and appropriate Board support.

Each of the Board Committees provides dedicated focus to a defined area of responsibility. Board Committees act as an advisory body, with the Board retaining oversight and final decision making, except where otherwise delegated by the Board in which case the Committee will act within their agreed authority.

Board Committee membership is determined by the Board. Prior to determining membership, the Board will consider the subject matter of the Committee's purpose and duties to ensure that the membership addresses its specific needs. Membership will assess technical skills, knowledge and experience while recognising the benefits associated with diversity. Each Board Committee is chaired by a Non- Executive Director. Further information on the Board committees is set on pages 40 to 47.

Board effectiveness

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

Chief Executive Officer and Chief Financial Officer

Below the Board, executive responsibility rests with Mark Wild, Chief Executive Officer (CEO) and Simon Kilonback, Chief Financial Officer (CFO). The CEO and CFO are each employed by the Group and are not Directors of the Company although attend each Board meeting. They are supported by the Executive Management Team. Biographical details for the CEO and CFO are set out on page 52.

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In May 2024, it was announced that our CEO, Mark Wild, will be moving to a new role in the coming year having been asked by the Government to lead the high-speed rail project HS2. The search for his successor is already under way.

Executive Committee

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

Board and Executive Reporting

To ensure that all decision making is well-informed, transparent and balanced, careful consideration is given to information provision and flows within the governance framework.

Software is used in order to ensure security, consistency and adequate access. There is detailed guidance provided for best practice paper writing to support the provision of high-quality information and therefore facilitate effective decision making.

The Group Company Secretary is responsible to the Board for the timeliness and quality of information. All Directors have access to the advice and services of the Group Company Secretary.

Conflicts of interest

With effect from 1 October 2008, the Companies Act 2006 has introduced a statutory duty on Directors to avoid conflicts of interest. During the year, the Group Company Secretary formally reviewed all the Directors' reported actual and potential conflicts of interest. The Board then considered and recorded each Director's reported actual and potential conflicts of interest.

In addition, conflicts of interest and governance are included as standing agenda items for every Board Meeting. The Group Company Secretary periodically reviews the Board protocols and governance framework to confirm that they remain fit for purpose and considers any initiatives which could strengthen the governance of the Company and decision making.

Shareholders

SGN has three supportive shareholders. The Board interacts with the shareholder members on a regular basis and always acts fairly with members of the Company.

Board Meetings

There were six scheduled meetings of the Board and an additional six Board calls in 2023/24 in line with the agreed plan of business for the year, and details of Director attendance can be found on page 47.

In the months between full Board meetings, a Board update call provides the opportunity to discuss key business developments, and emerging issues and opportunities, with arrangements also in place should a Board decision or approval be required outside of the above times.

Scheduled meetings of the Board follow an agreed format, with agendas being developed from the Board's annual plan of business and tailored to reflect the current status of projects, strategic workstreams and the

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overarching operating context. Finalisation of meeting content is a collaborative process involving the Chair, Chief Executive, Chief Financial Officer, Chief of Staff and the Group Company Secretary, who ensure adequate time is allocated to support effective and constructive discussion.

Board engagement out of the Boardroom

The Board also ensures it spends time out of the Boardroom with stakeholders. During the year the Board undertook site visits and employee engagement sessions with a number of employees. The Board plans to resume stakeholder engagement sessions going forward. Full details of Board engagement with stakeholders can be found on page 14.

Board activity

The Board splits its time between steering and supervising the organisation across strategy, performance and governance. With Board input, the Group Company Secretary has developed a focused set of priorities for the Board for the year. The aim of developing priorities is to ensure the right items come to the Board at the right frequency to help focus on the issues that matter most to the Company and ensure meeting time is used effectively. The supporting Board papers for each agenda item focus on answering the key questions on the Board's mind. In line with the Board's responsibility for the overall strategic direction of the Company, strategy related issues are discussed at every Board meeting.

The Board has also spent a significant time considering its strategy over the next five years with dedicated strategy sessions. As part of this, the Board has overseen a number of other strategy-related analyses, including, but not limited to: a review of SGN's pathway to the decarbonisation of heat, covering relevant trends in policy, technology, customer and stakeholder expectations; SGN's long-term financial outlook; assessment and prioritisation of growth opportunities; and a review of SGN's key risks.

Further details of the areas which have shaped the Board and Committee agendas during 2023/24 are set out below:

Board Focus	Detailed description
Strategy	<ul style="list-style-type: none"> - Customers: received and provided feedback on progress against the customer strategy and RIIO-GD2 customer experience programme to ensure RIIO-GD2 business plan requirements are met and maintain positive customer experience. - Company Strategy: Company strategy: consideration and approval of group strategy including the delivery of SGN's vision through strategic goals and change initiatives, helping to deliver net zero with least cost and inconvenience to customers, delivering for our stakeholders and engaging SGN's employees. - Regulatory: received and reviewed the SSMC submission for RIIO-GD3. - Cyber Security & IT Resilience: continued to review IT resilience across the business and improved the implementation of the ransomware policy. - Continued review of the ESG and sustainability framework. - Financial: review of overall financing strategy, credit rating and investment strategy - Review of the Repex programme structure including a focus on the Iron Mains Risk Reduction Programme

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Performance

- Financial: review of long-term financial outlook and performance including consideration of dividend proposals, sufficient resources and approval of annual budget.
- Regulatory: continued Board focus and review of regulatory performance, initiatives and RIIO-GD3 planning.
- Safety performance: continued Board focus and review of safety performance and initiatives, including Board site visits and receiving updates HSE interactions.
- Stakeholder: continued Board focus and review of stakeholder performance and initiatives, including receiving and reviewing the annual Customer, Stakeholder & Engagement Group report.
- Operations & Network: review of Shrinkage and Leakage methodology overview.
- Cyber Security: Received a cyber resilience briefing from external experts.
- Employees: received and provided feedback on STIP, LTIP targets, employee salary benchmarking and proposals and continued focus on engagement with employees through 'lets chat' sessions and site visits.

Governance

- Strategic risks - consideration of strategic risks and implementing appropriate governance, monitoring compliance and ongoing risk management.
- Contract strategy and approvals - various significant contracts, including strategies, considered pursuant to the Board schedule of reserved matters.
- Policies and certificates - approved various Group policies and compliance certificates in line with the Governance Framework, such as the insurance renewal, modern slavery statement, sanctions policy, distributions policy and code of conduct.
- Annual Report & Accounts - approval of annual report and accounts prior to submission to the annual general meeting.
- Governance - review and approval of the changes to the Board committee's membership (following the onboarding of new Directors), terms of references and formation of the Nomination Committee.

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Board Committees

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

Audit Committee

Membership

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

Attendees

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

The role of the Committee and principal responsibilities

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

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

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

What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Financial reporting

- Reviewed and considered key accounting judgements, the interim and final financial results and recommended the same for approval by the Board for the annual results for the statutory and regulatory accounts.
- Reviewed and approved the goodwill impairment and carrying value judgements.
- Reviewed the accounting treatment and provisions for key commercial projects.
- Received and discussed the key outcomes from the Financial Reporting Council's review of the Group Annual Report and Accounts for the year ending 31 March 2023.

External audit

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

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Internal audit

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

Risk management and internal controls

- Approved the annual compliance plan and received regular updates on the delivery of the plan.
- Reviewed key outcomes of all internal compliance investigations, including incidents raised via 'Speak Up' channels to help assess risks, trends, and culture across the Group.
- Carried out independent review of 'Speak Up' investigations and approved an enhanced 'Speak Up' investigation process.
- Received external compliance report on compliance with standard licence condition A27 concerning business separation and approved submission to Ofgem.

Regulatory filings and governance

- Approved the Debt to RAV and compliance certificates for Southern Gas Networks plc.
- Monitored the level of non-audit fees and approved any new non-audit services.
- Reviewed the Data Assurance Guidelines for SGN.
- Reviewed the Prompt Payment Code return for SGN.

Looking forward

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

Finance Committee

Membership

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

Attendees

The Chief Financial Officer, Finance Director and Group Treasurer also attend the Finance Committee meetings to represent Management.

The role of the Committee and principal responsibilities

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

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

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

What the Committee has done this year

The Finance Committee held six meetings during the financial year scheduled in advance of Board meetings. The Chair reports on key matters discussed to the Board and, where required, recommends decisions to be ratified by the Board in line with the Committee Terms of Reference.

Key highlights

The key highlights for the year were:

Strategy

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

Governance

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

Looking forward

The Committee's priorities for FY 2024/25 are to monitor the implementation of funding and financial risk management strategies approved in FY 2024/25 to ensure the Group has appropriate management of financial risk and that credit ratings are maintained within target levels. The Committee will also be focused on the refinancing of upcoming funding maturities within the Group to ensure that these are managed to maintain an appropriate funding profile and liquidity position.

Remuneration Committee

Membership

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

Attendees

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

The role of the Committee and principal responsibilities

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

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

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What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Strategy

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

Performance

- Reviewed and agreed short-term incentive plan (STIP) targets for the Financial Year, and long-term incentive plan (LTIP) targets for the three-year period ending 2027, ensuring both included a balanced scorecard of financial and non-financial performance.
- Approved the performance assessments for STIP for the prior Financial Year.
- Reviewed and approved personal objectives for the Chief Executive Officer and Chief Financial Officer and assessed prior year performance.
- Reviewed the succession plan for Executive Directors and other critical roles.

Governance

- Reviewed latest internal reward benchmarking results for Executive, senior and critical employees.
- Reviewed the Diversity & Inclusion Strategy.
- Monitored the recruitment process and appointment of the new CFO (Simon Kilonback) and COO (Darren Elsom).

Looking forward

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

Health and Safety Committee

Membership

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

Attendees

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

The role of the Committee and principal responsibilities

The Health and Safety Committee ('HSC') is a sub-committee of the Board and acts as a scrutineer to ensure the processes for managing health and safety risks are robust. This is delivered through four principles for effective leadership in health and safety: Plan, Do, Check and Act.

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- Plan: set the direction through approving effective health and safety policies; and set health and safety targets across a range of metrics covering members of public, staff and operational activities.
- Do: monitor the execution of those policy statements; review and challenge performance against targets; and review compliance and assurance plans, monitor progress against key safety programmes.
- Check: receive a comprehensive health and safety report for HSC committee; safety performance review and key updates in the CEO report and significant incident notifications from the CEO.
- Act: receive an annual review of health and safety at the HSC; conduct Board member and executive team site safety visits; and update on external audit reports to provide HSC assurance.

What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Strategy

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

Performance

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

Governance

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

Looking forward

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

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Stakeholder, Environment, Social and Governance Committee Membership

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

Attendees

The Chief Executive Officer and the Director of Stakeholder and Communications also attend the Stakeholder, Environment, Social and Governance Committee meetings to represent Management.

The role of the Committee and principal responsibilities

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

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

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

What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Strategy

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

Performance

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

Governance

- Reviewed Director's duties under s172 of the Companies Act 2006.

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Looking forward

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

Nomination Committee

Membership

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

Attendees

The Chief Executive Officer, Chief People Officer and Chief Legal Officer also attend the Nomination Committee meetings to represent Management.

The role of the Committee and principal responsibilities

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

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

What the Committee has done this year

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

Key highlights

The key highlights for the year were:

Governance

- Approved the appointment of Joanna Whittington as sufficiently Independent Director for the Company as required under Standard Special Condition A42 of the Gas Transporters Licence and provision 10 of the Corporate Governance Code 2018.
- Reviewed the Independence and approved the reappointment of the Paul Jeffery as a Sufficiently Independent Director for the Company as required under Standard Special Condition A42 of the Gas Transporters Licence and provision 10 of the Corporate Governance Code 2018.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

- Approved the Appointment of Matthew Gross as Alternate Director to the SGN Group Boards.
- Reviewed and agreed minor updates to the Committee terms of reference acknowledging changes to attendees.
- Appointment of Megan Birtwistle as Company Secretary.

Looking forward

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

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

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

	Board meetings	Audit Committee meetings	Finance Committee meetings	Health and Safety Committee meetings
Directors				
<u>Charlotte Brunning</u>	<u>6/6</u>	<u>-</u>	<u>6/6</u>	<u>-</u>
<u>Michael Botha</u>	<u>6/6</u>	<u>3/3</u>	<u>6/6</u>	<u>-</u>
<u>Martin Catchpole</u>	<u>6/6</u>	<u>3/3</u>	<u>6/6</u>	<u>-</u>
<u>Christian Fingerle</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Paul Jeffery</u>	<u>6/6</u>	<u>3/3</u>	<u>6/6</u>	<u>-</u>
<u>Rebecca Lumlock</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>5/5</u>
<u>Jeffrey Rosenthal</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Nicholas Salmon</u>	<u>6/6</u>	<u>3/3</u>	<u>-</u>	<u>5/5</u>
<u>Laura Sandys*</u>	<u>3/3</u>	<u>-</u>	<u>-</u>	<u>2/2</u>
<u>Paul Trimmer</u>	<u>6/6</u>	<u>-</u>	<u>-</u>	<u>5/5</u>
<u>Joanna Whittington**</u>	<u>3/3</u>	<u>-</u>	<u>-</u>	<u>3/3</u>

Notes to the tables above:

*Laura Sandys resigned as a Director on 31 October 2023.

**Joanna Whittington was appointed as a Director on 19 October 2023.

Southern Gas Networks Plc (Registered number: 05167021)Directors' Report
for the Year Ended 31 March 2024**ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS (continued)**

Directors	Remuneration Committee meetings	Stakeholder, Environment, Social & Governance Committee meetings	Nomination Committee meetings**
<u>Charlotte Brunning</u>	<u>4/4</u>	<u>3/3</u>	<u>1/1</u>
<u>Michael Botha</u>	<u>-</u>	<u>-</u>	<u>1/1</u>
<u>Martin Catchpole</u>	<u>-</u>	<u>-</u>	<u>1/1</u>
<u>Christian Fingerle</u>	<u>-</u>	<u>-</u>	<u>1/1</u>
<u>Paul Jeffery</u>	<u>-</u>	<u>-</u>	<u>1/1</u>
<u>Rebecca Lumlock</u>	<u>4/4</u>	<u>2/2</u>	<u>1/1</u>
<u>Jeffrey Rosenthal</u>	<u>-</u>	<u>1/1</u>	<u>1/1</u>
<u>Nicholas Salmon</u>	<u>-</u>	<u>-</u>	<u>1/1</u>
<u>Laura Sandys*</u>	<u>1/1</u>	<u>2/2</u>	<u>-</u>
<u>Paul Trimmer</u>	<u>4/4</u>	<u>3/3</u>	<u>1/1</u>
<u>Joanna Whittington**</u>	<u>3/3</u>	<u>1/1</u>	<u>1/1</u>

Notes to the tables above:

*Laura Sandys resigned as a Director on 31 October 2023.

**Joanna Whittington was appointed as a Director on 19 October 2023.

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Directors' Report
for the Year Ended 31 March 2024

SGN Board Roles and Responsibilities

The below role specifications set out the clear division of responsibility between members of the Board and ensure adequate focus on areas central to its role.

Chair

Responsible for leading the effective operation and governance of the Board:

- Setting agendas which support efficient and balanced decision-making
- Ensuring effective Board relationships and a culture that supports constructive discussion, challenge and debate
- Ensuring Board members are aware of and understand the views of key stakeholders
- Creating the conditions for overall Board effectiveness

Chief Executive Officer

Responsible for proposing and directing the delivery of strategy as agreed by the Board:

- Leadership and day-to-day management of the Group and Executive Committee
- Engaging with SGN's six key stakeholder groups and leading on related activity

Chief Financial Officer

Responsible for:

- The financial performance of the Group and supporting the Chief Executive Officer in implementing strategy
- Proposing policy and actions to support sound financial management
- Overseeing relationships with debt investors

Non-executive Shareholder Directors

Responsible for:

- Providing constructive challenge to the Board's decision-making processes
- Scrutinising, measuring and reviewing the performance of the Group
- Constructively challenging and assisting in the development of strategy
- Reviewing and challenging the performance of the Group's business against stakeholder interest

Independent Non-executive Directors

Responsible for the same responsibilities as Non-Executive Shareholder Directors, with the addition of:

- Bringing independence to the Board and its decision-making process
- Providing independent insight and support based on relevant experience
- Assessing risk and the integrity of the financial information and controls
- Providing independent input into the Group's strategy to reflect stakeholder interests

Company Secretary

Responsible for:

- Compliance with Board procedures and supporting the Chair
- Ensuring the Board has high quality information, adequate time and the appropriate resources
- Advising and keeping the Board updated on corporate governance developments
- Considering Board effectiveness in conjunction with the Chair
- Facilitating the Directors' induction programmes and training
- Providing advice, services and support to all Directors as and when required

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2024

Nick Salmon, Chair, Non-executive Director

Nick joined the Board in March 2019 and was appointed the Chair of SGN in March 2021. He is also the Chair of Pressure Technologies plc. Previously he was Chair to South East Water Ltd, the Senior Independent Director at both United Utilities plc and Elementis plc, a non-executive Director at Interserve plc and CEO of Cookson Group plc and Babcock International Group plc. Nick is member of the Audit Committee and is the Chair of the Health and Safety Committee and Nomination Committee.

Charlotte Brunning, Non-executive Director

Charlotte joined the Board in May 2018. She is a member of the EMEA Infrastructure and Natural Resources team and had been with Ontario Teachers' since 2015. She has been involved in a number of direct investments, including London City Airport, ADNOC, SGI and SGN Smart. Charlotte holds a B.Sc. from the London School of Economics and an MBA from the London Business School. Charlotte is also director of Galaxy Pipeline Assets Holdco Limited, Apple Newco Limited, SGI and Scottish Hydro Electric Transmission plc. Charlotte serves as the Chair of the Remuneration Committee. She is also member of the Finance Committee, Nomination Committee and the Stakeholder, Environment, Social and Governance Committee.

Martin Catchpole, Non-executive Director

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

Paul Trimmer, Non-executive Director

Paul joined the Board in March 2022 and is a Senior Advisor to Global Infrastructure Partners ('GIP') focusing on its energy sector. He has been a Board Director of FluxSwiss, CLH-PS and Interconnector UK and is an Advisory Board Member for Carbon Connect (an entity supporting the UK's transition to Net Zero). Previously, Paul spent 32 years in Shell, including as an Executive Director of Comgas and Transredes. Paul is also a Partner in Atosú. Paul is member of the Remuneration Committee, Nomination Committee, the Health and Safety Committee and the Stakeholder, Environment, Social and Governance Committee.

Michael Botha, Non-executive Director

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

Rebecca Lumlock, Non-executive Director

Rebecca joined the Board in March 2022 and is an Operating Partner in Brookfield. She is also currently Interim CEO of Freightliner, the UK rail freight company. Prior to this she worked for Network Rail for five years including as the Managing Director for the Wessex Route, including London Waterloo. She was also their Group executive sponsor for gender.

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Rebecca has worked in the oil and gas industry for over 20 years across four continents, most recently as Managing Director of Dragon LNG, importing liquefied natural gas from around the world to help satisfy the UK's gas demand. Rebecca is member of the Remuneration Committee, Nomination Committee, the Health and Safety Committee and the Stakeholder, Environment, Social and Governance Committee.

Jeffrey Rosenthal, Non-executive Director

Jeffrey Rosenthal is a Managing Director and Operating Partner in Brookfield's Infrastructure Group. He also provides risk management, capital expenditure and ESG oversight as the Group's Chief Risk Officer. Jeffrey is the Chair of the Stakeholder, Environment, Social and Governance Committee and member of the Nomination Committee.

Christian Fingerle, Non-executive Director

Christian joined the Board in May 2022 and is a Senior Managing Director with the StepStone Group. Previously, he was a Member of the Management Board and Chief Investment Officer for Infrastructure at Allianz Capital Partners, responsible for a significant direct and indirect infrastructure investment programme and where he also held various board roles in portfolio companies. Prior to this, Christian worked in various roles within the Allianz Group and Technische Universität München. Christian is member of the Nomination Committee.

Felipe Ortiz, Alternate Director

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

Charles Thomazi, Alternate Director

Charles joined the Board in October 2017 and resigned on 12 June 2024. He leads the EMEA Infrastructure team in Teachers' Infrastructure Group. He attends Board meetings as a substitute to Charlotte Brunning. Charles is Director of Ontario Teachers' Pension Plan (OTPP), Galaxy Pipelines Asset TopCo Limited, Apple NewCo Limited, Scottish Hydro Electric Transmission plc, Sauna HoldCo Limited and related entities and Western TopCo Limited.

Michael Smart, Alternate Director

Michael joined the Board in May 2022 and is a member of the infrastructure and real assets team at StepStone. Prior to joining Stepstone, Michael was a Director in KPMG's Infrastructure Advisory Group, where he led the Energy Transition Strategy team. Michael was previously at National Grid in a variety of roles across operations, strategy, investor relations and M&A.

Antoine Kerrenneur, Alternate Director

Antoine joined the Board in March 2023 and resigned on 15 April 2024. He is a Principal at Global Infrastructure Partners (GIP) focusing on its energy, renewables and utility infrastructure investments. Antoine joined GIP at its inception in 2006, prior to which he spent four years in the Investment Banking division of Credit Suisse in London. Antoine is Director of the Board of Suez SA.

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Report
for the Year Ended 31 March 2024

Matthew Gross, Alternate Director

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

Paul Jeffery, Statutory Independent Non-executive Director

Paul joined the Board in January 2014. Previously he ran the European Power, Utility and Infrastructure Investment Banking Sector team for Barclays. Paul is also a Non-Executive Director for UK Power Networks, London Power Networks Ltd, South-Eastern Power Networks Ltd, Eastern Power Networks Ltd and UK Power Networks (IDNO) Ltd all forming part of the UK Power Networks group. Paul is the Chair of the Audit Committee and a member of the Finance Committee and Nomination Committee.

Joanna Whittington, Statutory Independent Non-executive Director

Joanna joined the Board in October 2023 and has held high-profile roles in energy, transport and economic regulation. Joanna was Director General, Energy and Security at the Department for Business, Energy and Industrial Strategy (BEIS) from 2018 to 2022, and previously worked at Ofgem, where she was responsible for regulation of the wholesale gas and electricity markets. Joanna is Non-Executive Director of Payment Systems Regulator. Joanna is member of the Remuneration Committee, Health and Safety Committee and the Nomination Committee.

Mark Wild OBE, Chief Executive Officer

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

Simon Kilonback, Chief Financial Officer

Simon joined the Company in September 2023. Simon has had 25 years' experience in senior finance roles including 5 years in TFL and a full fibre broadband business.

Nicola Graham-Shand, Chief Legal Officer, Group Company Secretary

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

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Directors' Report
for the Year Ended 31 March 2024

DISCLOSURE IN THE STRATEGIC REPORT

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

AUDITOR

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

- 1) So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 2) The Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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

BY ORDER OF THE BOARD:

DocuSigned by:

812D87E00D78491.....

Nicola Shand - Secretary

25-07-24 | 9:06 AM PDT

Date:

Southern Gas Networks Plc (Registered number: 05167021)

Directors' Responsibilities Statement
for the Year Ended 31 March 2024

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

Opinion

We have audited the financial statements of Southern Gas Networks Plc (the “Company”) for the year ended 31 March 2024 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 33 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company’s affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Due to the Group’s cash pooling arrangements, the Company is dependent on a letter of support provided by its ultimate parent company, Scotia Gas Networks Limited. In assessing the Company’s ability to continue as a going concern we therefore obtained a copy of the letter of support and considered the Group’s going concern assessment and its ability to provide that support.

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

- Understanding and walking through management’s process for and controls related to assessing going concern including discussing with management to ensure all key factors were taken into account;
- Obtaining management’s going concern model and performing mechanical integrity testing thereon. This is for the period to 31 July 2025, and includes details of facilities available, covenant calculations, and the results of management’s sensitivity analysis;
- Comparing both the maturity profile of the debt and the covenants that are required to be met within the going concern period to the debt agreements;

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

- Challenging key assumptions within the forecasts with reference to the RIIO-GD2 regulatory regime;
- Challenging management’s forecasts with reference to the audited results for the year ended 31 March 2024;
- Evaluating how these forecasts have been revised to reflect any impact of climate change;
- Evaluating management’s historical forecasting accuracy by comparing budgets to actual results;
- Assessing the consistency of the going concern assessment with information obtained from other areas of the audit;
- Performing reverse stress testing on the going concern model by understanding what reduction in EBITDA would be required before liquidity is exhausted and considering the likelihood of the events required to breach the covenants;
- Evaluating the Group’s ability to undertake mitigating actions in the base case and severe but plausible downside scenarios and considering whether those actions are within the Group’s control and the timing of when they could be implemented; and
- Reviewing the going concern disclosures in the Company financial statements to determine whether they are in accordance with the relevant reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company’s ability to continue as a going concern for a period of 12 months (to 31 July 2025) from when the financial statements are authorised for issue.

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

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Valuation of the defined benefit obligation
Materiality	<ul style="list-style-type: none"> • Overall materiality of £10.2m which represents 2% of the Company’s EBITDA.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company.

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

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

Climate change

Stakeholders are increasingly interested in how climate change will impact the Company. The Company has determined that the most significant future impacts from climate change on their operations will be from the impact of the shift towards a decarbonised energy system on the future of the gas network and managing changes as we move to a zero-carbon economy. These are explained on page 9 in the principal risks and uncertainties. All of these disclosures form part of the “Other information,” rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on “Other information”.

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

The Company has explained in the “critical accounting judgements and key sources of estimation uncertainty” section on page 80 of the financial statements how climate change has been reflected in the financial statements. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset valuations under the requirements of United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice). In note 13 to the financial statements supplementary sensitivity disclosures of the impact of the useful life of the Company’s network assets as a result of the UK Government’s 2050 net zero target have been provided.

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

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

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

Key audit matters

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

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Value of the defined benefit obligation (£359m, PY comparative £364m)</p> <p>Refer to the Audit Committee Report (page 10); Accounting policies (page 75); and Note 27 of the Financial Statements (page 98)</p> <p>The Company operates a defined benefit pension scheme. Significant estimates and judgements are made in valuing the Company's pension obligation.</p> <p>Due to the quantum of the underlying balance, relatively small changes in key assumptions could have a significant effect on the calculation of the carrying value of the Company's pension obligation. Key assumptions include the scheme duration, discount rate, RPI and CPI inflation rates, salary increases, pension increases and the mortality rate.</p> <p>There is a risk that if one (or several assumptions in aggregate) are outside of an acceptable range, the defined benefit obligation would be incorrectly valued, which would have a significant impact on the Company's financial position.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> ➤ Performed walkthroughs of the pension process to verify our understanding and identify the key controls in place around the valuation assumptions; ➤ Assessed the independence, objectivity and competence of the external actuarial specialist; ➤ With support from our pension actuarial specialists, we independently benchmarked the key assumptions used in valuing the defined benefit obligation against an EY range derived from market data, to determine whether the assumptions were within an appropriate range. This included pension salary increases, the mortality rate, the discount rate, and the RPI and CPI inflation rates; ➤ Performed tests of detail for a sample of the participant data used by the external actuaries to confirm the completeness and accuracy of this data; ➤ Made inquiries of management and read the minutes of the meetings with Trustees, to confirm the completeness of accounting for any pension scheme transactions that have occurred in FY 2024; and ➤ Assessed the compliance of the related disclosures under FRS 102, including the disclosure around the potential impact of the Virgin Media Limited v NTL Pension Trustees II Limited High Court ruling in June 2023 on the Company's pension scheme. 	<p>Based on the audit procedures performed, we consider the valuation of the Company's defined benefit obligation for the year ended 31 March 2024 to be appropriate.</p> <p>The assumptions used in valuing the obligation were within acceptable EY ranges.</p> <p>We consider the disclosures to be appropriate and in accordance with FRS 102.</p>

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

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 Company to be £10.2m (2023: £5.9m), which is 2% of EBITDA (2023: 5% normalised profit before tax). We believe that EBITDA provides us with the most relevant performance measure to the stakeholders of the entity and therefore have used this as the basis for determining materiality. This is a change in basis from the prior year where normalised profit before tax was used, which we believe is no longer the most representative measure that reflects the underlying performance of the Company as it is fluctuating significantly with the volatile inflationary and interest rate environment in the UK. Materiality for the Company has increased year on year as a result of an increase in the underlying business profitability.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2023: 75%) of our planning materiality, namely £7.6m (2023: £4.4m). We have set performance materiality at this percentage following a quantitative and qualitative assessment of prior year misstatements and our assessment of the Company's overall control environment.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2023: £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated.

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

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 54, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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.

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

Other matters we are required to address

- Following the recommendation from the Audit Committee we were appointed by the Company on 30 June 2020 to audit the financial statements for the year ending 31 March 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 4 years, covering the years ending 31 March 2021 to 31 March 2024.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

DocuSigned by:

Ernst & Young LLP

DF059373BFB345C

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
25 July 2024

Southern Gas Networks Plc (Registered number: 05167021)Profit and Loss Account
for the Year Ended 31 March 2024

	Notes	2024 £m	2023 £m
TURNOVER¹	3	901	821
Net operating costs ²		<u>(538)</u>	<u>(530)</u>
OPERATING PROFIT		363	291
Interest receivable and similar income	5	16	10
Interest payable and similar expenses	6	(160)	(155)
Fair value movement on derivatives	11	<u>(12)</u>	<u>(7)</u>
PROFIT BEFORE TAXATION	7	207	139
Tax charge on profit	8	<u>(56)</u>	<u>(35)</u>
PROFIT FOR THE FINANCIAL YEAR		<u><u>151</u></u>	<u><u>104</u></u>

¹Included within Turnover are exceptional items to the sum of £nil (2023: £22m), see note 10 for more details.

²Included within Net operating costs are exceptional items to the sum of £5m (2023: £nil), see note 10 for more details.

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

Southern Gas Networks Plc (Registered number: 05167021)Statement of Comprehensive Income
for the Year Ended 31 March 2024

Notes	2024 £m	2023 £m
PROFIT FOR THE YEAR	151	104
OTHER COMPREHENSIVE LOSS		
Remeasurement on net pension asset	(22)	(70)
Loss arising on cash flow hedges	(1)	(6)
Income tax relating to components of other comprehensive loss	<u>6</u>	<u>19</u>
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	<u>(17)</u>	<u>(57)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>134</u>	<u>47</u>

The notes on pages 68 to 106 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)

Balance Sheet31 March 2024

	Notes	2024 £m	2023 £m
FIXED ASSETS			
Intangible assets	12	210	202
Tangible assets	13	5,154	4,990
Non-current financial assets	14	<u>1</u>	<u>-</u>
		<u>5,365</u>	<u>5,192</u>
CURRENT ASSETS			
Stocks	15	11	-
Debtors	16	116	100
Short term deposits	17	32	207
Cash at bank and in hand	18	<u>12</u>	<u>4</u>
		171	311
CREDITORS			
Amounts falling due within one year	19	<u>(608)</u>	<u>(564)</u>
NET CURRENT LIABILITIES			
		<u>(437)</u>	<u>(253)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		4,928	4,939
CREDITORS			
Amounts falling due after more than one year	20	(2,779)	(2,924)
PROVISIONS FOR LIABILITIES			
	23	(765)	(763)
DEFERRED INCOME			
	24	(306)	(300)
PENSION ASSET			
	27	<u>131</u>	<u>148</u>
NET ASSETS			
		<u>1,209</u>	<u>1,100</u>
CAPITAL AND RESERVES			
Called up share capital	25	160	160
Hedging reserves	26	(5)	(4)
Profit and loss account	26	<u>1,054</u>	<u>944</u>
SHAREHOLDERS' FUNDS			
		<u>1,209</u>	<u>1,100</u>

The financial statements were approved by the Board of Directors and authorised for issue on 25-07-24 | 5:09 PM BST and were signed on its behalf by:

Signed by:



.....B044CB5BCFE1453.....

Nicholas Robin Salmon (Chair) - Director

The notes on pages 68 to 106 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Statement of Changes in Equity
for the Year Ended 31 March 2024

	Called up share capital £m	Profit and loss account £m	Hedging reserves £m	Total equity £m
Balance at 1 April 2022	160	940	-	1,100
Profit for the year	-	104	-	104
Other comprehensive loss	-	(53)	(4)	(57)
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income/(loss)	-	51	(4)	47
Dividends	-	(47)	-	(47)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2023	160	944	(4)	1,100
	<hr/>	<hr/>	<hr/>	<hr/>
Profit for the year	-	151	-	151
Other comprehensive loss	-	(16)	(1)	(17)
	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income/(loss)	-	135	(1)	134
Dividends	-	(25)	-	(25)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2024	<u>160</u>	<u>1,054</u>	<u>(5)</u>	<u>1,209</u>

The notes on pages 68 to 106 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Cash Flow Statement
for the Year Ended 31 March 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Cash generated from operations	31	414	488
Interest paid		(124)	(106)
Tax paid		<u>(34)</u>	<u>(28)</u>
Net cash inflow from operating activities		<u>256</u>	<u>354</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(11)	(5)
Purchase of tangible fixed assets		(320)	(265)
Customer contributions received		13	22
Interest received		<u>9</u>	<u>2</u>
Net cash outflow used in investing activities		<u>(309)</u>	<u>(246)</u>
Cash flows from financing activities			
Issue of debt		496	116
Repayment of debt		(600)	(30)
Receipts from inflation-linked swaps		17	17
Receipts from cross-currency swaps		4	-
Payments of inflation-linked swaps		(1)	-
Payments of cross-currency swaps		(5)	-
Dividends paid		<u>(25)</u>	<u>(47)</u>
Net cash (outflow)/inflow from financing activities		<u>(114)</u>	<u>56</u>
(Decrease)/increase in cash and cash equivalents			
		(167)	164
Cash and cash equivalents at beginning of year	32	<u>211</u>	<u>47</u>
Cash and cash equivalents at end of year	32	<u><u>44</u></u>	<u><u>211</u></u>

The notes on pages 68 to 106 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES**

General information and basis of preparation

Southern Gas Networks Plc 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 Company's principal activity is the development, administration, maintenance and operation of the South and South East of England gas distribution system and the supply of gas transportation services. The nature of the Company's operations is set out in the Strategic Report.

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

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

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

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

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

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

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

The following principal accounting policies have been applied:

Going concern

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

The Directors have forecast cash flows of the company for the next twelve months to 31 July 2025 (the going concern period) and have obtained a support letter from Scotia Gas Networks Limited confirming that it can and will support the Company in meeting its liabilities throughout the going concern period.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

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

Consequently, the Directors believe that the Company will be able to meet its liabilities as they fall due and will have adequate resources to continue in operational existence for the going concern period, being twelve months (to 31 July 2025) from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Turnover

Turnover is stated net of value added tax and is attributable to the continuing activity of transportation of natural gas and the provision of related services. Turnover is recognised to the extent that there is a right to consideration and is recorded at the value of the consideration due.

Fair value movements on derivatives

Fair value movements comprise gains or losses recorded in the income statement arising from the changes in fair value of derivative financial instruments to the extent that hedge accounting is not achieved or it is not effective.

Intangible assets - goodwill

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

Intangible assets - software

Software assets are included at cost, net of amortisation and any provision for impairment. Amortisation is provided on a straight-line basis over their estimated useful economic life of 3 to 10 years. The Company's intangible assets have a remaining useful economic life ranging between 1 - 9 years.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. The cost is the purchase cost of the asset, together with any directly attributable costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. In accordance with Ofgem guidance for gas transportation licensees and as allowable under FRS 102, costs include an element of capitalised overheads which are, as far as reasonably practicable, allocated in accordance with the activities which lead to the generation of the assets. These costs are directly attributable to the associated assets.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**1. ACCOUNTING POLICIES - continued**

Depreciation is recognised on all tangible fixed assets, other than freehold land, at rates calculated to depreciate the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

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

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

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

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

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

Fixed Asset Investments

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

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

Customer contributions

Customer contributions for connections to the network and for replacement expenditure diversions are treated as capital grants. They are accounted for as deferred income (creditors due after more than one year) and released to profit and loss on a straight-line basis over the estimated life of the related asset. The corresponding asset is capitalised within fixed assets and is depreciated over its useful economic life. Customer contributions which have been received by the end of the financial year, for which the corresponding asset has not yet been delivered are treated as creditors due within one year.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

Stocks

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

Financial instruments

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

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

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

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

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

i. Effective interest method

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

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

ii. Financial Assets

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

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

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

iii. Impairment of financial assets

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

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

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

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

iv. Derecognition of financial assets

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

v. Trade debtors

Trade debtors are initially recognised at fair value. The carrying amount is reduced through the use of provision. Appropriate provision for estimated irrecoverable amounts are recognised where the estimated cash flows are less than the carrying amount. Subsequent recoveries of amounts previously written off are credited to the profit or loss.

vi. Cash

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

vii. Short term deposits

Short term deposits comprise of cash deposits that are available with notice of more than 24 hours (one day). These relate to money market funds with an original maturity date of three months or less.

viii. Financial liabilities

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

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

ix. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been incurred principally for the purpose of disposal in the near future; or
- It is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy and information about the Company is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL

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.

x. 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.

xi. De-recognition of financial liabilities

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

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

xii. Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments for risk management purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

On inception of the hedge relationship the Company documents the relationships between the hedged item and the hedging instrument along with the risk management objectives and its strategy for undertaking various transactions. Furthermore, at inception of the hedge and on an ongoing basis the Company documents whether the hedging relationship is highly effective. The Company also uses inflation-linked swaps to hedge the risk arising from its inflation-linked asset base and revenues, which do not qualify for hedge accounting treatment.

Changes in fair value of derivatives that are designated and are effective as hedges of future cash flows are recognised directly in equity within the hedge reserve. The ineffective portion of the hedge is recognised through the profit and loss account.

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

Hedge accounting is discontinued when the hedge instrument expires or is terminated. Financial assets and financial liabilities are offset where they are settled net as a matter of practice and there is legal right to offset.

Taxation

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. ACCOUNTING POLICIES - continued

Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arises from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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

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

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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

Employee benefits

i. Defined benefit pension scheme

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

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the year and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date.

When the calculation results in a net asset to the Company, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling. Any deduction made by the tax authorities in the event of a refund of a surplus would be regarded by the Company as an income tax.

ii. Defined contribution pension scheme

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Impairment of non-financial assets

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

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

Goodwill impairment

The recoverable amount of goodwill is the higher of the value in use or the fair value less cost to dispose. This is derived from measurement of the present value of the future cash flows of the business. Any impairment loss is allocated first to the goodwill, and then to other assets on a pro-rata basis.

Other non-financial assets

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

Borrowing costs capitalised

Borrowing costs which are directly attributable to the construction of qualifying tangible fixed assets are capitalised as part of the cost of those assets. Qualifying tangible fixed assets are considered to be those of significant size or complexity, which typically are under construction for in excess of one year and/or where project costs exceed a pre-determined threshold. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. **ACCOUNTING POLICIES - continued**

Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Borrowing costs are not capitalised in respect of construction projects which do not meet the defined thresholds or relate to replacement expenditure.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably. Provisions are discounted where the impact of discounting the expected future cash flows is material. No provision is required for the repair of gas pipes as these are replaced on an agreed basis with the regulator.

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 Company treats these as a contingent liability until such a time that it becomes probable that the Company will be required to make a payment or the obligation can be estimated reliably.

Interest receivable and Interest payable

Interest payable and similar expenses include interest payable recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

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

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Dividends

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

Exceptional items

Management utilises an exceptional items framework that follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is considered to be one-off in nature.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

1. ACCOUNTING POLICIES - continued

In determining the facts and circumstances, management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, precedent for similar items, number of periods over which costs will be spread or gains earned and the commercial context for the particular transaction.

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

New and amended standards and interpretations

Published in FRED 82 Draft amendments to FRS 102, the Financial Reporting Council proposes significant changes to the approach to revenue recognition and accounting for leases, alongside a number of other amendments. The proposed effective date for these amendments is accounting periods beginning on or after 1 January 2025 (i.e. the year ended 31 March 2026 for the Company). Management expects FRED 82 to have a material impact on the Company's revenue recognition for customer contributions as well as for leases.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting judgements

- a** Cost classification - The Company incur significant staff and contractor costs for fulfilling normal business activities. Management judgement is required to allocate costs between capital, replacement and operating expenditure depending on the nature of the work being performed. Capital and replacement expenditure as reported in the Strategic Report on page 19 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 company balance sheet review when identifying impairment indicators affecting the goodwill of the Company.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**
- continued

- c** Exceptional items - The categorisation of certain items as exceptional follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is within the Company's control and whether the event is considered to be one-off in nature. See note 10.
- d** Supplier of last resort - Management have given consideration to the Supplier of Last Resort (SoLR) mechanism under the Company's regulatory transportation licenses. The Company accounts for SoLR payments as levies, and as such will only be obliged to pay the costs when reciprocating incremental levies are received. In relation to the SoLR mechanism, the Company does not hold inventory risk, does not set the SoLR mechanism pricing and is not exposed to credit risk. As such, it is management's judgment that the Company is acting as an Agent and therefore associated revenues and costs are not shown within Turnover or Net operating costs within the Profit and Loss account. The SOLR mechanism's only impact on the current and prior year financial statements is an immaterial balance originating from timing differences in payment and recovery, which is recorded in other creditors on the Balance sheet.
- e** Customer contributions and interest paid - Cash inflows from customer contributions are presented as cash flows from investing activities in the Cash flow statement, as these are directly associated with capital investment in the Company's gas network. Cash outflows from interest paid are presented in Net cash inflow from operating activities, as the loans these interest payments relate to are directly associated with funding the Company's operations.
- f** Galpin's Road Investigation - Management judgement is required in assessing if the recognition criteria for a provision has been met in relation to the Galpin's Road incident as at 31 March 2024 (as described on page 4). Based on external legal advice, management has concluded that the investigation is not sufficiently progressed to reliably estimate the financial impact or timing of any future obligation. As such the case has been disclosed as a contingent liability (see note 28) until the point at which any economic transfer can be reliably estimated.
- g** Other legal and regulatory cases - Consistent with the nature and size of the Company's operations, the Company is, from time to time, subject to certain legal and regulatory claims. Judgement is exercised by management as to the probability of future cash outflows and the extent to which any outflows can be reliability estimated. Where a future cash flow is assessed as probable and can be reliably estimated, the Company records a provision at the balance sheet date. Where the recognition criteria for a provision is not yet met, the Company records a contingent liability.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**
- continued

- h** Use of our networks beyond 2050 - Climate change poses a global challenge, and we have a key role to play in mitigating its effects by reducing our carbon emissions and assisting our customers in doing the same. Several elements of our financial statements are contingent on the future utilisation of our network. The UK's aim to achieve net zero emissions by 2050 will reshape the use of fossil fuels, thereby affecting our network's operations. Uncertainties persist regarding key aspects of the UK's energy plans, with scenarios range from hydrogen integration via our existing network to gradual decarbonisation favouring a high electrification solution. We are actively evaluating how these scenarios would impact the lifespan of our assets and are heavily investing in demonstrating hydrogen-based solutions. Based on available information we conclude that our network will continue to transport gas (methane, hydrogen, biomethane or other alternatives) beyond 2050. As mentioned in Point A within Significant estimates below, the useful life of assets are significantly impacted by our capability of using the network beyond 2050. See Note 13 for sensitivity analysis on the life of our network.

Key source of estimation uncertainty

- a** Useful lives of assets - The Company depreciates its assets over their useful economic lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The useful economic lives of assets can vary depending on a variety of factors, including technological innovation, climate change and climate related impacts, product life cycles, maintenance programmes as well as the economic life of the gas industry. The depreciation policy is set out in note 1.
- b** Retirement benefit schemes - the assumptions used in accounting for the defined benefit pension scheme are based on estimates and are subject to uncertainties. These assumptions are set out in the employee benefit obligations note and include: the discount rate on scheme liabilities, mortality rates, pension increases, salary increases and inflation. The Company takes advice from independent actuaries on the appropriateness of these assumptions.
- 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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**3. TURNOVER**

Analysis of turnover by class of business:

	2024	2023
	£m	£m
Transportation of natural gas and the provision of related services	901	821

All turnover arose in the United Kingdom.

4. EMPLOYEES AND DIRECTORS

The Company had 317 full time equivalent employees as at 31 March 2024 (2023: 369). The average monthly number of full-time equivalent employees during the year was 339 (2023: 387).

	2024	2023
Field based staff	140	170
Office and other administrative staff	177	199
	<u>317</u>	<u>369</u>

The Independent Directors received remuneration totalling £106,972 (2023: £100,764) for their services to the Company during the year, of which the highest paid Director's share was £41,400 (2023: £38,577). No retirement benefits are accruing in the year or in the prior year to any Directors under money purchase or defined benefit schemes, in respect of their services to the Company. There are 11 directors who did not receive any remuneration in respect of services to the company during the current or preceding financial year. These directors are employed by the SGN Group's shareholders and do not specifically receive any remuneration in respect of the company and the time spent working as a board member on SGN was deemed immaterial.

Staff costs for the Company during the year are as follows:

	2024	2023
	£m	£m
Wages and salaries	18	21
Social security costs	2	3
Pension costs (Note 27)*	16	19
	<u>36</u>	<u>43</u>

*Pension costs include the amount charged in respect of defined contributions schemes and the current service cost on the defined benefit scheme.

The company utilises the services of employees contracted to a fellow group company. The cost of these services recharged to the Company in the year were £108m (2023: £83m) which are included within Net operating costs in the Profit and Loss account but excluded from the table above.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

	2024	2023
	£m	£m
Deposit account interest	9	2
Other interest receivable	-	2
Net defined benefit pension income	<u>7</u>	<u>6</u>
	<u><u>16</u></u>	<u><u>10</u></u>

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2024	2023
	£m	£m
Interest payable on fixed rate instruments	91	78
Interest payable on floating rate instruments	10	2
Interest payable on inflation-linked instruments	46	62
Other interest payable	<u>13</u>	<u>13</u>
	<u><u>160</u></u>	<u><u>155</u></u>

Included within interest payable on inflation-linked instruments is £51m of accretion on RPI-linked debt instruments (31 March 2023: £68m).

Other interest payable includes intercompany loan interest payable of £2m (2023: £1m), facility fees and interest of £4m (2023: £nil), bond amortisations of £6m (2023: £1m), monoline fees of £nil (2023: £9m) and other interest payable of £1m (2023: £2m).

In June 2022, the Company agreed to settle outstanding fees due in relation to certain guarantees provided by Assured Guarantee Corp. (as agent for Syncora Guarantee Inc.) and Assured Guarantee UK Limited that were previously in place over certain outstanding public bond instruments. The cash settlement amount of £9m is included within the "interest paid" line of the comparative period's cash flow statement.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**7. PROFIT BEFORE TAXATION**

The profit is stated after charging/(crediting):

	2024	2023
	£m	£m
Depreciation - owned assets	129	125
Loss on disposal of fixed assets	4	4
Goodwill amortisation	6	6
Computer software amortisation	12	8
Amortisation of customer contributions	(7)	(7)
Operating lease rentals	<u>3</u>	<u>3</u>

Auditor's remuneration for the Company comprises:

- Audit of these financial statements £205,639 (2023: £185,286)
- Audit-related assurance services £58,000 (2023: £52,500)
- Other assurance services £48,000 (2023: £42,000)

8. TAXATION**Analysis of the tax charge**

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

	2024	2023
	£m	£m
Current tax:		
UK corporation tax	53	28
Prior period adjustment	<u>(6)</u>	<u>(3)</u>
Total current tax charge	<u>47</u>	<u>25</u>
Deferred tax:		
Origination and reversal of timing differences	3	2
Prior period adjustment	6	4
Effect of change in tax rate	<u>-</u>	<u>4</u>
Total deferred tax charge	<u>9</u>	<u>10</u>
Tax charge on profit	<u><u>56</u></u>	<u><u>35</u></u>

UK corporation tax has been charged at 25% (2023: 19%).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**8. TAXATION - continued****Reconciliation of total tax charge included in profit and loss**

The tax assessed for the year is higher than (2023: higher than) the standard rate of corporation tax in the UK. The difference is explained below:

	2024	2023
	£m	£m
Profit before tax	<u>207</u>	<u>139</u>
Profit multiplied by the standard rate of corporation tax in the UK of 25% (2023: 19%)	52	26
Effects of:		
Expenses not deductible for tax purposes	2	2
Adjustments to tax charge in respect of previous periods	-	1
Non-deductible goodwill	1	1
Effect of change in tax rates	-	4
Depreciation on non-qualifying assets	<u>1</u>	<u>1</u>
Total tax charge	<u>56</u>	<u>35</u>

Tax effects relating to effects of other comprehensive income

	2024		
	Gross	Tax	Net
	£m	£m	£m
Remeasurement on net pension asset	(22)	6	(16)
Loss arising on cash flow hedges	<u>(1)</u>	<u>-</u>	<u>(1)</u>
	<u>(23)</u>	<u>6</u>	<u>(17)</u>
	2023		
	Gross	Tax	Net
	£m	£m	£m
Remeasurement on net pension asset	(70)	17	(53)
Loss arising on cash flow hedges	<u>(6)</u>	<u>2</u>	<u>(4)</u>
	<u>(76)</u>	<u>19</u>	<u>(57)</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**8. TAXATION - continued**

The standard rate of tax applied to reported profit on ordinary activities is 25% (2023: 19%). At the balance sheet date, Finance (No2) Act 2023 had been substantively enacted confirming that the main rate of UK corporation tax would remain at 25% having increased to this rate from 19% on 1 April 2023. Deferred tax assets and liabilities have been calculated based on the rate that is expected to apply when the deferred tax is reversed which resulted in the Company's deferred tax liability at 31 March 2023 increasing by £4m.

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

9. DIVIDENDS

Interim dividends paid for the year ended 31 March 2024 amount to £25m (15.61p per share) (2023: £47m (29.03p per share)). No further dividends were proposed.

The dividends paid in the current year of £25m were paid in December 2023.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**10. EXCEPTIONAL ITEMS**

	2024 £m	2023 £m
Exceptional items included within turnover:		
Incremental turnover from recovery of costs due to increase in gas wholesale prices*	-	(22)
Exceptional items included within Net operating costs:		
Impairment of tangible fixed assets**	5	-
Included within taxation:		
Tax charge on cost impact of increase in gas wholesale prices	-	4

*In the year ended 31 March 2023, the Company recorded incremental turnover of £22m, as a result of recovering incremental costs charged in the previous periods, which were associated with the rise in wholesale gas prices through its regulated tariffs. These incremental costs were disclosed as exceptional items in the year ended 31 March 2022 and as such the associated income received in the consecutive periods were also disclosed as such. In the year ended 31 March 2024, there are no such exceptional items included within turnover.

**During the year, the Company recognised an impairment loss of £5m (2023: £nil) relating to the development of the property at Balcombe Road, Horley following the decision to abandon the build of the new Head Office. The recoverable amount of the asset was determined based on the fair value less cost to sell using a market valuation.

11. FAIR VALUE MOVEMENT ON DERIVATIVES

	2024 £m	2023 £m
Fair value movements on derivatives:		
Net losses on derivative financial instruments*	12	7
Included within taxation:		
Tax (credit)/charge on net losses on derivative financial instruments	(3)	2

*Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the Statement of Profit and Loss. These exclude gains and losses for which hedge accounting has been effective, which has been recognised directly in the statement of comprehensive income. There was nil impact (2023: £nil) to the cash flow as a result of the fair value movements on financial derivatives. Included within net losses on derivative financial instruments is £25m (2023: £57m) of accretion on CPI-linked swaps.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**12. INTANGIBLE FIXED ASSETS**

	Goodwill £m	Computer software £m	Totals £m
COST			
At 1 April 2023	288	62	350
Additions	-	12	12
Disposals	-	(9)	(9)
Transfer from tangible fixed assets	-	15	15
	<u>288</u>	<u>80</u>	<u>368</u>
At 31 March 2024	<u>288</u>	<u>80</u>	<u>368</u>
AMORTISATION			
At 1 April 2023	103	45	148
Transfer from tangible fixed assets	-	1	1
Amortisation for year	6	12	18
Eliminated on disposal	-	(9)	(9)
	<u>109</u>	<u>49</u>	<u>158</u>
At 31 March 2024	<u>109</u>	<u>49</u>	<u>158</u>
NET BOOK VALUE			
At 31 March 2024	<u>179</u>	<u>31</u>	<u>210</u>
At 31 March 2023	<u>185</u>	<u>17</u>	<u>202</u>

There is no security held against the intangible fixed assets of the Company (2023: none).

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

The goodwill, which arose on the acquisitions of the business by the Company on 1 June 2005, is being amortised on a straight-line basis over 50 years, with 31 years remaining. 50 years is the expected life of the network and is consistent with the long-term outlook of the Regulator.

A review for impairment of goodwill is carried out when there are indicators of impairment. As at 31 March 2024, 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 (2023: £nil).

During the year, a portion of assets, which had previously been recognised as tangible fixed assets, were transferred to intangible fixed assets (software) to reflect their nature more appropriately (2023: £nil).

During the year, the Company wrote off £9m (2023: £65m) of fully amortised assets, that are no longer in use, in line with the Company's accounting policy.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**13. TANGIBLE FIXED ASSETS**

	Freehold property £m	Plant and machinery £m	Motor vehicles and office equipment £m	Totals £m
COST				
At 1 April 2023	101	6,238	88	6,427
Additions	5	301	10	316
Disposals	-	(12)	(5)	(17)
Impairments	(5)	-	-	(5)
Transfer to intangible fixed assets	-	-	(15)	(15)
At 31 March 2024	<u>101</u>	<u>6,527</u>	<u>78</u>	<u>6,706</u>
DEPRECIATION				
At 1 April 2023	41	1,344	52	1,437
Transfer to intangible fixed assets	-	-	(1)	(1)
Charge for year	5	118	6	129
Eliminated on disposal	-	(8)	(5)	(13)
At 31 March 2024	<u>46</u>	<u>1,454</u>	<u>52</u>	<u>1,552</u>
NET BOOK VALUE				
At 31 March 2024	<u>55</u>	<u>5,073</u>	<u>26</u>	<u>5,154</u>
At 31 March 2023	<u>60</u>	<u>4,894</u>	<u>36</u>	<u>4,990</u>

There is no security held against the tangible fixed assets of the Company (2023: none).

Included within Freehold property is the Net book value of land of £5m (2023: £5m).

During the year, the Company recognised an impairment loss of £5m (2023: £nil) relating to the development of the property at Balcombe Road, Horley following the decision to abandon the build of the new Head Office. The recoverable amount of the asset was determined based on the fair value less cost to sell using a market valuation. The impairment losses are included within 'Net operating costs' in the profit and loss account.

During the year, a portion of assets, which had previously been recognised as tangible fixed assets, were transferred to intangible fixed assets (software) to reflect their nature more appropriately (2023: £nil).

Sensitivity to changes in significant estimates

The useful life of the Company's network assets, included in tangible fixed assets above, are significantly impacted by the Company's capability of using its network beyond the Government's net zero target of 2050. The following sensitivity analysis indicates the financial impact a reduction in the life of our network assets would have on the Company's profit and loss and net assets.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**13. TANGIBLE FIXED ASSETS - continued**

	2024 reduction in profit and loss £m	2024 reduction in net assets £m
Additional depreciation charge if useful life of networks assets ends in:		
2050 (UK Government's net zero target)	53	53
2045	96	96
2040	165	165

14. NON-CURRENT FINANCIAL ASSETS

	2024 £m	2023 £m
Derivative financial instruments - cross-currency swaps in hedge relationships	<u>1</u>	<u>-</u>

15. STOCKS

	2024 £m	2023 £m
Materials and supplies	<u>11</u>	<u>-</u>

The amount of inventory recognised as an expense in the year amounted to £nil (2023: £nil).

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2024 £m	2023 £m
Trade debtors	76	83
Amounts owed by group undertakings	30	-
Other debtors	-	1
Corporation tax	-	9
Prepayments and accrued income	<u>10</u>	<u>7</u>
	<u>116</u>	<u>100</u>

Amounts owed by group undertakings includes an intercompany loan due from Scotland Gas Networks plc of £6m (2023: due to Scotland Gas Networks plc of £67m). This is partially offset by an intercompany loan due to SGN Evolve Network Limited (formerly known as SGN Natural Gas Limited) of £5m (2023: £2m).

The loans are both repayable on demand. The loan due from Scotland Gas Networks plc attracts interest at the Bank of England Base Rate plus 1 percent (2023: Bank of England Base Rate plus 1 percent). The loan due to SGN Evolve Network Limited bears interest at the Bank of England Base Rate (2023: Bank of England Base Rate).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - continued**

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

Also included within Amounts owed by group undertakings are intercompany trade balances due from the Group of £29m (2023: £19m).

17. SHORT TERM DEPOSITS

	2024	2023
	£m	£m
Short term deposits	<u>32</u>	<u>207</u>

18. CASH AT BANK

	2024	2023
	£m	£m
Cash at bank	<u>12</u>	<u>4</u>

Cash and cash equivalents contain £2m (2023: £3m) of cash which is contractually restricted to be used on designated innovation projects only and is not available for general use.

19. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2024	2023
	£m	£m
Floating rate debt	60	-
£350m 2.5% fixed rate note due 2025*	350	-
£300m 4.875% fixed rate note due 2023*	-	300
Trade creditors	54	32
Amounts owed to group undertakings	-	50
Social security and other taxes	15	15
Other creditors	7	11
Accrued interest	28	34
Deferred income	25	34
Accruals	<u>69</u>	<u>88</u>
	<u>608</u>	<u>564</u>

* Listed on the London Stock Exchange.

For details of Amounts owed to group undertakings see Note 16.

Included in floating rate debt falling due within one year is a revolving credit facility of £60m (2023: £nil). The total revolving credit facility is £450m (2023: £340m) and expires in March 2027. £60m of this facility was drawn as at 31 March 2024 with a repayment date of 2 April 2024, thus this balance is classified as amounts falling due within one year. The facility was undrawn at 31 March 2023.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

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

	2024	2023
	£m	£m
Borrowings (see note 21)	2,688	2,850
Derivative financial liabilities - inflation-linked swaps	71	59
Derivative financial liabilities - cross-currency swaps	20	15
	<u>2,779</u>	<u>2,924</u>

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

	2024	2023
	£m	£m
Fixed rate debt:		
£350m 2.5% fixed rate note due 2025*	-	349
£375m 4.875% fixed rate note due 2029*	375	374
£75m 2.74% fixed rate note due 2030	75	75
£75m 2.87% fixed rate note due 2033	75	75
£250m 1.250% fixed rate note due 2031*	248	248
£200m 1.250% fixed rate note due 2031	139	-
\$66m 5.630% fixed rate note due 2033	52	53
£100m 2.27% fixed rate note due 2034	100	100
£300m 6.625% fixed rate note due 2035	299	-
\$66m 5.730% fixed rate note due 2035	52	53
£400m 3.1% fixed rate note due 2036*	398	398
£225m 6.375% fixed rate note due 2040*	224	224
	<u>2,037</u>	<u>1,949</u>
Inflation-linked debt:		
£150m 2.066% RPI-linked note due 2025*	296	273
£83m 2.013% RPI-linked note due 2025*	164	152
£15m 2.580% RPI-linked loan due 2028	27	24
£83m 2.013% RPI-linked note due 2035*	164	152
	<u>651</u>	<u>601</u>
Floating rate debt:		
£125m floating rate note due 2025	-	125
£80m floating rate note due 2026	-	80
£60m floating rate loan note due 2026	-	60
£35m floating rate loan note due 2026	-	35
	<u>-</u>	<u>300</u>
Total debt	<u>2,688</u>	<u>2,850</u>

* Listed on the London Stock Exchange.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued**

The above debt instruments are unsecured and are stated after the deduction of unamortised issue costs of £69m (2023: £7m). 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.

In September 2023, the Company submitted a notice of its intention to repay early its floating rate notes amounting to £300m, which were fully repaid as at 31 March 2024.

In September 2023, the Company issued £500m of new fixed rate public bonds with net proceeds (£436m) used to repay and prepay maturing bond and EIB debt in October 2023. £200m of these bonds were raised by 'tapping' an existing 1.25% fixed rate instrument maturing in December 2031 for a cash price of £68 leading to proceeds received of £135m, where the difference between the amounts issued and received is amortised over the remaining life of the instrument.

Certain interest costs in respect of RPI-linked bonds are not payable until the principal amount of the bond is repaid and are included within the carrying value of the debt stated above. Certain interest costs in respect of CPI-linked swaps are not payable until the maturity of the swap. The amount of interest in relation to the RPI-linked bonds included in the carrying value of the debt 31 March 2024 is £320m (2023: £269m). The amount of interest in relation to the CPI-linked swaps included in the carrying value of the debt at 31 March 2024 is £111m (2023: £86m). The amounts debited to the profit and loss account in relation to RPI-linked and CPI-linked accretion during the year amounted to £51m (2023: £67m) and £25m (2023: £57m) respectively.

The total revolving credit facility is £450m (2023: £340m) and expires in March 2027. £60m of this facility was drawn as at 31 March 2024 (2023: undrawn).

21. BORROWINGS

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

	2024	2023
	£m	£m
Between one and five years	862	1,074
After five years	<u>1,826</u>	<u>1,776</u>
	2,688	2,850
On demand or within one year	<u>410</u>	<u>300</u>
	<u><u>3,098</u></u>	<u><u>3,150</u></u>

22. FINANCIAL INSTRUMENTS

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

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**22. FINANCIAL INSTRUMENTS - continued**

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

Categories of financial instrument

The categories of financial liabilities held by the company are as follows:

	2024 £m	2023 £m
Financial assets held at fair value		
Derivative financial instruments – cross-currency swaps	1	-
Total financial assets held at fair value	<u>1</u>	<u>-</u>
Financial liabilities held at amortised cost		
Trade creditors	54	32
Accrued interest	28	34
Accruals	69	88
Borrowings	<u>3,098</u>	<u>3,150</u>
	3,249	3,304
Financial liabilities held at fair value		
Derivative financial liabilities - inflation-linked swaps	71	59
Derivative financial liabilities - cross-currency swaps	<u>20</u>	<u>15</u>
	<u>91</u>	<u>74</u>
Total financial liabilities	<u>3,340</u>	<u>3,378</u>

Valuation of derivatives

The Mark to Market ("MtM") value is calculated using a discounted cash flow method, which discounts the contracted future cashflows of derivatives using a risk-free rate (SONIA). The valuation is subsequently adjusted for the default risk of both the bank counterparty and the SGN entity respectively, by applying the CVA and DVA (together the "net credit risk adjustment").

The Company conducted a review of counterparty credit risk and its own credit risk and concluded that an adjustment was required to reflect the net credit risk in arriving at the fair value of financial instruments stated in the balance sheet. The net credit risk adjustment reduced liabilities by £23m (2023: £28m), of which £18m (2023: £25m) related to inflation-linked swaps and £5m (2023: £3m) to cross-currency swaps. £18m (2023: £25m) was credited to the profit and loss account in the line "Fair value movements on derivatives" and £5m (2023: £3m) was credited to other comprehensive income. The net credit risk adjustment was debited to "Derivative financial liabilities" within "Creditors: amounts falling due after more than one year" as presented in the balance sheet.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**22. FINANCIAL INSTRUMENTS - continued**

The net credit risk adjustment represents the risk of non-performance (or default) of either the counterparty or the Company in relation to financial instruments that require fair value measurements. These adjustments are respectively called Credit Value Adjustments ("CVA") and Debit Value Adjustments ("DVA").

The CVA and DVA are calculated by running two separate Monte Carlo simulations, based on the bilateral credit risk adjustment method. Quoted credit default swap spreads ("CDS") are used to determine counterparty credit curves when calculating the CVA. Z-spreads of senior unsecured public bonds are used to construct a credit curve for the Company when calculating the DVA.

The net credit risk adjustment is made up of a CVA of £3m (2023: £2m) and a DVA of (£26m) (2023: (£30m)). The magnitude of the DVA adjustment as at 31 March 2024 is mainly due to the asymmetric cash flow positions. SGN settle 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 8-13 years, exacerbating the impact of the asymmetric cash flow position.

Cross-currency swaps

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

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

In March 2024, Southern Gas Networks plc issued a total of \$202m in private placement notes, for which the drawings occurred in April and June 2024:

- \$101m 5.77% fixed rate notes due 2034;
- \$101m 5.87% fixed rate notes due 2036.

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

- \$41m converted to £36m with fixed 6.2435% GBP interest payable, due 2033, effective March 2023;
- \$25m converted to £22m with fixed 6.2585% GBP interest payable, due 2033, effective March 2023;
- \$66m converted to £59m with fixed 6.2800% GBP interest payable, due 2035, effective March 2023;
- \$20m converted to £16m with fixed 5.496% GBP interest payable, due 2034, effective June 2024;
- \$30m converted to £24m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- \$51m converted to £40m with fixed 5.495% GBP interest payable, due 2034, effective June 2024;
- \$20m converted to £16m with fixed 5.625% GBP interest payable, due 2036, effective April 2024;
- \$30m converted to £24m with fixed 5.627% GBP interest payable, due 2036, effective April 2024;
- \$51m converted to £40m with fixed 5.627% GBP interest payable, due 2036, effective April 2024.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**23. PROVISIONS FOR LIABILITIES**

	2024 £m	2023 £m
Deferred tax	<u>741</u>	<u>737</u>
Other provisions		
Other provisions	19	20
Environmental provisions	<u>5</u>	<u>6</u>
	<u>24</u>	<u>26</u>
Aggregate amounts	<u>765</u>	<u>763</u>
	Deferred tax	Other provisions
	£m	£m
Balance at 1 April 2023	737	26
Net movement in deferred tax	4	-
Reassessment during the year	-	(2)
Other movement	<u>-</u>	<u>1</u>
Balance at 31 March 2024	<u>741</u>	<u>25</u>

The discount unwind on environmental provisions, included in interest payable and similar expenses in the profit and loss account, was £216,355 (2023: £204,033).

Environmental

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

Other provisions

Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks. The other provisions represent management's best estimates of the future expenditure necessary to settle the obligations. The provision has been discounted and is stated at the present value of the estimated expenditure to settle the obligation. The asbestos related provision is expected to be utilised over the next 28 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next year.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**23. PROVISIONS FOR LIABILITIES - continued****Deferred tax**

Deferred tax is provided as follows:

	2024	2023
	£m	£m
Accelerated capital allowances	703	697
Deferred tax on inflation swaps	5	3
Deferred tax on cash flow hedges	1	-
Deferred tax on retirement benefit obligations	<u>32</u>	<u>37</u>
Deferred tax	<u><u>741</u></u>	<u><u>737</u></u>

The movement in provision for deferred tax is as follows:

	2024	2023
	£m	£m
Opening balance	737	746
Charged to profit and loss account	10	10
Credited to other comprehensive income	<u>(6)</u>	<u>(19)</u>
Deferred tax	<u><u>741</u></u>	<u><u>737</u></u>

The Company is not expecting a reversal of deferred tax in the next financial year. There is no expiry date on timing differences, unused tax losses or tax credits.

Deferred tax has been measured based upon corporation tax rates substantively enacted at the balance sheet date. (Information regarding rates of corporation tax can be found in the taxation note in notes to the financial statements.)

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

The Company has no unrecognised deferred tax assets or liabilities.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**24. DEFERRED INCOME**

	2024	2023
	£m	£m
Deferred income	<u>306</u>	<u>300</u>

Customer contributions

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

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

The amount deferred under this policy was as follows:

	Connections	Replacement	Total
	2024	2024	2024
	£m	£m	£m
Customer contributions brought forward	175	125	300
Customer contributions deferred in the year	8	5	13
Amortisation in year	<u>(5)</u>	<u>(2)</u>	<u>(7)</u>
	<u>178</u>	<u>128</u>	<u>306</u>

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

25. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:

Number:	Class:	Nominal value:	2024	2023
			£	£
160,174,772	Ordinary	£1	<u>160,174,772</u>	<u>160,174,772</u>

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

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**26. RESERVES**

	Profit and loss account £m	Hedging reserves £m	Totals £m
At 1 April 2023	944	(4)	940
Profit for the year	151	-	151
Dividends	(25)	-	(25)
Movement in cash flow hedges	-	(1)	(1)
Defined benefit pension asset	<u>(16)</u>	<u>-</u>	<u>(16)</u>
At 31 March 2024	<u>1,054</u>	<u>(5)</u>	<u>1,049</u>

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

27. EMPLOYEE BENEFIT OBLIGATIONS**Defined contribution schemes**

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

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

	2024 £m	2023 £m
Amount charged in respect of defined contribution schemes	<u>12</u>	<u>9</u>

At the balance sheet date, there were outstanding contributions of £nil (2023: £nil).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**27. EMPLOYEE BENEFIT OBLIGATIONS - continued****Defined benefit schemes**

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

The most recent triennial valuation of the Scheme was carried out at 31 March 2021. The next triennial valuation as at 31 March 2024 is in progress at the signing date of this report. The Company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the Company to measure the Scheme's liabilities on the financial statements, as well as adjusting for benefit accrual and benefits paid by the Scheme. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. In accordance with FRS 102, a limited actuarial review has been carried out by Broadstone Corporate Benefits Limited at 31 March 2024 using the projected unit method.

	As at 31 March 2024	As at 31 March 2023
Key assumptions used:		
Retail price inflation	3.6% p.a.	3.5% p.a.
Consumer price inflation	3.2% p.a.	3.1% p.a.
Rate of increase of pensions payment	3.6% p.a.	3.5% p.a.
Rate of increase of salaries	3.4% p.a.	3.3% p.a.
Discount rate	<u>4.8% p.a.</u>	<u>4.7% p.a.</u>

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

The assumptions relating to longevity underlying the pension liabilities reflect the characteristics of the Scheme membership ('VitaCurves') for base mortality, with an allowance for further improvements in life expectancy in line with the medium cohort adjustments subject to a 1.5% p.a. underpin in the longevity assumption. The assumed life expectations on retirement at age 65 are:

As at 31 March	2024		2023		2022	
	Male	Female	Male	Female	Male	Female
Members currently aged 65	21.8	24.3	22.3	24.7	22.8	24.4
Members currently aged 45	23.8	26.4	24.3	26.8	24.5	27.0

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

The approximate effects of movements in the key assumptions on the defined benefit obligation are shown in the table below:

	Sensitivity	Approximate change in DBO £000
Discount rate	- 0.1% p.a. + 0.1% p.a.	5,340 (5,220)
Price inflation (RPI measure)*	- 0.1% p.a. + 0.1% p.a.	(4,920) 4,980
Life expectancy	- 1 year + 1 year	(9,600) 9,600

*These movements have been calculated assuming that changes in the inflation assumption have a knock-on effect on the pension increase and salary growth assumptions (i.e. the "real" increase rates are maintained). Note that the sensitivities do not allow for the movement in the insured pensioner asset, therefore the net balance sheet movement is smaller.

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

Fair value as at 31 March	2024			2023		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	-	-	-	-	-	-
Government bonds [1]	-	228	228	242	-	242
Corporate bonds	88	44	132	82	63	145
Property	-	-	-	-	-	-
Cash	-	14	14	-	6	6
Insurance contracts	-	116	116	-	119	119
Total market value of assets	88	402	490	324	188	512
Actuarial value of liabilities			(359)			(364)
Net pension asset			131			148

[1] Including LDI repurchase agreement liabilities. After considering the Scheme's strong funding level and the advice of the Scheme's investment advisors, in March 2023 the Scheme's trustees agreed to undertake some further de-risking of the investment portfolio and fully sell out of all equity positions. The proceeds of the sale were invested into LDI assets initially, with a longer-term investment strategy agreed by the Trustees over the course of the 2023/24 financial year. The scheme's sole investment in Government Bonds as at 31 March 2024 is in unquoted LDI assets.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

The fair value of scheme assets at 31 March 2024 are based on the bid price where available. The fair value of property is based on the mid price and the value of the single unit price funds is based on the single unit price.

To reduce the risk of volatility in the Scheme's funding level, a liability driven investment (LDI) strategy forms part of the assets employed within the investment strategy of the Scheme. The LDI strategy contributes to overall hedging levels for the Scheme of 95% for interest rates and 95% for inflation as at 31 March 2024 with respect to the pension scheme liabilities of £0.4bn (valued using the UK government bond yield curve). These LDI assets, which provide both interest rate and inflation protection, are managed by Insight and include a variety of instruments, including UK Government bonds (gilts), interest rate swaps, inflation swaps, gilt repos and corporate bonds. Further interest rate protection is provided by investment grade credit funds, including those managed by Insight and Goldman Sachs. The Scheme has also implemented pensioner buy-ins which contribute to the total interest rate hedging ratios referred to above.

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

	2024	2023
	£m	£m
At 1 April	(364)	(515)
Current service cost	(4)	(10)
Interest cost	(17)	(14)
Actuarial gains	12	152
Benefits paid	14	23
	<u>14</u>	<u>23</u>
At 31 March	<u>(359)</u>	<u>(364)</u>

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

	2024	2023
	£m	£m
At 1 April	512	733
Interest income	24	20
Contributions from the Company	3	5
Remeasurement of scheme assets	(34)	(222)
Benefits paid	(14)	(23)
Administration costs	(1)	(1)
	<u>(1)</u>	<u>(1)</u>
As at 31 March	<u>490</u>	<u>512</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

The actual loss on plan assets was:

	2024 £m	2023 £m
Loss on plan assets excluding interest income	(34)	(222)
Interest income on plan assets	<u>24</u>	<u>20</u>
Actual loss on plan assets	<u>(10)</u>	<u>(202)</u>

Employer contributions for the period ending 31 March 2024 were 37.3% (2023: 37.3%) of monthly salary roll, before allowing for any salary sacrifice contributions. Deficit contributions were not payable in the year ended 31 March 2024, nor in the year ended 31 March 2023.

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

	2024 £m	2023 £m
Current service cost	(4)	(10)
Administration costs	<u>(1)</u>	<u>(1)</u>
Total charged to net operating costs:	(5)	(11)
Expected return on scheme assets	24	20
Interest charge on scheme liabilities	<u>(17)</u>	<u>(14)</u>
Net interest credit	<u>7</u>	<u>6</u>
Total credit/(charge) to the profit and loss account	<u>2</u>	<u>(5)</u>

	2024 £m	2023 £m
Actuarial losses on scheme assets	(34)	(222)
Actuarial gains on scheme obligations	<u>12</u>	<u>152</u>
Losses recognised in other comprehensive income	<u>(22)</u>	<u>(70)</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

A High Court legal ruling in June 2023 (Virgin Media Limited v NTL Pension Trustees II Limited) decided that certain rule amendments were invalid if they were not accompanied by the correct actuarial confirmation. While the ruling only applied to the specific pension scheme in question, if it stands, it will form part of case law and can therefore be expected to apply across other pension schemes. The ruling is subject to appeal and it may take some time for the outcome of the appeal to be known. The Company has not assessed the extent of any likely impacts from this ruling and considers that there is sufficient uncertainty not to warrant recognition of any potential obligation in respect of this in the statement of financial position at 31 March 2024. Any subsequent developments following this ruling will be monitored by the Company.

28. COMMITMENTS AND CONTINGENCIES**Capital commitments**

Capital projects contracted for by the Company but not provided in the financial information amounted to £37m at 31 March 2024 (2023: £38m).

Operating lease commitments

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

	Vehicles		Land and Buildings	
	2024	2023	2024	2023
	£m	£m	£m	£m
- less than one year	1	1	1	1
- between two to five years	2	2	4	4
- after five years	-	-	19	18
Total	<u>3</u>	<u>3</u>	<u>24</u>	<u>23</u>

Contingent liabilities**Galpin's Road Investigation**

The Company 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 Company is continuing to support the investigation. Due to the current stage of the investigation, and the wide range of potential outcomes due to the nature of the sentencing guidelines, it is not possible for management to reliably estimate the financial impact or timing of any future obligation as at 31 March 2024.

Other legal and regulatory claims

The Company is party to various litigation, claims and investigations, including in relation to health and safety matters. These proceedings include claims and litigation matters which, based on the advice of legal counsel, management believes may result in potential liabilities. As of the reporting date, the ultimate outcome of these proceedings is either uncertain or the amount of the obligation cannot yet be reliably estimated. Accordingly, no provision has been recognised in the financial statements for these contingent liabilities.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2024

28. COMMITMENTS AND CONTINGENCIES - continued

Management continuously evaluates the progress of legal proceedings and assesses the likelihood of any potential loss, taking into account available information and legal advice. Should circumstances arise where it becomes probable that a loss will be incurred and the amount can be reliably estimated, appropriate provisions will be recognised in the financial statements at that time.

It is possible that the resolution of these proceedings could have a material adverse effect on the financial position, results of operations, or cash flows of the Company.

29. RELATED PARTY DISCLOSURES

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

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

Scotia Gas Networks Limited is owned by Apple Newco Limited (37.5%) which is indirectly wholly owned by Ontario Teachers' Pension Plan Board, UK Gas Distribution 2 Limited (37.5%) which is indirectly owned by Brookfield Super-Core Infrastructure Partners and Speyside Bidco Limited (25.0%), which is wholly-owned by funds managed by Global Infrastructure Partners (GIP).

It is the opinion of the Directors that the parent Company, Scotia Gas Networks Limited, has no single controlling party.

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

Transactions with Key Management Personnel

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

Transactions with shareholders

The Company had no transactions with shareholders or other related parties in the year ended 31 March 2023 and 2024.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**30. SUBSEQUENT EVENTS**

In March 2024, the Company raised £325m (equivalent) of private placement notes, with drawdowns across the notes occurring in April and June 2024.

The terms of the notes are as follows:

- \$101m 5.77% fixed rate notes due 2034, drawn June 2024;
- \$101m 5.87% fixed rate notes due 2036, drawn April 2024;
- £60m 5.64% fixed rate notes due 2036, drawn April 2024;
- £56m 5.74% fixed rate notes due 2039, drawn April 2024;
- £50m 5.82% fixed rate notes due 2044, drawn April 2024.

The economics of the two USD tranches were converted to GBP using cross-currency swaps with effective dates matching the notes (April and June 2024). Please see note 22 for further details.

The £60m revolving credit facility that was drawn as at 31 March 2024 was repaid in April 2024.

31. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2024	2023
	£m	£m
Profit before taxation	207	139
Depreciation charges	129	125
Loss on disposal of fixed assets	4	4
Amortisation of deferred income	(7)	(7)
Amortisation charges	18	14
(Decrease)/increase in provisions	(1)	12
Interest payable and similar expenses	160	155
Fair value movement on derivatives	12	7
Interest receivable and similar income	(16)	(10)
Other operating cashflows	<u>6</u>	<u>-</u>
	512	439
Increase in stocks	(11)	-
Increase in trade and other debtors	(80)	(24)
(Decrease)/increase in trade and other creditors	<u>(7)</u>	<u>73</u>
Cash generated from operations	<u><u>414</u></u>	<u><u>488</u></u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2024**32. ANALYSIS OF CHANGES IN NET DEBT**

	At 1 April 2023 £m	Cash flow £m	Other non-cash changes £m	At 31 March 2024 £m
Cash				
Cash at bank	4	8		12
Short term deposits	<u>207</u>	<u>(175)</u>	<u>-</u>	<u>32</u>
	<u>211</u>	<u>(167)</u>	<u>-</u>	<u>44</u>
Debt				
Debts falling due within 1 year	(300)	240	(350)	(410)
Debts falling due after 1 year	<u>(2,850)</u>	<u>(136)</u>	<u>298</u>	<u>(2,688)</u>
	<u>(3,150)</u>	<u>104</u>	<u>(52)</u>	<u>(3,098)</u>
Derivative financial instruments				
Derivative financial assets	-	-	1	1
Derivative financial liabilities	<u>(74)</u>	<u>-</u>	<u>(17)</u>	<u>(91)</u>
	<u>(74)</u>	<u>-</u>	<u>(16)</u>	<u>(90)</u>
Total	<u>(3,013)</u>	<u>(63)</u>	<u>(68)</u>	<u>(3,144)</u>

33. MAJOR NON-CASH TRANSACTIONS

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