

REGISTERED NUMBER: 05167021

Southern Gas Networks Plc

Strategic Report, Directors' Report and

Audited Financial Statements for the Year Ended 31 March 2026

Southern Gas Networks Plc (Registered number: 05167021)

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for the Year Ended 31 March 2026

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Southern Gas Networks Plc

Company Information
for the Year Ended 31 March 2026

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Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026

The Directors present their strategic report for the year ended 31 March 2026.

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 2026 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 Southeast 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 4.0 million domestic and more than 131,000 industrial and commercial customers. Our Southern network covers south and south-east England, including London, coastal cities, county towns and rural villages. It includes the London boroughs of Lambeth and Southwark, which are among the most densely populated in the country.

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

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

Objectives and Strategy

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

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

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

As a regulated utility at the heart of the national energy system, we understand that the expectations of our customers, stakeholders and wider society are changing. That's why SGN is changing too, transforming how we operate to deliver for all our stakeholders now and in the future.

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Our long-term plan focuses on three areas:

1. Renewing our business

We've laid the foundations for a better business by investing in our people, systems and working environments. We're becoming a more efficient, planning-led organisation that harnesses data and technology to drive continuous improvement and deliver outstanding customer outcomes.

2. Providing resilience and energy security

Our infrastructure is essential to Britain's energy security. It carries up to four times the energy transported by the electricity network during winter. We maintain 99.99% network reliability, respond to emergencies around the clock and invest to keep it safe and resilient.

3. Leading on decarbonisation

The SGN distribution networks are delivering decarbonisation at scale today by working with biomethane producers to carry more green gas than any other distribution networks, while undertaking pioneering hydrogen trials for tomorrow.

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

1. Safety

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

2. Customers

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

3. People

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

4. Productivity

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

5. Future

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

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.

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Strategic Report for the Year Ended 31 March 2026

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

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

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

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

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

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

The framework requires companies to deliver specific outputs, such as environmental or infrastructure improvements. The RIIO framework also includes mechanisms to adjust revenues due to unforeseen events through reopeners and volume drivers.

Ofgem issued its final determination for the RIIO-GD3 regulatory period in December 2025. The final determination sets the licence which then shapes the Company's investment programme and financial performance expectations over the next five years. The RIIO-GD3 settlement has been the result of an extensive process of planning and stakeholder engagement. The final determination set a very challenging target for us to work with in RIIO-GD3 with a 15% reduction in allowances compared to the business plan request. This has led to us challenging the final determination at the CMA on three grounds of appeal.

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Strategic Report for the Year Ended 31 March 2026

- **Safety and reliability of the networks**

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

- **Efficiency**

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

- **Interest rates**

The costs of financing our operations are affected by changes in interest rates. 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, interest rate 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.

PRINCIPAL RISKS AND UNCERTAINTIES

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

SGN enterprise risk management framework

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

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

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

Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026**PRINCIPAL RISKS AND UNCERTAINTIES – continued****SGN enterprise risks**

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

<i>Strategic priorities</i>	<i>What is the risk?</i>	<i>How do we manage it?</i>
Short-Term (0-2 years)		
Risk title: Health and Safety		
Safety Customers People	There is a risk of a major health and/or safety incident which impacts upon SGN customers and/or employees or contractors.	Through SGN's safety management framework and system, plus occupational health framework.
Risk title: Critical Network Information Systems		
Safety Customers Resilience Productivity	There is a risk that SGN's information systems (IT and/or OT), which are critical for the provision of essential energy infrastructure services, fail because of an internal, external or cyber-based event. There is also a risk SGN fails to detect an event or respond effectively to restore those systems within a predefined timeframe.	Through SGN's information security, asset management, procurement and supply chain, and business continuity frameworks.
Risk title: People		
Safety People Resilience Productivity	There is a risk that SGN fails to recruit, develop and retain a sufficiently competent and diverse workforce and leadership team and/or fails to effectively manage industrial relations resulting in inability to meet business and regulatory requirements.	Through workforce and succession planning, recruitment and reward, competency and training, diversity and inclusion frameworks, and ongoing trade union engagement.
Risk title: Operational Delivery		
Safety Customers Resilience Productivity	There is a risk that SGN fails to achieve operational performance targets and/or deliver key operational projects for the achievement of regulatory outputs and/or SGN's strategic objectives.	Through SGN's safe control of operations framework, REPEX delivery programme, procurement and supply chain, and business continuity frameworks.

Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026**PRINCIPAL RISKS AND UNCERTAINTIES – continued**

<i>Strategic priorities</i>	<i>What is the risk?</i>	<i>How do we manage it?</i>
Risk title: Supply Chain Continuity		
Safety Customers Resilience Productivity	There is a risk of significant disruption to supply chain continuity	Through SGN's procurement and supply chain framework.
Risk title: IT Resilience		
Safety Customers Resilience Productivity	There is a risk that SGN's IT Services fail because of an internal, external or cyber-based event. There is also a risk SGN fails to detect an event or to respond effectively to restore those systems within a predefined timeframe.	Through SGN's IT operations, information security, procurement and supply chain and business continuity frameworks.
Risk title: Transformation		
Resilience Productivity Future	There is a risk that SGN fails to successfully implement and embed key transformational initiatives, resulting in misalignment with strategic objectives.	Through executive-level oversight, supported by formal transformation governance and delivery tracking.
Short/Medium-Term (0-9 years)		
Risk title: Legal and Regulatory		
Safety Customers People	There is a risk of SGN failing to comply with legal and regulatory requirements, including licence conditions and regulatory outputs. There is also a risk of losing regulator confidence in SGN's ability to meet these requirements in future.	Through SGN's legal and regulatory compliance framework, supported by the speak up framework.

Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026**PRINCIPAL RISKS AND UNCERTAINTIES – continued**

<i>Strategic priorities</i>	<i>What is the risk?</i>	<i>How do we manage it?</i>
Risk title: Governance and Controls		
Safety Resilience Customers	There is a risk that SGN's enterprise governance framework (including Board governance, enterprise risk management, internal controls and quality/compliance assurance) is not optimal and/or operated in an effective manner.	Through SGN's corporate governance, enterprise risk management, financial control and assurance frameworks.
Risk title: Leadership and Culture		
Safety People	There is a risk of misalignment between our cultural values with leadership commitment and actions, employee behaviours, or organisational systems. Also, there is a risk of Leadership not being alert, agile and able to react to new cultural challenges as they emerge.	Through SGN's Vision and Values, Code of Conduct, leadership development, diversity and inclusion and speak up frameworks.
Risk title: Political and Public Policy		
Future	There is a risk that SGN is unable to shape or respond to the pace of change in the political and public policy landscape.	Through engagement with government, regulators and industry stakeholders, and contribution to policy development.
Medium-Term (3-9 years)		
Risk title: Financial Resilience		
Productivity Resilience Future	There is a risk that SGN is unable to live within its allowances, maintain access to capital markets including investment grade credit ratings, and therefore have sufficient liquidity to service existing debt and contractual obligations as they fall due.	Through SGN's treasury and financial control frameworks.

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PRINCIPAL RISKS AND UNCERTAINTIES – continued

<i>Strategic priorities</i>	<i>What is the risk?</i>	<i>How do we manage it?</i>
Medium/Long-Term (3-10+ years)		
Risk title: Climate Change		
Safety People Resilience Future	There is a risk of failing to assess, mitigate and adapt to the impact of climate change on our business.	Through SGN's environmental sustainability and asset management frameworks.
Risk title: Future of Energy		
Resilience Future	There is a risk that the shift towards a decarbonised energy system results in SGN assets becoming stranded without adequate compensation.	Through engagement with government and industry stakeholders and developing evidence for decarbonisation pathways.
Risk title: Security of Supply and Network Asset Management		
Safety Customers Resilience	There is a risk that SGN will fail to effectively manage its assets and maintain a safe, reliable network and/or fail to respond effectively to an external event which causes significant network disruption, including failure to maintain a secure supply of gas to customers on its networks.	Through SGN's asset management, procurement and supply chain, physical security, information security, and business continuity frameworks.

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Strategic Report for the Year Ended 31 March 2026

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

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

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

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

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.

1. Customers

We safely and reliably deliver gas to 4.0 million homes and more than 131,000 industrial and commercial customers, every day.

How we engaged

The Board considered customer responsibilities with a focus on satisfaction performance, support for vulnerable customers and a fair energy transition. It monitored the Company's strong satisfaction scores and RIIO-GD3 customer output commitments and received detailed reporting on vulnerable customer outcomes and Vulnerability and Carbon Monoxide Allowance (VCMA) fund delivery, including qualitative research on the lived experience of vulnerable households that informed enhancements to frontline training and the Safe and Warm programme.

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Strategic Report for the Year Ended 31 March 2026

Engaging with stakeholders – continued

The Board approved and continued investment in the vulnerable customer assistance programme, endorsed the refreshed RIIO-GD3 Vulnerability Strategy, and approved targeted investment in digital customer channels to improve accessibility. It also supported SGN's decarbonisation pathway, focusing on least-cost consumer outcomes and transparent communication of future energy choices.

2. Government and Regulators

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

How we engaged

The Board maintained close engagement with Ofgem throughout the RIIO-GD3 Final Determination process, reviewing its implications and engaging actively with the CMA following the decision to appeal, and maintained dialogue on cybersecurity and network resilience. It also engaged with the UK Government on decarbonisation policy, hydrogen, biomethane, consumer vulnerability and energy security. The Board approved the CMA appeal submission and RIIO-GD3 Cyber Programme, endorsed the Company's Climate Transition Plan aligned to a 2045 net-zero target, and approved the Company's advocacy strategy and updated regulatory reporting frameworks to reflect RIIO-GD3 obligations.

3. Our People

We employ on average approximately 276 highly skilled and dedicated people across our network, support functions and specialist teams.

How we engaged

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

4. Suppliers, Contractors and Partners

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

How we engaged

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

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Strategic Report for the Year Ended 31 March 2026

Engaging with stakeholders – continued

5. Communities and the Environment

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

How we engaged

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

6. Shareholders and Debt Investors

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

How we engaged

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

Conclusion

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

Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026**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 2026	Year ended 31 March 2025
Revenue	Income relating to the transportation of natural gas and provision of related services	£897m	£799m
EBITDA	Earnings before interest, tax, depreciation and amortisation is used as a measure of underlying operating performance	£425m	£359m
Operating profit	Profit before financing costs and taxation	£262m	£206m
Cash flow after investing activities	The operating cash flow (excluding interest paid) of the business after investment in fixed assets, including both replacement and capital expenditure.	-£52m	-£73m
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.	£131m	£106m
Replacement expenditure ¹	Replacement expenditure represents the investment in renewing sections of gas network with modern PE pipes to improve future safety and reliability. The sections replaced include mains and smaller diameter service pipes, which connect customers to mains.	£372m	£344m
Net Debt to RAV ratio	Regulated Asset Value (RAV) is defined by our regulators. Net debt excludes liabilities arising from derivative financial instruments and is net of cash and cash equivalents. The percentages stated are as at 31 March.	65.5%	65.6%
Customer satisfaction - planned interruptions ²	Results from customer satisfaction surveys (10 = very satisfied). Planned interruptions on our replacement, capital or routine maintenance works are where timing can be predicted, and the customer has been notified in advance.	9.19	8.95
Customer satisfaction - unplanned interruptions ²	Results from customer satisfaction surveys (10 = very satisfied). Unplanned interruptions arise through leakage or other emergencies.	9.78	9.72

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Strategic Report for the Year Ended 31 March 2026

Key performance indicators – continued

Key performance indicator	Description	Year ended 31 March 2026	Year ended 31 March 2025
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.	98.8%	98.0%
Escapes attendance (controlled)	Proportion of controlled escapes attended in two hours - percentage (target 97%). Controlled gas escapes are defined as those where the gas supply is turned off at the time the customer calls.	99.5%	98.6%
Business carbon footprint	Our business carbon footprint includes Scope 1 and 2 emissions, excluding shrinkage, reported in tonnes of CO ₂ e. Further details can be found on page 23.	11,244 tCO ₂ e	9,254 tCO ₂ e

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

² Based on customer satisfaction survey reports.

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.

Alternative Performance Measure (APM)	Closest equivalent to UK GAAP measure	Adjustments to equivalent UK GAAP measure	Rationale for adjustments
Net debt to Regulated Asset Value (RAV) ratio	Borrowings	Net debt (before issue costs), excluding liabilities arising from derivative financial instruments and net of cash and cash equivalents. RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Governed by specific licence conditions and covenants imposed on us due to the nature of the business.

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Strategic Report for the Year Ended 31 March 2026

Alternative performance measures - continued

Alternative Performance Measure (APM)	Closest equivalent to UK GAAP measure	Adjustments to equivalent UK GAAP measure	Rationale for adjustments
Capital expenditure	Tangible and intangible fixed asset additions	Tangible and intangible fixed asset additions excluding replacement expenditure.	This is an Ofgem driven performance measure. Due to the nature of the business, replacement expenditure is material to the financial statements and thus it should be disclosed separately.
Replacement expenditure		Tangible and intangible fixed asset additions excluding capital expenditure	
Regulated Asset Value (RAV)	Tangible and intangible assets	RAV is as reported to Ofgem in the Regulatory Reporting Pack (RRP). This does not have a statutory equivalent.	Governed by specific license conditions due to the nature of the business.
Cash flow after investing activities	Operating cashflow	Excluding interest paid and including net cash flow from investing activities.	Due to the nature of the business cash flow from core activities are considered to be operating activities and investment in our gas infrastructure.
Network investment	Tangible and intangible fixed asset additions	Total of tangible and intangible additions	Illustrates total capital and replacement expenditure across the network, being a key performance measure.
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	Operating profit	Add back depreciation and amortisation	Illustrates underlying operating performance, which is a key performance measure.

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 260 full time equivalent employees at 31 March 2026 (2025: 287). 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 PlcStrategic Report
for the Year Ended 31 March 2026**FINANCIAL REVIEW**

The Company sets out below its financial review for the year ended 31 March 2026. The comparative figures presented are for the year ended 31 March 2025, as reported in the audited financial statements, unless otherwise stated.

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

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

Ofgem issued its Final Determination for the RIIO-GD3 regulatory period in December 2025, marking the beginning of a new chapter for the business. The Company enters RIIO-GD3 with a resilient financial position, having demonstrated its ability to invest efficiently in network safety and reliability whilst delivering for customers. Our multi-year transformation programme continues to drive operational efficiencies.

For the year ended 31 March 2026, the company generated revenues of £897m (2025: £799m), operating profits of £262m (2025: £206m), and invested £503m (2025: £450m) in network assets. These results reflect our continued commitment to operational control, regulatory compliance and the safe delivery of energy to our customers across Southern England.

The majority of turnover was generated from charges to gas shippers for transporting gas through the network, with prices governed by 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 in allowed revenue was primarily driven by two factors. First, the comparative period (2024/25) included true-up adjustments for prior-year cost over-recoveries, notably in relation to shrinkage and NTS costs, as well as delayed tax relief on capital expenditure. Second, the 2025/26 year benefited from higher pass-through costs and increased inflation recovery.

Operating profit increased by £56m compared to the prior year, driven by an £98m rise in revenue as detailed above. This was partially offset by an increase in operating costs, largely reflecting higher pass-through costs and depreciation of fixed assets.

In managing and reporting the performance of the business, the Company uses Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as an alternative performance measure (APM). EBITDA is a widely used financial metric used as a measure of underlying operating performance. It is a non-FRS 102 measure, presented alongside statutory results to aid comparability between periods. EBITDA for the year ended 31 March 2026 was £425m (2025: £359m), reflecting higher revenue partly offset by increased pass-through costs.

The Company invested £503m (2025: £450m) in fixed assets during the year, a record level of capital investment that reflects the Company's continued commitment to maintaining a safe, reliable and resilient gas distribution network.

Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026**Financial Review – continued**

Replacement expenditure (repex), primarily the replacement of cast-iron and steel pipes with polyethylene (PE), totalled £372m (2025: £344m), with 802km of mains replaced (2025: 766km). This represents a record level of repex delivery in both value and volume terms. Repex delivery was particularly impacted by supply chain pressures, as competition for skilled labour and construction resources from concurrent electricity and water sector infrastructure programmes continued to drive up contractor costs in the region. The Company has worked closely with its supply chain partners to manage these pressures and maintain delivery against its regulatory commitments.

Other capital expenditure of £131m (2025: £106m) included upgrades to our fleet of vehicles to enhance reliability, and software and cyber resilience investments.

The Company's multi-year transformation programme, launched in 2024/25 has gathered pace during 2025/26. The past year has seen us implement a number of productivity improving changes including restructuring our network from 5 regions to 9 regions, as well as continuing to embed our Business Service Centre for transactional back-office processes. We delivered a successful new Logistics partnership with our partner GxO taking on our distribution logistics. Finally, we continued to deliver major property upgrades in support of our front-line operations.

2025/2026 also saw us accelerate into major technology programmes with the implementation programme for Salesforce in our front office operations on track to deliver value in 2026/2027. In our back office, our Oracle Fusion implementation programme is now up and running and will deliver value in 2027/2028 across our people, finance, procurement and payroll functions. These major new technologies will deliver benefit in the RIIO-GD3 regulatory period and ensure that SGN is well positioned when entering the subsequent regulatory period (RIIO-GD4).

The Company's financing strategy is to raise additional capital to fund network investment when the right opportunities present. During the year, the Company issued the following new debt:

- £350 million 14-year fixed rate public bond on 7 May 2025
- £50 million 7-year RPI-linked private placement on 4 November 2025
- CHF53 million 10-year RPI-linked private placement on 11 December 2025
- £75 million 7-year term loan on 26 March 2026

On 21 October 2025, the Company repaid two RPI-linked public bonds with a total principal of £233m (£485m including accretion). For a detailed list of the committed financing that is in place, see Notes 20 and 21 to the financial statements.

The Company paid no dividends during the current or previous financial years. No further dividends were declared for 2025/26.

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.

Southern Gas Networks PlcStrategic Report
for the Year Ended 31 March 2026**Financial Review - continued****Liquidity risk**

Liquidity is maintained through a mixture of long-term borrowings and short-term liquid funds in order that there are sufficient funds available for the Company's current and planned operations. Committed facilities are in place in order to provide funding for future capital and replacement expenditure as well as to provide sufficient available facilities to meet the seasonal working capital requirements of the Company. The total revolving credit facility is £450m (2025: £450m) and expires in March 2029. This facility was undrawn as at 31 March 2026 (2025: undrawn).

Counterparty credit risk

The Company transacts with banks for the provision of deposits, interest rate, inflation and currency hedging transactions. Under the Company's hedging policy, counterparties must maintain minimum credit ratings with appropriate collateral posting and replacement thresholds based on each counterparty's long-term credit ratings. At the year end, the Company had £130m payable relating to financial instruments with bank counterparties (2025: £94m).

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

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

The Company accounts for any pension asset or liability in accordance with FRS 102. As at 31 March 2026, the DB Scheme remained in a surplus position of £120m (2025: £108m). The liabilities have reduced over the year, primarily due to the increase in AA corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities. The reduction has been offset to a lesser extent by an increase in assumed future inflation. The assets have also reduced over the year due to the LDI funds held by the Scheme falling in value in a similar way to the reduction in liabilities. The overall impact was an increase in the surplus over the period.

The Company made no contributions to the DB scheme in the year (2025: £1m) following the closure of the scheme to future accruals in March 2025. See note 27 to the financial statements for further details.

Dividend policy

The Company's policy is to make distributions after careful consideration of the forward cash requirements of the business, including our investment programmes, regulatory gearing, financial covenants and credit metrics, and the broader macroeconomic environment. The Board takes a multi-year view of cumulative performance and forward projections rather than assessing any single year in isolation, and robustly considers our obligations to customers, employees and investors before approving any distribution.

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.

Southern Gas Networks Plc

Strategic Report for the Year Ended 31 March 2026

OPERATIONAL REVIEW

Safety

Board responsibility

The Board has a Health, Safety and Security 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 118,527 reported gas escapes across the network during 2025/26 (2025: 125,810). During the year ended 31 March 2026 we attended 98.8% (2025: 98.0%) of uncontrolled gas escapes within one hour and 99.5% (2025: 98.6%) controlled gas escapes within two hours.

Gas networks' regulation

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

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.

During the year, Ofgem concluded their investigation into potential breaches of competition law with no financial penalties imposed.

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 AND SIGNED ON ITS BEHALF BY:

Signed by:

 C1DB4D84DA0B4D8...

 Antony King - Director

22 July 2026

Southern Gas Networks Plc

Directors' Report for the Year Ended 31 March 2026

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

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 no interim dividend (2025: £nil). The Directors do not recommend the payment of any final dividend for the year (2025: £nil).

FUTURE DEVELOPMENTS

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

EVENTS SINCE THE END OF THE YEAR

Information relating to events since the end of the year is given in note 30 to the financial statements.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 April 2025 to the 31 March 2026.

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

Other changes in directors holding office are as follows:

Felipe Ortiz – resigned 8 May 2025
Paul Jeffery – resigned 1 January 2026
Matthew Gross – resigned 31 March 2026
Afonso Gois – appointed 16 May 2025
Mathew Turnell-Henry – appointed 16 May 2025
Simon Kilonback – appointed 11 September 2025
Antony King – appointed 11 September 2025
Christopher Murray – appointed 1 January 2026

DIRECTORS' INSURANCE AND INDEMNITIES

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

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**REVIEW OF BUSINESS**

The review of business for the year, including an analysis using key performance indicators and an indication of likely future developments in the business, together with a description of the principal risks and uncertainties facing the Company are set out in the Strategic Report on pages 2 to 19.

FINANCIAL RISK MANAGEMENT

The Company's funding, liquidity and exposure to interest rates, foreign exchange and credit risks are managed within a framework of policies and guidelines which are authorised by the Board of Directors. Further detail on financial risk management is set out in the Strategic Report on pages 17 and 18.

Interest rate risk and inflation rate risk

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

Liquidity risk

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

Foreign exchange risk

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

Credit risk

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

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.

Southern Gas Networks Plc

Directors' Report for the Year Ended 31 March 2026

EMPLOYEE ENGAGEMENT

The Company places considerable value on the involvement of its employees. It has continued to keep them informed on matters affecting them and on the various factors affecting the Company.

Participation by employees generally is encouraged through team meetings, briefings, a digital app and an intranet site. The CEO and other senior Executives regularly communicate with employees through these channels and employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

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

RESEARCH AND DEVELOPMENT

The Company is dedicated to innovation of methods and techniques, focusing on areas such as enhanced safety delivery, the development and integration of new materials and working techniques, energy efficiency and information modelling. Further detail on innovation is set out in the Strategic Report on page 3.

POLITICAL CONTRIBUTIONS

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

GOING CONCERN

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

The Directors have forecast cash flows of the Company for the next twelve months (the going concern period) and as liquidity is managed at Scotia Group level, the Directors 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 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

Directors' Report for the Year Ended 31 March 2026

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. This is not yet relevant for Southern Gas Networks plc, 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:

	2025/26		2024/25		Annual Movement ((Decrease/Increase)	
	Tonnes of CO ₂ e	Tonnes of CO ₂ e per £1m turnover	Tonnes of CO ₂ e	Tonnes of CO ₂ e per £1m turnover	Tonnes of CO ₂ e	Tonnes of CO ₂ e per £1m turnover
Scope 1						
Energy consumption (excluding electricity)	120	0.13	300	0.38	(180)	(0.24)
Transport (direct commercial vehicles and business miles)	9,119	10.17	7,454	9.33	1,665	0.84
Scope 2						
Electricity consumption (market based)	4	-	-	-	4	-
Electricity consumption (location based)	2,001	2.23	1,500	1.88	501	0.35
Scope 3						
Business travel (rail, air, ferry, car hire, grey fleet)	625	0.70	520	0.65	105	0.05
Total (excluding shrinkage)	11,869	13.23	9,774	12.24	2,095	1.00
Shrinkage	449,749	501.39	517,473	647.65	(67,724)	(146.26)
Total carbon emissions	461,618	514.62	527,247	659.89	(65,629)	(145.26)

Methodology

Our carbon footprint reporting follows annual regulatory requirements set by Ofgem, using Defra conversion factors. GHG emissions are calculated in alignment with the GHG Protocol under operational control. Additionally, our intensity-based metrics have been agreed with other UK GDNs.

Commentary on changes

Natural gas shrinkage remains the most significant contributor to our carbon footprint. During 2025/26, emissions from shrinkage reduced by 13.1%, from 517,473 tCO₂e to 449,749 tCO₂e. This reduction reflects continued progress in reducing leakage across our network and demonstrates the effectiveness of our ongoing mains replacement programme in reducing leakage. Emissions associated with business mileage and purchased electricity increased during the year, while emissions from gas consumption at our occupied and operational sites decreased.

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

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**GOVERNANCE****Wates Corporate Governance Principles**

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

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.

The Board remained focused on embedding the Company's purpose, vision and values, including overseeing the launch of the refreshed Zero Harm Vision, endorsing the Safety Culture Maturity Roadmap, and receiving long-term energy scenario modelling to 2070. The Board also prioritised visible leadership through site visits and structured employee feedback sessions.

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

2. Board composition

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

The Board oversaw the transition of the Audit Committee Chair, appointed Chris Murray as a SID, reappointed Joanna Whittington for a further three-year term, and appointed the CEO and CFO to the Regulated Boards. SGN was recognised in the 2025 POWERful Women State of the Nation report as one of the top ten performers for women in leadership across the UK energy sector.

For further information of the Board composition and experience can be found on pages 26 and 30 to 32.

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 Board approved new Terms of Reference for the Health, Safety and Security Committee and the Strategy, Stakeholder and Environment Committee, formalising expanded oversight of cyber and physical security and strategic and regulatory planning, respectively. The Board exercised its responsibilities across major commercial contracts, strategic investments, financing transactions and regulatory approvals. Governance was further strengthened through the re-appointment and appointment of the SIDs.

Full details of how Directors fulfil their roles and discharge their responsibilities are found on pages 26 to 35.

Southern Gas Networks Plc

Directors' Report for the Year Ended 31 March 2026

Wates Corporate Governance Principles - continued

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 approved updates to the Group's Enterprise Risk Register, including three new risks (Operational Delivery, RIIO-GD3 and Transformation) and reviewed Risk Appetite Statements for Critical Network Information and IT Resilience risks.

The Company's risk management framework and key strategic risks and mitigations are outlined in the Strategic Report on pages 5 to 9. Details of the key investment opportunities reviewed by the Board can be found on page 33.

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.

During the year, the Board focused on aligning remuneration structures with the Company's strategic priorities under RIIO-GD3, ensuring a clear link between pay, performance and long-term value creation. This included the development and refinement of short- and long-term incentive frameworks, incorporating a balanced range of financial, operational, safety, people and stakeholder measures.

The Board also maintained oversight of market positioning and affordability, informed by external benchmarking and multi-year trend analysis, and supported the implementation of annual pay awards reflecting both internal priorities and external conditions.

Details of activities undertaken by Remuneration Committee can be found on page 34.

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 prioritised workforce engagement and oversight of structured feedback sessions from the workforce. It oversaw an extensive programme of regulatory and government engagement and maintained close oversight of customer performance, including support for vulnerable customers. Environmental and community considerations included oversight of progress against the RIIO-GD2 Environmental Action Plan and development of SGN's Climate Transition Plan, aligned with the Transition Plan Taskforce and outlining our long-term pathway to net zero.

Further details on Engaging with Stakeholders section and Section 172 (1) statement can be found on pages 10 to 12.

Conclusion

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

Southern Gas Networks Plc

Directors' Report for the Year Ended 31 March 2026

SGN Governance Structure

Governance framework

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

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

Chair

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

Board of Directors

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

Board constitution and appointments

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

Full details of Board composition, biographies and the Nomination Committee's work are set out under Principle 2 above and on pages 26, 30 to 32 and 35.

Board Committees

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

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

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**SGN Governance Structure - continued**

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

Committee	Chair 2025/26	Principle responsibilities	Report
Audit Committee (AC)	Paul Jeffery (to Dec 2025) Martin Catchpole (from Jan 2026)	Financial reporting integrity; external audit; internal audit; risk management and internal controls; compliance; regulatory filings	Pages 31;34
Finance Committee (FC)	Michael Botha	Financing and refinancing strategy; distributions; credit rating strategy; treasury policy; financial risk management; investment approvals	Pages 31;34
Health, Safety and Security Committee (HSSC)	Nick Salmon	Health and safety performance and strategy; safety culture; occupational health and wellbeing; compliance and assurance; cyber security governance; physical and personnel security; operational resilience	Pages 30; 35
Strategy, Stakeholder and Environment Committee (SSEC)	Jeffrey Rosenthal	Corporate strategy and energy transition planning; stakeholder and political engagement; advocacy; environmental performance and Climate Transition Plan; customer outcomes; ESG performance	Pages 31;35
Remuneration Committee (RemCo)	Charlotte Brunning (to Nov 2025) Nick Salmon (Interim from Nov 2025)	Executive remuneration; STIP and LTIP frameworks; executive objectives; broader workforce pay considerations; succession and talent pipeline	Pages 30; 34
Nomination Committee (NomCo)	Rebecca Lumlock (Chair)	Board composition; director appointments and reappointments; SID independence assessments; Committee Chair recommendations; diversity and inclusion	Pages 30; 35

Board effectiveness

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

Board engagement

The Board continued to prioritise direct engagement with employees, regulators and wider stakeholders throughout the year. This included site visits, employee engagement sessions and participation in stakeholder and policy discussions. Full details of Board engagement with stakeholders can be found on pages 10 to 12.

Executive Governance

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

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**SGN Governance Structure - continued**

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

Board and Executive Reporting

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

Conflicts of interest

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

During the year, this included individual SIDs withdrawing from relevant items at the Nomination Committee.

Shareholders

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

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:

Directors	Board meetings (6)	AC meetings (5)	FC meetings (7)	HSSC meetings (5)	RemCo meetings (4)	SSEC meetings (4)	NomCo meetings (1)
Rebecca Lumlock	6/6	-	-	5/5	4/4	4/4	1/1
Michael Botha	6/6	5/5	7/7	-	-	-	1/1
Jeffrey Rosenthal	6/6	-	-	-	-	4/4	1/1
Nick Salmon	6/6	5/5	-	5/5	4/4	-	1/1
Charlotte Brunning ¹	4/4	-	4/4	-	2/2	3/3	1/1
James Adam ²	6/6	-	1/2	-	-	0/1	1/1
Martin Catchpole	6/6	5/5	7/7	-	-	-	1/1

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**Attendance at Board and Board Committee Meetings - continued**

Directors	Board meetings (6)	AC meetings (5)	FC meetings (7)	HSSC meetings (5)	RemCo meetings (4)	SSEC meetings (4)	NomCo meetings (1)
Paul Trimmer	6/6	-	-	5/5	4/4	4/4	1/1
Paul Jeffery ³	4/4	4/4	4/4	-	-	-	1/1
Joanna Whittington	6/6	-	-	5/5	4/4	4/4	1/1
Chris Murray ⁴	2/2	1/1	3/3	-	-	-	1/1
Michael Smart ⁵	6/6	-	-	-	-	-	1/1
Matthew Gross ⁶	6/6	-	-	-	-	-	-

Attendance numbers for each committee shown in brackets in the column header reflect the total number of meetings held during the financial year, not the number of meetings for which each individual was eligible.

¹ Charlotte Brunning commenced maternity leave in November 2025. She was absent from the Remuneration Committee, Finance Committee and SSEC for the November 2025 and March 2026 meetings, and from the Board for the January 2026 and March 2026 meetings. Nick Salmon was appointed as Interim Remuneration Committee Chair for the duration of her absence.

² James Adam has been a Director throughout 2025/26 (appointed 30 January 2025). He joined the Finance Committee as a member, replacing Paul Jeffery and Charlotte Brunning from January 2026 (attended 28 January; absent 26 March). He was an SSEC member from March 2026 but was absent on 25 March.

³ Paul Jeffery resigned as a Sufficiently Independent Non-Executive Director on 31 December 2025. Attendance figures reflect only meetings held during his period of service (18 June – 27 November 2025): the Board (4 meetings), Audit Committee (4 meetings), Finance Committee (4 meetings), and Nomination Committee (1 meeting).

⁴ Chris Murray was ratified as Sufficiently Independent Non-Executive Director at the Nomination Committee on 26 November 2025 and became a member of the Board with effect from 1 January 2026. His attendance figures reflect meetings held since his appointment. He joined the Audit Committee as a member in March 2026 and the Finance Committee in January 2026. He attended the Nomination Committee on 26 November 2025 (declaring an interest and withdrawing from the item relating to his own appointment).

⁵ Michael Smart attended meetings in his capacity as an Alternate Director for Stepstone Group throughout the year. From November 2025, he is listed as a Director in attendance at Board meetings. Alternate Directors appear in this table where they attended meetings in their capacity as Alternate Directors during the financial year.

⁶ Matthew Gross attended meetings as an Alternate Director for Brookfield throughout 2025/26 and resigned from the Board on 31 March 2026.

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2026****Rebecca Lumlock, Chair, Non-executive Director**

Rebecca joined the Board in March 2022 and was appointed the Chair in September 2024. Rebecca is an Operating Partner in Brookfield. Previously, she was a member of the Group executive committee at Network Rail responsible for one of the busiest parts of the UK rail network. She also served as CEO of Freightliner, the European rail freight company. Rebecca worked for two decades in senior roles in the oil and gas industry across four continents, most recently as Managing Director of Dragon LNG. Rebecca is also Director of UK Gas Distribution 2 Limited; Galaxy Pipeline Assets Holdco Limited and PD Ports Limited. Rebecca serves as Chair of the Nomination Committee and is member of the Remuneration Committee and the Health, Safety and Security Committee.

Christopher Murray, Statutory Independent Non-executive Director

Chris's expertise stems from over 45 years of experience in the UK Energy sector. In addition to being a 3-time CEO, Chris has 30 years of Non- Executive experience and is currently Chair at Water Resources South East, Chair of Northern Powergrid's Independent Stakeholder Group, a Board Member of the MS Society and a Board Member of the Leicestershire Hospice. Chris is member of the Audit Committee, the Finance Committee and the Remuneration Committee.

Joanna Whittington, Statutory Independent Non-executive Director

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

Nick Salmon, Non-executive Director

Nick joined the Board in March 2019 and served as Board Chair from 2021 to 2024. Previously he was Chair of South East Water Ltd, the Senior Independent Director at both United Utilities plc and Elementis plc, a Non-executive Director of Interserve plc and CEO of both Cookson Group plc and Babcock International Group plc. He is also Chair of Pressure Technologies Ltd. Nick serves as Chair of the Health, Safety and Security Committee and Chair of the Remuneration Committee. He is also member of the Audit Committee and the Health, Safety and Security Committee.

Charlotte Brunning, Non-executive Director

Charlotte joined the Board in May 2018. She is a member of the EMEA Infrastructure and Natural Resources team and has been with Ontario Teachers' since 2015. She has been involved in a number of direct investments, including London City Airport, ADNOC, SGI and SGN Smart. Charlotte holds a BSc from the London School of Economics and an MBA from the London Business School. Charlotte is also Director of Apple Newco Limited; Galaxy Pipeline Assets HoldCo Limited; SGI; Scottish Hydro Electric Transmission plc and Braeburn EquityCo Limited. Charlotte is member of the Finance Committee, the Remuneration Committee, the Strategy, Stakeholder and Environment Committee and the Nomination Committee.

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2026 - continued****James Adam, Non-executive Director**

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

Martin Catchpole, Non-executive Director

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

Paul Trimmer, Non-executive Director

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

Jeffrey Rosenthal, Non-executive Director

Jeffrey joined the Board in June 2022. He is an Operating Partner in Brookfield's Infrastructure Group. He also provides risk management, capital expenditure and ESG oversight as the Group's Chief Risk Officer. Jeffrey is the Chair of the Strategy, Stakeholder and Environment Committee and member of the Nomination Committee.

Michael Botha, Non-executive Director

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

Michael Smart, Non-executive Director

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

Southern Gas Networks Plc

Directors' Report
for the Year Ended 31 March 2026

Directors' and Senior Executives' Biographies and Responsibilities as at 31 March 2026 - continued

Alternate Directors

David Demes - appointed January 2025

Afonso Gois – appointed May 2025

Mathew Turnell-Henry – appointed May 2025

Simon Kilonback, Chief Executive Officer, Executive Director

Simon was appointed CEO of SGN after serving as the Company's CFO since September 2023. Prior to joining SGN, he was the CFO of Transport for London (TfL). Simon was appointed to the Board as an Executive Director in September 2025.

Antony King, Chief Financial Officer, Executive Director

Antony oversees all financial planning, treasury and control activities, along with supply chain management, property and facilities, and business services. Tony was appointed to the Board as an Executive Director in September 2025.

Darren Elsom, Chief Operating Officer

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

Emily Smith-Reid, General Counsel

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

Fungai Makoni, Governance Director & Company Secretary

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

Southern Gas Networks PlcDirectors' Report
for the Year Ended 31 March 2026**Board activity**

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

Board focus: Strategy

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

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

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

Board focus: Performance

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

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

Board focus: Governance

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

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

Southern Gas Networks Plc

Directors' Report for the Year Ended 31 March 2026

Board Committees

Audit Committee

What the Committee has done this year

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

Looking forward

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

Finance Committee

What the Committee has done this year

The Committee oversaw the Company's £175m financing programme, executed through private placements and bank term loans. The Committee approved the removal of Standard & Poor's as a credit rating agency and the appointment of Morningstar DBRS alongside Moody's and Fitch, which is expected to result in savings over RIIO-GD3.

Looking forward

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

Remuneration Committee

What the Committee has done this year

The 2025-26 executive and senior leadership performance and reward cycle was completed, with incentive outcomes assessed against agreed targets. The 2026/27 STIP and 2026-29 LTIP performance measures were approved, and a new long-term incentive framework for senior leaders was agreed in principle. Several significant executive appointments and leadership transitions were supported, alongside the development of a strengthened succession planning framework.

A comprehensive review of executive remuneration from 2021 to 2026 confirmed that overall costs have remained broadly stable and that remuneration remains proportionate and appropriately governed. Workforce reward and people initiatives were reviewed, with oversight applied to the design and calibration of incentive performance measures.

Looking ahead

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

Southern Gas Networks Plc

Directors' Report for the Year Ended 31 March 2026

Board Committees - continued **Health, Safety and Security Committee**

What the Committee has done this year

Health and safety performance improved significantly: the lost-time injury rate and high-potential incidents reduced; zero very serious incidents were recorded; and road traffic collisions continued to improve. Open HSE enforcement actions were reduced. The Committee oversaw the development and launch of the refreshed Zero Harm Vision and approved a multi-year Safety Culture Maturity Roadmap. A key milestone was achieving ISO 45001 certification. The mean time to contain cyber incidents was reduced, and the RIIO-GD3 Cyber Programme was approved by the Board. During the year it was decided to add security to the Committee's remit, including cyber, physical and personal safety. Following the expansion of its remit, the Committee began formally overseeing physical and personnel security arrangements.

Looking forward

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

Strategy, Stakeholder and Environment Committee

What the Committee has done this year

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

Looking forward

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

Nomination Committee

What the Committee has done this year

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

Looking forward

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

Southern Gas Networks Plc

Directors' Report
for the Year Ended 31 March 2026

DISCLOSURE IN THE STRATEGIC REPORT

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

AUDITOR

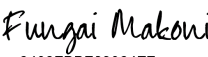
Each of the Directors at the date of this report confirms that:

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

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

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

BY ORDER OF THE BOARD:

Signed by:

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.....
Fungai Makoni - Secretary

22 July 2026

Southern Gas Networks Plc

Directors' Responsibilities Statement for the Year Ended 31 March 2026

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;
- 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; and
- 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 2026 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes 1 to 32 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 2026 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

- Understanding and walking through management’s process for and controls relating to assessing going concern, including discussing with management to ensure all key factors were taken into account;
- Obtaining management’s going concern model and performing mechanical integrity testing thereon. This is for the twelve-month period, 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-GD3 final determination;
- Challenging management’s forecasts with reference to the audited results for the year ended 31 March 2026;
- Evaluating how these forecasts have been revised to reflect any impact of climate change;
- Evaluating management’s historical forecasting accuracy by comparing budgets to actual results;
- Assessing the consistency of the going concern assessment with information obtained from other areas of the audit;
- Performing reverse stress testing on the going concern model by understanding what reduction in EBITDA would be required before liquidity is exhausted and considering the likelihood of the events required to breach the covenants;
- Evaluating the Group’s ability to undertake mitigating actions in the base case and severe but plausible downside scenarios and considering whether those actions are within the Group’s control and the timing of when they could be implemented; and
- Reviewing the going concern disclosures in the 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 twelve months from when the financial statements are authorised for issue.

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

Overview of our audit approach

Key audit matters	• Valuation of the defined benefit obligation
Materiality	• Overall materiality of £10.6m which represents 2.5% of 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. 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.

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

Climate change

Stakeholders are increasingly interested in how climate change will impact the Company. The Company has determined that the most significant future impacts from climate change on its operations will be from the impact of the shift towards a decarbonised energy system on the future of the gas networks and managing changes as we move to a zero-carbon economy. These are explained on page 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” on page 63 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 and 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 on the useful life of the Company’s network assets as a result of the UK Government’s 2050 net zero target have been provided.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on page 9 and the significant judgements and estimates disclosed in note 2 and whether these have been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures (see notes 2 and 13), following the requirements of FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice). As part of this evaluation, we performed our own risk assessment supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

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

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

Key audit matters

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

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
Valuation of the defined benefit obligation (£314m, PY comparative £330m) <i>Refer to the Audit Committee Report (page 9); Accounting policies (page 51); and Note 27 of the Financial Statements (page 80)</i> The Company operates a defined benefit pension scheme, whereby estimates and judgements are made in valuing the Company's pension obligation. Due to the quantum of the underlying balance, relatively small changes in key assumptions could have a significant effect on the carrying value of the Company's pension liability. Key assumptions include the discount rate, RPI and CPI inflation rates, pension increases and the mortality rate. 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.	We performed the following audit procedures: ➤ Performed walkthroughs of the pension process to verify our understanding and identify the key controls in place around the valuation assumptions; ➤ Assessed the independence, objectivity and competence of the external actuarial specialist; ➤ With support from our pension actuarial specialists, independently benchmarked the key assumptions used in valuing the defined benefit obligation against an EY range derived from market data, to determine whether the assumptions were within an appropriate range. This included the discount rate, RPI and CPI inflation rates, pension increases and the mortality rate; ➤ Performed tests of detail for a sample of the participant data used by the external actuaries to confirm the completeness and accuracy of this data; ➤ Made inquiries of management and the scheme Trustees, to confirm the completeness of accounting for any pension scheme transactions that have occurred in FY 2026; and ➤ Assessed the compliance of the related disclosures under FRS 102, including the disclosure around the potential impact of the Virgin Media Limited v NTL Pension Trustees II Limited High Court ruling in June 2023 which was upheld in Court in July 2024 on the Company's pension scheme.	Based on the audit procedures performed, we consider the valuation of the Company's defined benefit obligation for the year ended 31 March 2026 to be appropriate. The assumptions used in valuing the obligation were within acceptable EY ranges. We consider the disclosures to be appropriate and in accordance with FRS 102.

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 £10.6 million (2025: £9.3 million), which is 2.5% of EBITDA (2025: 2.5% of Adjusted EBITDA). We believe that EBITDA provides us with 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 Adjusted EBITDA was used, as in the prior year an adjustment was made to exclude the impact of an infrequent material transaction. There were no such transactions in the current year.

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

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2025: 75%) of our planning materiality, namely £8.0m (2025: £6.9m). 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 (2025: £0.5m), 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. 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.

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 37, 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.

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

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

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

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.

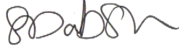
Report of the Independent Auditor to the Members of
Southern Gas Networks Plc

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 6 years, covering the years ending 31 March 2021 to 31 March 2026.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

DocuSigned by:

DF059373BFB345C...

Steven Dobson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
22 July 2026

Southern Gas Networks Plc (Registered number: 05167021)Profit and Loss Account
for the Year Ended 31 March 2026

	Notes	2026 £m	2025 £m
TURNOVER	3	897	799
Net operating costs ¹		<u>(635)</u>	<u>(593)</u>
OPERATING PROFIT		262	206
Interest receivable and similar income	5	22	35
Interest payable and similar expenses	6	(181)	(150)
Fair value movement on derivatives	11	<u>(28)</u>	<u>(5)</u>
PROFIT BEFORE TAXATION	7	75	86
Tax charge on profit	8	<u>(22)</u>	<u>(22)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>53</u>	<u>64</u>

¹Included within Net operating costs are exceptional items to the sum of £7m (2025: £27m), 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 2026

	Notes	2026 £m	2025 £m
PROFIT FOR THE YEAR		53	64
OTHER COMPREHENSIVE INCOME/(LOSS)			
Remeasurement on net pension asset		6	(9)
Gain arising on cash flow hedges		5	6
Income tax relating to components of other comprehensive income/(loss)		<u>(3)</u>	<u>1</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		<u>8</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>61</u>	<u>62</u>

The notes on pages 51 to 89 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Balance Sheet
31 March 2026

	Notes	2026 £m	2025 £m
FIXED ASSETS			
Intangible assets	12	213	205
Tangible assets	13	5,780	5,452
Non-current financial assets	14	<u>17</u>	<u>5</u>
		<u>6,010</u>	<u>5,662</u>
CURRENT ASSETS			
Inventories	15	14	12
Debtors	16	92	115
Short term deposits	17	226	344
Cash at bank and in hand	18	<u>4</u>	<u>9</u>
		336	480
CREDITORS			
Amounts falling due within one year	19	<u>(258)</u>	<u>(692)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>78</u>	<u>(212)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,088	5,450
CREDITORS			
Amounts falling due after more than one year	20	(3,802)	(3,219)
PROVISIONS FOR LIABILITIES	23	(757)	(758)
DEFERRED INCOME	24	(317)	(310)
PENSION ASSET	27	<u>120</u>	<u>108</u>
NET ASSETS		<u>1,332</u>	<u>1,271</u>
CAPITAL AND RESERVES			
Called up share capital	25	160	160
Hedging reserves	26	3	(1)
Profit and loss account	26	<u>1,169</u>	<u>1,112</u>
SHAREHOLDERS' FUNDS		<u>1,332</u>	<u>1,271</u>

The financial statements were approved by the Board of Directors and authorised for issue on 22 July 2026 and were signed on its behalf by:

Signed by:

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 Antony King - Director

The notes on pages 51 to 89 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Statement of Changes in Equity
for the Year Ended 31 March 2026

	Called up share capital £m	Profit and loss account £m	Hedging reserves £m	Total equity £m
Balance at 1 April 2024	160	1,054	(5)	1,209
Profit for the year	-	64	-	64
Other comprehensive (loss)/income	-	(6)	4	(2)
Total comprehensive income	-	58	4	62
Balance at 31 March 2025	160	1,112	(1)	1,271
Profit for the year	-	53	-	53
Other comprehensive income	-	4	4	8
Total comprehensive income	-	57	4	61
Balance at 31 March 2026	<u>160</u>	<u>1,169</u>	<u>3</u>	<u>1,332</u>

The notes on pages 51 to 89 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)Cash Flow Statement
for the Year Ended 31 March 2026

	Notes	2026 £m	2025 £m
Cash flows from operating activities			
Cash generated from operations	31	464	360
Interest paid		(137)	(108)
Tax paid		<u>(21)</u>	<u>(16)</u>
Net cash inflow from operating activities		<u>306</u>	<u>236</u>
Cash flows from investing activities			
Purchase of intangible fixed assets		(26)	(14)
Purchase of tangible fixed assets		(477)	(435)
Sale of tangible fixed assets		-	1
Customer contributions received		14	11
Interest received		19	20
Investment in short term deposits		<u>(25)</u>	<u>-</u>
Net cash outflow from investing activities		<u>(495)</u>	<u>(417)</u>
Cash flows from financing activities			
Issue of debt		523	893
Repayment of debt		(462)	(412)
Receipts from inflation-linked swaps		18	18
Receipts from cross-currency swaps		3	3
Payments of inflation-linked swaps		(1)	-
Payments of cross-currency swaps		<u>(40)</u>	<u>(12)</u>
Net cash inflow from financing activities		<u>41</u>	<u>490</u>
(Decrease)/increase in cash and cash equivalents		<u>(148)</u>	<u>309</u>
Cash and cash equivalents at beginning of year	32	<u>353</u>	<u>44</u>
Cash and cash equivalents at end of year	32	<u><u>205</u></u>	<u><u>353</u></u>

The notes on pages 51 to 89 form part of these financial statements

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements for the Year Ended 31 March 2026

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 (the going concern period) and as liquidity is managed at Scotia Group level, the Directors 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 2026**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 from the date of approval of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Turnover

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

Fair value movements on derivatives

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

Intangible assets - goodwill

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

Intangible assets - software

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

Tangible fixed assets

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

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**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 2026

1. ACCOUNTING POLICIES - continued

Inventories

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

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 2026**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 six 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 2026

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 2026**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.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2026

1. ACCOUNTING POLICIES - continued

Taxation

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

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

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

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

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

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

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

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

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**1. ACCOUNTING POLICIES - continued****Employee benefits****i. Defined benefit pension scheme**

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

For defined benefit schemes the amounts charged to operating profit are administration charges for the year. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to profit or loss and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in other comprehensive income.

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

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

ii. Defined contribution pension scheme

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

Impairment of non-financial assets

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

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

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.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**1. ACCOUNTING POLICIES - continued****Other non-financial assets**

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

Borrowing costs capitalised

Borrowing costs which are directly attributable to the construction of qualifying tangible fixed assets are capitalised as part of the cost of those assets. Qualifying tangible fixed assets are considered to be those of significant size or complexity, which typically are under construction for in excess of one year and/or where project costs exceed a pre-determined threshold. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Borrowing costs are not capitalised in respect of construction projects which do not meet the defined thresholds or relate to replacement expenditure.

Operating leases

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

Provisions

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

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. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**1. ACCOUNTING POLICIES - continued****Dividends**

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

Exceptional items

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

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

New and amended standards and interpretations

Following the Periodic Review 2024, the Financial Reporting Council issued an update to the FRS 102 accounting standard in September 2024, which will introduce significant changes to revenue recognition and accounting for leases. The effective date for these amendments is accounting periods beginning on or after 1 January 2026 (i.e. the year ended 31 March 2027 for the Company). Management anticipates that these changes will have a material impact on the Company's accounting for customer contributions and leases. However, at the date of signing this report, the magnitude of the impact cannot be reasonably estimated, as the Company's assessment is still in progress and consultations with external technical advisors have not yet been concluded.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the 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.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2026

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
- continued

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 13 are both recognised as additions to plant and equipment within tangible fixed assets. Operating expenditure is recognised within Net operating costs within the Profit and Loss account.
- b** Impairment of fixed assets and goodwill - as set out in note 1 above, management has exercised judgement during the company balance sheet review when identifying impairment indicators affecting the fixed assets and goodwill of the Company.
- c** Exceptional items - The categorisation of certain items as exceptional follows a three-step process which considers the nature of the event, materiality involved and any particular facts and circumstances. Management focuses on whether the event is considered to be one-off in nature. See note 10.
- d** Customer contributions and interest paid - Cash inflows from customer contributions are presented as cash flows from investing activities in the Cash flow statement, as these are directly associated with capital investment in the Company's gas network. Cash outflows from interest paid are presented in Net cash inflow from operating activities, as the loans these interest payments relate to are directly associated with funding the Company's operations.
- e** Galpin's Road Investigation - Management judgement is required in assessing if the recognition criteria for a provision has been met in relation to the Galpin's Road incident as at 31 March 2026 (as described on page 86). Based on external legal advice, management has concluded that the investigation is not sufficiently progressed to reliably estimate the financial impact or timing of any future obligation. As such the case has been disclosed as a contingent liability (see note 28) until the point at which any economic transfer can be reliably estimated.
- f** Other legal and regulatory cases - Consistent with the nature and size of the 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 2026

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

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

Key source of estimation uncertainty

- a** Useful lives of assets - The Company depreciates its assets over their useful economic lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires estimates and assumptions to be applied by management. The useful economic lives of assets can vary depending on a variety of factors, including technological innovation, climate change and climate related impacts, product life cycles, maintenance programmes as well as the economic life of the gas industry. The depreciation policy is set out in note 1.
- b** Retirement benefit schemes - the assumptions used in accounting for the defined benefit pension scheme are based on estimates and are subject to uncertainties. These assumptions are set out in the 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. Assumptions made in the comparative period in relation to the closure of the pension scheme for future accruals are also set out in the note "employee benefits".
- c** Valuation of financial instruments - where financial instruments are recognised at fair value there are uncertainties in forward yield curves used in discounted cash flow calculations.

3. TURNOVER

Analysis of turnover by class of business:

	2026	2025
	£m	£m
Transportation of natural gas and the provision of related services	897	799

All turnover arises in the United Kingdom and is attributable to the continuing activity of transportation of natural gas and the provision of related services, which the Directors consider a single class of business.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued for the Year Ended 31 March 2026

4. **EMPLOYEES AND DIRECTORS**

The Company had 260 full time equivalent employees as at 31 March 2026 (2025: 287). The average monthly number of full-time equivalent employees during the year was 276 (2025: 304).

	2026	2025
Field based staff	112	126
Office and other administrative staff	148	161
	<u>260</u>	<u>287</u>

The Independent Directors received remuneration totalling £75,322 (2025: £88,117) for their services to the Company during the year, of which the highest paid Director's share was £32,179 (2025: £35,858). 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 9 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:

	2026 £m	2025 £m
Wages and salaries	14	16
Social security costs	2	2
Pension costs (note 27)*	16	34
	<u>32</u>	<u>52</u>

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

The significant decrease in pension costs in the year is due to the closure of the defined benefit pension scheme to future benefit accruals in the previous financial year. For further details see note 10 and note 27.

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 £137m (2025: £122m) 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 2026

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2026	2025
	£m	£m
Deposit account interest	15	29
Interest receivable on loans to other group undertakings	1	-
Net defined benefit pension income (note 27)	<u>6</u>	<u>6</u>
	<u>22</u>	<u>35</u>

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2026	2025
	£m	£m
Interest payable on fixed rate instruments	154	120
Interest payable on inflation-linked instruments	9	19
Other interest payable	<u>18</u>	<u>11</u>
	<u>181</u>	<u>150</u>

Included within the £9m (2025: £19m) interest payable on inflation-linked instruments is £18m of accretion on RPI-linked debt instruments (31 March 2025: £23m).

Other interest payable includes interest payable on loans from group undertakings of £nil (2025: £2m), facility fees and interest of £1m (2025: £1m), bond amortisations of £10m (2025: £7m), foreign exchange losses of £6m (2025: gain of £5m included in interest receivable), and other interest payable of £1m (2025: £1m).

7. PROFIT BEFORE TAXATION

The profit is stated after charging/(crediting):

	2026	2025
	£m	£m
Depreciation - owned assets	144	134
Loss on disposal of fixed assets	3	3
Goodwill amortisation	5	6
Computer software amortisation	14	13
Amortisation of customer contributions	(7)	(7)
Rental under operating leases	<u>5</u>	<u>3</u>

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

- Audit of these financial statements £297,573 (2025: £275,146)
- Audit-related assurance services £63,000 (2025: £60,000)
- Other assurance services £nil (2025: £109,975)

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**8. TAXATION****Analysis of the tax charge**

The tax charge (2025: charge) on the profit for the year was as follows:

	2026 £m	2025 £m
Current tax:		
UK corporation tax	23	23
Adjustment in respect of previous years	<u>1</u>	<u>(1)</u>
Total current tax charge	<u>24</u>	<u>22</u>
Deferred tax:		
Origination and reversal of timing differences	(2)	(1)
Adjustment in respect of previous years	<u>-</u>	<u>1</u>
Total deferred tax (credit)/charge	<u>(2)</u>	<u>-</u>
Tax charge on profit	<u><u>22</u></u>	<u><u>22</u></u>

UK corporation tax has been charged at 25% (2025: 25%).

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than (2025: the same as) the standard rate of corporation tax in the UK. The difference is explained below:

	2026 £m	2025 £m
Profit before tax	<u>75</u>	<u>86</u>
Profit multiplied by the standard rate of corporation tax in the UK of 25% (2025: 25%)	19	22
Effects of:		
Expenses not deductible for tax purposes	1	1
Income exempt from tax	-	(2)
Adjustments to tax charge in respect of previous periods	1	-
Goodwill amortisation	<u>1</u>	<u>1</u>
Total tax charge	<u><u>22</u></u>	<u><u>22</u></u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**8. TAXATION - continued****Tax effects relating to effects of other comprehensive income**

		2026	
	Gross	Tax	Net
	£m	£m	£m
Remeasurement on net pension asset	6	(2)	4
Gain arising on cash flow hedges	<u>5</u>	<u>(1)</u>	<u>4</u>
	<u>11</u>	<u>(3)</u>	<u>8</u>

		2025	
	Gross	Tax	Net
	£m	£m	£m
Remeasurement on net pension asset	(9)	3	(6)
Gain arising on cash flow hedges	<u>6</u>	<u>(2)</u>	<u>4</u>
	<u>(3)</u>	<u>1</u>	<u>(2)</u>

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

9. DIVIDENDS

There were no dividends paid in the year ended 31 March 2026 and 2025.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**10. EXCEPTIONAL ITEMS**

	2026 £m	2025 £m
Exceptional items included within Net operating costs:		
Restructuring costs*	7	7
Costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals**	-	17
Investigation support costs***	-	3
	<u>7</u>	<u>27</u>
Included within taxation:		
Tax credit on restructuring costs	(2)	(2)
Tax credit on costs associated with the closure of the Scotia Gas Networks Pension Scheme to future accruals	-	(4)
Tax credit on investigation support costs	-	(1)
	<u>(2)</u>	<u>(7)</u>

*The Company is undergoing an operational transformation programme to improve business processes and safety by restructuring the business, which is expected to last until March 2029. During the year the Company recognised £1m of costs relating to redundancies (2025: £4m) and £6m in relation to the transformation programme (2025: £3m), bringing the cumulative restructuring costs to £16m (2025: £9m) since the beginning of the restructure in 2024. These activities are infrequent and are financially material over the course of the multi-year exercise.

**On 31 March 2025, the Company closed its defined benefit pension scheme to future accruals. As a result, active members no longer accrue additional pension benefits based on service or salary increases from this date. Benefits earned up to 31 March 2025 remain preserved within the scheme. To compensate affected members, the Company introduced pension credits in the form of additional years of pensionable service. For the year ended 31 March 2025, the scheme closure and pension credits resulted in a curtailment cost of £1m and a past service cost of £16m, totalling £17m. No comparable costs were recognised for the year ended 31 March 2026.

***During the year ended 31 March 2025 the Company incurred costs associated with supporting the investigation by Ofgem into potential breaches of competition law totalling £3m. No comparable costs were recognised for the year ended 31 March 2026. These were considered exceptional costs in the previous financial year due to their material and one-off nature. Whilst they are £nil in the current financial year, they remain in exceptional costs for comparative purposes. This matter does not meet the FRS 102 definition of a contingent liability or a provision. The investigation into potential breaches of competition law concluded in the year ended 31 March 2026, with no breach found.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**11. FAIR VALUE MOVEMENT ON DERIVATIVES**

	2026 £m	2025 £m
Fair value movements on derivatives:		
Net losses on derivative financial instruments*	28	5
Included within taxation:		
Tax credit on net losses on derivative financial instruments	(7)	(1)

*Net losses on derivative financial instruments comprise gains and losses arising on derivative financial instruments reported in the Statement of Profit and Loss. These exclude gains and losses for which hedge accounting has been effective, which has been recognised directly in the statement of comprehensive income. There was nil impact (2025: £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 £22m (2025: £19m) of accretion on CPI-linked swaps.

12. INTANGIBLE FIXED ASSETS

	Goodwill £m	Computer software £m	Totals £m
COST			
At 1 April 2025	288	82	370
Additions	-	27	27
Disposals	-	(18)	(18)
At 31 March 2026	288	91	379
AMORTISATION			
At 1 April 2025	115	50	165
Amortisation for year	5	14	19
Eliminated on disposal	-	(18)	(18)
At 31 March 2026	120	46	166
NET BOOK VALUE			
At 31 March 2026	168	45	213
At 31 March 2025	173	32	205

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**12. INTANGIBLE FIXED ASSETS - continued**

There is no security held against the intangible fixed assets of the Company (2025: 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 29 years remaining. 50 years is the expected life of the network and is consistent with the long-term outlook of the Regulator. See note 13 for sensitivity analysis on the life of our network.

A review for impairment of goodwill is carried out when there are indicators of impairment. As at 31 March 2026, following management's assessment of internal and external impairment indicators, no such indicators were noted. As such no impairment charge has been recorded for the current year (2025: £nil).

During the year, the Company wrote off £18m (2025: £12m) of fully amortised assets, that are no longer in use, in line with the Company's accounting policy.

13. TANGIBLE FIXED ASSETS

	Freehold property £m	Plant and machinery £m	Motor vehicles and office equipment £m	Totals £m
COST				
At 1 April 2025	107	6,939	81	7,127
Additions	10	444	22	476
Disposals	-	(16)	(6)	(22)
At 31 March 2026	<u>117</u>	<u>7,367</u>	<u>97</u>	<u>7,581</u>
DEPRECIATION				
At 1 April 2025	49	1,573	53	1,675
Charge for year	4	132	8	144
Eliminated on disposal	-	(12)	(6)	(18)
At 31 March 2026	<u>53</u>	<u>1,693</u>	<u>55</u>	<u>1,801</u>
NET BOOK VALUE				
At 31 March 2026	<u>64</u>	<u>5,674</u>	<u>42</u>	<u>5,780</u>
At 31 March 2025	<u>58</u>	<u>5,366</u>	<u>28</u>	<u>5,452</u>

There is no security held against the tangible fixed assets of the Company (2025: none).

Included within Freehold property is the Net book value of land of £7m (2025: £6m).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**13. TANGIBLE FIXED ASSETS - continued****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 UK Government's net zero target of 2050. The following sensitivity analysis indicates the financial impact a reduction in the life of our network assets would have on the Company's profit and loss and net assets.

	2026 reduction in profit and loss £m	2026 reduction in net assets £m
Additional depreciation charge if useful life of networks assets ends in:		
2050 (UK Government's net zero target)	70	70
2045	127	127
2040	222	222

14. NON-CURRENT FINANCIAL ASSETS

	2026 £m	2025 £m
Derivative financial instruments - cross-currency swaps in hedge relationships	<u>17</u>	<u>5</u>

15. INVENTORIES

	2026 £m	2025 £m
Materials and supplies	<u>14</u>	<u>12</u>

The amount of inventory recognised as an expense in the year amounted to £2m (2025: £3m).

16. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2026 £m	2025 £m
Trade debtors	79	72
Amounts owed by group undertakings	-	31
Prepayments and accrued income	<u>13</u>	<u>12</u>
	<u>92</u>	<u>115</u>

An impairment allowance of £9m (2025: £8m) has been set aside relating to trade debtors according to the Company's impairment policy.

For details of Amounts owed by group undertakings for the prior year see Note 19.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**17. SHORT TERM DEPOSITS**

	2026	2025
	£m	£m
Short term deposits	<u>226</u>	<u>344</u>

Short term deposits as at 31 March 2026 include £25m (2025: £nil) of 6-month deposits, which do not meet the criteria of "cash and cash equivalents".

18. CASH AT BANK AND IN HAND

	2026	2025
	£m	£m
Cash at bank	<u>4</u>	<u>9</u>

Cash at bank contains £3m (2025: £9m) 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

	2026	2025
	£m	£m
£150m 2.066% RPI-linked note due 2025*	-	307
£83m 2.013% RPI-linked note due 2025*	-	170
Trade creditors	54	34
Amounts owed to group undertakings	13	-
Social security and other taxes	13	17
Corporation tax	2	-
Other creditors	10	10
Accrued interest	62	44
Deferred income	21	26
Accruals	<u>83</u>	<u>84</u>
	<u>258</u>	<u>692</u>

* Listed on the London Stock Exchange.

Amounts owed to group undertakings includes a loan due to Scotland Gas Networks plc of £15m (2025: a loan due from Scotland Gas Networks plc of £17m) and a loan due to SGN Evolve Network Ltd of £8m (2025: £7m).

The loans are both repayable on demand. The loan due to Scotland Gas Networks plc attracts interest at the Bank of England Base Rate (2025: Bank of England Base Rate plus 1 percent). The loan due to SGN Evolve Network Ltd also bears interest at the Bank of England Base Rate (2025: Bank of England Base Rate).

The 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 cash flow movements, as the loan is the result of the daily automated cash pooling.

Also included in the balance are trade balances due from the SGN Group subsidiaries of £10m (2025: £21m).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2026	2025
	£m	£m
Borrowings (see note 21)	3,672	3,125
Derivative financial liabilities - interest rate swaps	1	-
Derivative financial liabilities - inflation-linked swaps	104	77
Derivative financial liabilities - cross-currency swaps	25	17
	<u>3,802</u>	<u>3,219</u>

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

	2026	2025
	£m	£m
Fixed rate debt:		
£375m 4.875% fixed rate note due 2029*	375	375
£75m 2.740% fixed rate note due 2030	75	75
€500m 3.500% fixed rate note due 2030*	433	415
£250m 1.250% fixed rate note due 2031*	248	248
£200m 1.250% fixed rate note due 2031*	154	146
£75m 2.870% fixed rate note due 2033	75	75
\$66m 5.630% fixed rate note due 2033	50	51
£100m 2.270% fixed rate note due 2034	100	100
\$101m 5.770% fixed rate note due 2034	76	78
£300m 6.625% fixed rate note due 2035*	299	299
\$66m 5.730% fixed rate note due 2035	50	51
£400m 3.100% fixed rate note due 2036*	398	398
\$101m 5.870% fixed rate note due 2036	76	78
£60m 5.640% fixed rate note due 2036	60	60
£50m 6.120% fixed rate note due 2038	50	50
£50m 6.120% fixed rate note due 2038	50	50
¥9,350m 2.650% fixed rate note due 2038	44	48
£56m 5.740% fixed rate note due 2039	56	56
£350m 6.250% fixed rate note due 2039*	347	-
£225m 6.375% fixed rate note due 2040*	224	224
£50m 5.820% fixed rate note due 2044	50	50
	<u>3,290</u>	<u>2,927</u>

Inflation-linked debt:

£15m 2.580% RPI-linked loan due 2028	29	28
£50m 2.960% RPI-linked loan due 2032	50	-
£83m 2.013% RPI-linked note due 2035*	178	170
CHF 53m 1.900% RPI-linked note due 2035	50	-
	<u>307</u>	<u>198</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**20. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - continued****Floating rate debt:**

£75m floating rate term loan due 2033	75	-
	75	-
Total debt	<u>3,672</u>	<u>3,125</u>

* Listed on the London Stock Exchange.

The above debt instruments are unsecured and are stated after the deduction of unamortised issue costs of £59m (2025: £65m). These costs together with the interest expense are allocated to the profit and loss account over the term of the debt. Interest is calculated using the effective interest rate method.

Certain interest costs in respect of RPI-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 2026 is £109m (2025: £343m). The amount of interest in relation to the CPI-linked swaps included in the carrying value of the debt at 31 March 2026 is £151m (2025: £130m). The amounts debited to the profit and loss account in relation to RPI-linked and CPI-linked accretion during the year amounted to £18m (2025: £23m) and £20m (2025: £19m) respectively.

The total revolving credit facility is £450m (2025: £450m) and expires in March 2029. This facility was undrawn as at 31 March 2026 and at 31 March 2025.

21. BORROWINGS

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

	2026 £m	2025 £m
Between one and five years	912	402
After five years	<u>2,760</u>	<u>2,723</u>
	3,672	3,125
On demand or within one year	<u>-</u>	<u>477</u>
	<u>3,672</u>	<u>3,602</u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**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.

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 assets and liabilities held by the Company are as follows:

	2026 £m	2025 £m
Financial assets held at fair value		
Derivative financial instruments – cross-currency swaps	17	5
Total financial assets held at fair value	<u>17</u>	<u>5</u>
Financial liabilities held at amortised cost		
Trade creditors	54	34
Amounts owed to group undertakings	13	-
Accrued interest	62	44
Accruals	83	84
Borrowings	3,672	3,602
	<u>3,884</u>	<u>3,764</u>
Financial liabilities held at fair value		
Derivative financial liabilities - interest rate swaps	1	-
Derivative financial liabilities - inflation-linked swaps	104	77
Derivative financial liabilities - cross-currency swaps	25	17
	<u>130</u>	<u>94</u>
Total financial liabilities	<u>4,014</u>	<u>3,858</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 £18m (2025: £13m), of which £17m (2025: £12m) related to inflation-linked swaps and £1m (2025: £1m) to cross-currency swaps.

Southern Gas Networks Plc (Registered number: 05167021)

Notes to the Financial Statements - continued
for the Year Ended 31 March 2026

22. FINANCIAL INSTRUMENTS - continued

£17m (2025: £12m) was credited to the profit and loss account in the line "Fair value movements on derivatives" and £1m (2025: £1m) 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.

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 £2m (2025: £2m) and a DVA of (£20m) (2025: (£15m)). The magnitude of the DVA adjustment as at 31 March 2026 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 8-15 years, exacerbating the impact of the asymmetric cash flow position.

Cross-currency swaps

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 October 2024, Southern Gas Networks plc issued a total of €500m in 3.50% fixed rate bonds due 2030, for which the drawings occurred in October 2024.

In March 2025, Southern Gas Networks plc issued a total of ¥9,350m in 2.650% fixed rate private placement notes due 2038, for which the drawings occurred in March 2025.

In November 2025, Southern Gas Networks plc issued CHF 53m 2.960% fixed rate private placement notes due 2035, for which drawings occurred in December 2025.

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

- \$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 2026**22. FINANCIAL INSTRUMENTS - continued**

- €200m converted to £168m with fixed 5.2352% GBP interest payable, due 2030, effective October 2024;
- €300m converted to £251m with fixed 5.2302% GBP interest payable, due 2030, effective October 2024;
- ¥9,350m converted to £49m with fixed 6.0070% GBP interest payable, due 2038, effective March 2025;
- CHF 53m converted to £51m with fixed 5.8850% GBP interest payable, due 2035, effective December 2025.

Inflation-linked swaps

In November 2025 the Company transacted £51m of CPI-linked swaps that economically convert all of the notional principal of the following existing fixed rate debt instruments into CPI-linked debt instruments:

- CHF53m fixed rate notes maturing in 2035.

Interest rate swaps

In March 2026, the Company entered into a £75m interest rate swap which converts the £75m floating rate term loan, due 2033, into fixed rate at 5.6650%.

23. PROVISIONS FOR LIABILITIES

	2026 £m	2025 £m
Deferred tax	<u>741</u>	<u>740</u>
Other provisions:		
Other provisions	11	13
Environmental provisions	<u>5</u>	<u>5</u>
	<u>16</u>	<u>18</u>
Aggregate amounts	<u>757</u>	<u>758</u>
	Deferred tax	Other provisions
	£m	£m
Balance at 1 April 2025	740	18
Net movement in deferred tax	1	-
Reassessment during the year	-	5
Utilised during the year	<u>-</u>	<u>(7)</u>
Balance at 31 March 2026	<u>741</u>	<u>16</u>

The discount unwind on provisions, included in interest payable and similar expenses in the profit and loss account, was £423,690 (2025: £360,704).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**23. PROVISIONS FOR LIABILITIES - continued****Environmental**

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

Other provisions

Other provisions consist of asbestos related liabilities and other provisions relating to the operations of our gas networks. The other provisions represent management's best estimates of the future expenditure necessary to settle the obligations. The provision has been discounted and is stated at the present value of the estimated expenditure to settle the obligation. The asbestos related provision is expected to be utilised over the next 26 years. The other provisions relating to the operations of our gas networks are expected to be utilised in the next year.

Deferred tax

Deferred tax is provided as follows:

	2026 £m	2025 £m
Accelerated capital allowances	700	702
Deferred tax on inflation-linked swaps	11	11
Deferred tax on cash flow hedges	-	-
Deferred tax on retirement benefit obligations	30	27
	<u>741</u>	<u>740</u>
Deferred tax	<u>741</u>	<u>740</u>

The movement in provision for deferred tax is as follows:

	2026 £m	2025 £m
Opening balance	740	741
Credited to profit and loss account	(2)	-
Charged/(credited) to other comprehensive income	3	(1)
	<u>741</u>	<u>740</u>
Deferred tax	<u>741</u>	<u>740</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 2026**24. DEFERRED INCOME**

	2026	2025
	£m	£m
Deferred income	<u>317</u>	<u>310</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
	2026	2026	2026
	£m	£m	£m
Customer contributions brought forward	182	128	310
Customer contributions deferred in the year	7	7	14
Amortisation in year	<u>(4)</u>	<u>(3)</u>	<u>(7)</u>
	<u>185</u>	<u>132</u>	<u>317</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:	2026	2025
			£	£
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 2026**26. RESERVES**

	Profit and loss account £m	Hedging reserves £m	Totals £m
At 1 April 2025	1,112	(1)	1,111
Profit for the year	53	-	53
Movement in cash flow hedges	-	4	4
Remeasurement of net defined benefit asset	<u>4</u>	<u>-</u>	<u>4</u>
At 31 March 2026	<u>1,169</u>	<u>3</u>	<u>1,172</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:

	2026 £m	2025 £m
Amount charged in respect of defined contribution schemes	<u>16</u>	<u>13</u>

At the balance sheet date, there were outstanding contributions of £nil (2025: £nil).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**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 Limited, 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). Employees joining the Lattice Company Scheme after 31 March 2002 were entitled to join a defined contribution scheme. Under the Group cost allocation plan, the Company accounts for its agreed share of the total net defined benefit cost, based on the proportionate members relating to the Company.

The most recent triennial valuation of the Scheme was carried out at 31 March 2024. The Company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the Scheme for funding purposes and those adopted by the Company to measure the Scheme's liabilities on the financial statements, as well as adjusting for benefit accrual and benefits paid by the Scheme. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. In accordance with FRS 102, a limited actuarial review has been carried out by Broadstone Corporate Benefits Limited at 31 March 2026 using the projected unit method.

	As at 31 March 2026	As at 31 March 2025
Key assumptions used:		
Retail price inflation	3.6% p.a.	3.5% p.a.
Consumer price inflation	3.4% p.a.	3.2% p.a.
Rate of increase of pensions payment	3.6% p.a.	3.5% p.a.
Rate of increase of salaries ¹	n/a	3.3% p.a.
Discount rate ²	<u>6.1% p.a.</u>	<u>5.7% p.a.</u>

¹ On 31 March 2025, the Company closed its defined benefit pension scheme to future accruals. As a result, active members no longer accrue additional pension benefits based on service or salary increases from this date.

² 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	2026		2025		2024	
	Male	Female	Male	Female	Male	Female
Members currently aged 65	21.9	23.0	21.6	22.9	21.8	24.3
Members currently aged 45	23.9	25.3	23.5	25.2	23.8	26.4

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**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.	4,020 (3,960)
Price inflation (RPI measure)*	- 0.1% p.a. + 0.1% p.a.	(3,720) 3,840
Life expectancy	- 1 year + 1 year	(7,200) 7,080

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

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

Fair value as at 31 March

	2026			2025		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Government bonds ¹	-	221	221	-	214	214
Corporate bonds	108	10	118	100	26	126
Cash	-	5	5	-	5	5
Insurance contracts	-	90	90	-	93	93
Total market value of assets	108	326	434	100	338	438
Actuarial value of liabilities			(314)			(330)
Net pension asset			120			108

¹ Including LDI repurchase agreement liabilities.

The fair value of scheme assets at 31 March 2026 are based on the bid price where available.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

To reduce the risk of volatility in the Scheme's funding level, a liability driven investment (LDI) strategy forms part of the assets employed within the investment strategy of the Scheme. The LDI strategy contributes to overall hedging levels for the Scheme of 95% for interest rates and 95% for inflation as at 31 March 2026 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.

The recognition of the net defined benefit asset in relation to the Scheme reflects legal and actuarial advice that management have taken regarding recognition of surpluses under IFRIC 14. Management have concluded that the Company has an unconditional right to a refund from the plan, in the event of a winding-up. The Trustees must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

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

	2026	2025
	£m	£m
At 1 April	(330)	(359)
Current service cost	-	(4)
Past service cost ¹	-	(16)
Interest cost	(18)	(17)
Actuarial gains	15	53
Benefits paid	19	14
Curtailment ²	-	(1)
	<u>-</u>	<u>(1)</u>
At 31 March	<u>(314)</u>	<u>(330)</u>

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

	2026	2025
	£m	£m
At 1 April	438	490
Interest income	24	23
Contributions from the Company	-	1
Remeasurement of scheme assets	(9)	(62)
Benefits paid	(19)	(14)
	<u>(19)</u>	<u>(14)</u>
As at 31 March	<u>434</u>	<u>438</u>

¹ As part of the closure of the defined benefit pension scheme to future benefit accruals as at 31 March 2025, pension credits granted to members as additional years of pensionable service represented a plan amendment under FRS 102, resulting in past service costs.

² The curtailment cost in the prior year reflects the increase in the present value of the defined benefit obligation due to the cessation of future accruals, adjusted for any reduction in expected future service.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

The actual loss on plan assets was:

	2026 £m	2025 £m
Loss on plan assets excluding interest income	(9)	(62)
Interest income on plan assets	24	23
Actual gain/(loss) on plan assets	15	(39)

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

	2026 £m	2025 £m
Current service cost ⁽¹⁾	-	(4)
Past service cost	-	(16)
Curtailment ⁽²⁾	-	(1)
Total charged to net operating costs:	-	(21)
Expected return on scheme assets	24	23
Interest charge on scheme liabilities	(18)	(17)
Net interest credit	6	6
Total credit/(charge) to the profit and loss account	6	(15)

	2026 £m	2025 £m
Actuarial losses on scheme assets	(9)	(62)
Actuarial gains on scheme obligations	15	53
Gains/(losses) recognised in other comprehensive income	6	(9)

Closure of the Scheme

On 31 March 2025, the Company closed its Defined Benefit (DB) pension scheme to future accruals. As a result, active members no longer accrue additional pension benefits based on service or salary increases from this date. Benefits earned up to 31 March 2025 remain preserved within the scheme. To compensate affected members, the Company introduced pension credits in the form of additional years of pensionable service, with credits varying by member based on age, service, and sex. These service credits are granted as follows, as long as the member remains in employment:

- 50% of credits granted on 1 April 2025
- 25% of credits granted on 1 April 2026
- 25% of credits granted on 6 April 2026

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**27. EMPLOYEE BENEFIT OBLIGATIONS - continued**

For the 2025 disclosures management have assumed that all service credits were applied in full on 31 March 2025, on the assumption that the majority of members would remain in employment until at least 6 April 2026 in the knowledge that they would receive benefit improvements should they do so. Members were protected from loss of credits due to redundancy or ill-health terminations before 31 March 2026.

The scheme closure and pension credits resulted in one-off curtailment costs of £1m and past service costs of £16m, totalling £17m, recognised in the profit and loss account as an exceptional item (see note 10) for the year ended 31 March 2025.

Impact of Virgin Media Ruling

In July 2024, the Court of Appeal upheld a High Court ruling in Virgin Media Ltd v NTL Pension Trustees II Ltd, determining that amendments to contracted-out defined benefit pension schemes made between 6 April 1997 and 6 April 2016, affecting Section 9(2B) rights, are void unless accompanied by written actuarial confirmation under Section 37 of the Pension Schemes Act 1993.

The Company's defined benefit pension scheme was contracted out during this period.

Between 2005 and April 2016, five deeds were executed to establish and amend the pension scheme, including deeds of establishment, amendments, and trustee resolutions. The Scheme's legal advisors are not aware of any amending deeds which would require the sort of certification that was central to the Virgin Media case (s37).

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**28. COMMITMENTS AND CONTINGENCIES****Capital commitments**

Capital projects contracted for by the Company but not provided in the financial information amounted to £31m at 31 March 2026 (2025: £41m).

Operating lease commitments

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

	Vehicles		Land and Buildings	
	2026	2025	2026	2025
	£m	£m	£m	£m
- less than one year	2	2	3	2
- between two to five years	3	3	11	8
- after five years	-	-	24	22
	<u>5</u>	<u>5</u>	<u>38</u>	<u>32</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 2026.

Other legal and regulatory claims

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

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

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

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**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 Braeburn EquityCo Limited (37.5%) which is indirectly wholly owned by Ontario Teachers' Pension Plan Board, UK Gas Distribution 2 Limited (37.5%) which is indirectly owned by Brookfield Super-Core Infrastructure Partners and Speyside Bidco Limited (25.0%), which is wholly owned by funds managed by Global Infrastructure Partners (GIP).

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

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

Transactions with Key Management Personnel

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

Transactions with shareholders

The Company had no transactions with shareholders or other related parties in the year ended 31 March 2026 and 2025.

30. SUBSEQUENT EVENTS

The SGN Group maintains a total revolving credit facility of £600 million (31 March 2025: £600 million), which matures in March 2029. As at 31 March 2026, the facility was allocated between Southern Gas Networks plc (£450 million) and Scotland Gas Networks plc (£150 million), consistent with the prior year allocation (31 March 2025: £450 million and £150 million, respectively). Subsequent to the balance sheet date, the allocation of the facility was revised, with £300 million allocated to each of Southern Gas Networks plc and Scotland Gas Networks plc.

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**31. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS**

	2026	2025
	£m	£m
Profit before taxation	75	86
Depreciation charges	144	134
Loss on disposal of fixed assets	3	3
Amortisation of deferred income	(7)	(7)
Amortisation charges	19	19
Decrease in provisions	(2)	(5)
Interest payable and similar expenses	181	150
Fair value movement on derivatives	28	5
Interest receivable and similar income	(22)	(35)
Other operating cashflows	<u>-</u>	<u>(1)</u>
	419	349
Increase in stocks	(1)	(2)
Increase in trade and other debtors	(8)	-
Increase in trade and other creditors	<u>54</u>	<u>13</u>
Cash generated from operations	<u><u>464</u></u>	<u><u>360</u></u>

Southern Gas Networks Plc (Registered number: 05167021)Notes to the Financial Statements - continued
for the Year Ended 31 March 2026**32. ANALYSIS OF CHANGES IN NET DEBT**

	At 1 April 2025 £m	Cash flow £m	Other non-cash changes £m	At 31 March 2026 £m
Cash				
Cash at bank ¹	9	(5)		4
Short term deposits ²	<u>344</u>	<u>(143)</u>	<u>-</u>	<u>201</u>
	<u>353</u>	<u>(148)</u>	<u>-</u>	<u>205</u>
Debt				
Debts falling due within 1 year	(477)	462	15	-
Debts falling due after 1 year	<u>(3,125)</u>	<u>(523)</u>	<u>(24)</u>	<u>(3,672)</u>
	<u>(3,602)</u>	<u>(61)</u>	<u>(9)</u>	<u>(3,672)</u>
Derivative financial instruments				
Derivative financial assets	5	-	12	17
Derivative financial liabilities	<u>(94)</u>	<u>-</u>	<u>(36)</u>	<u>(130)</u>
	<u>(89)</u>	<u>-</u>	<u>(24)</u>	<u>(113)</u>
Total	<u>(3,338)</u>	<u>(209)</u>	<u>(33)</u>	<u>(3,580)</u>

¹Cash at bank contains £3m (2025: £9m) of cash which is contractually restricted to be used on designated innovation projects only and is not available for general use.

² Short term deposits as at 31 March 2026 on the balance sheet include £25m (2025: £nil) of 6-month deposits, which do not meet the criteria of "cash and cash equivalents".

Other non-cash movements in borrowings relate to the reclassification of loans from due after more than one year to due within one year. In addition, it also includes amortisation of borrowing fees, loan accretion accruals and foreign exchange variances.