



# SGN RFPR Commentary

September 2025



# SGN

Your gas. Our network.



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## 1 Purpose and background

As set out in the RIIO-2 Regulatory Financial Performance Reporting (“RFPR”) – guidance and RIGs published 20<sup>th</sup> June 2025, each licence must provide a RFPR commentary and supporting enduring value methodology where applicable. This commentary is to provide an understanding of the licensee’s financial performance.

This commentary is required to be submitted along with the RFPR reporting pack no later than the 30<sup>th</sup> September following the end of every reporting year unless directed otherwise by the regulator.

This commentary is completed on behalf of both the Scotland Network and the Southern Network and is to be published on our website; however, all commercially sensitive information will be redacted.

Where relevant, the figures provided in this commentary and the associated templates have been reconciled to the Regulatory Reporting Packs (“RRPs”) and, therefore, the statutory accounts.

The tables below are presented in either a 2018/19 price level or a nominal price level, dependent on the requirements of the RFPR template inputs. The pricing level attributable to each table is clearly stated for each section.

## 2 Executive Summary

Our network plays a key role in the UK's energy transition, serving as critical national infrastructure that ensures the provision of safety, warmth, and resilience to millions of households. Our modern infrastructure, enhanced by continuous investment, supports the delivery of green gas decarbonisation while ensuring supply security. This is transforming our organisation for the future while maintaining our focus on customers and frontline operations to always deliver safe, secure, resilient, and increasingly sustainable energy to businesses and communities.

We maintain local gas systems to deliver 99.9% availability, even on the coldest days, and consistently meet emergency gas escape standards, exceeding Ofgem's 97% standard across both networks. In 2024/25, we also successfully replaced 1,013 kms of mains to modern plastic pipework. We have also maintained an exceptional level of customer service, topping industry league tables for the ninth year. Scotland scored 9.45, while Southern improved to 9.28, and our consistent focus on our most vulnerable households enabled us to provide meaningful and dedicated support to 363,233 customers last year.

We have continuously worked to balance the challenge of delivering our outputs against significant financial pressures arising from a shortfall in allowances in the South at a point of rising real unit rates within the region. We are transforming our operations to ensure everything we do helps our frontline deliver for our customers, focusing on enhancing our operational resilience by developing and retaining key staff and rebuilding our contractor base. We have brought together our corporate support service functions in a dedicated Business Services Centre, and we have invested in our depots and a new training centre in Scotland. We continue to create dozens of apprenticeship and training opportunities each year to build a pipeline of talent for the future. These changes are now embedded in our business but have come at a cost.

Meeting our obligations and maintaining safety required significant investment over and above the allowances awarded in RIIO-GD2 in Southern. When looking at the full five-year RIIO-GD2 period, our operational RoRE is forecast to be 4.1% at an SGN level compared to an allowed RoRE figure of 5.1%. To increase delivery over the last year, we have had to spend significantly more in Southern than our allowances to maintain delivery and this shortfall is expected to continue to reduce actual operational RoRE. As a result, in Southern, the five-year operational RoRE is forecast to be 3.3%. This is in contrast to our Scotland operational RoRE, which, for the RIIO-GD2 period, is forecast to be slightly above the allowed RoRE at 5.6% due to totex outperformance from both repex and capex delivery.

We discuss our regulatory performance in more detail within our Regulatory Stakeholder Report, which can be found on our [website](#). Our original GD2 business plan accurately forecasted the cost pressures we have faced, and our outturn costs are very close to our original estimate, reflecting our understanding of the reality of operating within our region. A significant cut was imposed in the GD2 final determination [REDACTED]

The cost of delivery in our regions must be appropriately reflected in the RIIO-GD3 final determination to prevent a similar operational outcome to that experienced in RIIO-GD2. Our shareholders have incurred significant costs in RIIO-GD2 to ensure that appropriate levels of safety and performance are sustainable in the future; [REDACTED]

Overall RoRE for SGN is forecast to be 7.2% for the RIIO-GD2 period, with upside on the operational RoRE due to debt performance. The debt performance is primarily due to the higher outturn inflation compared to long-term forecasts that were set as part of the RIIO-GD2 framework. In RIIO-GD3, this exposure will be largely eliminated with the move to semi-nominal WACC.

[REDACTED]

Financial resilience is a key principle for our business, which, with a fair RIIO-GD3 settlement, will allow us to deliver for our customers, continue to finance our business efficiently, and make sustainable returns for our shareholders.

### 3 RIIO-GD2 Key Financial Performance Measures

SGN's Totex performance for full 5 years of RIIO-GD2 price control period, in 2018/19 prices, is as follows:

**Table 1: Full RIIO-GD2 Totex Performance\***

	Scotland			Southern			SGN		
	RIIO-GD2 Act + Fcst	RIIO - GD2 Allowance	Variance	RIIO-GD2 Act + Fcs	RIIO - GD2 Allowance	Variance	RIIO-GD2 Act + Fcs	RIIO - GD2 Allowance	Variance
<b>Opex</b>	376	373	-1%	796	648	-23%	1,173	1,021	-15%
<b>Repex</b>	301	322	7%	987	825	-20%	1,288	1,147	-12%
<b>Capex</b>	272	287	5%	334	370	10%	605	656	8%
<b>Totex</b>	<b>949</b>	<b>982</b>	<b>3%</b>	<b>2,117</b>	<b>1,843</b>	<b>-15%</b>	<b>3,066</b>	<b>2,825**</b>	<b>-9%</b>

\* Allowances are updated following HSE and Streetworks Reopener Draft Determination published July 2025.

\*\*please note, columns and rows may not sum due to rounding differences

Table 1 shows the sharp contrast between performance expectations in our Southern and Scottish networks. Despite having the same management structures, processes and purchasing approaches in both regions, different cost pressures mean the outcomes look quite different. This clearly shows the unique challenges of operating in the South, where the cost allowances set in the RIIO-GD2 final determination have proven unachievable for a network in this region.

In Scotland, we expect to deliver our workloads and core outputs. We are forecasting to outperform our allowances by 3%, £33m (2018/19). In last year's 2023/24 strategic commentary, we had forecasted a 2% outperformance.

We have seen an improvement in performance due to a reduction in our capex cost forecast compared to the prior year outlook, as projects are starting to be completed towards the end of the price control as well as an increase in allowances compared to the prior year through our HSE re-opener submission to reflect the costs that are already embedded within our cost outlook.

In last year's commentary for Southern, we forecasted a Totex underperformance of 11% with an anticipated over-expenditure of £195m (2018/19). We now anticipate a greater underperformance of 15% with an anticipated over-expenditure of £274m (2018/19). Reducing totex performance is due to an increasing Repex workload delivery of 83km for which the allowances determined in GD2 do not appropriately consider the challenges of increased regional labour and complexities.

SGN's Totex performance for the current year of the RIIO-GD2 price control period, in 2018/19 prices, is as follows:

**Table 2: Current Year (2024/25) Totex Performance\***

	Scotland			Southern			SGN		
	Year 4 Actual	Year 4 Allowance	Variance	Year 4 Actual	Year 4 Allowance	Variance	Year 4 Actual	Year 4 Allowance	Variance
<b>Opex</b>	80	76	-5%	180	136	-32%	259	211	-23%
<b>Repex</b>	65	65	0%	266	163	-63%	331	228	-45%
<b>Capex</b>	56	57	1%	75	76	2%	131	134	2%
<b>Totex</b>	<b>201</b>	<b>197</b>	<b>-2%</b>	<b>521</b>	<b>375</b>	<b>-39%</b>	<b>721</b>	<b>572**</b>	<b>-26%</b>

\* Allowances are updated following HSE and Streetworks Reopener Draft Determination published July 2025.

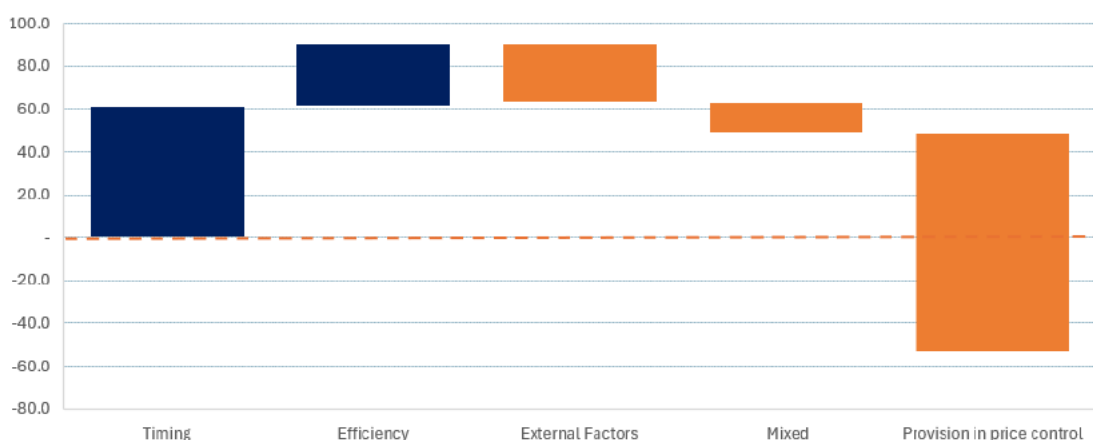
\*\*please note, columns and rows may not sum due to rounding differences

This shows a 2% over expenditure – approximately £4m in Scotland and a 39% over expenditure in Southern - £145m to bring a combined current year performance of 26%, £149m over-expenditure relative to allowances. Our current year performance, particularly within Southern, has a large element of timing difference.



In the figure below, we have assessed the expenditure over the current year, and the previous three years of the price control, to define the reasons behind the change in performance compared to allowances.

**Figure 1: Totex Drivers £m 18/19 prices – Year 1 to 4\***



*Please note that the figure above is years 1-4, whilst table 2 above is a single year position*

These changes are defined according to five categories set out below:

- **Timing:** There are remaining timing differences in the price control to date, primarily relating to LTS projects, IT and cyber projects, as well as our Tier 1 Repex program, for which the allowances are set on a straight-line basis, but our program is mostly back ended due to a challenging contractor market. For the full RIIO-GD2 period, there will be no timing differences.
- **Efficiency:** A positive value indicates that we have delivered expected outputs more efficiently than provided for by allowances. Major efficiency improvements are evident in LTS projects and the governor replacement programme. Despite this, we recognise there have been some challenges to the efficiency of our delivery in areas such as Repair, for which we are executing initiatives to improve performance comparative to our peers.
- **External factors:** Factors outside of the control of GDNs that have either had a positive or negative impact on delivery. Repex has been impacted due to external factors, such as market conditions for contractors and staff, which have negatively impacted costs. For our LTS projects, additional costs have been incurred due to extreme weather and flooding in Autumn 2023. Meanwhile, there has been a lower need for network reinforcement due to reduced connections, generating a positive value.
- **Provision Change in the price control settlement:** Throughout RIIO-GD2, we have encountered cost pressures, particularly within our Southern region, that are reflective of the position in our original RIIO-GD2 business plan. As such, it has become clear that assumptions within Ofgem's RIIO-GD2 cost assessment modelling were inappropriate, particularly regarding regional factors. Across our direct Opex and Repex activities, we can see a clear under-funding of real cost pressures, which were not appropriately considered and accounted for in the RIIO-GD2 cost assessment. Further, we note a reduction in the number of connections, which included a burdened overhead cost. While the underlying activity cost of connections has reduced, the overhead has become 'stranded' as it is still required to support the volume of enquiries and quotes, we are required to manage. This has led to an under-recovery of costs necessary to deliver the licensed activity.
- **Mixed:** Includes cost variance caused by increased workloads in repair due to higher volumes, higher tier workload requirements, and other costs caused by multiple factors

Further information on our regulatory financial performance can be found within our 2024-25 Stakeholder Report, available [here](#).

## 4 RIIO-GD2 Key Operational Performance Measures

Below is a summary of our annual output performance:

RAG Status:

**Green:** Delivered Licence Obligation, reputational commitments or positive outcome on financial incentive

**Amber:** Marginal under-delivery on reputational commitments or marginal penalty on financial incentive (amber is not applied to Licence Obligations).

**Red:** Not delivering a licence obligation, significant under-delivery on reputational commitments or significant penalty on financial incentive.


**Table 3: Output delivery**

Output Summary		Scotland	Southern
Meeting the needs of consumers and network users	Consumer vulnerability minimum standards	●	●
	Guaranteed Standards of Performance (GSOPs)	●	●
	Emergency response time (Uncontrolled)	●	●
	Emergency response time (Controlled)	●	●
	Digitalisation Strategy and Action Plan	●	●
	Annual Environment Report	●	●
	Holder demolition	●	●
	Customer satisfaction survey	●	●
	Complaints metric	●	●
	Unplanned interruptions	●	●
	Network Asset Risk Metric	●	●
	Deliver an environmentally sustainable network	●	●
	Shrinkage and environmental emissions	●	●
	Collaborative streetworks	●	●
	Consumer vulnerability reputational incentive	●	●
	Fuel Poor Network Extension Scheme	N/A	N/A
Deliver an environmentally sustainable network	Shrinkage and environmental emissions	●	●
	Business Carbon Footprint (BCF) reporting	●	●
	Commercial Fleet EV PCD	●	●
	Gas escape reduction	●	●
	Biomethane improved access rollout	●	●
	Intermediate pressure reconfigurations	●	N/A
	Remote pressure management	N/A	●
Maintain a safe and resilient network	Repex - Tier 1 mains replacement	●	●
	Repex - Tier 1 services	●	●
	Capital projects	●	●
	NARMS	●	●
	Cyber resilience Operational Technology (OT)	●	●
	Cyber resilience IT	●	●

Delivery of outputs in year 4 of RIIO-GD2 has been positive, with the majority of our outputs maintaining a green RAG status. However, despite our continued efforts, there are a few areas currently below our expectations.

**Unplanned interruptions:** Southern's 2024/25 performance continues to be impacted by long-duration interruptions in multi-occupancy buildings and combined with the impact of several major incidents during the year, this has resulted in our average exceeding the minimum performance level threshold, but below the excessive deterioration. As a result, we have rated this output delivery as red for the year.

**Repex - Tier 1 Mains and Services:** Our Tier 1 mains and service Price Control Deliverable (PCD) in our Southern network remain at red status for year 4. Although we have made strong progress this year and are providing the equivalent risk reduction, delivering 188km more than the previous year, we are still forecasting a shortfall in our target delivery length by the end of the price control period. However, we are confident in delivering the remaining length alongside our new set target in the early years of RIIO-GD3.



**Shrinkage and Environmental emissions:** Shrinkage and environmental emissions are higher than anticipated due to two significant gas escapes that occurred in our Southern network. Additionally, our overall shrinkage delivery is facing a shortfall due to the deficits in both networks carried over from RIIO-GD1, due to the impact of COVID, which continues to impact us when comparing actual leakage reduction against forecast performance.

**Commercial Fleet EV Price Control Deliverables:** On commercial fleet EV PCD, we continue to report a red status as we have been unable to secure vehicles that meet the criteria of our working requirements. We continuously engage with manufacturers and suppliers but currently, there are no EVs that have a suitable payload or on-board power, amongst other challenges, to enable us to carry out our duty to keep customers safe through emergency and repair operations.

**Business Carbon Footprint (BCF) reporting:** We are currently in an amber status, with EVs not being acquired as we originally hoped. There is a risk that the BCF will not reduce by 25% as per our target. Our current year five forecast is ~22.5% reduction.



## 5 Overview of Regulatory Performance

### 5.1 (R1) RoRE

As shown in the table below, the cumulative operational RoRE (based on notional gearing) up to the fourth year of GD2 is 6.4% in Scotland and 3.8% in Southern. Additional returns of 1.4% in Scotland and lower returns of -1.2% in Southern compared to the allowed equity return are driven by the respective Totex out / underperformance of the two Networks. This is post our enduring value adjustments, which normalise timing differences of allowances compared to actuals within the price control period.

Overall output incentive performance is broadly neutral in both networks, with some slight outperformance on customer satisfaction being offset by penalties on the unplanned interruptions incentive. Furthermore, additional expenditure necessary to bring the H100 project to a successful conclusion is being funded outside of totex; this is not included in the table below but would have an adverse 0.2% impact on the five-year RoRE.

Totex over / underperformance in Scotland / Southern Networks over the whole GD2 period has driven additional returns of 0.5% in Scotland and lower returns of 1.7% in Southern against a forecast allowed cost of equity of 5.1%. Further details of the Totex performance can be found in section 3, and output performance in section 4.

Favourable debt performance within SGN of 3.0% across the GD2 period has been primarily driven by the impact of higher inflation on the fixed-rate debt compared to the 2% long-term forecast for CPIH.

**Table 4: Cumulative and forecast RoRE**

Notional RORE	Cumulative to 2024/25			GD2 Forecast		
	Scotland	Southern	SGN	Scotland	Southern	SGN
<b>Allowed Equity Return</b>	5.0%	5.0%	5.0%	5.1%	5.1%	5.1%
<b>Totex outperformance</b>	1.4%	-1.2%	-0.4%	0.5%	-1.7%	-1.0%
Customer Satisfaction Survey ODI	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Complaints Metric ODI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unplanned Interruption ODI	-0.1%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%
Shrinkage Management ODI	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Collaborative Streetworks ODI	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%
Network Innovation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
H100 shareholder contribution <sup>1</sup>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LTS shareholder contribution	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Penalties and fines	0.0%	-0.1%	-0.1%	0.0%	-0.1%	-0.1%
<b>NOTIONAL RORE – Operational Performance</b>	<b>6.4%</b>	<b>3.8%</b>	<b>4.6%</b>	<b>5.6%</b>	<b>3.3%</b>	<b>4.1%</b>
<b>Debt performance (at notional gearing)</b>	<b>3.1%</b>	<b>3.4%</b>	<b>3.3%</b>	<b>2.9%</b>	<b>3.0%</b>	<b>3.0%</b>
<b>Tax performance (at notional gearing)</b>	<b>0.3%</b>	<b>0.0%</b>	<b>0.1%</b>	<b>0.3%</b>	<b>0.1%</b>	<b>0.2%</b>
<b>NOTIONAL RORE – including financing and tax</b>	<b>9.8%</b>	<b>7.2%</b>	<b>8.0%</b>	<b>8.9%</b>	<b>6.5%</b>	<b>7.2%</b>

Notes<sup>1</sup> SGN shareholders are forecast to make additional unregulated contributions of £41m (nominal prices) to the H100 project, which is not included above. This is equivalent to a -0.2% impact on SGN RORE over GD2.

## 5.2 (R2) Reconciliation to Revenue and Profit

### Revenue

RIIO-GD2 revenues are set on a forecast basis; the tables below show the 2023/24 and 2024/25 allowed revenue against collected revenue. We will likely incur differences in collected revenue compared to allowed revenue on a year-on-year basis due to customer number and consumption fluctuations, as well as forecasting differences. Any differences will be adjusted for in future tariff calculations

**Table 5: Southern Revenue**

£m nominal prices	2023/24	2024/25
Calculated Revenue [as published]	915.4	889.2
AIP Adjustment Term [as published]	1.6	-112.4
<b>Adjusted Revenue [as published]</b>	<b>917.0</b>	<b>776.8</b>
Legacy Allowed Revenue	-1.5	-2.0
K Correction Factor	7.3	6.2
<b>Allowed Network Revenue</b>	<b>922.7*</b>	<b>781.1*</b>
<b>Collected Revenue</b>	<b>916.9</b>	<b>771.6</b>
<b>(Under) / Over Recovery</b>	<b>(5.9)*</b>	<b>(9.5)</b>

(\*please note, columns and rows may not sum due to rounding differences)

**Table 6: Scotland Revenue**

£m nominal prices	2023/24	2024/25
Calculated Revenue [as published]	429.5	413.7
AIP Adjustment Term [as published]	-14.2	-51.2
<b>Adjusted Revenue [as published]</b>	<b>415.3</b>	<b>362.4*</b>
Legacy Allowed Revenue	0.0	2.3
K Correction Factor	0.5	-2.6
<b>Allowed Network Revenue</b>	<b>415.8</b>	<b>362.1</b>
<b>Collected Revenue</b>	<b>418.3</b>	<b>362.5</b>
<b>(Under) / Over Recovery</b>	<b>2.5</b>	<b>0.4</b>

(\*please note, columns and rows may not sum due to rounding differences)

The reduction in Calculated revenue can be attributed to a material reduction in forecast of pass-through costs for 2024/25 when compared to 2023/24. The main drivers for this are a drop in shrinkage costs and SoLR claims received. In addition, Scotland experienced a reduction in PCDs/UMs, mainly as a result of the removal of the net zero reopener. The reduction was partly offset by increases in inflation and NIA/VCMA spend.

The adjustment term (ADJt) also had a material impact on revenue levels in 2024/25, resulting from significant updates to 2023/24 forecasts. Predominantly, the movement was driven by reductions to tax allowance (updated forecasts and extension of the super tax scheme), inflation impact, shrinkage and NTS costs. The overall reduction in ADJt was partially offset by increased forecast totex spend from 2023/24 and updated PCD/UM allowances.

### 5.3 (R3) 2024/25 Totex reconciliation

Within sections 3 and 4, we discuss our key financial performance up to the fourth year of GD2, as well as our forecast to complete by the end of the price control period. We discuss the stark differences in performance between our two networks and highlight challenges with the GD2 totex allowance setting process, with particular issues regarding regional factor considerations.

Our 2024/25 totex reconciliations are based upon the latest view of allowances, which includes a recent draft determination publication for our HSE Policy and Streetworks re-opener published by Ofgem on the 18<sup>th</sup> July, 2025<sup>1</sup>.

As agreed with Ofgem, this publication was not included within our RRP performance due to the close proximity to the RRP submission date of 31<sup>st</sup> July.

The re-opener draft determination has reduced our allowance view by £9m for Scotland and £15m for Southern. As the costs are still anticipated to be incurred, there is no change to our cost outlook. As such, totex performance for Scotland has reduced to 3% outperformance (previously 4% outperformance as per RRP) and for Southern has further weakened to 15% underperformance (previously 14% underperformance as per RRP). We have responded to Ofgem's draft determination with requested evidence to support the reinstatement of our original re-opener request.

Our position on enduring value adjustments is discussed within supporting appendix 7.2. Allowances for GD2 are equally phased, particularly for Repex activity within our Southern network, yet our delivery has been predominantly back ended due to challenges in engaging the contractor labour force for the allowed unit rates set in GD2. Our enduring value adjustments ensure that totex performance up to the actual period is reflective of reality.

Within this tab, we are able to reconcile our reported totex to our latest statutory accounts. We note a minor late adjustment to our statutory accounts within Southern for the 24/25 year of £0.7m, which will be adjusted within the next year's RRP submission to ensure alignment.

### 5.4 (R4) Incentive and Other Revenue

#### Incentives

The table below shows our 2024/25 performance for incentives has generated income of £1.4m for Scotland and £1.4m for Southern.

Both of our networks continue to perform strongly, achieving excellent performance for our customer service outputs. Our Scotland network remains the UK's number one gas network for customer service for the ninth year running.

**Table 7: Output Delivery Incentives**

£m 18/19 prices	Scotland	Southern	SGN
<b>Output Delivery Incentives (ODI-F) - potential reward or penalty</b>			
Shrinkage Management	(0.1)	0.4	0.4*
Customer Satisfaction	1.5	2.4	3.9
Collaborative Streetworks	n/a	1.5	1.5
<b>Output Delivery Incentives (ODI-F) – penalty only</b>			
Complaints metric	0.0	0.0	0.0
Unplanned interruptions	0.0	(3.0)	(3.0)
<b>Total ODIs</b>	<b>1.4</b>	<b>1.4</b>	<b>2.8</b>

(\*please note, columns and rows may not sum due to rounding differences)

<sup>1</sup> [Draft Determinations on RIIO-2 Re-opener Applications 2025: Electricity Transmission, Electricity Distribution and Gas Distribution | Ofgem](#)



## Shrinkage Management ODI-F

In Southern, the ODI-F for Shrinkage Management is currently generating a small incentive allowance driven exclusively by outperformance against the RIIO-GD2 Baseline LDZ Average System Pressures (ASPs). Average pressures in both South and South-East have once again ended the formula year below the Pressure Lower Deadband Value (PLDV). 2024/25 was a more challenging year in Scotland, with ASPs tending towards the Pressure Upper Deadband Value (PUDV) due to several operational and strategic factors and, although pressures have increased, under the RIIO-GD2 ODI Period Average Calculation methodology, Scotland remains firmly within the asymmetric Deadband, generating neither financial reward nor penalty.

Gas Conditioning performance in both Scotland and South-East saw a deterioration in performance in 2024/25, primarily due to reductions in treated metallic mains length. This is a symptom of the mains replacement programme and is exacerbated year on year as we replace more iron mains with plastic pipe. Looking to the future, Ofgem have stated they are minded to remove Gas Conditioning from any incentive in RIIO-GD3, which will allow the business to decide on whether to maintain this programme, without fear of financial penalty through diminishing returns.

## Customer Satisfaction Survey ODI-F

For the fourth year of RIIO-GD2, and nine years in a row, our Scotland network retained the number 1 position for customer satisfaction, which is a great achievement. As we progress into the final year of this price control period, both networks are in strong positions and are maintaining healthy customer satisfaction scores. Our Southern network continues to increase its overall performance year on year, increasing its overall score from 9.19 to 9.28/10, whilst maintaining a mid-table ranking. Specific areas we continue to prioritise to improve our service and customer satisfaction scores include:

- **People** – We always listen to our customers and our people to understand where we can get better. We engage through employee and contractor customer forums and invite our front-line colleagues to listen to our customers first-hand in our customer focus sessions, working together to improve our customer journeys. We recognise our people who continue to make a difference through our 10/10 corner, an internal form of recognition to our employees, highlighting and sharing individual stories across our business to celebrate successes, sharing best practice and driving focus and engagement.
- **Training** – To maintain a high, consistent standard of customer service, we have ongoing training courses which cover a wide range of topics such as 'Identifying vulnerability', 'How you make the difference' and 'Brilliant Basics', which is at the forefront of our induction programme for new recruits. This package ensures clear expectations are set from the beginning, and our people receive specific customer training before starting their new operational role. We also work closely with our regional teams, providing feedback and action plans for improvement, supported with real-time on-site training to appreciate what our people and customers experience, and always finding ways to improve and offer extra help.
- **Technology** – We continue to work with agility to understand the best solutions to deliver outstanding customer experiences and ensure we take the very best care of our vulnerable customers. An example of this is our new trial using video notes, allowing our customers and teams to show and tell us how our works have gone and where we can get better. This trial has now become an effective embedded practice across our workstreams, and we will continue to expand and evolve our capabilities in this area. Another example is that we are now able to keep more customers regularly and better informed throughout our unplanned emergency work by utilising SMS updates and customer broadcasts. All our initiatives are designed to improve service, take extra care of our customers and colleagues, deliver efficiencies, and reduce effort for our customers and our people.

## Collaborative Streetworks ODI-F

The collaborative streetworks incentive is a customised program for the GDNs within the Southern and London networks. It encourages cooperation with other utilities in the Greater London area to minimise inconvenience to the public. The maximum reward is achieved with 10 projects per year and is subject to the Totex incentive mechanism. In 2024/25, 10 projects were completed, and £1.525m was claimed. Additionally, the forecast is to complete 10 projects per year for the final year of RIIO-GD2.



## Customer Complaints Metric ODI-F

Our Scotland network has consistently exhibited strong performance in complaint handling, achieving a 2024/25 complaint handling matrix score of 0.51, a great improvement over the previous year. Likewise, our Southern network has demonstrated progress, attaining a complaint matrix score of 1.82 for 2024/25, and reflecting an enhancement from the previous year.

In RIIO-GD2, the objective is to maintain Scotland's leading position in complaint handling performance while improving Southern's position by reducing the metric performance score.

To achieve this, efforts will focus on decreasing the number of complaints received and increasing the resolution rate within the first day. Complaint performance in RIIO-GD2 is incentivised through penalties for poor performance, similar to RIIO-GD1. The penalty threshold in RIIO-GD2 has been lowered from 11.57 to 5.00. If a network's weighted complaint score exceeds 5.00, a penalty will be imposed.

Neither network has breached this threshold since the introduction of RIIO-GD1 or subsequently RIIO-GD2. The increase in complaints received in RIIO-GD2 Y4 compared to Y3 is attributed to the increased main replacement work delivered in Southern.

Our concerns regarding the calculation of the complaints metric and how the results are represented remain. A network with a high volume of complaints that are easily resolved will appear to perform better than a network that focuses on getting it right the first time.

## Unplanned Interruption ODI

2024/25 has continued to challenge our networks with major incidents affecting over 250 customers occurring in our Scotland and Southern networks. Our Scotland network experienced 2 major incidents; however, it has remained within the minimum performance threshold in year 4, exceeding our target with an average of 14.2 hours compared to a minimum performance level of 16.0 hours.

Our Southern region experienced 8 major incidents during 2024/25. This challenge, combined with the cumulative impact from the previous year, where we were prioritising urgent gas escapes before reconnections for the safety of the customer, has taken our average to 33.3 hours, remaining marginally below the maximum penalty threshold of 33.5 hours.

**Table 8: Customer Complaints Metric**

	GD1-Y7	GD1 -Y8	GD2-Y1	GD2-Y2	GD2-Y3	GD2-Y4
Volume Of Complaints	2019/20	2020/21*	2021/22	2022/23	2023/24	2024/25
Scotland	340	214	246	369	315	273
Southern	1,299	793	1,052	1,556	1,565	1,711
SGN	1,639	1,007	1,298	1,925	1,880	1,984

	GD1-Y7	GD1 -Y8	GD2-Y1	GD2-Y2	GD2-Y3	GD2-Y4
Complaints Metric	2019/20	2020/21*	2021/22	2022/23	2023/24	2024/25
Scotland	1.71	1.50	1.50	1.71	1.62	0.51
Southern	2.83	3.06	3.06	4.74	3.61	1.86

Complaints per 10,000 Cust	2019/20	2020/21*	2021/22	2022/23	2023/24	2024/25
Scotland	1.85	1.16	1.33	1.99	1.70	1.47
Southern	3.15	1.92	2.54	3.75	3.77	4.12

*\*Due to the impact of Covid-19 we do not consider 2020/21 to be an accurate representation of a normal working year and therefore it is not a relevant point of reference.*



## Other Revenue

The table below shows our 2024/25 performance for other revenue; this is primarily cost recovery for customer vulnerability and innovation projects undertaken in GD2 and increased total allowances by £4.1m for Scotland and £9.1m for Southern.

**Table 9: Other Revenue**

£m 2018/19 prices	Scotland			Southern		
	GD2 Allowance	Expenditure to date	Percentage Used	GD2 Allowance	Expenditure to date	Percentage used
Vulnerability and Carbon Monoxide Allowance VCMA <sup>2</sup>	5.0	9.1	64%	11.2	17.9	56%
Additional VCMA as per updated licence June 23	9.3			20.9		
Network Innovation Allowance (NIA)	11.0	4.91	45%	24.6	10.5	43%
Net Zero and Reopener Use it or Lose it	3.3	1.5	47%	7.5	2.8	37%

## 5.5 (R5-6) Financing and Net Debt position

**Table 10: 2024/25 Net Debt £m's nominal**

	Scotland (£m)	Southern (£m)
<b>Opening Regulatory Net Debt</b>	<b>1,423</b>	<b>3,250</b>
Issuances	70	893
Repayments	(35)	(412)
Accretion	20	42
(Net inflow) / Net outflow of cash equivalents and short-term deposits	11	(309)
<b>Closing Regulatory Net Debt</b>	<b>1,489</b>	<b>3,464</b>

The above figures are presented in nominal prices

<sup>2</sup> Includes both the company-specific and collaborative allowance attributable to each network

## Financing

During the financial year, our Southern network had a £350m fixed rate public bond that matured in February 2025. In addition, our Scotland network had £35m of outstanding EIB loans mature in March 2025. These maturities were part-refinanced by capital markets activity undertaken by both entities in the 2024/25 year. During the financial year, the following debt was issued:

**Table 11: 2024/25 Issued Debt**

Entity	Category	Coupon Type	Issue Date	Maturity Date	Currency	Amount £(m)
Scotland	Private Placement	Fixed	02/04/2024	02/04/2044	GBP	25.00
Scotland	Private Placement	Fixed	27/06/2024	31/03/2039	GBP	25.00
Scotland	Private Placement	Fixed	19/12/2024	01/04/2038	GBP	20.00
Southern	Private Placement	Fixed	02/04/2024	31/03/2036	GBP	60.00
Southern	Private Placement	Fixed	02/04/2024	31/03/2039	GBP	56.00
Southern	Private Placement	Fixed	02/04/2024	02/04/2044	GBP	50.00
Southern	Private Placement	Fixed	02/04/2024	31/03/2036	USD	101.00
Southern	Private Placement	Fixed	27/06/2024	31/03/2034	USD	101.00
Southern	Bond	Fixed	16/10/2024	16/10/2030	EUR	500.00
Southern	Private Placement	Fixed	19/12/2024	01/04/2038	GBP	50.00
Southern	Private Placement	Fixed	12/03/2025	12/03/2038	JPY	9,350.00
Southern	Private Placement	Fixed	31/03/2025	01/06/2038	GBP	50.00
Southern	Bond	Fixed	07/05/2025	07/05/2039	GBP	350.00

In the coming financial year, Scotland has a £150m index-linked (RPI) public bond maturing in October 2025. This is expected to be c.£312m with inflation accretion. There is also a pay down of £83m (c.£173m with inflation accretion) of an amortising £250m index-linked public bond maturing in October 2035. These maturities have been part-refinanced by a £350m fixed rate 14-year public bond which was priced in April 2025. This was priced at Gilts + 143bps which represented a premium to regulated electricity of c.20bps and was wider than the tenor-adjusted prevailing iBoxx index. Scotland's next debt maturity is not until March 2027. For a detailed list of the committed financing that is in place at both Southern and Scotland, please refer to the relevant notes to the respective financial statements.

## Liquidity

In March 2024, Southern and Scotland refinanced and upsized their Revolving Credit Facilities to £450m and £150m respectively, where the borrowers are able to allocate the total commitments of £600m between themselves at their complete discretion. The initial maturity of these RCFs is March 2027, with two 1-year extension options exercisable by Southern and Scotland in the next two years. This was extended in March 2025 to March 2028.

At the year end, Southern and Scotland's RCFs were both undrawn. Taking into account amounts owed under intercompany loan arrangements, cash & cash equivalents at the year-end amounted to £3m (2024: £12m) at Scotland, of which £20m (2024: £18m) was restricted (greater than cash and cash equivalents figure due to £17m intercompany loan owed to Southern), and £363m (2024: £45m) at Southern, of which £9m (2024: £2m) was restricted.

RPI and CPI impacted our index-linked debt and derivatives over the last financial year by accruing:

- At Scotland, £12m of RPI-linked accretion (2024: £15m) and £8m of CPI-linked accretion (2024: £10m)
- At Southern, £23m of RPI-linked accretion (2024: £51m) and £19m of CPI-linked accretion (2024: £25m)

## Risk management

In line with its hedging policy and requirements under its financing documents, the entire principal amounts and interest payments of all non-Sterling issuance were hedged to GBP using cross-currency swaps with effective dates matching the drawdown profile of the notes. Under these cross-currency swaps, Southern receives the foreign currency as an upfront payment and fixed foreign currency payments equal to the principal amounts and coupons under the notes respectively, and pays fixed GBP amounts:

Entity	Issue	Maturity	Type	Pay Rate	Notional (Foreign Currency)
Southern	27-Jun-24	31-Mar-34	USD Fixed to GBP Fixed	5.4960%	20,000,000
Southern	02-Apr-24	31-Mar-36	USD Fixed to GBP Fixed	5.6250%	20,000,000
Southern	27-Jun-24	31-Mar-34	USD Fixed to GBP Fixed	5.4950%	51,000,000
Southern	02-Apr-24	31-Mar-36	USD Fixed to GBP Fixed	5.6270%	51,000,000
Southern	02-Apr-24	31-Mar-36	USD Fixed to GBP Fixed	5.6270%	30,000,000
Southern	27-Jun-24	31-Mar-34	USD Fixed to GBP Fixed	5.4950%	30,000,000
Southern	12-Mar-25	12-Mar-38	JPY Fixed to GBP Fixed	6.0070%	9,350,000,000
Southern	16-Oct-24	16-Oct-30	EUR Fixed to GBP Fixed	5.2352%	150,000,000
Southern	16-Oct-24	16-Oct-30	EUR Fixed to GBP Fixed	5.2302%	25,000,000
Southern	16-Oct-24	16-Oct-30	EUR Fixed to GBP Fixed	5.2352%	50,000,000
Southern	16-Oct-24	16-Oct-30	EUR Fixed to GBP Fixed	5.2302%	250,000,000
Southern	16-Oct-24	16-Oct-30	EUR Fixed to GBP Fixed	5.2352%	25,000,000

## 5.6 (R7) RAV

The table sets out the RAV for the fourth and final years of RIIO-GD2, 31st March 2025 and 2026, respectively:

**Table 12: Final two years RAV**

	2024/25			2025/26		
£m's 2018/19 prices	Scotland	Southern	SGN	Scotland	Southern	SGN
Opening RAV	1,807.6	3,925.8	5,733.4	1,833.0	4,012.0	5,845.0
Net Additions	124.6	301.0	425.6	132.7	293.6	426.3
Depreciation	-99.2	-214.8	-314.0	-101.8	-221.7	-323.5
Closing RAV	1,833.0	4,012.0	5,845.0	1,864.0(*)	4,083.8(*)	5,947.8
£m's nominal						
Adjusted closing RAV	2,395.6	5,243.4	7,638.9	2,490.4	5,456.3	7,946.7

(\*please note, columns and rows may not sum due to rounding differences)

In real terms for the 2024/25 year, our Regulated Asset Value (RAV) increased by 1.4% for Scotland and 2.2% for Southern compared to our position last year. This increase is due to a step up in additions to the RAV, primarily due to increased Repex delivery as discussed in section 3 above. Growth is also due to increased allowances through the HSE and Streetworks reopener. Over GD2 as a whole, our RAV in real terms is forecast to increase by 1.3% p.a. for Scotland and 1.0% p.a. for Southern, on average.

*Note- Reopeners and volume drivers are capitalised at 70% for Scotland and Southern, with the remaining majority of capex and opex capitalised at 41% for Scotland and 33% for Southern. All repex is capitalised at 100%.*

## 5.7 (R8 & R8a) Taxation and Tax Reconciliation

We take a prudent approach with relation to tax, recognising liabilities expected to arise and only recognising assets once confirmation has been received from HMRC. Our primary objective has always been to recognise and adhere to all tax legislation policies and remain compliant.

### Our tax strategy

We shall organise ourselves to ensure that we:

- Comply with all tax legislation requirements.
- Operate within the law.
- Maintain strong relationships with the tax authorities built on trust and co-operation.

### Compliance

We are proud to pay our fair share of tax, and our primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect our fiscal obligation to the government, whilst simultaneously recognising all legislative concessions and reliefs.

### Operate within the law

We strive to minimise our total tax liability within the framework of legislative reliefs, but do not take an aggressive stance in our interpretation of tax legislation. Our policy is to operate within the law at all times; therefore, we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

### Trust and co-operation

Central to our Tax Policy is the maintenance and development of a strong working relationship with HMRC and other Treasury departments based on trust and co-operation.

### Tax contribution

Our tax contributions in the year amounted to £323.7m (2024: £394.0), which consist of the following contributions:

- Corporation tax of £24.7m (2024: £47.1m) paid on our taxable profits
- VAT of £101.5m (2024: £160.9m)
- Business rates of £107.2m (2024: £100.6m) paid to local authorities
- Employment taxes of £90.3m (2024: £85.4m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

### 2023/24 Tax Reconciliation

An explanation of the differences between Scotland and Southern's CT600 actual 2023/24 corporation tax liability and the calculated tax allowance in the latest PCFM, which are detailed in tab R8a, is found in the tables and commentary below.

We have aggregated all the differences in tab R8a, which drive profits and, thus, corporation tax variances into 4 categories: EBITDA (net of turnover and operating expenses), Total Interest, Capital Allowances and CT600 Adjustments. A positive variance represents higher tax payable in the CT600 versus the PCFM tax allowance and, conversely, a negative variance represents lower tax payable.

The materiality thresholds for the differences in these categories, and thus also the profits chargeable to corporation tax, are £3.6m for Scotland and £7.5m for Southern. The materiality threshold for the difference between the CT600 actual corporation tax liability and the calculated tax allowance in the latest PCFM is £1.2m for Scotland and £2.5m for Southern. Please note that all figures in this tax reconciliation commentary are in £m's (nominal).

The difference in EBITDA is by far the main reason for the variance between actual tax paid (CT600) and the tax allowance (from the PCFM). It is important to note that there is inherently a revenue timing disconnect between the CT600 and the PCFM tax allowance, driven by the fact that:



- the CT600 regulated revenue is revenue actually received in 2023/24 and is based on the forecasted overall allowed revenue in the submitted January 2023 'Tariff PCFM' (including any Statutory Independent Undertakings), adjusted for under/over recovery in year;
- but the calculated revenue used in the tax allowance, in the latest PCFM, is based on the actualised input values for 2023/24 as of September 2025 (as opposed to their forecast value back in January 2023). Also, it doesn't include allowed revenue true-ups from previous years that are included in the overall allowed revenue for 2023/24;
- We would expect the timing issues to broadly even out over the price control period.

### Scotland Summary

As shown in the table below, the difference of +£1.4m between the corporation tax determined by the CT600 and the calculated tax allowance in the latest PCFM is due to a variance of +£5.8m in the profits chargeable to corporation tax. These material variances are caused by differences in the 4 categories detailed above, with material differences in the EBITDA (as explained above), Total Interest and CT600 Adjustments categories and an immaterial variance in the Capital Allowances category.

**Table 13: Scotland CT600 vs PCFM Tax comparison**

	CT600	PCFM	DIFFERENCE PCFM vs CT600	MATERIALITY CHECK
i. EBITDA	235.2	214.1	21.1	Material
ii. Total Interest	-65.8	-56.9	-8.9	Material
iii. Capital Allowances	-80.1	-79.7	-0.4	Immaterial
iv. CT600 Adjustments	-6.1	0.0	-6.1	Material
Profits Chargeable to Corporation Tax	83.3*	77.5	5.8*	Material

<b>Corporation Tax due on PCTCT @ 25%</b>	<b>20.8</b>	<b>19.4</b>	<b>1.4</b>	<b>Material</b>
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(\*please note, columns and rows may not sum due to rounding differences)

The material variance in the EBITDA category is mainly caused by a regulated revenue timing difference between the January 2023 tariff PCFM, that set the forecast allowed revenue to collect in 2023/24, and the revenue in the latest September 2025 PCFM, based on actualised inputs, used to generate the allowed tax. This regulated revenue timing difference predominantly relates to over forecasts of the calculated revenue items of gas prices impacting 'Shrinkage Pass Through Costs', fast money, NTS exit costs pass through costs and tax allowance, all offset to a degree by allowed revenue adjustments carried forward from prior years (AIP adjustment).

The material variance in the Total Interest category is predominantly caused by Scotland's actual gearing being lower than Ofgem's 2023/24 notional gearing threshold for tax clawback, of 63%. This means there is no inclusion of tax clawback in the PCFM tax allowance calculation, to take into account the impact of the higher level of P&L interest in the CT600 calculation.

The material variance in the CT600 adjustments category is predominantly caused by amortisation adjustments relating to the deduction available for amortisation expenditure on certain computer software expenditure, while excluding amortisation amounts relating to goodwill and other software amounts where tax relief has already been obtained in the form of capital allowances and qualifying for the R&D schemes.

### Southern Summary

As shown in the table below, the difference of +£23.1m between the corporation tax determined by the CT600 and the calculated tax allowance in the latest PCFM is due to a +£92.4m variance in the profits chargeable to corporation tax. These material variances are caused by differences in the 4 categories detailed above, with material differences in the EBITDA



(explained above) and CT600 Adjustments categories, and immaterial variances in the Total Interest and Capital Allowances categories.

**Table 14: Southern CT600 vs PCFM Tax comparison**

	CT600	PCFM	DIFFERENCE PCFM vs CT600	MATERIALITY CHECK
EBITDA	512.4	418.3	94.1	Material
Total Interest	-168.6	-173.9	5.2	Immaterial
Capital Allowances	-124.8	-128.7	3.9	Immaterial
CT600 Adjustments	-10.9	0.0	-10.9	Material
Profits Chargeable to Corporation Tax	208.2*	115.7	92.4	Material
<b>Corporation Tax due on PCTCT @ 25%</b>	<b>52.0</b>	<b>28.9</b>	<b>23.1</b>	<b>Material</b>

(\*please note, columns and rows may not sum due to rounding differences)

The material variance in the EBITDA category is mainly caused by a regulated revenue timing difference between the January 2023 PCFM, which set the forecast allowed revenue to collect in 2023/24, and the revenue in the latest September 2025 PCFM, based on actualised inputs, used to generate the allowed tax. This regulated revenue timing difference predominantly relates to over forecasts of the calculated revenue items of gas prices impacting 'Shrinkage Pass Through Costs', NTS exit costs pass-through costs and tax allowance.

The material variance in the CT600 adjustments category is predominantly caused by amortisation adjustments relating to the deduction available for amortisation expenditure on certain computer software expenditure, while excluding amortisation amounts relating to goodwill and other software amounts where tax relief has already been obtained in the form of capital allowances and qualifying for the R&D schemes.

#### Comments on Mechanics of RFPR Tab 8a – Tax Reconciliation

Whilst completing this tab, we noticed that some of the PCFM references in column G are incorrect. Where guidance allowed comments in column L, we have corrected the PCFM references. An additional comment relates to cell G97, which states that the inflation index in cell H97 is sourced from RFPR 'Data' cell E26, whereas it's actually sourced from RFPR 'Data' tab cell H34. For the avoidance of doubt, this point does not impact any of the numbers in this section or the appendix.

## 5.8 (R9) Financial Resilience & Corporate Governance

### Financial Resilience

#### Licensee covenants:

Both Southern and Scotland have a Regulated Asset Ratio ("RAR") financial covenant (net debt to RAV), also known as gearing, with a trigger at 77.5% and Event of Default ("EoD") at 95%. Consequences of breaching a trigger include limitations on distributions and further indebtedness. In addition, the Licensees are required to maintain a minimum of 75% of their debt in either fixed or inflation-linked format and must fully hedge all non-GBP-denominated debt issued back to GBP.

There are no documented equity cure style remedies contemplated in Southern's and Scotland's financing documents, and there are no covenants at Southern or Scotland that obligate them to declare dividends.

Economically reliant companies:

Southern and Scotland are wholly owned subsidiaries of SGN MidCo Limited ("MidCo"), which itself has external debt totalling c.£475m raised from a whole business securitisation (WBS) type platform. Other companies within the MidCo ringfence include SGN Evolve Networks Limited and SGN Contracting Limited. We publicly provide information on the debt and interest costs at MidCo within filed annual accounts and on our investor relations website:

Table 15: MidCo debt

Issue Date	Maturity Date	Final Type	Coupon	Final Terms Credit Spread	Issuance Amount £m	Book Value 30 Jun 2025 £m	Maturity Value at 30 Jun 2025 £m
15-Mar-18	15-Mar-30	Fixed	2.900%	129.0	100.0	100.0	100.0
17-Jan-18	17-Jan-33	RPI-linked	0.110%	180.0	37.5	54.7	70.9
15-Mar-18	15-Mar-33	Fixed	3.020%	134.0	185.0	185.0	185.0
17-Jan-18	17-Jan-38	RPI-linked	0.280%	190.0	87.5	127.5	196.5
15-Mar-18	15-Mar-38	Fixed	3.110%	125.0	15.0	15.0	15.0

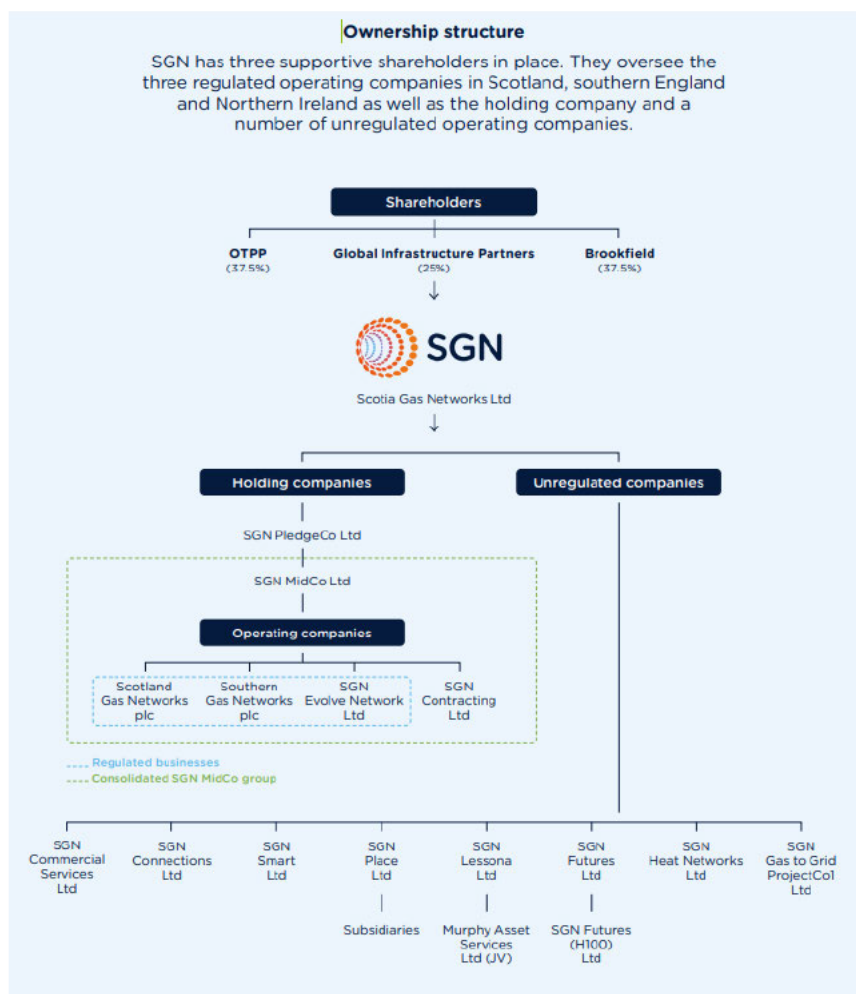
For the avoidance of doubt, Southern and Scotland are not economically reliant on one another and maintain sufficient liquidity to cover forecast requirements separately (please see Liquidity under section 5.5 above).

## Corporate ownership and governance Framework:

### Ownership Stakes and Ownership Structure

At the beginning of RIIO-GD2, the biggest ownership changes since the Group was formed some 17 years ago were completed. Two of the original three shareholders, SSE and OMERs, sold their shareholdings, as did the more recent investor ADIA. This was undertaken in two separate deals and brought two new investors into our Group. The new investors are Brookfield Super-Core Infrastructure Partners (Brookfield), a Canadian global asset manager, and Global Infrastructure Partners (GIP), a US based global independent infrastructure fund manager. Brookfield has taken 37.5% share, and GIP has taken a 25% share. As part of the transactions, Ontario Teachers' Pension Plan (OTPP), our third original investor, increased its ownership from 25% to 37.5%.

This structure is set out below:



### Board of Directors

The Board of Directors is comprised entirely of Non-Executive Directors and is the principal decision-making forum for the company. Directors are nominated to the Board in accordance with the terms of the Shareholders' and Governance Agreement. It should be noted that two additional Directors from the SGN Executive team were appointed to both Scotland and Southern boards in September 2025, these were Simon Killonback, CEO, and Antony King, CFO.

The Board is collectively responsible for the long-term success of the Group and for setting a clear purpose, vision and sustainable strategy to create value for existing and future customers, stakeholders and shareholders. It provides the leadership necessary for the Group to meet its business objectives while ensuring a sound system of internal control and risk management is in place. The powers and the duties of the Directors are determined by legislation and by the

Company's Articles of Association. The Board has also adopted a formal schedule of matter, detailing key aspects of the Company's affairs reserved to it for decision.

The Board of Directors comprises eleven Non-Executive Directors. This consists of a Non-Executive Chair and ten Non-Executive Directors. The Board of Directors is normally the same for the Company and each subsidiary company within the Group, except for the regulated entities, Scotland Gas Networks plc and Southern Gas Networks plc, which consist of two additional independent Non-Executive Directors.

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

The full list of directors is set out below;

**Table 16: Board of Directors**

Name	Appointment	Date of Appointment
Rebecca Lumlock	Chair, Shareholder Non-Executive Director	22 March 2022
Paul Jeffery	Statutory Independent Non-Executive Directors	28 January 2014
Joanna Whittington	Statutory Independent Non-Executive Directors	19 October 2023
Paul Trimmer	Shareholder Non-Executive Directors	23 March 2022
Nick Salmon	Shareholder Non-Executive Directors	14 March 2019
Jeffrey Rosenthal	Shareholder Non-Executive Directors	24 November 2022
Charlotte Brunning	Shareholder Non-Executive Directors	2 May 2018
Martin Catchpole	Shareholder Non-Executive Directors	23 March 2022
Michael Botha	Shareholder Non-Executive Directors	22 March 2022
James Adam	Shareholder Non-Executive Directors	30 January 2025

### Board Committees

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

Each of the Board Committees provides a dedicated focus on a defined area of responsibility. Board Committees act as an advisory body, with the Board retaining oversight and final decision-making, except where otherwise delegated by the Board, in which case, the Committee will act within their agreed authority. Board Committee membership is determined by the Board. Prior to determining membership, the Board will consider the subject matter of the Committee's purpose and duties to ensure that the membership addresses its specific needs. Membership will assess technical skills, knowledge and experience whilst recognising the benefits associated with diversity. Each Board Committee is chaired by a shareholder or independent Non-Executive Director.

Whilst there are certain reserved matters set out in the shareholders' agreement, there is no parent or group company that has reserved rights that would supersede the decision making of any of these companies. As set out in our annual report, the attendance of individual non-executive directors during the 2024/25 period was as follows:



## Meeting attendance, April 2024 to March 2025

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

<sup>1</sup> James Adam was appointed as a Director on 30 January 2025.

<sup>2</sup> Christian Fingerle resigned as a Director on 13 September 2024.

<sup>3</sup> Michael Smart attended the meetings in his capacity as an Alternate Director from 13 September 2024 until 30 January 2025.

<sup>4</sup> Alternate Directors will appear in this table if they attended the meetings in their capacity as an Alternate Director within the financial year.

### Executive committee

Below the Board, Executive responsibility rests with Simon Kilonback, Chief Executive Officer (CEO) and Tony King, Chief Financial Officer (CFO). The CEO and CFO are each employed by the Group and are not Directors of the Company although attend each Board meeting. They are supported by an Executive Management Team.

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

### Corporate Governance Principles


For the year ended 31 March 2025, under the Companies (Miscellaneous Reporting) Regulations 2018, the SGN Group has applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018<sup>3</sup>.

The Wates Principles provide a framework of six principles through which the SGN Board monitors the corporate governance of the SGN Group and sees where standards can be raised to a higher level across the business. The governance framework will also provide the right environment for the Board to make decisions for the long-term success of the SGN Group. These principles are;

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.

<sup>3</sup> A full copy can be viewed on its website under [www.frc.org.uk/directors/corporate-governance-and-stewardship/governance-of-large-private-companies](http://www.frc.org.uk/directors/corporate-governance-and-stewardship/governance-of-large-private-companies).



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2. Board composition. Effective Board composition requires an effective Chair and a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.
  3. Director responsibilities. The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.
  4. Opportunity and risk. A Board should promote the long-term sustainable success of the Company by identifying opportunities to create and preserve value, establishing oversight for the identification and mitigation of risks.
  5. Remuneration. A Board should promote Executive remuneration structures aligned to the long-term sustainable success of a company, considering pay and conditions elsewhere in the Company.
  6. Stakeholder relationships and engagement. Directors should foster effective stakeholder relationships aligned with the Company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard for their views when making decisions.

The governance framework is set out in more detail in the SGN Annual Report. Through the remainder of RIIO-GD2 we will continue to develop and improve our corporate governance with regular review and challenge from our Board members.

## Executive Remuneration Policy

### Executive Director Remuneration

The SGN board does not operate with Executive Directors.

### SGN Executive Remuneration

SGN Senior Executive remuneration, including the pay of the CEO, is determined through the Remuneration Committee. This Committee is established to promote Executive remuneration structures aligned to the long-term sustainable success of a company, considering pay and conditions elsewhere in the Company.

This has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group's remuneration strategy, recruitment framework and long-term incentive plans for senior executives. The Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practices and remuneration benchmarking.

The current members of the Remuneration Committee are Charlotte Brunning (Committee Chair), Rebecca Lumlock, Paul Trimmer and Joanna Whittington. The SGN management attendees are the Chief Executive Officer, the Chief People Officer and the Head of Employee Relations, Policy & Reward.


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

The primary objective is to set remuneration at a level that will enhance the Group's resources by securing and retaining quality people who can deliver our purpose, vision and values, and long-term goals for its existing and future stakeholders.

### Dividend Policies

The Board of Directors for Scotland Gas Networks plc and Southern Gas Networks plc separately take dividend decisions on behalf of the respective entities. For each entity, two independent directors sit on the Board and therefore are part of the decision-making process. [REDACTED].

In deciding whether to pay a dividend, a paper is initially presented to the finance committee with an assessment of the financial resilience of the regulated entity over the long term, taking into consideration future investment requirements and the performance of the regulated entity. Any dividend paid must have, amongst other things, accompanying certificates signed by the Board stating that the company has sufficient financial and operational resources for the next 12 months as per Special Standard Condition A37: Availability of Resources.



Dividend decisions for Southern and Scotland take into account the levels of committed funding available to the Licensees as well as their financial covenants, credit metrics and targets set by the Board, as well as fulfilling the Credit Rating Obligations in Special Standard Condition A38: Credit Rating of the Licensee and Related Obligations. The inherent risk in the businesses and the wider economy is also considered. The performance of each Licensee against its respective standards of service is considered when determining the timing and quantum of any distribution from the Licensees.

The Board also considers dividends in the context of the Wates principles, as described in the above Corporate Governance Principles section.

During the 2025 financial year, Southern did not pay any distributions (2024: £25m), with no further dividends declared to date. Scotland paid distributions totalling £20m in 2025 (2024: £32.5m). As of 31 March 2025, Southern and Scotland had distributable reserves of £1,119m (2024: £1,054m) and £434m (2024: £438m) respectively.

Over the first four years of GD2, Scotland paid £126.5m of dividends (annual return on notional equity of 3.7%) and Southern paid £137m of dividends (annual return on notional equity of 1.8%). Both of these levels are well below the appropriate cost of equity levels for GD2.

## 5.9 (R10) Pensions and Other Activities

### Pensions

The R10 template of our submission shows the movement of the pension deficit for the defined benefit scheme. No deficit repair payment was made during the last financial year, as our pension scheme is currently in surplus. For the latest valuation section of the template, we have used our PDAM valuation report dated 2022, submitted at the end of August 2023 to Ofgem.

### Fines and Penalties

During the third year of the price control, our Guaranteed Standards of Performance (GSOP) payments, in 2018/19 prices, were £0.4m in our Scotland Network and £2.0m in our Southern Network.



## 6 Data Assurance

For the GD2 price control, the Data Assurance Guidance (DAG) requires a risk score for the reporting pack as a whole. However, as there are several templates and additional reporting requirements, we have retained approval at a template level, which includes a 5-stage sign-off process. We believe this to be an appropriate measure to ensure the level of quality is maintained across all templates.

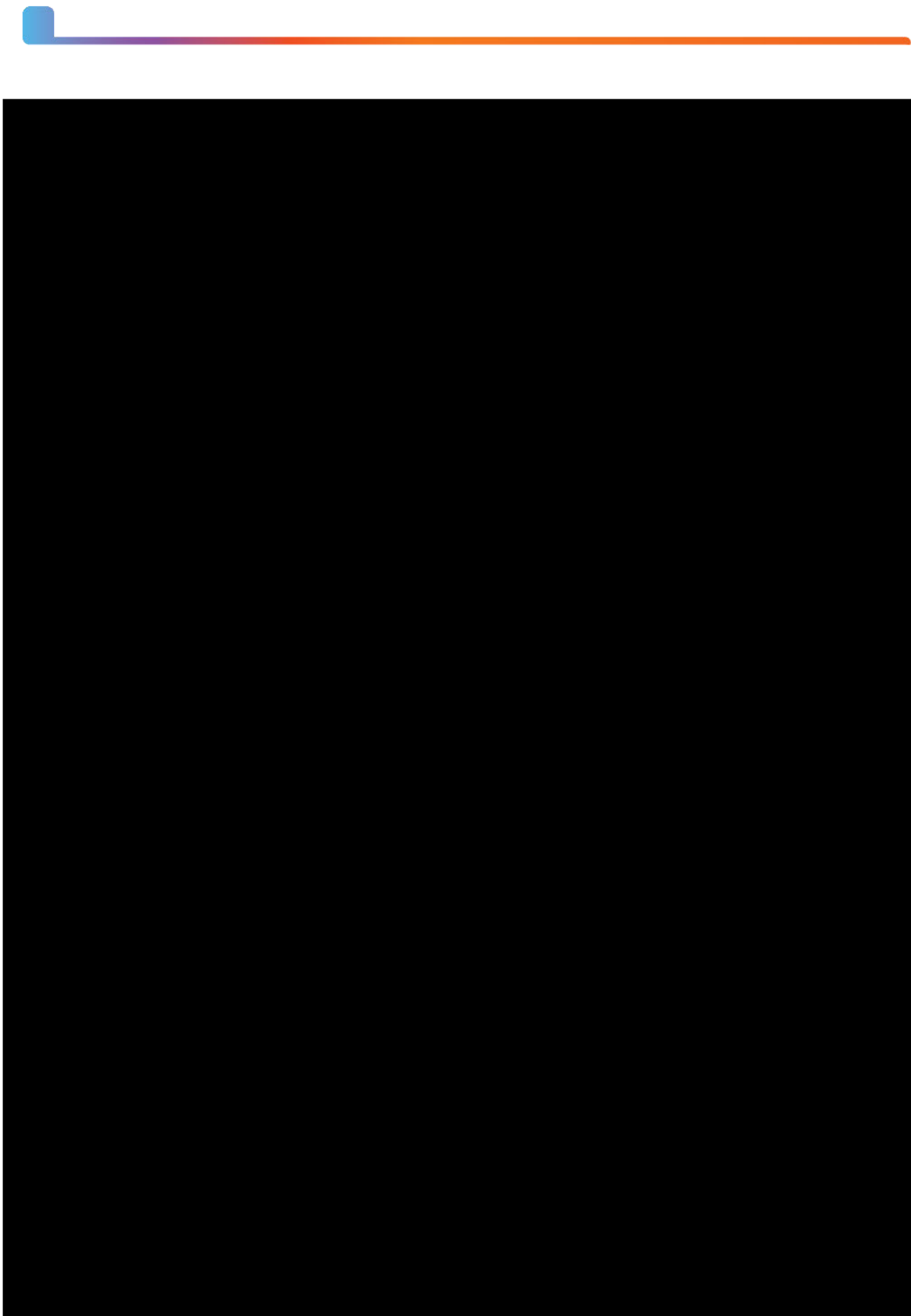
As a part of our agreed processes, we have not undertaken a forecast of GD3 debt, as this has been covered by the GD3 business plan process. The debt tabs contain some pre-populated figures, which do not form a complete picture and, therefore, any GD3 data in these tabs should not be relied upon.

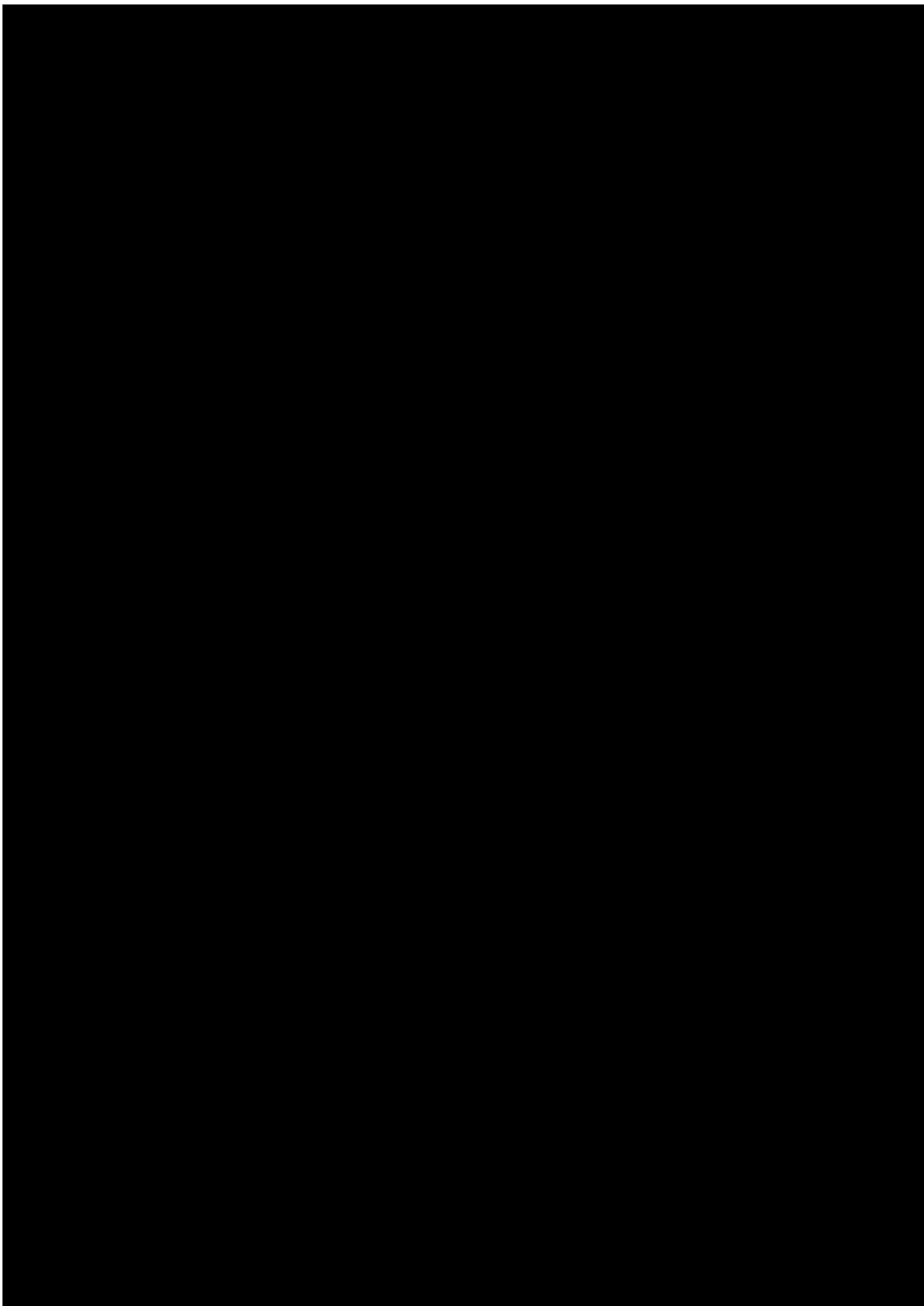
Our regulatory reporting submissions have been through the appropriate governance process with oversight from our Chief Financial Officer, Chief Executive Officer, and the SGN Board.

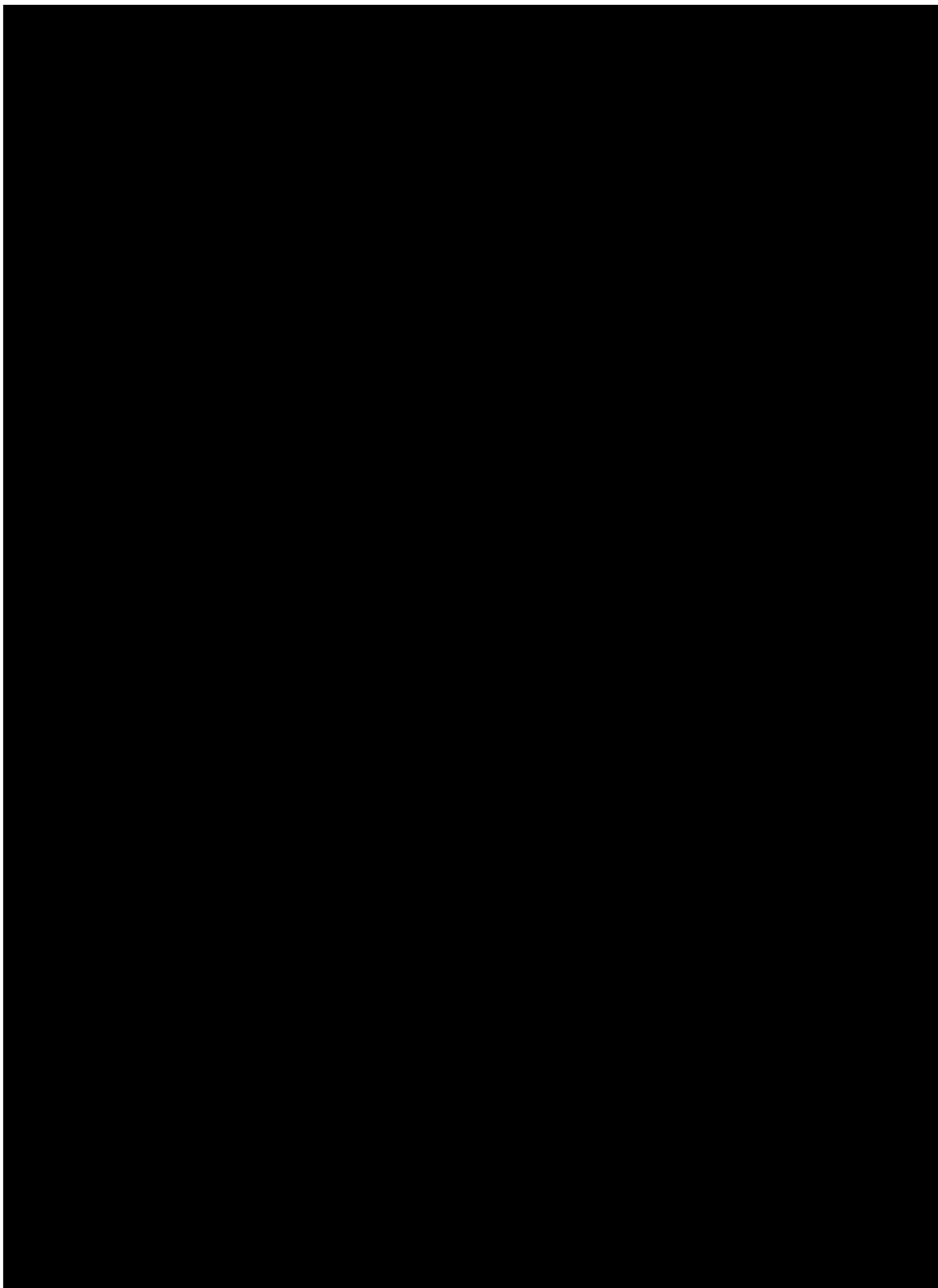






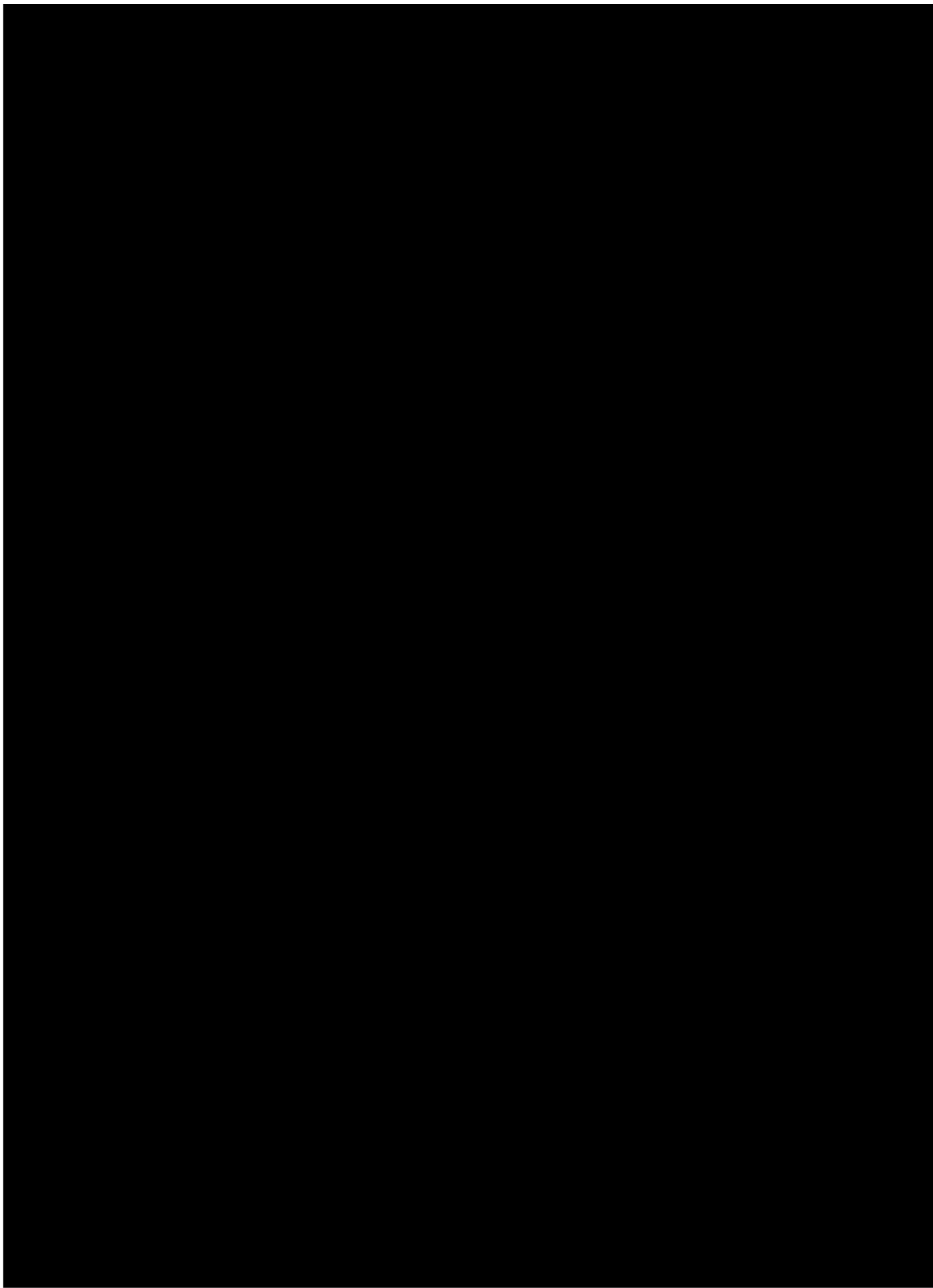


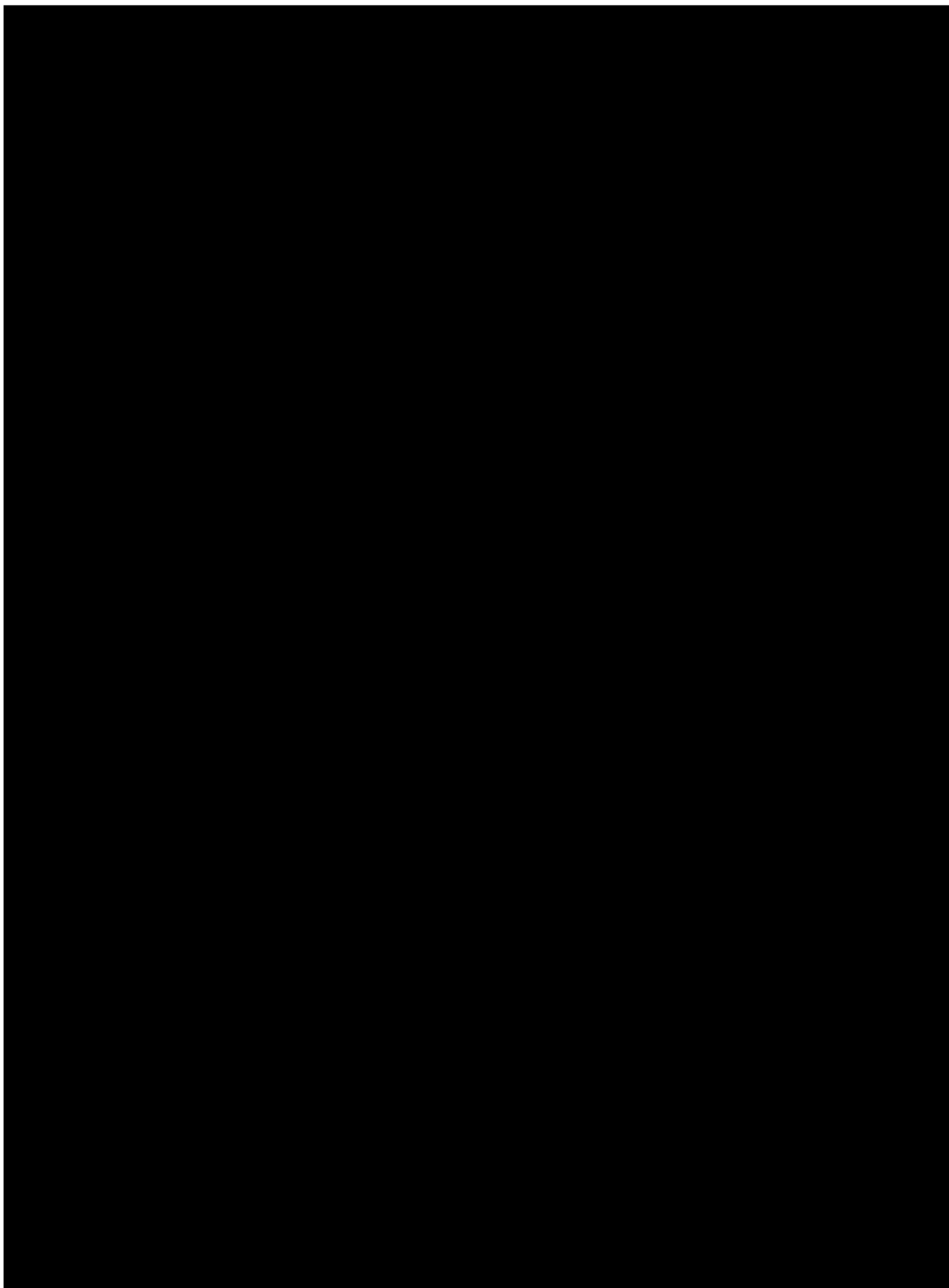


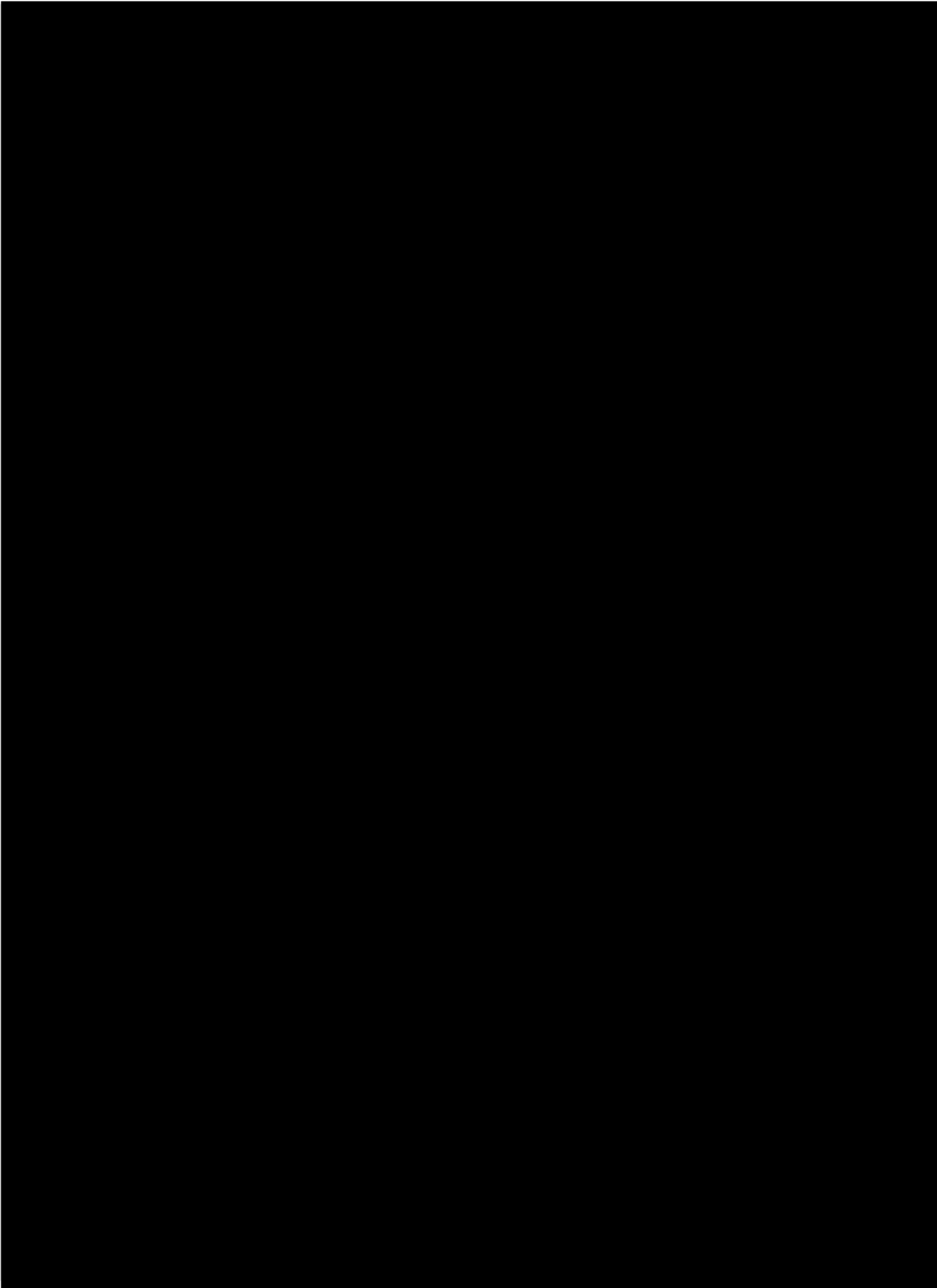


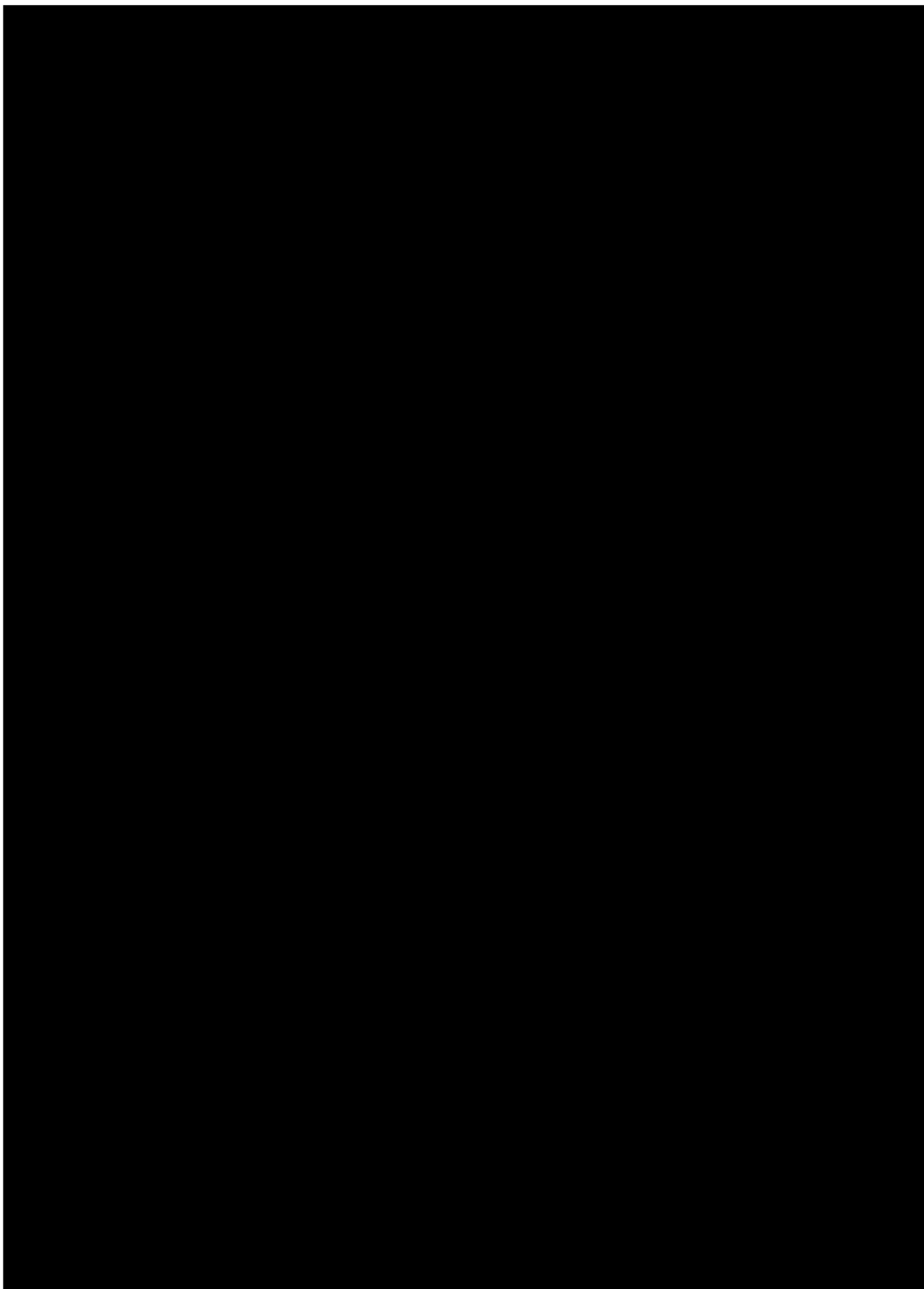
















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