

SGN RFPR Commentary

September 2026

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1 Purpose and background

As set out in the RIIO-2 Regulatory Financial Performance Reporting (“RFPR”) – guidance and RIGs published 15th June 2026, 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 30th September following the end of every reporting year unless directed otherwise by the regulator.

This commentary is completed on behalf of both the Scotland Gas Networks and the Southern Gas 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

This 2025/26 Regulatory Financial Performance Report (RFPR) is the final report of SGN's performance across the five-year RIIO-GD2 price control period. As we conclude this regulatory chapter, this commentary provides both a transparent account of our delivery against the RIIO-GD2 mandate as well as highlighting the robust base we set forward into the new RIIO-GD3 price control.

Our network is critical national infrastructure, supporting the UK's energy transition while providing safe, reliable and resilient energy to millions of households and businesses. Ongoing investment in modern infrastructure enables green gas decarbonisation and strengthens security of supply. As we transform for the future, we remain focused on customers and frontline operations, delivering safe, secure, resilient and increasingly sustainable energy to businesses and communities.

We maintain local gas systems to deliver 99.9% availability at all times, even at peak demand. Our Ofgem standard requires us to attend a minimum of 97% of gas escapes within 1 hour when uncontrolled and 2 hours when controlled. In 2025/26 SGN exceeded both measures with our Scotland network achieving above 99.5% for both and our southern network achieving above 98.5% within 1 hour and 99.5% within 2 hours. In addition to our most critical services, we also replaced 1,054 kms of metallic mains to modern plastic pipework, a continued progression toward the HSE mandated programme to remove deteriorating metal pipes from the network. This delivery marks a significant recovery for our southern network after facing a challenging period in prior years and demonstrating our unwavering commitment to safety.

Operational Highlights: Delivering Output Excellence (ODIs)

Providing an exceptional level of customer service remains one of our top priorities and as a result we have achieved the top spot in industry league tables for the tenth year in Scotland while Southern improved from sixth place to second making SGN the top network group overall. Our continued support for our most vulnerable households enabled us to provide meaningful and dedicated support to thousands of households across Scotland and the south. This year our PSR (Priority Service Register) CSat scores continued to improve with a combine score across Southern and Scotland of 9.61.

We are also pleased that we have maximised the use of our Collaborative Streetworks scheme in London, as well as incurring zero penalties for complaints and unplanned interruptions, highlighting our focus to get the basics right. We have continued to exceed the 97% Emergency Response standard in both networks, ensuring over 99.5% network availability even during peak winter demand.

Financial Performance: Return on Regulated Equity (RoRE) Analysis

SGN's financial performance during RIIO-GD2 demonstrates regional divergence, where operational over performance in Scotland was offset by under performance in the Southern network. RoRE is a key metric to represent financial health, demonstrating the regulatory pressures as well as market volatility on shareholder value.

Over the five-year period, the operational RoRE of 4.2% is below the allowed return of 5.1% on a consolidated basis, however there is a performance gap that persists between our two networks which is driven largely by regional cost variances:

- Scotland (6.0% Operational RoRE): Outperformed allowed return by 0.9% which reflects both strong totex delivery against allowances, as well as incentive benefits relating to Scotland's customer service scores.
- Southern (3.4% Operational RoRE): Underperformed against allowed return by 1.7%. This is driven by regional contractor costs and labour market complexities which we have faced in this region.

The Total RoRE of 7.6% is influenced by a positive influence of debt performance. This upside is primarily arithmetical, caused 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.

For the reporting year 2025/26, the SGN regulated entities achieved a consolidated turnover of £1,282.6m (£867.6m from Southern and £415.0m from Scotland) in nominal prices, with only a minor under recovery which will be collected in the following period.

The total nominal Regulatory Asset Value (RAV) for Southern Gas Networks plc and Scotland Gas Networks plc rose by 5.2% during the year from £7.68bn to £8.08bn.

Totex Performance and Regional Cost Drivers

Overall Totex performance for the RIIO-GD2 period shows the notable regional variations between our two networks, where operational efficiencies in Scotland were offset by the cost pressures on the Southern network. Scotland's totex performance showed a positive £53m (+5%) against allowances, whereas Southern's totex performance showed a negative £278m (-15%) against allowances. Overall SGN totex performance is negative £224m (-8%). This is the main downward factor on Operational RoRE performance.

The difference between Scotland's £53m outperformance and Southern's £278m overspend reflects higher than anticipated regional labour costs and supply chain inflation. Expenditure in the final year of RIIO-GD2 also increased as we prioritised completion of our Tier 1 risk reduction programme, bringing delivery to within 2.4% of our original workload target.

Corporate Governance, Resilience and the Transition to RIIO-GD3

Financial and operational success is predicted on robust governance. SGN adheres to the Wates Corporate Governance Principles, with executive remuneration tied to safety, ESG targets, and financial resilience. We discuss our governance approaches in further detail within this commentary.

We maintain a disciplined capital structure, managing a consolidated RAV of over £8bn (nominal). We have successfully navigated various refinancing activities across the year, with details provided as required to Ofgem under the Regulatory Instructions and Guidance. Our financial stability is governed by strict gearing covenants, and we note a reduction in gearing across the price control from c.70% for both networks in year one to year five gearing of 66% Southern and 62% for Scotland (mid-year ratio). Financial resilience is a key principle for our business, which will allow us to deliver for our customers, continue to finance our business efficiently, and make sustainable returns for our shareholders.

The RIIO-GD3 regulatory period started in April 2026 and runs through to March 2031. The final determination issued in December 2025 set the licence which then shapes the Group's investment programme and financial performance expectations over the next five years. The RIIO-GD3 settlement has been the result of an extensive process of planning and stakeholder engagement and whilst this represents a very challenging target at a 15% reduction in allowances, we are working extensively to deliver transformational change across SGN.

We discuss our corporate structure, as well as regulatory performance in more detail within our [Annual Report and Regulatory Stakeholder Report](#), which can both be found on our [website](#).

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	RIIO - GD2 Allowance	Variance	RIIO-GD2 Act	RIIO - GD2 Allowance	Variance	RIIO-GD2 Act	RIIO - GD2 Allowance	Variance
Opex	361	372	3%	767	649	-18%	1,128	1,021	-10%
Repex	303	322	6%	1,019	842	-21%	1,322	1,164	-14%
Capex	262	286	8%	350	368	5%	613	654	6%
Totex	926	980	5%	2,137	1,859	-15%	3,063	2,839	-8%

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

Table 1 shows the 5-year total Totex performance against allowances for RIIO-GD2, with differing outcomes for our Southern and Scottish networks. Although the two networks are managed with the same processes, this difference is driven by, procurement, structure, and regional cost pressures for SGNs southern network.

In Scotland, we delivered our planned workloads and core outputs while outperforming our allowances by 5%, £53m (2018/19). In our 2024/25 strategic commentary, we forecast an outperformance of 4%, £42m (2018/19).

In Southern, over the full five-year period, we overspent our allowances by £278m (2018/19), representing 15% overspend. This is slightly higher than our 2024/25 forecast overspend of 14%, £259m (2018/19). This increase in expenditure was primarily driven by higher labour and contractor costs, affecting both Opex and Repex, together with increased workload delivery. During the year, an additional 64km of Repex Tier 1 mains were delivered compared with the 2024/25 report.

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 (2025/26) Totex Performance

	Scotland			Southern			SGN		
	Year 5 Actual	Year 5 Allowance	Variance	Year 5 Actual	Year 5 Allowance	Variance	Year 5 Actual	Year 5 Allowance	Variance
Opex	76	79	4%	173	138	-26%	250	217	-15%
Repex	68	65	-5%	274	168	-63%	343	233	-47%
Capex	70	47	-47%	91	70	-30%	161	118	-37%
Totex	214	191	-12%	539	377	-43%	753	568	-33%

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

This shows a 12% over expenditure – approximately £23m in Scotland and a 43% over expenditure in Southern - £162m to bring a combined current year performance of 33%, £185m over-expenditure relative to allowances. The main category of overspend was within Southern Repex (+£106m) in relation to accelerated delivery of Tier 1 workloads (704km in 2025/26 vs linear target of 602km). In previous years, we have highlighted the impact of timing as a key driver of any over/underspend compared with the flat phased delivery assumed within allowances. As we have now reached the completion of RIIO-GD2, and we have delivered all major outputs (or have had appropriate allowance adjustments), there are no timing variances in year across the whole RIIO-GD2 period.

Further information on our regulatory financial performance can be found within our 2025-26 Stakeholder Report, available [here](#).

4 RIIO-GD2 Key Operational Performance Measures

Below is a summary of our annual output performance and we are pleased to report that the majority of outputs have been delivered. There have been significant improvements in multiple areas such as our performance on unplanned interruptions, improved customer satisfaction and improved biomethane deployment. Our environmental outputs are slightly behind, partly due to the lack of availability of EVs but also a 72km under-delivery in Repex which has also impacted our network resilience outputs, however this still represents a significant improvement over GD2.

Repex - Tier 1 Mains and Services:

Our Tier 1 mains and service Price Control Deliverable (PCD) in our Southern network has made great progress in year 5, however has fallen short of the overall RIIO-GD2 target by 72 km (2.4%). Despite the shortfall in length we have succeeded in providing the equivalent risk reduction in delivering our mains delivering as agreed with the HSE. 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 close to forecast volumes. Shrinkage delivery across RIIO-GD2 is facing a shortfall against a forecast that was set in 2019. This did not account for the reduction in replacement lengths that occurred during the COVID period and has set us behind that forecast from the outset. This under-delivery of Southern Repex by 72km then contributed further to this.

Commercial Fleet EV Price Control Deliverables:

On commercial fleet EV PCD, we are finishing on a red status as we have been unable to secure the vehicles that meet the criteria of our working requirements. By the end of RIIO-GD2 we were able to acquire 25 EVs with another 53 on order, forecast to be delivered in the first year of RIIO-GD3, and we continue to define our EV strategy which needs to balance the desire for more zero emission vehicles with our operational requirements to manage the network safely.

Business Carbon Footprint (BCF) reporting: The final reduction was 21% across RIIO-GD2 against a target of 25%. This is linked to SGN not electrifying our commercial fleet at the pace we anticipated at the beginning of the price control period. For this reason, we have remained at an Amber status.

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
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	●
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	●

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.

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

5 Overview of Regulatory Performance

5.1 (R1) RoRE

Return on Regulated Equity is a key financial metric that is designed to demonstrate how shareholder returns relative to the allowed cost of equity (real post tax) have been impacted by performance in key operational and financial areas of the business. We present these figures against a notional capital structure to aid comparison across the sector.

As shown in the table below, the RIIO-GD2 cumulative operational RoRE (based on notional gearing) is 6.0% in Scotland and 3.4% in Southern. Additional returns of 0.9% in Scotland and lower returns of -1.7% in Southern compared to the allowed equity return are driven by the respective Totex out / underperformance of the two Networks.

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.

Debt performance within SGN of 3.1% across the GD2 period has been primarily driven by the impact of higher inflation on the fixed-rate debt compared to Ofgem's initial assumptions of long-term forecast for CPIH.

Table 4: RIIO-GD2 RoRE

Notional RORE	RIIO-GD2 RORE		
	Scotland	Southern	SGN
Allowed Equity Return	5.1%	5.1%	5.1%
Totex outperformance	0.8%	-1.7%	-0.9%
Customer Satisfaction Survey ODI	0.2%	0.1%	0.1%
Complaints Metric ODI	0.0%	0.0%	0.0%
Unplanned Interruption ODI	0.0%	-0.1%	-0.1%
Shrinkage Management ODI	0.0%	0.0%	0.0%
Collaborative Streetworks ODI	0.0%	0.1%	0.1%
Network Innovation	0.0%	0.0%	0.0%
H100 shareholder contribution	0.0%	0.0%	0.0%
LTS shareholder contribution	0.0%	0.0%	0.0%
Penalties and fines	0.0%	-0.1%	-0.1%
NOTIONAL RORE – Operational Performance	6.0%	3.4%	4.2%
Debt performance (at notional gearing)	2.9%	3.1%	3.1%
Tax performance (at notional gearing)	0.8%	0.2%	0.4%
NOTIONAL RORE – including financing and tax	9.7%	6.7%	7.6%

5.2 (R2) Reconciliation to Revenue and Profit

Revenue

RIIO-GD2 revenues are set on a forecast basis; the tables below show the 2024/25 and 2025/26 allowed revenue against collected revenue. We are likely to 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 that are set out below. Any differences will be adjusted for in future tariff calculations.

Table 5: Southern Revenue

£m nominal prices	2024/25	2025/26
Calculated Revenue [as published]	889.2	917.2
AIP Adjustment Term [as published]	-112.4	-50.7
Adjusted Revenue [as published]	776.8	866.5
Legacy Allowed Revenue	-2.0	-1.2
K Correction Factor	6.2	10.1
Allowed Network Revenue	781.1	875.3
Collected Revenue	771.6	867.6
(Under) / Over Recovery	9.5	-7.7

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

Table 6: Scotland Revenue

£m nominal prices	2024/25	2025/26
Calculated Revenue [as published]	413.7	426.8
AIP Adjustment Term [as published]	-51.2	-8.4
Adjusted Revenue [as published]	362.4	418.4
Legacy Allowed Revenue	2.3	0.1
K Correction Factor	-2.6	-0.4
Allowed Network Revenue	362.1	418.1
Collected Revenue	362.5	415
(Under) / Over Recovery	0.4	-3.1

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

The reasons for the variance include:

- NTS cost increases - result from National Grid's National Transmission Services (NTS) costs, which relate to network bookings for capacity on the NTS. These increases reflect National Gas latest published charging rates and reflect the costs incurred by SGN and are outside network control.
- Calculated base revenue movements - Both networks include a small decrease in when compared to 2024/25. This is mainly as a result of reductions in Fast money offset by increases in Depreciation and Return. Price Control Deliverables (PCDs) see a reduction following Ofgem's December 2024 decision to reclassify some Cyber Resilience allowance as Uncertainty Mechanisms (UMs), impacting capitalisation rates and resulting in less immediately revenue though tariffs, but increased RAV, positively impacting Depreciation and Return. 2025/26 also includes the updated allowances for HSE and Specified Street works re-openers.

- Innovation allowances - Innovation funding, covering both the Network Innovation Allowance (NIA) and the Vulnerability and Carbon Monoxide Allowance (VCMA), is set for the RIIO-GD2 period, with networks free to utilise allowances across the price control as they choose. The increase in 2025/26, relative to 2024/25, reflects a higher number of projects undertaken in the final year of the price control and continued utilisation of the repurposed Fuel Poverty Network Extension allowance into VCMA.
- Pass-through cost movements - Aside from the NTS increases noted above, pass-through costs have been relatively stable compared with previous years, resulting in an overall deduction. Shrinkage costs fell slightly due to reductions in wholesale gas prices. SoLR claims from suppliers were credits this year, effectively returning costs to consumers. These reductions were partially offset by small increases in licensed activities (Ofgem fees), prescribed rates (business rates), and Central Data Service Provider (CDSP) cost that are provided by Xoserve.
- Incentive performance - Incentive rewards increased due to improved customer satisfaction scores in Southern, and the Unplanned Interruption incentive avoided a penalty in 2025/26. Shrinkage and collaborative streetworks incentives remained broadly consistent with 2024/25. Scotland's incentive performance was similarly stable year-on-year.

The adjustment term (ADJt) also had a material impact on revenue levels for 2025/26 and create a 'bounce back' effect on revenue. 2024/25 contained material negative adjustments reducing overall revenue, 2025/26 contained materially fewer negative adjustments, which caused an increase in overall revenue. This was predominantly resulting from tax allowances and shrinkage pass-through over-recovery dropping away in 2025/26 compared to 2024/25.

5.3 (R3) 2025/26 Totex reconciliation

Within sections 3 and 4, we discuss our key financial performance for the GD2 period.

Our analysis of totex performance are based upon the latest view of allowances, to which we note may change upon the completion of the GD2 close out process.

Our position on enduring value adjustments is discussed within supporting appendix 7.2. Allowances for RIIO-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 RIIO-GD2. Our enduring value adjustments ensure that totex performance up to the actual period is reflective of reality in any given year and are neutral impact to performance across the whole RIIO-GD2 period.

Within the excel workbook, we have reconciled our reported totex to our latest statutory accounts.

5.4 (R4) Incentive and Other Revenue

Incentives

The table below shows our 2025/26 performance for incentives has generated income of £1.3m for Scotland and £5m 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 tenth consecutive year while southern have improved from sixth to second place.

Table 7: Output Delivery Incentives

£m 18/19 prices	Scotland	Southern	SGN
Output Delivery Incentives (ODI-F) - potential reward or penalty			
Shrinkage Management	(0.2)	0.4	0.2
Customer Satisfaction	1.5	3.1	4.5
Collaborative Streetworks	N/A	1.5	1.5
Output Delivery Incentives (ODI-F) – penalty only			
Complaints metric	0.0	0.0	0.0
Unplanned interruptions	0.0	0.0	0.0
Total ODIs	1.3	5.0	6.3

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

Shrinkage Management ODI-F

In Southern, average system pressure increased in 2025/26 after outperforming the RIIO-GD2 baseline in the previous two years. However, performance remained comfortably within the neutral deadband, with no penalty or reward. Scotland's average system pressure improved significantly in the final formula year, with RIIO-GD2 averages also within the neutral deadband. Gas conditioning performance is expected to remain low in both Scotland and South-East, with no programme in South LDZ, because low recorded saturation levels limit the achievable benefits. The ongoing Repex programme also reduces the scope for gas conditioning benefits by replacing treated metallic mains with polyethylene pipes.

Customer Satisfaction Survey ODI-F

As we close out RIIO-GD2 and for the 10th year in a row, we've held the number one position for customer satisfaction among Britain's gas networks. Our Scotland network holds the top spot with an impressive average score of 9.56 out of 10.

Our Southern England network achieved second place with 9.49. This is a significant improvement from the previous year, when Southern was in sixth position, and puts us in a strong position to realise our RIIO-GD3 commitment of being in the top three for customer service. Overall, Year 5 performance was exceeded our original RIIO-GD2 expectations. While we anticipated high performance, the consistency and delivery of results, particularly in Scotland and the steady year-by-year improvement in the Southern network, demonstrate continuous improvement and an embedded, high-performing customer culture.

Our performance across RIIO-GD2 has been underpinned by a structured and deliberate transformation approach, centred on five levers of change:

1. Process - We simplified and improved customer journeys, making it easier for customers to interact with us and ensuring we increasingly get things right first time.
2. People - We embedded a customer-first culture, where continuous improvement is owned at all levels. Initiatives have strengthened alignment between customer needs and colleague behaviours.
3. Technology - We introduced and scaled solutions that improved both experience and efficiency, including:
 - New contact channels (Live Chat, WhatsApp)
 - Enhanced communication (SMS updates, broadcasts)
 - Video notes for real-time feedback

These innovations improved ease of contact, transparency, and responsiveness, particularly during unplanned works.

4. Insight and Analysis - We significantly strengthened our use of real-time feedback, sentiment analysis, and customer insight, allowing us to:

- Identify issues faster
- Prioritise what matters most to customers
- Continuously refine service delivery

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 2025/26, 12 projects were completed exceeding the maximum reward target and therefore the £1.53m reward was claimed. We have now begun work to expand this programme to the entirety of our southern network and Scotland as per the new RIIO-GD3 agreement.

Customer Complaints Metric ODI-F

In Year 5 of RIIO-GD2 we have continued to build on our strong performance in complaints handling across both our Scotland and Southern networks, with a focus on finding a resolution as quickly and reasonably as possible. Both networks have achieved their highest performance to date with Scotland achieving a metric score of 0.04 and Southern achieving 1.20.

Our RIIO-GD2 aim was to maintain Scotland's leading complaint-handling performance and improve Southern's position. We focused on resolving complaints within one day or the 31-day threshold, while delivering a right-first-time service to reduce complaint volumes.

As Southern moved from five to nine regions, we strengthened local support to help our teams resolve complaints more quickly.

Table 8: Customer Complaints Metric

	GD1-Y7	GD1 -Y8	GD2-Y1	GD2-Y2	GD2-Y3	GD2-Y4	GD2-Y5
Volume Of Complaints	2019/20	2020/21*	2021/22	2022/23	2023/24	2024/25	2025/26
Scotland	340	214	246	369	315	273	273
Southern	1,299	793	1,052	1,556	1,565	1,711	1,573
SGN	1,639	1,007	1,298	1,925	1,880	1,984	1,846

	GD1-Y7	GD1 -Y8	GD2-Y1	GD2-Y2	GD2-Y3	GD2-Y4	GD2-Y5
Complaints Metric	2019/20	2020/21*	2021/22	2022/23	2023/24	2024/25	2025/26
Scotland	1.71	1.50	1.50	1.71	1.62	0.51	0.04
Southern	2.83	3.06	3.06	4.74	3.61	1.86	1.20

	GD1-Y7	GD1 -Y8	GD2-Y1	GD2-Y2	GD2-Y3	GD2-Y4	GD2-Y5
Complaints per 10,000 Cust	2019/20	2020/21*	2021/22	2022/23	2023/24	2024/25	2025/26
Scotland	1.85	1.16	1.33	1.99	1.70	1.47	1.47
Southern	3.15	1.92	2.54	3.75	3.77	4.12	3.79

**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.*

Unplanned Interruption ODI

In 2025/26, both network's unplanned interruption performance remained within minimum performance levels, despite major incidents affecting over 800 customers (one in Scotland and two in southern).

Scotland outperformed its target with an average interruption duration of 12.6 hours against a minimum performance level of 16.0 hours, while Southern remained below within the minimum performance threshold with an average of 25.8 hours, despite two significant incidents during the year.

Other Revenue

The table below shows our RIIO-GD2 performance for other revenue; this is primarily cost recovery for customer vulnerability and innovation projects undertaken in GD2 and increased total allowances by £9.3m for Scotland and £20.9m for Southern.

Table 9: Other Revenue

£m 2018/19 prices	Scotland			Southern		
	GD2 Allowance	GD2 Expenditure	Percentage Used	GD2 Allowance	GD2 Expenditure	Percentage used
Vulnerability and Carbon Monoxide Allowance VCMA. ¹	5.0	14.4	100%	11.2	31.9	100%
Additional VCMA as per updated licence June 23	9.3			20.9		
Network Innovation Allowance (NIA)	11.0	8.0	73%	24.6	17.0	69%
Net Zero and Reopener Use it or Lose it	3.3	4.5	136%	7.5	5.8	77%

All details relating to the above table can be found in our 2026 RRP Strategic Commentary.

5.5 (R5-6) Financing and Net Debt position

Table 10: 2025/26 Net Debt £m's nominal

	Scotland (£m)	Southern (£m)
Opening Regulatory Net Debt	1,479	3,464
Issuances	122	523
Repayments	-	(485)
Accretion	17	35
(Net inflow) / Net outflow of cash equivalents and short-term deposits	(33)	178
Closing Regulatory Net Debt	1,585	3,715

The above figures are presented in nominal prices and are sourced from a combination of the Annual Accounts and the R6 – Net Debt tab of the RFPR submission

Financing

Southern Gas Networks issued the following new debt in the financial year up to March 2026 (figures shown are notional issued amount):

- £350 million 14 year fixed rate public bond on 7 May 2025
- £50 million 7 year CPI-linked private placement on 4 November 2025
- CHF53 million 10 year fixed rate private placement on 11 December 2025
- £75 million 7 year term loan on 31 March 2026

¹ Includes both the company-specific and collaborative allowance attributable to each network

Scotland Gas Networks issued the following new debt in the financial year up to March 2026 (figures shown are notional issued amount):

- CHF55 million 10 year fixed rate private placement on 15 October 2025
- £70 million 5 year term loan on 28 November 2025

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

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

In the coming financial year, Scotland has a £250m fixed rate public bond maturing in March 2027. This maturity will be refinanced with new debt issuance in FY27. 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

As at March 2026, Southern and Scotland had Revolving Credit Facilities of £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 2026 to March 2029.

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 £20m (2025: £3m) at Scotland, of which £5m (2025: £20m) was restricted, and £182m (2025: £363m) at Southern, of which £3m (2025: £9m) was restricted.

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. Southern Gas and Scotland Gas entered into the following derivatives including CPI, cross currency and interest rate swaps:

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

- CHF53 million swapped to £50.6 million for 10 years on 11 December 2025
- £50.6 million swapped to CPI at 3.1295% for 10 years on 11 December 2025
- £75 million swapped to fixed rate at 5.665% to 26 March 2033 on 31 March 2026

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

- £70 million swapped to fixed rate at 3.617% to 28 November 2030 on 4 December 2025
- CHF55 million swapped to £51.5 million at a fixed rate of 5.997% on 15 October 2025

5.6 (R7) RAV

The table sets out the RAV for the final year of RIIO-GD2, 2025/26:

Table 11: Final year RAV

Notional RORE	2025/26		
<i>£m's 2018/19 prices</i>	Scotland	Southern	SGN
Opening RAV	1,832	4,017	5,849
Net Additions	128	308	436
Depreciation	(102)	(222)	(324)
Closing RAV	1,859	4,103	5,962
<i>£m's nominal</i>			
Adjusting closing RAV	2,518	5,560	8,078

In real terms for the 2025/26 year, our Regulated Asset Value (RAV) increased by 1.4% for Scotland and 2.1% 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 as well as incremental allowances for increasing Streetworks activity and new HSE requirements for ways of working. Over GD2 as a whole, our RAV in real terms is has increased by 1.2% p.a. for Scotland and 1.1% p.a. for Southern, on average (pre-closeout adjustments).

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 is always 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 £326.4m (2025: £323.7m), which consist of the following contributions:

- Corporation tax of £32.2m (2025: £24.7m) was paid in respect of profits chargeable to corporation tax, before the impact of group relief and after taking account of R&D tax credits offset against the tax charge. VAT of £81.6m (2025: £101.5m)
- Business rates of £109.0m (2025: £107.2m) paid to local authorities
- Employment taxes of £103.6m (2025: £90.3m) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions

2024/25 Tax Reconciliation

An explanation of the differences between Southern and Scotland's CT600 actual 2024/25 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 which make up the profits chargeable to corporation tax, are £7.8m for Southern and £3.7m for Scotland. The materiality threshold for tax (the difference between the CT600 actual corporation tax liability and the calculated tax allowance in the latest PCFM) is £2.6m for Southern and £1.2m for Scotland. Please note that all figures in this tax reconciliation commentary are in £m's (nominal).

The difference in EBITDA is 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 2024/25 and is based on the forecasted overall 2024/25 allowed revenue in the submitted January 2024 '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, doesn't include allowed revenue true ups from previous years that are included in the overall allowed revenue for 2024/25 and is based on the actualised input values for 2024/25 as of September 2026 (as opposed to their forecast value back in January 2024);
- we would expect the timing issues to broadly even out over the price control period, and it's worth noting that last year (2023/24) the regulated revenue timing difference caused the CT600 EBITDA to be higher than the tax allowance EBITDA, whereas this year it is lower.

The confidential supplementary tax reconciliation appendix explains variances in detail, but the rest of this section provides a high-level summary of the differences between the CT600 and PCFM for the year 2024/25.

Southern Summary

As shown in the table below, the PCFM is showing a £25m higher calculated tax allowance compared to the corporation tax determined by the CT600. This is almost entirely due to differences in the EBITDA.

Table 12: Southern CT600 vs PCFM Tax comparison

£m 18/19 prices	CT600	PCFM	Difference PCFM vs CT600	Materiality check
EBITDA	353	461	(108)	Material
Total Interest	(134)	(138)	4	Immaterial
Capital Allowances	(131)	(130)	(0.2)	Immaterial
CT600 Adjustments	3	0	3	Immaterial
Profits Chargeable to Corporation Tax	92	193	(101)	Material
Corporation Tax due on PCTCT @25%	23	48	(25)	Material

(*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 2024 PCFM, which set the forecast allowed revenue to collect in 2024/25, and the revenue in the latest September 2026 PCFM, based on actualised inputs, used to generate the allowed tax. This regulated revenue timing difference predominantly relates to the allowed revenue true ups carried forward from prior RIIO-GD2 years (AIP adjustment) - which are not included in the PCFM tax allowance calculation. The AIP adjustments primarily relate to movements in prior years Pass Through Costs, Tax Allowance, Totex (expenditure and allowances) and Other Revenue Allowances. This is partially offset by the impact of outturn inflation and tax allowance being forecast to be higher when the 2024/25 tariffs were set, as compared to the actuals in the latest PCFM. These revenue timing differences cause the regulated revenue to be £96m lower in the CT600 than the PCFM. There is also a much smaller but still material variance in the EBITDA category for an accounting adjustment to opex, in respect of the closure of the defined benefit pension scheme to future accrual.

Scotland Summary

As shown in the table below, the PCFM is showing a higher calculated tax allowance of £21m compared to the corporation tax determined by the CT600. The most material variance is in the EBITDA category, with smaller material variances in the Capital Allowances and CT600 Adjustments categories approximately offsetting each other. Finally, there is an immaterial variance in the Total Interest category.

Table 13: Scotland CT600 vs PCFM Tax comparison

£m 18/19 prices	CT600	PCFM	Difference PCFM vs CT600	Materiality check
EBITDA	145	227	(82)	Material
Total Interest	(58)	(61)	3.5	Immaterial
Capital Allowances	(109)	(80)	(29)	Material
CT600 Adjustments	25	0	25	Material
Profits Chargeable to Corporation Tax	3	86	(83)	Material
Corporation Tax due on PCTCT @25%	1	22	(21)	Material

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

The most significant material variance in the EBITDA category is caused by a regulated revenue timing difference between the January 2024 tariff PCFM, that set the forecast allowed revenue to collect in 2024/25, and the revenue in the latest September 2026 PCFM, based on actualised inputs, used to generate the allowed tax. This regulated revenue timing difference predominantly relates to allowed revenue true ups carried forward from prior GD2 years (AIP adjustments) - which are not included in the PCFM tax allowance calculation. The AIP adjustments primarily relate to movements in prior year Pass Through Costs, Tax Allowance and Totex (expenditure and allowances). These are partially offset by the impact of forecast fast money and inflation being higher when the 2024/25 tariffs were set, as compared to the actuals in the latest PCFM. These revenue timing differences cause the regulated revenue to be £40m lower in the CT600 than the PCFM. There are also the following material variances in the EBITDA category;

- a negative variance between innovation income and expenditure, due to a timing effect of Network Innovation Competition (NIC) income which is subject to over / under recovery as it's based on forecast applicable costs. This is trued up as the project progresses and is regularly reviewed.
- a non-deductible provision incorporated in opex, with an offsetting figure in the CT600 Adjustments – no difference arises overall.
- an accounting adjustment to opex in respect of the closure of the defined benefit pension scheme to future accrual. This adjustment is significantly offset in the CT600 adjustments category

The material variance in the Capital Allowances category is due to Scotland claiming R&D Allowances and the material variance in the CT600 adjustments category is predominantly caused by;

- a pension adjustment which is the reverse of the accounting adjustment to opex (arising from the closure of the defined benefit pension scheme to future accrual), net of employer contribution and net finance income
- provision adjustments, primarily offsetting the non-deductible provision incorporated in opex (see above)

Finally, there is an immaterial variance in the Total Interest category.

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 there. An additional comment relates to cell G99 (Southern) and G97 (Scotland), which states that the inflation index in cells H99 and H97, respectively, is sourced from RFPR 'Data' cell E26, whereas it's actually sourced from RFPR 'Data' tab cell I34. For the avoidance of doubt none of the comments on the PCFM or RFPR references in this paragraph, impact any of the tax reconciliation numbers in this section or the appendix.

5.8 (R9) Financial Resilience & Corporate Governance

Financial Resilience

[REDACTED]

Economically reliant companies:

Southern and Scotland are wholly owned subsidiaries of SGN MidCo Limited (“MidCo”), which itself has external debt totalling c.£585m raised from external lenders. 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 14: MidCo debt

Issue Date	Maturity Date	Final Type	Coupon	Final Terms Credit Spread	Issuance Amount £m	Book Value 30 Jun 2026 £m	Maturity Value at 30 Jun 2026 £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	56.3	70.6
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	130.5	194.4
15-Mar-18	15-Mar-38	Fixed	3.110%	125.0	15.0	15.0	15.0
26-Mar-26	26-Mar-36	Fixed	6.33%	160.0	100.0	100.0	100.0

[REDACTED]

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 18 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%.

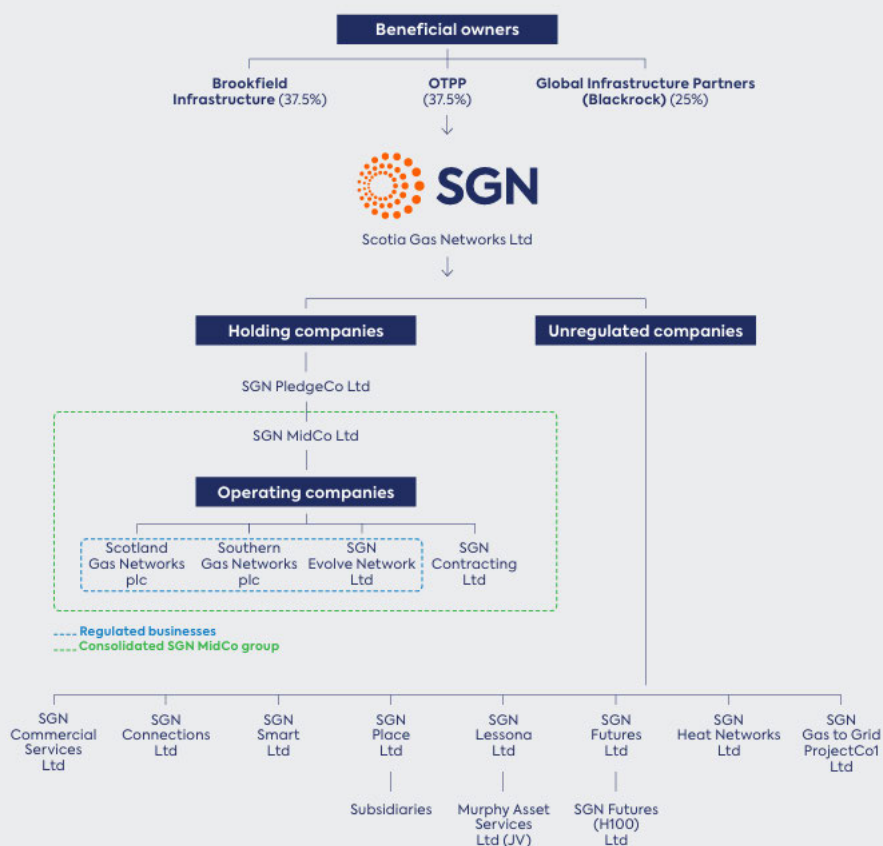
Board of Directors

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.

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.

Ownership structure

SGN has three supportive shareholders in place. They oversee the three regulated operating companies in Scotland, southern England and Northern Ireland as well as the holding company and a number of unregulated operating companies. SGN's shareholders are long-term infrastructure investors that invest capital on behalf of pension holders and other long-term institutional investors. Their investment approach is focused on stable, long-term infrastructure assets that provide reliable cash flows over extended periods, aligning shareholder interests with the long-term stewardship and resilience of essential energy infrastructure.



The full list of directors is set out below;

Table 15: Board of Directors

Name	Appointment	Date of Appointment
Rebecca Lumlock	Chair, Shareholder Non-Executive Director	22 March 2022
Chris Murray MBE	Sufficiently Independent Non-Executive Directors	10 September 2025
Joanna Whittington	Sufficiently Independent Non-Executive Directors	30 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
Michael Smart	Shareholder Non-Executive Directors	27 May 2022
Simon Kilonback	Executive Directors	11 September 2025
Antony King	Executive Directors	11 September 2025

Standard Special Condition A42 in our licence sets out the requirements for sufficiently independent directors. Below are details of our two independent non-executive directors:

Chris Murray MBE:



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

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

Joanna Whittington:



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

Key external appointments and changes during the period: Non-Executive Director of Payment Systems Regulator, Non-Executive Director of Northern Endurance Partnership, Vice President of the

British Institute of Energy Economics and a board member of POWERful Women.

Paul Jeffery resigned as a Sufficiently Independent Non-Executive Director on 31 December 2025. 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.

Further details and biographical information for our Board of Directors can be found within our latest Annual Report by following this [link](#) (page 68-69).

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 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 2025 to March 2026

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

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

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

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

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

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

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

6 Matthew Gross attended meetings as an Alternate Director for Brookfield throughout 2025/26 and resigned from the Board on 31 March 2026. 7 Attendance numbers for each committee shown in brackets in the column header reflect the total number of meetings held during the financial year, not the number of meetings for which each individual was eligible.

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

Executive committee

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

Corporate Governance Principles

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

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.
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 Director Appointments

In September 2025 CEO, Simon Kilonback, and CFO Antony King were appointed as Executive Directors of Scotland Gas Networks plc and Southern Gas Networks plc.

SGN Executive Remuneration

SGN Senior Executive remuneration 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 include Shareholder Non-Executive Directors and our two Sufficiently Independent Directors. The Remuneration Committee is made up of; Charlotte Brunning (temporarily stepped back from her role as Chair of the Remuneration Committee to commence maternity leave within the 2025/26 year), Nick Salmon (served partly as Interim Remuneration Committee Chair), Rebecca Lumlock, Chris Murray MBE (SID), Paul Trimmer and Joanna Whittington (SID). 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.

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.

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, 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 2026 financial year, Scotland paid dividends of £20m and Southern did not pay a dividend. In the year ended 31 March 2025, Scotland paid dividends of £20m and Southern did not pay a dividend.

Over GD2, Scotland paid £146.5m of dividends (annual return on notional equity of 3.3%) and Southern paid £137m of dividends (annual return on notional equity of 1.4%). Both of these levels are well below the appropriate cost of equity levels for GD2. For RIIO-GD2, Scotland Gas and Southern Gas combined paid dividends that represent a return on notional equity of 2.0% compared with Ofgem's allowed cost of equity of 5.1%.

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 2025/26 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. We note the latest round of Pension Triennial review is underway, with confirmation of latest overall pension value and allocation between pre and post established figures to be verified with external advisors and Ofgem after November 2026. Preliminary figures suggest a surplus within both pre and post established funds, with work being undertaken with Ofgem to understand how value can be derived from this surplus for customers.

Fines and Penalties

During the final year of the price control, our Guaranteed Standards of Performance (GSOP) payments, in 2018/19 prices, were £0.2m in our Scotland Network and £1.3m in our Southern Network.

6 Data Assurance

For the GD2 price control, the Data Assurance Guidance (DAG) requires a risk score to be assigned to the reporting pack as a whole. However, given the number of templates and additional reporting requirements included within the submission, we have retained approval at a template level, through a 5-stage sign-off process. We consider this approach to be an appropriate and effective control, providing assurance that the required level of quality, accuracy and governance is maintained across all reporting templates.

In line with our agreed approach, we have not prepared a forecast of GD3 debt within this submission, as this has been addressed separately through GD3 business plan process. While the debt templates contain certain pre-populated figures, these do not represent a complete forecast and should not be relied upon for any assessment of GD3 debt positions.

All regulatory reporting submissions have been subject to SGN's established governance process and approval processes, including appropriate oversight and review by the Chief Financial Officer, Chief Executive Officer, Chief Operational Officer and where required, the SGN Board.

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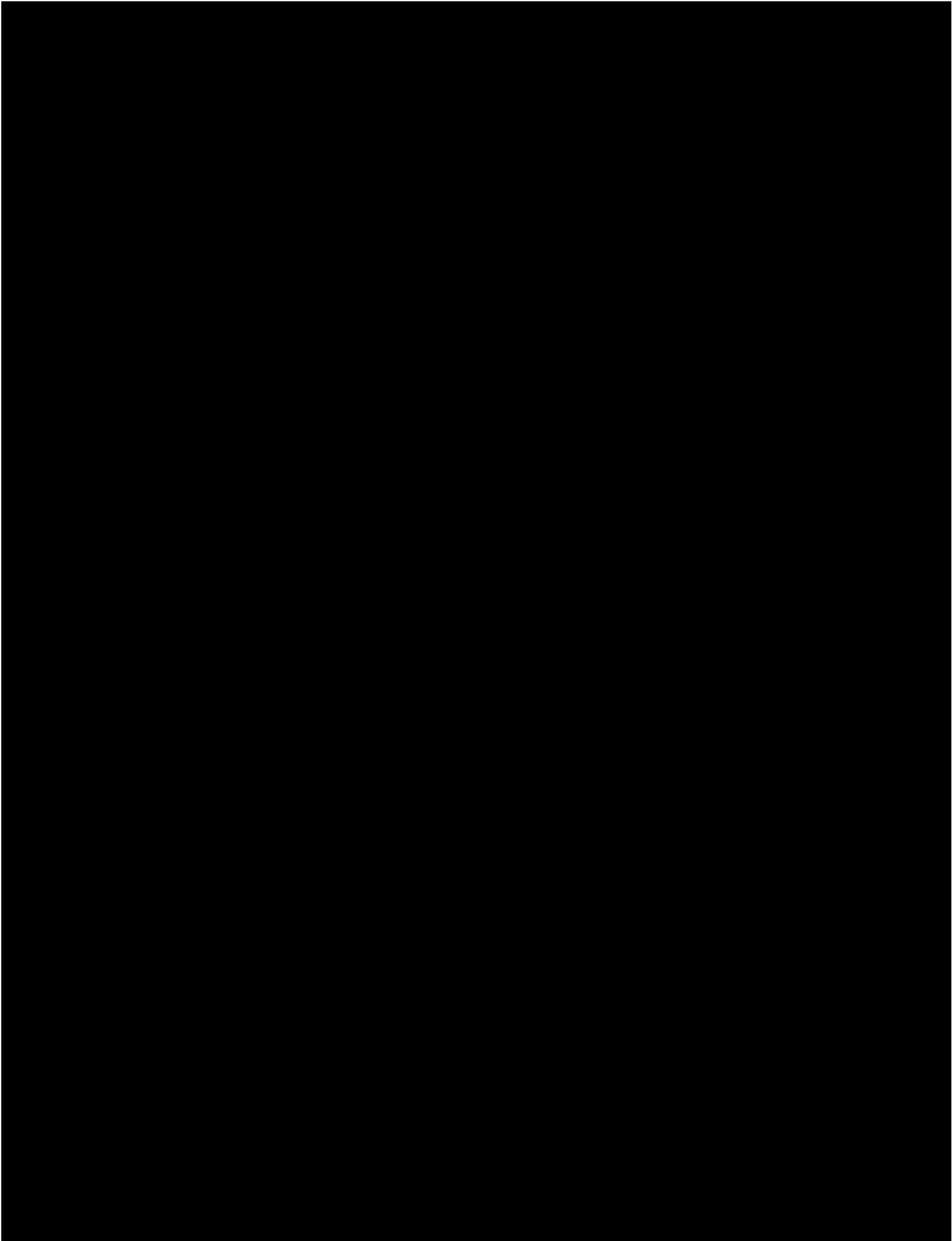
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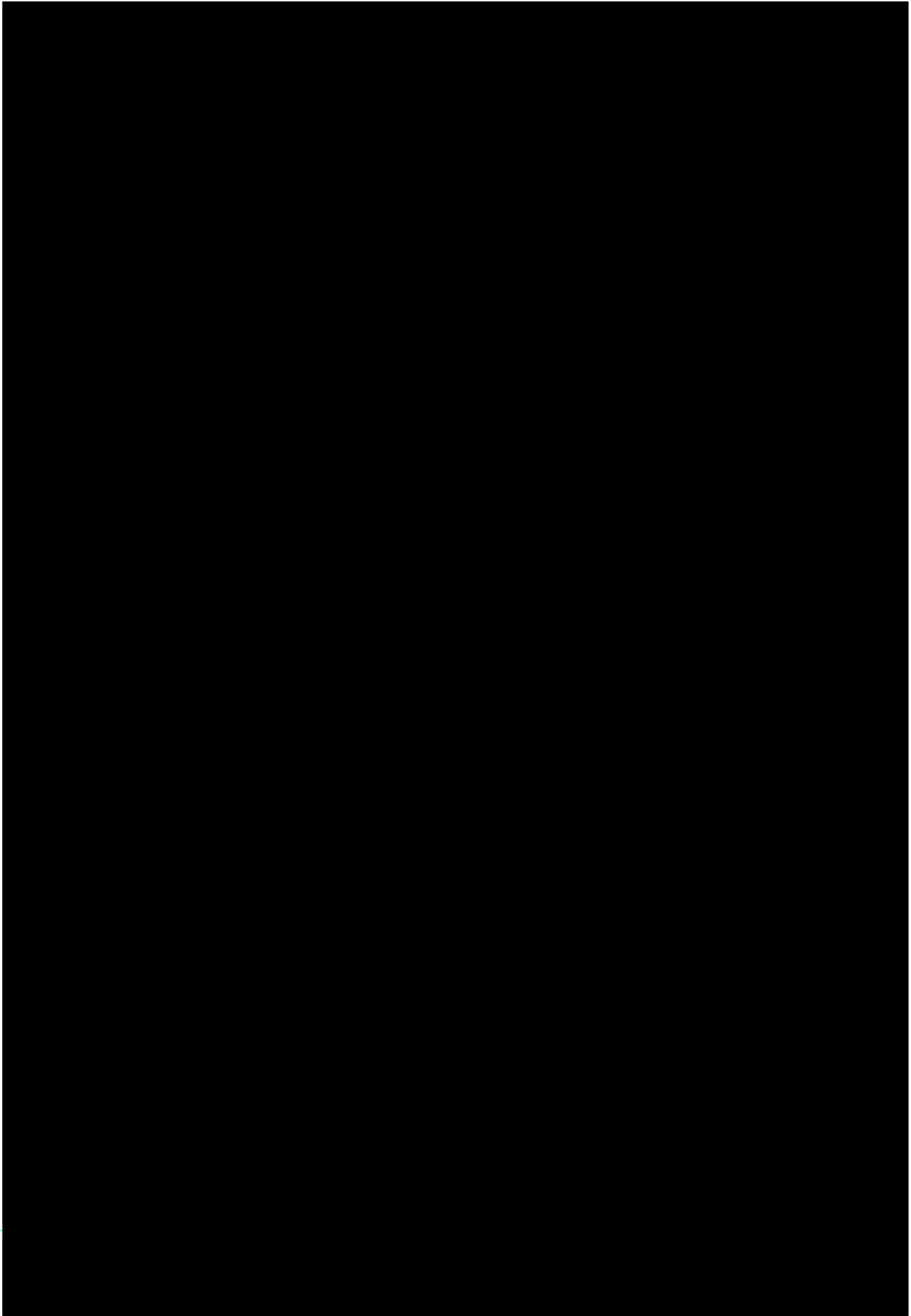
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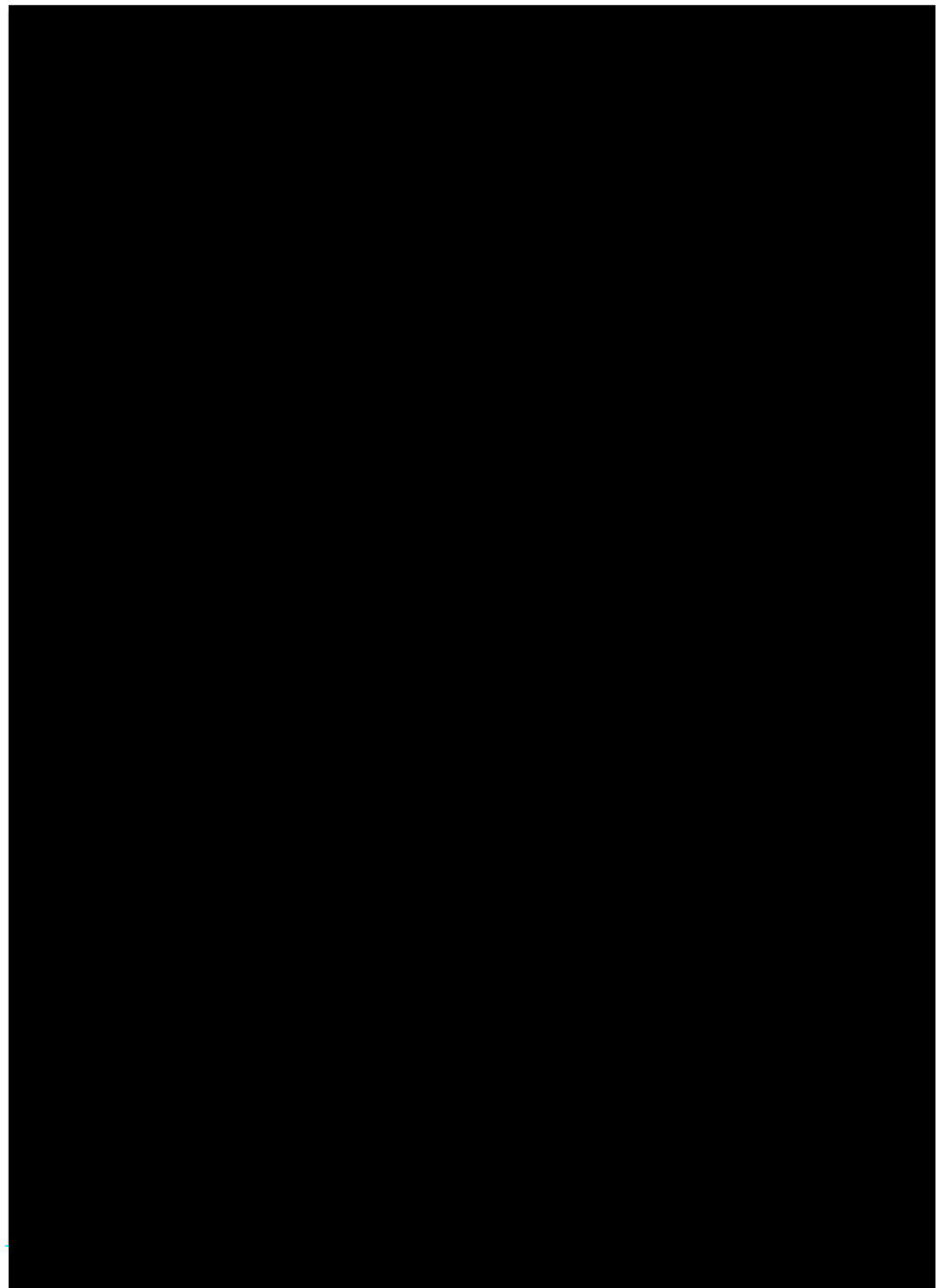
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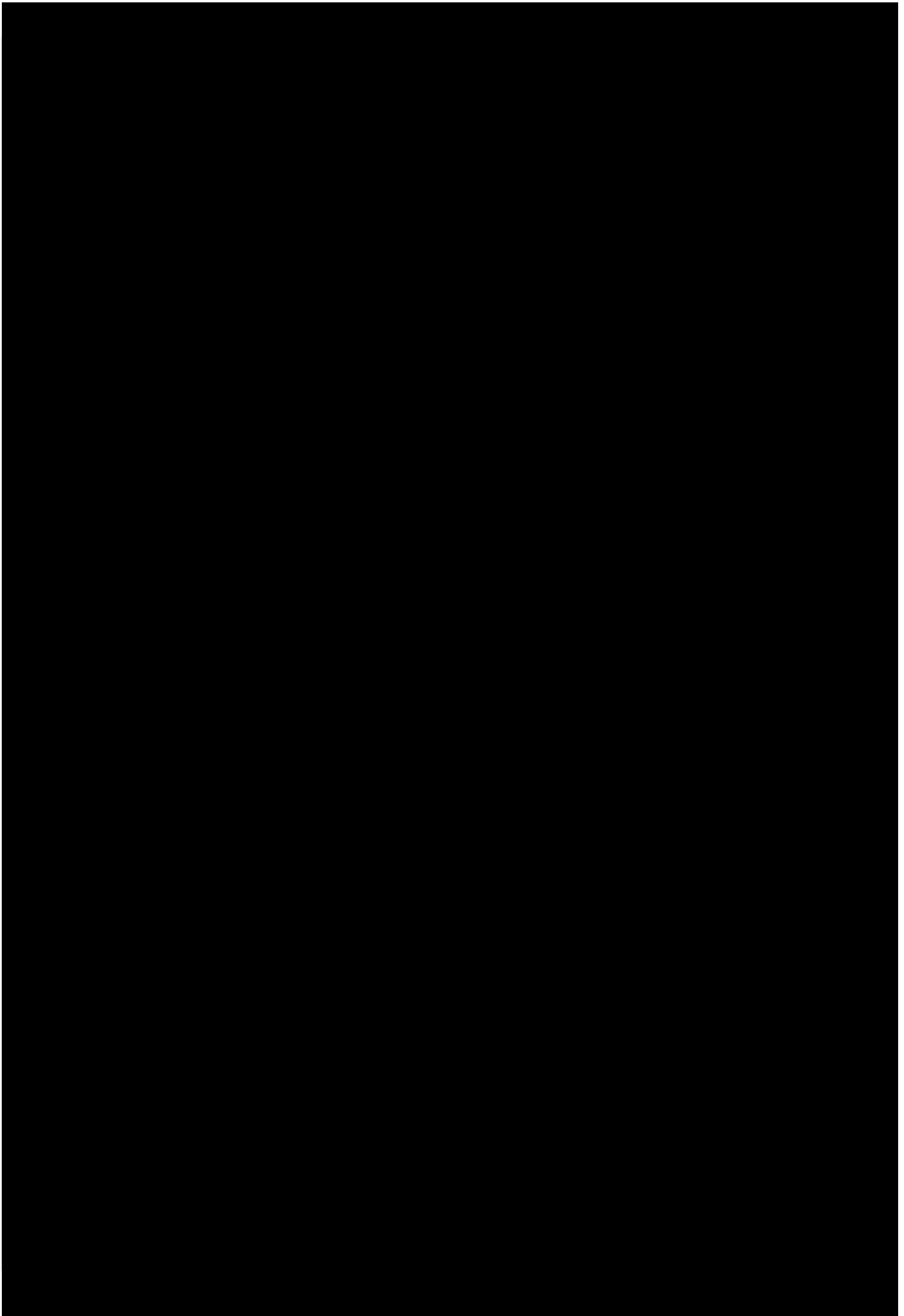
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