SSEN Distribution

REGULATORY FINANCIAL PERFORMANCE REPORTING COMMENTARY

Financial Year 2024/2025

Scottish & Southern Electricity Networks

CONTENTS

1. EXECUTIVE SUMMARY

This commentary summarises the regulatory performance of the Scottish and Southern Electricity Networks – Distribution (SSEN Distribution) licensees; Southern Electric Power Distribution plc (SEPD / SSES) and Scottish Hydro Electric Power Distribution plc (SHEPD / SSEH), as in line with the Regulatory Financial Performance Reporting (RFPR) Guidance[1] . The RFPR consists of two elements: 1) Ofgem's RFPR template for reporting data and 2) The RFPR commentary. This commentary, therefore, should be read alongside the RFPR template that includes data tables.

The primary focus of the RFPR is to summarise key components of the financial performance of regulated networks by way of the Return on Regulatory Equity (RoRE). RoRE is presented as an average over the RIIO-ED2 period rather than prioritising in-year, cumulative, historical or year-on-year performance. The RIIO-ED2 period began 1 April 2023 and ends 31 March 2028. As such the 2025 RFPR submission reflects outturn data up to regulatory year 2024/25 and forecasted data thereafter. Consequently, analysis of average expected RoRE over the period demonstrates the forecast outcomes for each licensee, influenced by improvements in service quality for customers alongside ensuring expenditure is incurred efficiently. It is important to therefore highlight the following for readers:

- RoRE is not a reflection of customer bills, whereby a higher RoRE does not equate to higher customer bills. RoRE is intended as a reflection of Network performance whereby higher RoRE is likely to mean greater cost efficiency which leads to lower customer bills while delivering better service levels;
- The RoRE measure does not include the interest costs on borrowing. Electricity network infrastructure is financed by both borrowing funds (debt) and shareholder investment (equity) and hence, a measure that only takes into account part of the business financed by investment is not a complete measure. The overall Return on Capital Employed (RoCE), or as we have referred to the Rate of Return (RoR), is an alternative measure which more appropriately reflects the costs to customers for the overall electricity network. This commentary therefore sets out the RoRE and the RoR for completeness; and,
- RoRE must be interpreted across the full RIIO-ED2 period considering any Enduring Value (EV) adjustments and interpretation is needed as to what RoRE means for customers. Ofgem refer to EV as adjustments that are required to reflect the performance after completion of the price control including true-up and close out adjustments. We have not reflected any enduring value adjustments for either RIIO-ED1 or from RIIO-ED2 that may be interpreted as affecting the RIIO-ED2 performance i.e. RoRE.

We have briefly summarised our financial performance in this document, which corresponds to information provided to Ofgem set out in documents submitted under the Regulatory Instructions and Guidance (RIGs). Financial values required to be reconciled within the RFPR have been reconciled to the audited statutory accounts for each applicable year in accordance with the RIGs. As per Ofgem's derogation, SSEN is not required to produce Regulatory Accounts for this Financial Year, and this report, therefore, does not include the procedures referring to Regulatory Accounts. This is in line with the guidance provided under RIGs. It is key to note that performance is reported using the nominal price base, unless stated otherwise. A statement has been made to notify readers where 2020/21 pricing base is utilised within the report.

[1] *Ofgem (2025) "Regulatory Financial Performance Reporting (RFPR) Guidance". Available at: https://www.ofgem.gov.uk/decision/decision-2025-modifications-regulatory-financial-performance-reporting-rfpr-riio-2*

ABOUT SSEN DISTRIBUTION

We are Scottish and Southern Electricity Networks (SSEN) Distribution. We are the Distribution Network Operator (DNO) responsible for delivering power to nearly 4 million homes and businesses across central southern England and the north of Scotland.

Our network serves some of the UK's most remote communities and also some of the most densely populated. Our two networks cover the greatest land mass of any of the UK's DNOs, covering 72 local authority areas and 75,000km2 of extremely diverse terrain. Through our Priorities Services Register, we help customers who may need additional support and partner with trusted and expert organisations in a range of initiatives to assist those living in fuel poverty. SSEN Distribution is part of SSE plc, a UK-listed energy company that operates throughout the UK and Ireland. SSE develops, owns and operates low carbon energy assets including onshore and offshore wind, hydro power, electricity transmission and distribution networks (SSEN), alongside providing energy products and services for businesses. As a provider of critical national infrastructure, SSE and its businesses play a vital role in accelerating the transition to a net zero world at a national and local level.

SSEN DISTRIBUTION NETWORK AT A GLANCE

SHEPD / SSEH
Scottish Hydro Electric Power Distribution

Nearly **4million** homes and businesses

Over **128,000km** of overhead lines and underground cables

Over **460km** of subsea cables powering our island communities

Over **4,400** employees across the country

SEPD / SSES
Southern Electric Power Distribution

Figure 1: SSEN Distribution at a Glance

2. KEY FINANCIAL AND OPERATIONAL PERFORMANCE MEASURES

We have completed the second year of operation under the RIIO-ED2 price control period. This section provides an assessment of key financial and operational metrics for both licensees under SSEN Distribution for the financial year ended 31 March 2025.

In addition to the metrics presented in Table 1, performance against regulatory indicators is discussed in other sections of this report and should be considered alongside this assessment for a comprehensive view of overall performance.

SSEN Distribution's operating profit rose by 171% from 2023/24 to 2024/25, driven by a regulatory timing mechanism. Under the price control framework, DNOs set tariffs 15 months in advance, meaning revenue in any given year reflect forecasts made across two prior financial years. As a result, the unexpectedly high inflation costs incurred in 2022/23 and 2023/24 were not recovered until 2024/25, artificially suppressing profits in those earlier years. The uplift in 2024/25 simply reflects the catch-up of those already-incurred costs. While this inflation recovery is significant, it is not necessarily a one-off, as future inflation volatility or material changes to macroeconomic policies could trigger similar adjustments. The increase was partially offset by rising operating costs from business transformation, higher depreciation on a growing asset base, and elevated fault and repair expenses following several major storms.

SSEN Distribution licensees reported mixed results in average Customer Minutes Lost (CML) and Customer Interruptions (CI) per 100 customers. While ongoing investments in network upgrades and automation have enhanced operational agility and responsiveness, performance has been intermittently impacted by adverse weather conditions. In 2024/25,

SSES saw reductions in both CML and CI, reflecting the benefits of continued investment. Conversely, SSEH experienced a decline in performance, primarily due to severe weather events. SSEN Distribution remains committed to strengthening infrastructure and operational resilience to minimise service disruption and is actively investing to prepare for increasingly frequent and intense weather conditions.

Key Financial and Operational Performance Indicators

KEY PERFORMANCE INDICATORS	YEAR ENDED 31 MARCH 2025			YEAR ENDED 31 MARCH 2024		
	SSEH	SSES	SSEN DISTRIBUTION	SSEH	SSES	SSEN DISTRIBUTION
Operating Profit (£m)	131	621	752	83	194	277
Regulated Asset Value (£m Nominal)	1,959	3,841	5,801	1,801	3,537	5,338
Capital Expenditure (£m)	254	492	746	239	398	637
Electricity Distributed (TWh)	7	31	38	7	30	37
Customer Minutes Lost (Average per Customer)*	69	51	-	66	58	-
Customer Interruptions (per 100 Customers)*	59	42	-	57	51	-

**Excluding exceptional events and include both planned and unplanned interruptions*

Table 1: Key Financial and Operational Performance Indicators

The details of our strategic performance for financial year 2024/25 is detailed in audited financial results published on our website[2]. In addition to the performance measures listed above, performance against other regulatory indicators such as RoRE, RoR, Regulatory Asset Value (RAV), Output Delivery Incentive (ODI), and Capital Expenditure (Capex) are reported in the following sections.

[2] *Scottish and Southern Electricity Networks (2025) "Directors Report and Financial Statements - Scottish Hydro Electric Power Distribution plc", pp. 2-18, Available at: https://www.ssen.co.uk/globalassets/library/financial-information/2025/fy25-shepd-march-25-signed-financial-statements.pdf AND Scottish and Southern Electricity Networks (2025) "Directors Report and Financial Statements - Southern Electric Power Distribution plc", pp. 2-18, Available at: https://www.ssen.co.uk/globalassets/library/financial-information/2025/fy25-sepd-march-25-signed-financial-statements.pdf*

3. RETURN ON REGULATORY EQUITY (RORE)

3.1 WHAT IS RORE?

RoRE is the key measure Ofgem uses to evaluate the financial return achieved by shareholders during the price control period. It is a measure of performance for the whole price control period; RIIO-ED2 and includes outturn information up to financial year 2024/25 and forecasted information for the rest of the price control period.

As shown in Figure 2, the measure is further divided into operational and financial components. Operational RoRE includes costs and allowances related to RIIO-ED2 regulated businesses, such as Totex, ODIs, and company-funded innovations. Financial component includes both financing and tax performance. RoRE is presented in terms of both notional gearing and actual gearing. Notional gearing is set by Ofgem as a reasonable level of gearing for DNOs given the level of investment risk, which is currently set at 60% for RIIO-ED2. RoRE calculated based on notional gearing reflects a comparative performance indicator, allowing benchmarking across DNOs. Actual gearing can be different to the notional gearing depending on company specific funding structure so can vary through time and between companies.

Each licensee has the opportunity to earn returns above its base (allowed) return on equity by achieving efficiency savings and outperforming service level targets, which unlock incentive rewards. This framework ensures that companies can deliver attractive returns to investors while customers benefit from improved service quality and lower costs. However, the effectiveness of this mechanism depends on setting realistic service targets and ensuring that price adjustments, such as Real Price Effects (RPE) accurately reflect market conditions.

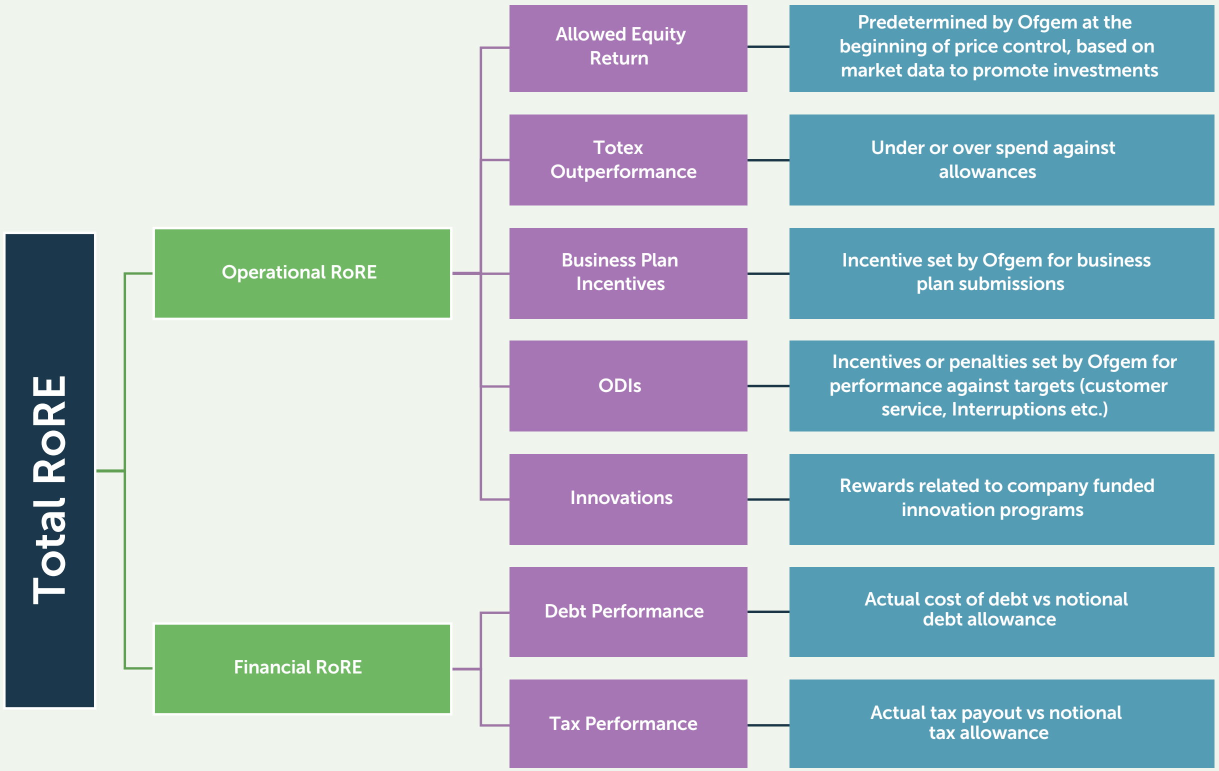


Figure 2: Elements of RoRE

3.2 OUR PERFORMANCE

Average RoRE for the RIIO-ED2 period for SSES and SSEH can be seen in Figures 3 and 4. Disclosures are kept at notional gearing level to ensure comparability. RoRE based on actual gearing for each licensee are disclosed on the RFPR data template published along with this commentary.

It is also important to note that this is an average estimate for the RIIO-ED2 price control period which include forecasted data beyond financial year 2024/25 which can change due to the timing of ongoing transformation activities taking place within the SSEN Distribution licensees and updates to the current market conditions. More information on forecasted data is available in Appendix 1 of this commentary.

SSES is estimated to achieve a real RoRE of 6.4%, which is 90 basis points above Ofgem's allowed average equity return of 5.5%. The primary driver of this uplift is SSES's strong financial/debt performance of 2.5%, largely due to maintaining a lower proportion of inflation-linked debt during high inflation periods and operating an actual gearing below the notional level over the past two financial years.

However, this performance is partially offset by a 1.5% reduction in totex performance related RoRE, primarily due to forecasted totex overspend of £179m (2020/21 prices) for RIIO-ED2 period. This overspend is primarily driven by uncontrollable factors, including Ofgem's RPE adjustment from the latest Annual Iteration Process, increased cost pressures such as higher National Insurance contributions, and our ongoing internal restructuring and transformation initiatives, which are expected to enable improved performance in future price controls.

RPE adjustments account for 55 basis points of the totex overspend RORE reduction mentioned above. PREs are intended to reflect price movements for specific commodities - such as iron, timber, and labour - that differ from general inflation. We are not in agreement with current mechanism, as it contradicts actual market trends for these commodities. We expect to address this discrepancy as part of the RIIO-ED2 closeout process with Ofgem.

The contribution to RoRE from other incentives and allowances is not expected to have a material impact. While SSES forecasts to earn rewards under the Distribution System Operator (DSO), Time to Connect, and Consumer Vulnerability incentives, these are expected to be offset by penalties from the Interruption Incentive Scheme, Broad Measure of Customer Service, and actual Guaranteed Standard payments in financial years 2023/24 and 2024/25. Further details on incentive performance are provided in Section 6.

With inflationary adjustments, assuming at Bank of England's 2% target, SSES's nominal RoRE is estimated at 8.6%, representing a 110 basis points decrease from the RoRE reported in last year's RFPR. This reduction is primarily driven by the totex impacts outlined above. Further details on totex performance, ODIs, financ performance, and related metrics can be found in Sections 5, 6, 7, and 9 of this report.

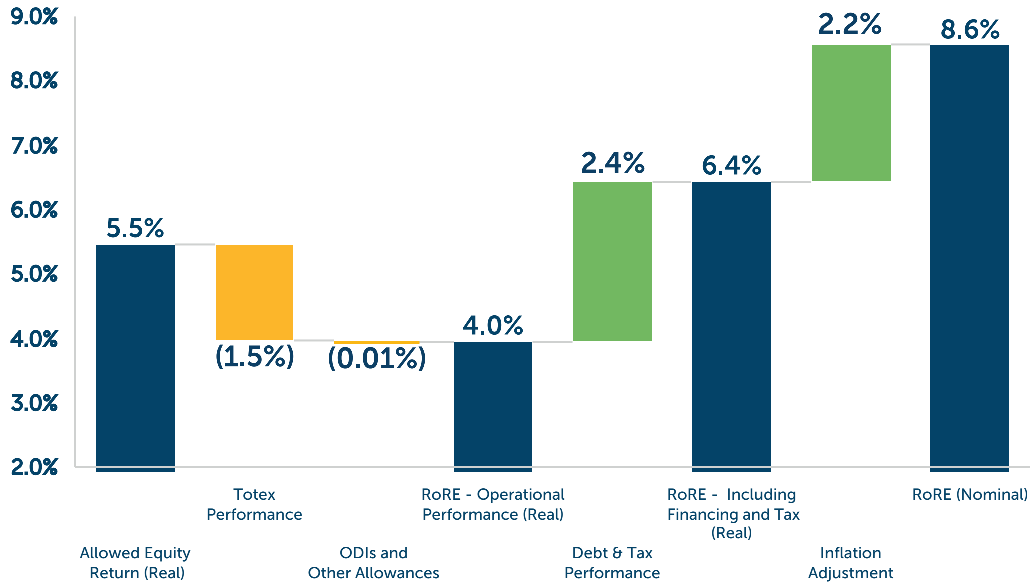


Figure 3: RoRE Based on Notional Gearing for RIIO-ED2 – SSES

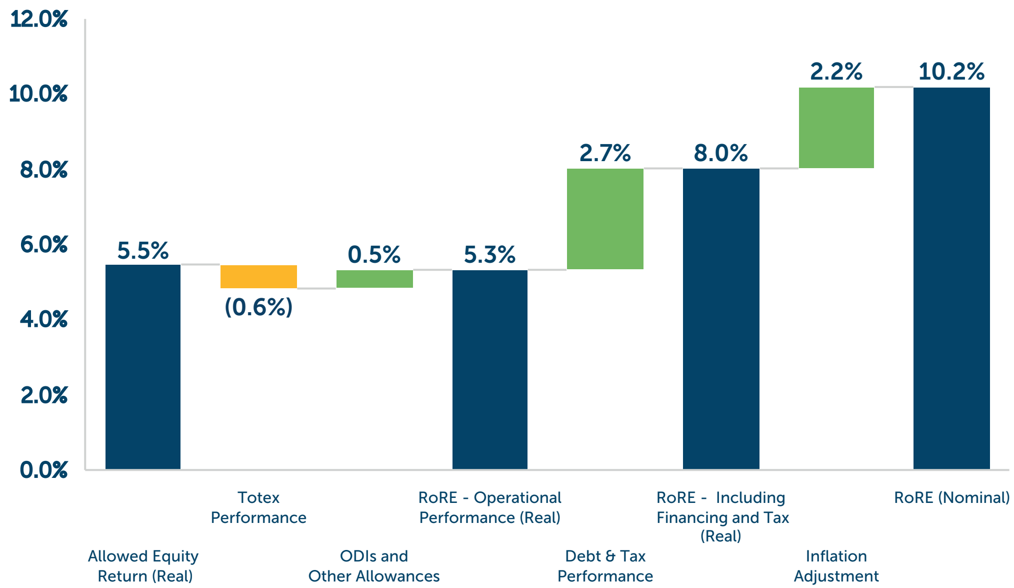


Figure 4: RoRE Based on Notional Gearing for RIIO-ED2 – SSEH

3.2 OUR PERFORMANCE (CONTINUED)

As depicted in Figure 4 SSEH is forecasting a real RoRE of 8.0%, compared to Ofgem's allowed real equity return of 5.5% under RIIO-ED2. This outperformance is primarily driven by strong financial/debt performance, supported by a capital structure with a lower proportion of inflation-linked debt - helping to mitigate the impact of high inflation in the first year of RIIO-ED2, and by maintaining actual gearing below the notional level during the first two years of the price control.

The uplift from financial/debt performance is partially offset by unfavourable totex performance, mainly due to a forecasted £42m (2020/21 prices) totex overspend for RIIO-ED2 period. The majority of the totex overspend RORE reduction is generated from Ofgem's updated RPE adjustments, contributing to 51 basis points reduction in RORE. Similar to SSES, other factors driving the totex overspend include increased costs such as National Insurance contributions, and strategic investments in transformation initiatives aimed at enabling future efficiencies.

However, this impact is partially mitigated by forecasted incentive earnings under the Broad Measure of Customer Service, Distribution System Operator, Time to Connect, and Customer Vulnerability incentive mechanisms.

With inflationary adjustments assuming 2% long term inflation forecast, SSEH's nominal RoRE is estimated at 10.2%, representing a 40 basis point decrease from the RoRE reported in last year's RFPR, primarily due to the totex impacts noted above. Further details on totex performance, ODIs, financial/debt performance, and related metrics can be found in Sections 5, 6, 7, and 9 of this report.

We forecast a reduction in RIIO-ED2 RoRE performance compared to the RoRE published in 2024 RFPR for both licensees. This is primarily driven by unfavourable totex performance resulting from Ofgem's RPE adjustments and additional cost pressures outlined above. The impact from totex performance and the reduction in ODI income is expected to be partially offset by improved financial/debt performance. Further details on our totex performance, ODIs, and financial performance are provided in sections 5, 6, 7, and 9 of this report.

	SSES		SSEH	
	Latest*	**Prior Year****	**Latest***	**Prior Year****
Allowed Equity Return	5.5%	5.5%	5.5%	5.5%
Totex Performance	(1.5%)	0.2%	(0.6%)	0.1%
ODIs and Other Allowances	(0.01%)	(0.03%)	0.5%	0.7%
RoRE - Operational Performance (Real)	4.0%	5.7%	5.3%	6.3%
Finance and Tax Performance	2.4%	1.8%	2.7%	2.1%
RoRE - Including Financing and Tax (Real)	6.4%	7.5%	8.0%	8.4%
Inflation at 2%	2.2%	2.2%	2.2%	2.2%
RoRE (Nominal)	8.6%	9.7%	10.2%	10.6%

**Estimated for RIIO-ED2 based on 2025 RFPR*

***Estimated for RIIO-ED2 based on 2024 RFPR*

Table 2 – Comparison of RIIO-ED2 RoRE at Notional Gearing Stated in Prior Year's RFPR

3.2 OUR PERFORMANCE (CONTINUED)

While RoRE measures returns to shareholders based on the equity portion of the Regulated Asset Value (RAV), we believe a broader metric that evaluates performance across the entire asset base offers a more comprehensive view of SSEN Distribution's overall performance. Figure 5 presents Rate of Return (RoR) as an alternative measure, which assesses returns relative to the full Regulatory Asset Value rather than just regulated equity. This approach better reflects the impact of gearing and borrowing costs - elements funded by customers through network charges - providing a more customer-centric perspective compared to the shareholder-focused RoRE.

SSEN Distribution licensees are expected to generate a return above the allowed Weighted Average Cost of Capital (WACC) over the RIIO-ED2 price control period. WACC is the return that Ofgem allows licensees to earn on debt and equity investments made on RAV. It is calculated using market data at the start of the price control period, with variable values updated annually. RoR over the WACC indicates value additions above the allowed return.

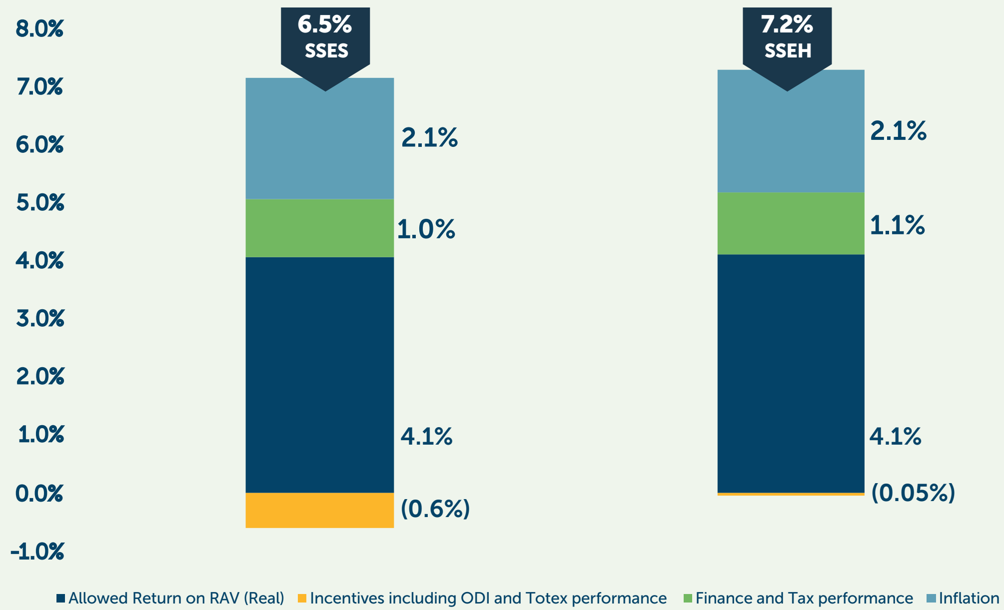


Figure 5: Rate of Return (RoR) for the RIIO-ED2

4. RECONCILIATION TO REVENUE AND PROFIT

This section presents the reconciliation between revenue and profits stated in statutory accounts and those reported under the regulatory framework, as detailed in the "R2 – Rec to Revenue and Profit" tab of the RFPR template. This reconciliation is only applicable for financial years in which statutory accounts have been published and therefore applies to the first two years of the RIIO-ED2 price control period.

Collected regulated revenues are in line with the PCFM last submitted to Ofgem (Dry Run 01, submitted in August 2025). The (under)/over recoveries shown in the R2 tab reflect changes in assumptions made when setting tariffs for 2023/24 and 2024/25 as these were set 15 months in advance. The assumptions include internal factors like project delivery timelines and phasing, and external factors such as inflation and policy decisions (e.g. super tax deductions). As part of the AIP, these (under)/over recoveries are adjusted in future revenue settings.

We have also noted a £3.2m true up adjustment to the collected revenue forecast in Financial Year 2024/25 for SSES post Dry Run 1 submission, which will be adjusted in the upcoming AIP submissions and next published PCFM.

Reconciling statutory profits with regulatory profit involves adjusting for revenue and costs linked to non-regulated activities, as well as differences in the assumptions and methodologies used between statutory and regulatory reporting. Some of the most common line items that lead to material differences between the two profit figures are listed below. Details on these can be found in the "R2 – Rec to Revenue and Profit" tab of the RFPRs published alongside this commentary.

- Revenue and costs from non-regulated activities, such as:
  - Directly remunerated services.
  - Charging outside the Distribution Services Area (Out of Area Charges).

- Differences in assumptions and methodologies, including:
  - Depreciation approach.
  - Tax calculation methods.

We've restated the 2023/24 financial year figures in line with the Costs, Volumes and Revenue (CVR) Regulatory Reporting Pack (RRP) submitted to Ofgem in July 2025 and the Dry Run 01 PCFM submitted in August 2025. These restatements naturally flow through to the RFPR, as collected revenue forecasts and totex are aligned with the latest Dry Run 1 PCFM. We have also updated the "R8 – Tax" tab with the CT600 submissions per the guidance. In addition, IFRS-related adjustments have been reclassified between capex and opex to enhance transparency and improve the accuracy of cost and profit reconciliations.

5. TOTEX – RECONCILIATION

This section provides an overview of SSEN Distribution's totex performance, including a reconciliation of totex with actual costs reported in statutory accounts as detailed in the "R3 - Totex – Reconciliation" tab of the RFPR. While totex over or under-performance is assessed across the full RIIO-ED2 price control period - using actual outturn data up to financial year 2024/25 and forecasts thereafter - the reconciliation is limited to financial years for which audited statutory accounts have been published. Totex performance figures are aligned with the CVR Pack submitted to Ofgem in July 2025 and the PCFM submitted as part of Dry Run 01 in August 2025.

The totex values presented in this submission reflect a combination of committed expenditure, planned investment, and stretch targets designed to deliver SSEN Distribution's strategic objectives and long-term value for consumers. These figures are expected to evolve as actual outturns are realised and the business adapts to both internal and external factors, including project delivery timelines and phasing.

Forecasts are reviewed regularly, and this process has led to material changes in expected outturns. These adjustments are driven by ongoing assessments of various cost drivers, both controllable and uncontrollable that impact the business. Over the course of RIIO-ED2, SSEN Distribution is currently forecasting an overspend of £179m for SSES and £42m for SSEH (in 2020/21 price base), relative to Ofgem's allowances.

A material portion of this overspend is attributed to the failure of the RPE mechanism to adequately reflect actual cost increases above inflation. RPE adjustments are intended to capture price movements in specific commodities such as iron and timber that diverge from general inflation. However, over the past 12 months, we have observed a significant disconnect between the RPE mechanism and actual market conditions. This was particularly evident following the RPE update in financial year 2024/25 as part of AIP process, which resulted in a £100m reduction (2020/21 prices) to our totex allowance, despite substantial cost increases in key materials such as transformers. These increases have far exceeded general inflation, highlighting a misalignment between the mechanism and real-world cost pressures. We do not agree with the current application of the RPE mechanism and would welcome the opportunity to address this issue during the RIIO-ED2 closeout process with Ofgem.

Additional contributors to the forecasted overspend include macroeconomic cost pressures, such as the April increase in Employer National Insurance Contributions, and strategic investments in transformation programmes aimed at improving longer term operational performance. These investments are expected to deliver long-term value to consumers, particularly into ED3, as systems and processes are modernised and streamlined. Further details on forecasted expenditure and efficiency assumptions are provided in Appendix 1 of this commentary.

For the financial year 2024/25, the total reported expenditure (combined capital and operational) in the statutory accounts exceeds regulatory totex by £194.2m for SSEH and £343.9m for SSES. The reasons for this variance fall into two main categories: items included in statutory opex and capex but excluded from regulatory totex, and regulatory costs that fall outside the definition of totex. Most common sources that fall under these two categories are;

- Statutory depreciation and amortisation, which are part of statutory opex but excluded from regulatory totex.
- Accounting adjustments under IFRS, which apply only to statutory accounts.
- Pass-through costs, which are outside the scope of totex under regulatory definitions.

A detailed breakdown of these differences is provided in the "T3 - Totex Reconciliation" tab of the RFPR template.

As outlined in the section "Reconciliation to Revenue and Profit", figures for the financial year 2023/24 have been restated to align with the CVR Pack submitted as part of the latest PCFM in August 2025. In addition, IFRS-related adjustments have been reclassified between capex and opex to enhance transparency and improve the accuracy of cost and profit reconciliations.

6. INCENTIVES AND OTHER REVENUE

This section details the performance of ODIs and other Revenue Allowances for the regulatory year 2024/25 as presented in "R4 - Incentives and Other Rev" tab of the RFPR. Incentive values are sourced from the CVR RRP submitted to Ofgem in July 2025. The forecast values reported in this section reflect our current indicative view and aligns with the PCFM submitted to Ofgem as part of the 2025 Dry Run 1. These values are subject to change between this submission and the next as the AIP progresses and finalises in December 2025. Any such changes will be explained in detail in the next financial year's RFPR commentary.

Overall, SSEH earned an incentive of £1.2m while SSES has incurred a penalty of £5.0m for the financial year 2024/25. These incentives are explained in 2020/21 price base unless otherwise stated.

Incentive income/penalties for the financial year 2024/25 were primarily driven by the Interruptions Incentive Scheme (IIS), resulting in penalties of £2.2m for SSEH and £4.8m for SSES. The IIS measures performance based on electricity supply interruptions, specifically tracking CIs and CML. During the reporting year, both licensees performed ahead of target for CIs. However, CML performance was adversely impacted by poor weather conditions. We continue to invest in network automation, which is expected to improve IIS performance over the course of RIIO-ED2. These investments have already contributed to a notable improvement in performance, with the overall penalty across both licensees reduced by over 30% from 2023/24 to 2024/25. As transformation programmes progress, we expect these improvements to translate into positive incentive outcomes by the end of the price control period, as automation and process enhancements take full effect.

However, it is important to note that the introduction of more stringent IIS targets in RIIO-ED2, compared to RIIO-ED1, alongside the continued rise in adverse weather events, will likely impact our performance under this scheme. We are also investing more in our network to enhance its resilience, which may lead to additional planned interruptions not accounted for when RIIO-ED2 targets were set. While this could result in increased penalties under the current price control, we expect these investments to deliver long-term improvements in service quality for our customers. Additionally, we remain committed to embedding lessons learned from named storm events experienced during the year to strengthen our storm response capabilities. We continue to prepare for increasingly severe and frequent extreme weather events through ongoing investment in infrastructure resilience.

For the financial year 2024/25, the incentive outcome under the Broad Measure of Customer Service incentive was a reward of £0.8m for SSEH and a penalty of £3.8m for SSES, resulting in an overall increased penalty impact for SSES. The reward in SSEH, reflect meeting all targets for customer service and complaints, continuing our strong performance in this area. While performance in SSES was lower in customer service, our complaints performance continued to improve. Our focus is on delivering consistent, high-quality service that goes 'above and beyond' for our customers, and we have dedicated programme of measures in place for this purpose. These efforts are expected to drive long-term improvements in customer satisfaction and performance under this incentive framework.

A notable increase in Distribution System Operator incentive income is forecasted for the financial year 2024/25, with £2.4m for SSES and £1.2m for SSEH representing an improvement over 60% compared to the previous year (subject to Ofgem confirmation). The improvement is driven by ongoing investment in systems, processes, and capabilities that support the transition to a smarter, more flexible electricity network. These efforts are expected to deliver sustained performance gains throughout RIIO-ED2.

Performance against other incentives is not addressed in this commentary because their contribution to our revenue is immaterial; nevertheless, details may be obtained on the RFPR template's "R4 - Incentives and Other Rev" tab.

In terms of income related to innovations, historic innovation information is sourced from the CVR RRP submitted to Ofgem. Innovation performance continues to be a priority across all licensees ensuring progression of innovations that will improve network reliability, efficiency and customer service as well as the transition to Net Zero. Details of revenue contributions from Innovation Allowances can be found on "R4 - Incentives and Other Rev" tab of the RFPR template. Further details on projects funded through innovation are available on our innovation portfolio website[3].

[3] *Scottish and Southern Electricity Networks (no date) "Innovation Portfolio", Available at: https://ssen-innovation.co.uk*

7. FINANCING AND NET DEBT POSITION

This section details the information provided in the "R5-Financing" and "R6-Net Debt" tabs of the RFPR template. The R5 tab reconciles the actual interest cost, or interest cost calculated as per the statutory accounting methodology with interest cost as per the regulatory definitions. These two interest calculations are similar for SSEN Distribution licensees.

The "R5" tab provides a detailed analysis of debt performance for both the notional and actual company structures. A notional company represents a hypothetical, efficiently financed network operator used as a benchmark for DNOs. However, in line with UKRN Guidance Recommendation 09[4], licensees have the flexibility to make their own financing decisions. Companies are therefore incentivised to adopt financial structures that may be more efficient than the notional model and are permitted to take on exposures aligned with their strategic preferences.

As a result, the financial structure of an actual company may differ from that of the notional company. By the end of financial year 2024/25, SSEH and SSES operated with actual regulated gearing levels of 54.3% and 52.6%, respectively. These levels are below the notional gearing benchmark, primarily due to the increase in RAV driven by high inflation in recent years, without a corresponding adjustment to debt levels. In financial year 2024/25, both licensees paid a combined dividend of £400m, following a four-year period without distributions since 2019/20. This dividend payment helped maintain gearing levels consistent with the previous year. However, we are currently evaluating funding options, and both SSEH and SSES are expected to reach the notional gearing level of 60% by the end of the RIIO-ED2 period.

The cost of debt performance compares the actual real financing cost with the allowed cost of debt, as set out in the latest PCFM. This performance varies across networks due to differences in financing strategies. For example, Ofgem's notional company assumes a 75:25 split between fixed-rate and inflation-linked debt. In contrast, the actual fixed-to-index-linked debt ratios for SSEH and SSES are significantly lower, which has provided a financial advantage in high-inflation environment.

At notional gearing levels, SSEH and SSES are forecast to outperform the cost of debt allowance by £92.0m and £147.1m respectively (in 2020/21 price base) over the RIIO-ED2 period. This outperformance has been largely driven by the elevated inflation experienced in the early years of RIIO-ED2 and the companies' lower exposure to inflation-linked debt. However, as inflation begins to normalise, this level of outperformance is expected to reduce over the remainder of the price control period.

When analysing the allowed return on debt, it is important to note that the methodology used does not reflect the cash cost of interest. Instead, it captures the economic outperformance by removing the inflation component from effective interest rates.

The purpose of the R6 tab is to report annual actual and forecasted Net Debt as per the regulatory definition and reconcile the actual Net Debt with statutory accounts, for years statutory accounts have been published. Calculation of regulatory gearing is based on the net debt per regulatory definition. Closing net debt per the regulatory definition for SSEH and SSES was £1,069.1m and £2,075.3m, respectively, as of end of financial year 2024/25 whereas, net debt per statutory accounts were £850.4m and £1,739.8m, for SSEH and SSES, respectively. The difference between regulatory and statutory net debt is mainly attributable to amounts owned to Group undertakings.

[4] *UKRN (2023) "UKRN guidance for regulators on the methodology for setting the cost of capita", p.33, Available at: https://ukrn.org.uk/app/uploads/2023/03/CoC-guidance_22.03.23.pdf*

8. REGULATED ASSET VALUE (RAV)

This section includes a summary of "R7 – RAV" tab of the RFPR template, that details the annual Regulatory Asset Value (RAV) position based on the outturn and forecasted RAV as per the PCFM submitted to Ofgem in August 2025. The closing RAV balance is used in deriving actual gearing and the NPV (Net Present Value) neutral equity element of RAV that is used to calculate RoRE.

As depicted on Figure 6, SSEN Distribution is expected to operate at a £8.3bn RAV in nominal terms, with 37.3% contribution from SSEH and 62.7% contribution from SSES by the end of the RIIO-ED2 price control period. The combined Compound Annual Growth Rate (CAGR) in RAV across RIIO-ED2 is estimated to be 11.5% for SSEN Distribution.

The increase in RAV from the financial year 2024/25 to 2025/26 includes a £204.9m (2020/21 price base) RAV transfer from SSEN Transmission to SSEH for the Shetland Link Contribution. Also, there have been no EV adjustments made to totex and therefore no adjustments for EV have been reflected in the RAV.

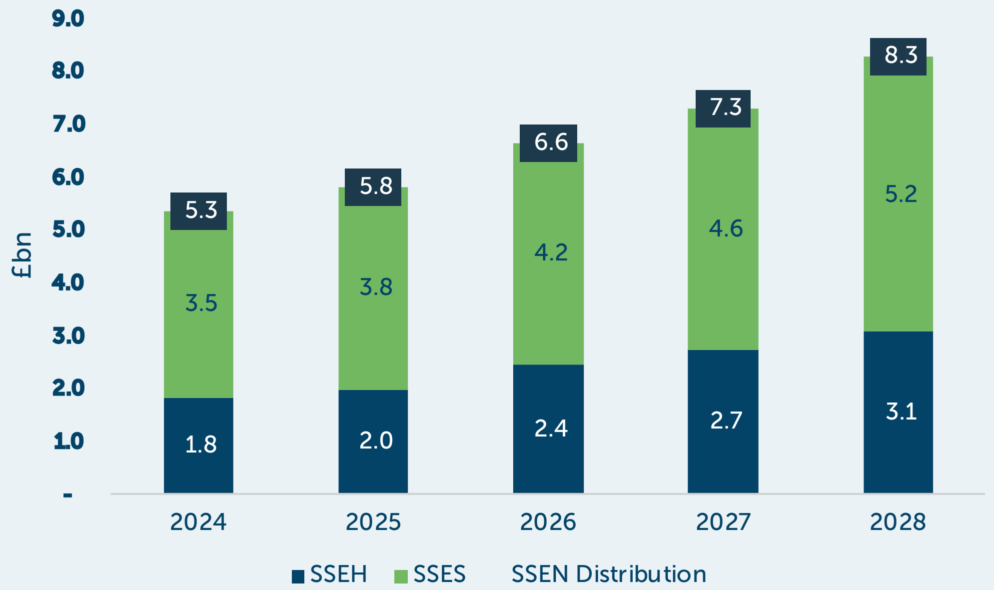
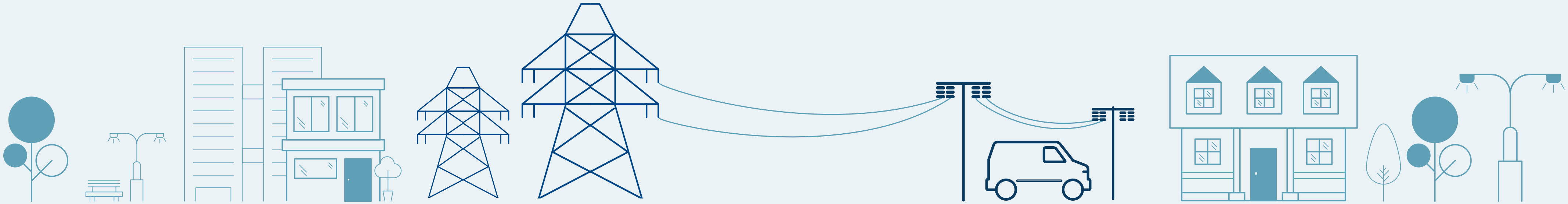


Figure 6: Estimated closing RAV at Nominal Prices (£ billion)



9. TAXATION AND TAX RECONCILIATION

This section outlines the "R8 – Tax" tab and the "R8a - Tax Reconciliation" tab of the RFPR template. "R8 – Tax" tab calculates the tax over/under performance by comparing the tax payout with the tax allowance passed to consumers. The tax allowance passed on to consumers via tariff is derived from the PCFM as part of the AIP.

The tax payout ideally should be based on actual CT600 submissions to HMRC. However, there is typically one-year lag between the end of a financial year and the availability of its corresponding CT600 submission. For example, as of now, the CT600 is only available for the 2023/24 financial year. As a result, the 2023/24 financial year includes a detailed analysis of tax over/under performance, comparing the tax payout from the CT600 with the tax allowance from the PCFM. For other years, the analysis is more high-level and relies primarily on PCFM-based calculation methodologies.

Differences between the tax allowance used in tariff setting (PCFM) and the actual tax liability reported in the CT600 arise because the two are built on fundamentally different bases:

Regulatory vs statutory framework

- The PCFM uses a notional regulatory approach to estimate tax, based on allowed revenues, notional gearing, and simplified assumptions.
- The CT600 reflects actual statutory accounts, including real-world transactions, group structures, and tax planning strategies.

Notional vs Actual Interest

- PCFM calculates notional interest based on the RAV and assumed cost of debt.
- CT600 includes actual interest costs based on real debt arrangements, which may differ significantly.

Capital Allowances and Tax Pools

- PCFM uses simplified tax pools to estimate capital allowances.
- CT600 applies actual capital expenditure and HMRC-approved allowances, which may include enhanced reliefs or timing differences.

Group Relief and Tax Planning

- Companies may use group relief to offset profits across entities in the CT600, reducing tax liability.
- PCFM assumes a standalone entity with no group relief unless specifically adjusted.

Non-Regulated Activities

- CT600 includes income and costs from non-regulated activities, which are excluded from the PCFM.

Timing Differences

In addition, Special Condition 9.8 requires the licensee to submit a Tax Reconciliation Assurance Statement to Ofgem alongside the RFPR submission for the financial year in which the CT600 is available. This statement provides Board-level assurance, through a formal resolution, that all material differences between the tax allowance passed on to consumers and the tax paid as per the CT600 submission are clearly explained and justified.

The Tax Reconciliation Assurance Statement required as per our Licence's Special Conditions (SpC 9.8) will be submitted to Ofgem together with this year's RFPR submission.

10. FINANCIAL RESILIENCE AND CORPORATE GOVERNANCE

The purpose of this section is to provide details on licensees' corporate governance structure including its ownership, composition of the Board, key decision-making responsibilities, executive remunerations, and dividend policies. This section also provides additional insights into the financial resilience of the licensees.

10.1 FINANCIAL RESILIENCE

Financial resilience is a top priority for us, especially at a time where securing investments plays a critical role to ensure growth needed for net zero transition. As mentioned below both regulatory as well as the statutory reporting process have embedded measures to ensure the financial resilience of licensees.

Regulatory reporting requirements that ensure financial resilience

- Ultimate Controller Undertaking.
- Cross-subsidies.
- Restriction on Activity and Financial Ring Fence.
- Availability of Resources.
- Credit Rating Requirements.

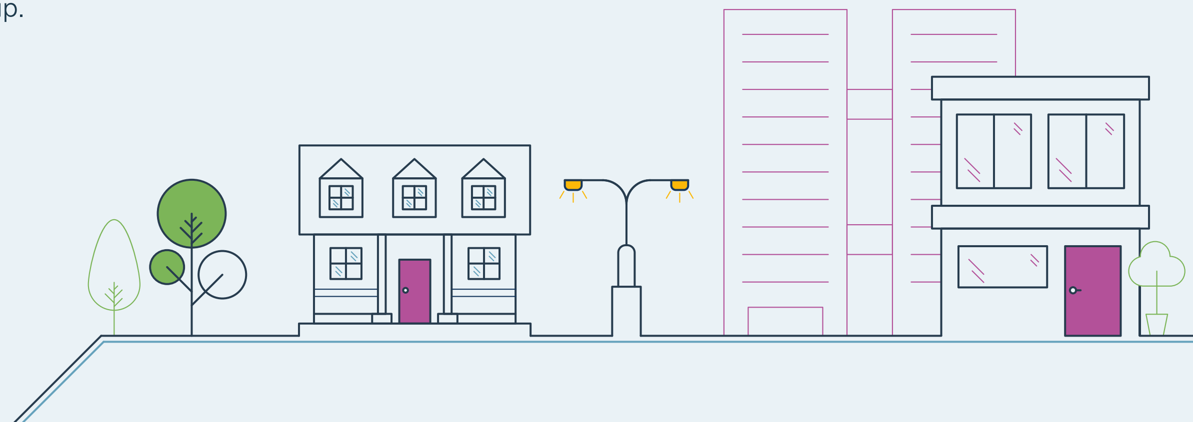
Statutory reporting requirements that ensure financial resilience

- Going concern assessments.
- Viability Statement.
- Provisions under Company's Act 2006, that hold Directors accountable for financial health of the company.

Both SSEN Distribution licensees adhere to the above-mentioned reporting requirements and have maintained and will continue to maintain a healthy financial position to ensure resilience of operations and delivery of RIIO-ED2 outputs. SSEH and SSES operate under investor rate credit ratings; Moody's "Baa1"; Standard and Poor's "BBB+, which were obtained as part of the SSE plc Group credit rating assessment.

SSEN Distribution's debt financing is made up of both internal and external debts, with internal Group business loans accounting for 78% and 52% of SSEH's and SSES's net debt, respectively. Internal loans were issued by the ultimate parent; SSE plc at competitive rates and conditions ensuring no subsidies for being part of larger Group. None of these internal Group business loans have any associated loan covenants and any obligations for distributions other than repayments of loans on due dates. Neither SSE plc nor any other associated entity has material economic reliance on distributions/dividends from either of the SSEN Distribution licensees.

External debt instruments include fixed rate euro bonds and index linked debts.



10.2 CORPORATE OWNERSHIP AND GOVERNANCE FRAMEWORK

SSEH and SSES are distribution licensees that operate in the north of Scotland and south of England respectively. SSEN Distribution Limited is the immediate parent of both licensees. The immediate parent of SSEN Distribution Limited is Scottish and Southern Energy Power Distribution Limited (SSEPD). Other than SSEN Distribution Limited, SSEPD owns 75% stake in Scottish Hydro Electric Transmission plc (SSEN Transmission), which operates the electricity transmission business in the north of Scotland. SSE plc is the immediate parent of SSEPD with 100% stake, hence is the ultimate parent of SSEH and SSES.

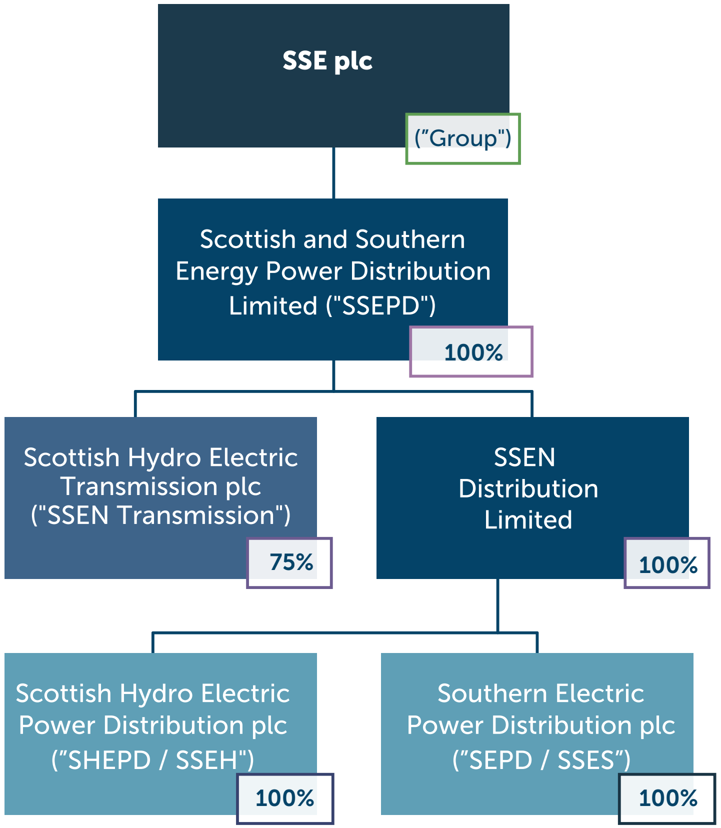
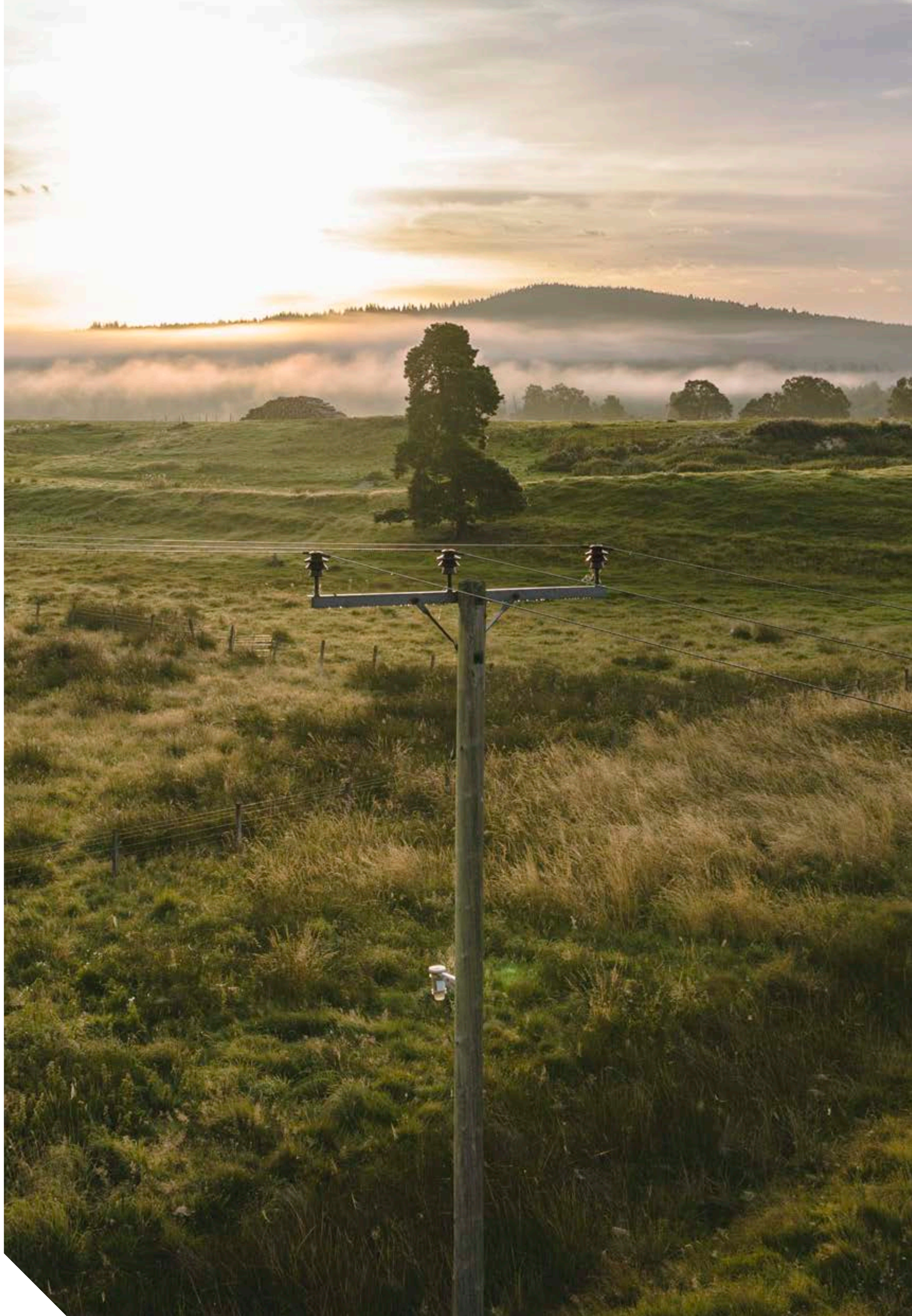


Figure 7: Ownership Structure



10.2 CORPORATE OWNERSHIP AND GOVERNANCE FRAMEWORK (CONTINUED)

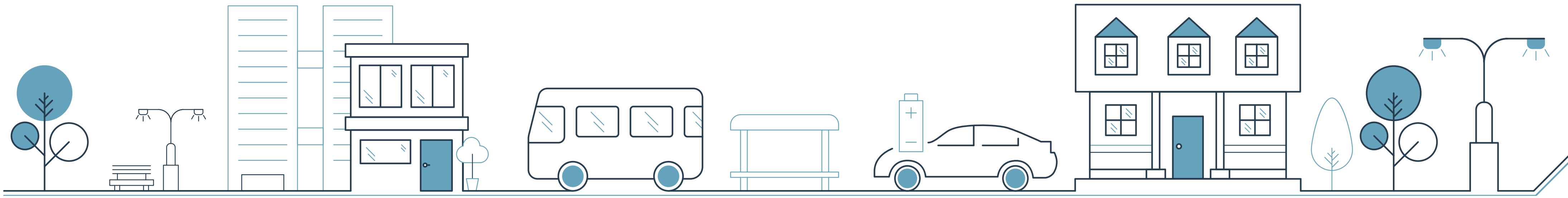
Both distribution licensees are governed by the SSEN Distribution Board. As of the time of this submission, the Company Board comprised of three Executive Directors and five Non-Executive Directors one of whom is the Chair of the Company Board. During the Financial Year 2024/25 the Chair of the Company Board was an Executive Director of the SSE plc Board and a member of the Group Executive Committee. In July 2025, Alistair Phillips-Davies (Chair) retired from the SSE plc Board and the Group Executive Committee.

Two of the Non-Executive Directors on the Board during the course of the financial year were Sufficiently Independent Non-Executive Directors as required under the terms of Standard Condition 43A of the Company's regulatory licence. The Directors believe that the Company Board is an appropriate size and has a good balance of independence and experience, ensuring that no one individual or group of individuals has undue influence over the Company Board's decision making.

Members of the Board of Directors who served and resigned during the financial year 2024/25 include David Rutherford who served the Board as an Independent Non-Executive Director resigned with effect from 30 June 2024 and Helen Elizabeth McCombe who served the Board as Company Secretary. Helen McCombe resigned as Company Secretary on 1 August 2025. David Rutherford and Helen Elizabeth McCombe were appointed to the Board from 01 May 2023 and 24 August 2022 respectively.

NAME	TYPE	APPOINTMENT DATE
Alistair Phillips-Davies	Non-Executive Chair	2 April 2023
Chris Burchell	Executive Director / Managing Director	24 August 2022
Dinesh Manuelpillai	Executive Director / Finance Director	30 June 2023
Eliane Algaard	Executive Director / Services Director	3 April 2023
Klair Neenan	Non-Executive Director	1 October 2023
Samuel Peacock	Non-Executive Director	1 May 2023
Maxine Frerk	Sufficiently Independent Director	1 May 2023
Paul Brown	Sufficiently Independent Director	1 June 2024
Nick Dancer	Secretary	1 August 2025

Table 3: Board of Directors



10.2 CORPORATE OWNERSHIP AND GOVERNANCE FRAMEWORK (CONTINUED)

The Executive Directors are experienced senior business leaders and are deemed to possess the appropriate breadth of knowledge and expertise to discharge their role effectively. Two of the executive directors are fully assigned to regulated businesses while, Managing Director of the SSEN Distribution Board; Chris Burchell serves on the Group Executive Committee of the ultimate parent; SSE plc.

The Non-Executive Directors provide an appropriate degree of independent judgement and challenge to ensure balanced and fair decision-making and outcomes. The operation and effectiveness of the Board is the ultimate responsibility of the Chair, who is supported in their role by the Company Secretary. Agreed procedures are in place to manage and mitigate actual or potential conflicts of interest with Board or Company business.

The Board oversees matters including the Company's purpose, value and strategy, as well as dividend policy. The Board does not have a supporting Nomination, Remuneration or Audit Committee. These functions are dealt with, where required, in conjunction with the relevant committee of the SSE plc Board. Details on these committees are disclosed in Annual Report of the SSE plc available on SSE plc website[5].

Table 4 elaborates on the decision-making across the governance hierarchy.

DECISION	NARRATIVE ON WHO HOLD THE RESPONSIBILITY
Purpose, values and strategy	Both Licensees work within the purpose, values and strategy of the ultimate parent; SSE plc and the SSEN Distribution Board, as the parent company of both Licensees is responsible for the oversight.
Board director nominations	Changes to the structure, size and composition of the Board and Board Committees are matters reserved to the SSEN Distribution Board. In accordance with the Company's Articles of Association, the Company's shareholder; SSE plc may appoint and remove directors by ordinary resolution.
Board director evaluation	The Board evaluation process is a matter reserved for the SSEN Distribution Board. Separately to the Company, the Board of SSE plc complies with the provisions of the UK Corporate Governance Code in relation to its own evaluation.
Executive remuneration	Executive remuneration is a matter reserved to the Board of SSE plc / Remuneration committee.
Dividend policy	Dividend policy is a matter reserved to the SSEN Distribution Board. The Company will consult with the Board of SSE plc to form group dividend policy but the ultimate decision, in line with the Companies Act, rests with the Board of Directors of the Company.

Table 4: Decision Making Responsibilities within the Group

[5] *SSE plc (2025) "SSE plc Annual Report 2025), pp.107-140, Available at: https://www.sse.com/media/qqtiamkh/sse_ar25_interactive_pdf.pdf*

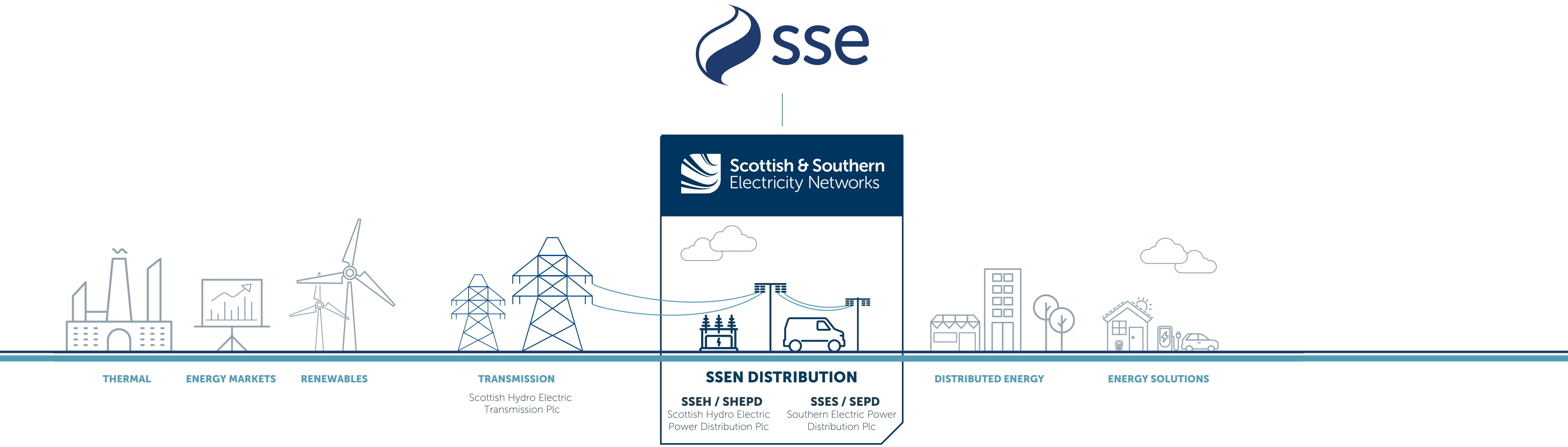
10.2 CORPORATE OWNERSHIP AND GOVERNANCE FRAMEWORK (CONTINUED)

As depicted on Table 5, the Board has delegated its responsibilities on day-to-day operational decisions to Distribution Executive Committee and Use of System Charges Sub-Committee.

On appointment, all Directors receive induction to the Board and briefings on areas pertinent to their role such as a director's legal duties. The effectiveness of the Board is supported by performance evaluation and the commitment to personal development and training by each Director. More information on the Governance process of SSEN licensees can be found within the Directors Report of the Financial Statements for financial year 2024/25 published on our website[6].

BOARD SUB COMMITTEE	PURPOSE	BOARD DIRECTORS THAT SERVE ON THE COMMITTEE
Distribution Executive Committee	Manage daily operations of both SSEN Distribution licensees	Chris Burchell Dinesh Manuelpillai Eliane Algaard *(Other members represent senior management but are not part of the Board of Directors)*
SSEN Distribution Board Use of System (DUoS) Charges Sub-Committee	To review and assess the matters related to DUoS	Chris Burchell Dinesh Manuelpillai *(Other members represent senior management but are not part of the Board of Directors)*

Table 5: Board Sub Committees



[6] *Scottish and Southern Electricity Networks (2025) "Directors Report and Financial Statements - Scottish Hydro Electric Power Distribution plc", pp. 19-23, Available at: https://www.ssen.co.uk/globalassets/library/financial-information/2025/fy25-shepd-march-25-signed-financial-statements.pdf And Scottish and Southern Electricity Networks (2025) "Directors Report and Financial Statements - Southern Electric Power Distribution plc", pp. 19-23, Available at: https://www.ssen.co.uk/globalassets/library/financial-information/2025/fy25-sepd-march-25-signed-financial-statements.pdf*

10.3 EXECUTIVE REMUNERATION POLICIES

The SSE plc Group's Remuneration Committee is responsible for setting pay for members of the Group Executive Committee (GEC) and reviewing the remuneration arrangements for all employees across the Group. The GEC includes the Managing Director of Distribution. The details of how the Remuneration Committee operates is disclosed in the Directors' Remuneration Report in the SSE plc Annual Report[7].

The Remuneration Committee has responsibility for overseeing pay in both SSES and SSEH. Pay and remuneration is based on the following elements:

- The senior management population participate in annual and long-term incentive arrangements. In line with Executive Directors' arrangements, incentives for senior management have an emphasis on share awards.
- All employees have the opportunity to be share owners through the Share Incentive Plan and the Sharesave Plan and those participating are able to express their views in the same way as other shareholders.
- Pension planning is an important part of SSE's reward strategy for all employees because it is consistent with the long-term goals and horizons of the business, an approach it has been practising for a number of years. The terms of the funded final salary pension schemes apply equally to all members.
- As part of its Employee Engagement Survey ("Great Place to Work") SSE invites all employees to provide a view on the benefits and pay that it provides.

The Remuneration Committee keeps these arrangements under constant review. As directed by SSE's Remuneration Committee, 10% of the Annual Incentive Plan (AIP) award is linked to our performance in publicly available sustainability indices. A further 30% of this AIP award relates to operational performance aligned with key NZAP Plus deliverables that reflects its future goals focused on addressing the challenge of climate change. For SSEN Distribution, there is close alignment with the long-term goals of SSE: supporting renewable output, accommodating electric vehicles and championing fair tax and the real Living Wage. Individual performance in Distribution is measured against these goals along with other factors such as health and safety, licence compliance, business plan outputs and stakeholder engagement.

The Remuneration Committee appreciates the importance of an appropriate relationship between the remuneration levels of the Executive Directors, senior executives, managers and other employees within the SSE Group, although comparison metrics are not used to determine pay policy. Remuneration at all levels is designed to be consistent with the Group's core remuneration principles, long-term business strategy and, for Distribution, the goals set out in our business plan. More information on the basis of pay determination can be found in Table 6.

BOARD SUB COMMITTEE	BASE SALARY	BENEFITS	PENSION	SHORT-TERM INCENTIVES	LONG-TERM INCENTIVES
Executive Directors	Typically set with reference to the market and wider workforce considerations. Annual increases are typically in line with or less than the wider employee population.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.	All employees are a member of the SHEPS or SEPS defined benefit pension scheme, or the Pension+ defined contribution scheme unless they have opted or cashed out. The arrangements are diverse, and the employer cost typically ranges from 3% to 38% of salary when both defined contribution and defined benefits schemes are taken into account.	Annual Incentive Plan linked directly to business performance – 50% financial, 50% non-financial. 33% of the total award is deferred as career shares.	The Performance Share Plan is a share award with performance linked to strategic performance measures.
Group Executive Committee and Senior Management	Set with reference to the market and wider workforce considerations. Annual increases are typically in line with or less than the wider employee population.	A range of voluntary benefits in line with the wider workforce plus contractual car and private medical benefits.		Annual incentive Plan considering performance of the Group (directly linked to the above), the business area and the individual. 25% of the total award is deferred as shares for three years.	The Leadership share plan is also linked to strategic performance measures over the longer-term and those with direct impact on strategic output are eligible.
Wider Workforce	Base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. Annual increases are subject to negotiation.	A range of voluntary benefits are available to all employees, such as a cycle to work scheme, a holiday purchase scheme, health benefits, and enhanced maternity, paternity and adoption leave.		Depending on role, a proportion of employees will participate in the Annual Incentive Plan (as above). 100% of the award is paid in cash.	All employees may participate in the Share Incentive Plan (SSE matches three shares for every three bought) and the Sharesave (SAYE) plan.

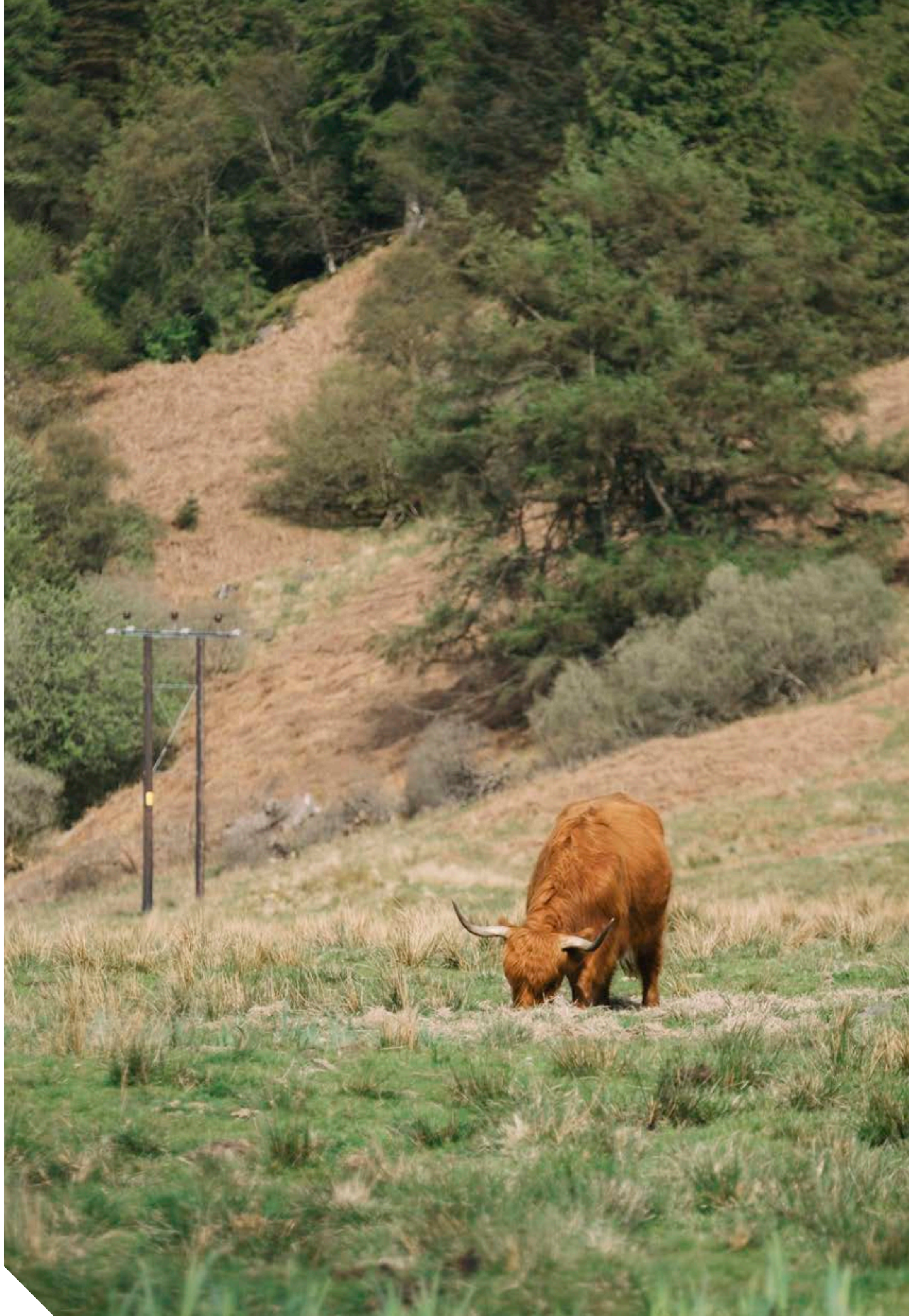
Table 6: Remuneration Arrangements, SSE Group

[7] SSE plc (2025) "SSE plc Annual Report 2025), pp.126-140, Available at: https://www.sse.com/media/qgtiamkh/sse_ar25_interactive_pdf.pdf

10.3 EXECUTIVE REMUNERATION POLICIES (CONTINUED)

SSE plc's current Directors' Remuneration Policy was approved by shareholders at the 2022 Annual General Meeting (AGM), with over 91% of votes cast in favour. The 2022 policy focused primarily on aligning executive remuneration with the launch of the Net Zero Acceleration Programme (NZAP), which was subsequently enhanced to NZAP Plus.

As the existing policy was due to expire at the conclusion of the 2025 AGM, a revised Directors' Remuneration Policy has been proposed for shareholder approval. Full details of the proposed changes are outlined in the Remuneration Committee Report within SSE plc's 2025 Annual Report[8].



[8] *SSE plc (2025) "SSE plc Annual Report 2025), pp.126-140, Available at: https://www.sse.com/media/qqtiamkh/sse_ar25_interactive_pdf.pdf*

10.4 DIVIDENDS

Our dividend policy is based on a range of factors considered by the Board of Directors including delivering our business plan, maintaining our investment grade credit rating, complying with regulations, and providing an appropriate rate of return to shareholders. Given the significant capital investment planned in RIIO-ED2 business plan as well as other future investments, our dividend policy must have the capability to flex with these requirements such that shareholders will see cash dividends over the period in line with their required rate of return. The effect of this is that in some years, we may pay relatively low or zero dividends, and in other years we might pay higher dividends in line with standard treasury and cash flow management practices. Under our dividend policy, we consider the following factors on an annual basis prior to declaring a dividend:

- Availability of Resources for operating in the coming 12 months.
- Company viability over the forthcoming three years in line with the UK Corporate Governance Code.
- Maintaining investment grade credit rating including raising external borrowings at an appropriate credit rating.
- Planned and committed capital investments.
- Financial performance and the required return by shareholders.
- The impact on customers of a dividend being paid including attracting and retaining investment to deliver our business plan.

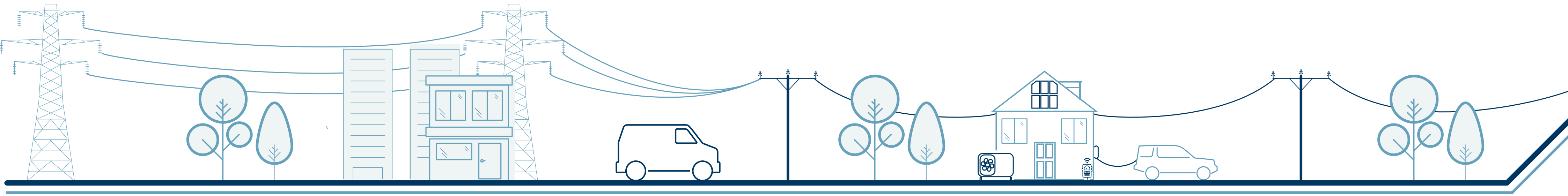
As per the Company's articles of association Directors are allowed to pay dividends hence, all dividends are approved by the Board of Directors prior to payment.

During the financial year 2024/25, SSES and SSEH declared and paid dividends of £350m and £50m respectively. These dividend payments were formally approved by the SSEN Distribution Board of Directors at the meeting held on 20 February 2025. Proper notice of the meeting was given, and a quorum was present.

At the meeting, the Board was reminded of the legal requirements under the Companies Act 2006, which prohibit the declaration of dividends unless they are made out of distributable reserves and do not hinder the Company's ability to meet its liabilities as they fall due. The Directors were satisfied that sufficient distributable reserves were available to support the proposed dividends.

In determining the dividend payments for the financial year 2024/25, the Board gave due consideration to the principles outlined in the Company's Dividend Policy. A thorough assessment was undertaken, and consideration was given to the fact that neither SSES nor SSEH paid dividends in the preceding four financial years, noting the high cost inflation experienced over much of this period which was not reflected in revenues until 2024/25. To support the feasibility of the proposed dividends, Availability of Resources Statements were prepared for each entity. These statements demonstrated the financial capacity to maintain operational commitments in the forthcoming financial year. Additionally, the availability of funding through the SSE Group's Revolving Cash Facility was considered, further reinforcing the financial resilience of the business. We have also conducted a benchmarking exercise comparing dividend payments made by other DNOs from the start of the RIIO-ED1 price control period through to the financial year 2024/25.

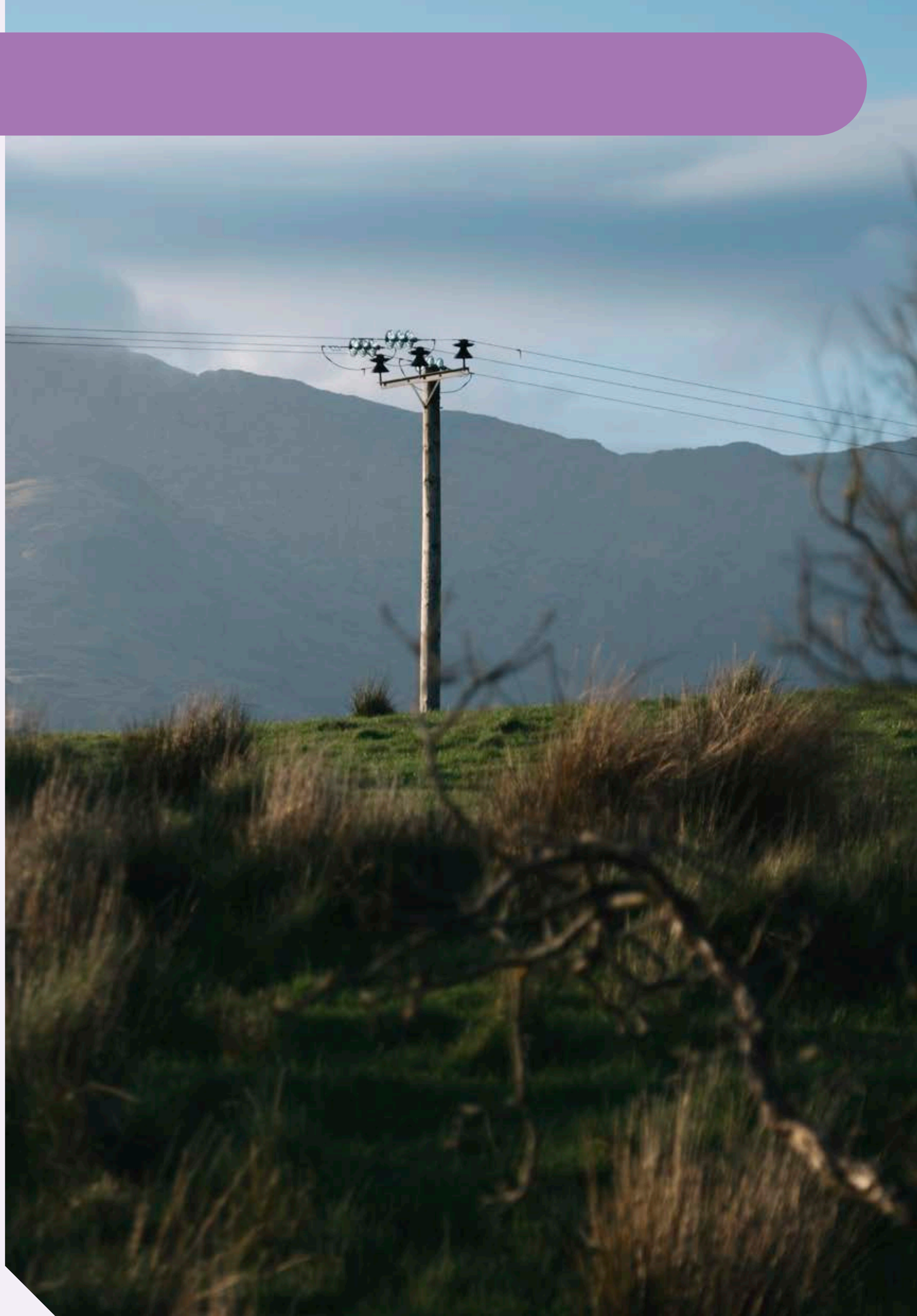
Following the payment of dividends, SSEN Distribution complied with all relevant regulatory requirements, including submission of the appropriate Dividend Certificates and supporting documentation to Ofgem, in accordance with the conditions of the Distribution Licence.



11. PENSIONS AND OTHER ACTIVITIES

As presented in "R10 - Pensions and Other Activities" tab of the RFPR, pension allowances and deficit repair payments are in line with the Pensions Reasonableness Review carried out and submitted in September 2023. No adjustments have been made post this review. Pension allowances do not directly affect the RoRE or RoR, except as part of a component of totex expenditure for ongoing service contributions.

Other activities include Guaranteed Standard compensation made to electricity consumers for the inconvenience caused by loss of supply. We were not subject to any other fines and penalties during the financial year 2024/25, other than the voluntary payments SSES made to Citizens Advice Portsmouth and to Citizens Advice Hampshire[9].

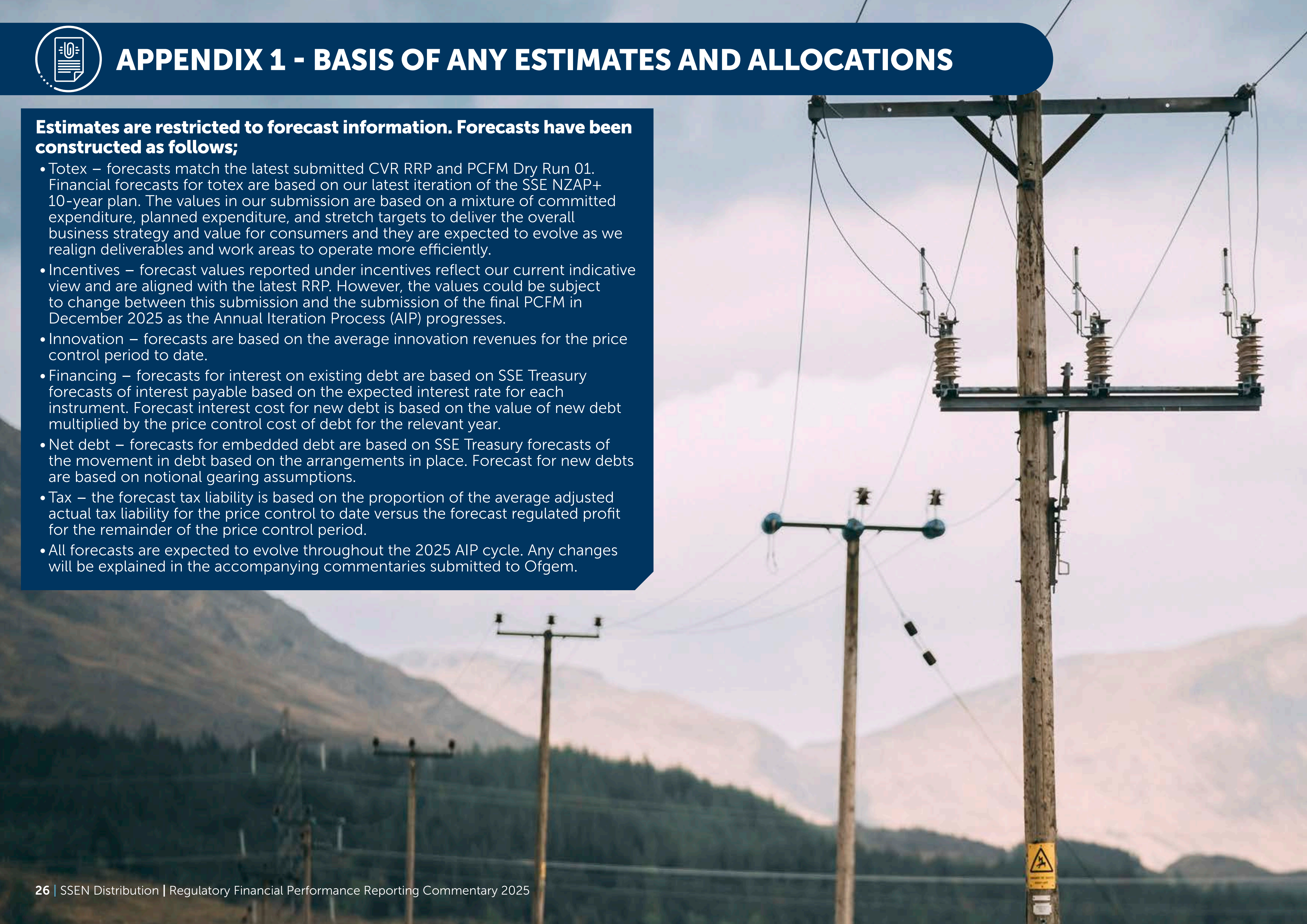


[9] *Ofgem (2024) "Investigation into SEPD and its compliance with its obligations under SLCs 10, 10AA and 30 of its electricity distribution licence", available at: https://www.ofgem.gov.uk/publications/investigation-sepd-and-its-compliance-its-obligations-under-slcs-10-10aa-and-30-its-electricity-distribution-licence*

12. DATA ASSURANCE STATEMENT

This submission has been completed in line with the Data Assurance Requirements under Standard Licence Condition 45. A Risk Assessment has been conducted with the Total Risk Rating being scored as Medium. The appropriate level of Data Assurance has been employed based on this Rating, including a submission plan, methodology and appropriate level of review and sign off.

APPENDIX 1 - BASIS OF ANY ESTIMATES AND ALLOCATIONS



Estimates are restricted to forecast information. Forecasts have been constructed as follows;

- Totex – forecasts match the latest submitted CVR RRP and PCFM Dry Run 01. Financial forecasts for totex are based on our latest iteration of the SSE NZAP+ 10-year plan. The values in our submission are based on a mixture of committed expenditure, planned expenditure, and stretch targets to deliver the overall business strategy and value for consumers and they are expected to evolve as we realign deliverables and work areas to operate more efficiently.
- Incentives – forecast values reported under incentives reflect our current indicative view and are aligned with the latest RRP. However, the values could be subject to change between this submission and the submission of the final PCFM in December 2025 as the Annual Iteration Process (AIP) progresses.
- Innovation – forecasts are based on the average innovation revenues for the price control period to date.
- Financing – forecasts for interest on existing debt are based on SSE Treasury forecasts of interest payable based on the expected interest rate for each instrument. Forecast interest cost for new debt is based on the value of new debt multiplied by the price control cost of debt for the relevant year.
- Net debt – forecasts for embedded debt are based on SSE Treasury forecasts of the movement in debt based on the arrangements in place. Forecast for new debts are based on notional gearing assumptions.
- Tax – the forecast tax liability is based on the proportion of the average adjusted actual tax liability for the price control to date versus the forecast regulated profit for the remainder of the price control period.
- All forecasts are expected to evolve throughout the 2025 AIP cycle. Any changes will be explained in the accompanying commentaries submitted to Ofgem.

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