

SGN MidCo Group – Section 172(1) Statement

2019/20



SGN

Your gas. Our network.

Section 172(1) Statement

The Board of Directors consider that they have acted in the way that would be most likely to promote the success of the company for the benefit of its members as a whole (whilst having regard to the stakeholders and matters set out in s172(1)(a)-(f) of the Companies Act) in the decisions taken during the year ended 31 March 2020. The key decisions and activities taken in the year and their references to s172(1) can be found on pages within the Directors Report.

A key activity in the year was the submission of our business plan to the regulator, Ofgem, this plan was approved by the board and shows consideration of s172(1) throughout:

- Our highly ambitious plan is designed to have a long-term benefit to contribute to the success of the company and to benefit our stakeholders as outlined by our three customer commitments:
 1. To make a positive impact
 2. To build a shared net-zero future
 3. To deliver a safe and efficient service
- Our employees are fundamental to the ongoing success of our business and delivery of our business plan. Their health and safety, and the health and safety of all our stakeholders, is of paramount importance to us, and is embedded in our culture and values.
- We have listened extensively to our customers and stakeholders to create our plan; with 23,000 high quality submission, individual engagements and more than one million people reached online. Our plan was informed by this extensive engagement and is rigorous, ambitious and deeply aligned to our stakeholders needs.
- The community and environment underpin our business plan objectives and in particular our priority to build a shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact where we seek to build a 100% hydrogen demonstration network and to increase the volume of biomethane in our network.
- Our business plan targets to reduce our customer bills, deliver at least a 9 out of 10 service to our customers and to help 250,000 customers in vulnerable circumstances all whilst ensuring that we maintain high standards of safety and resilience throughout our business.
- Our principles are to behave responsibly toward our shareholders and treat them fairly so they too may benefit from the successful delivery of our business plan.

Engagement with Employees

The Board has adopted a robust employee listening strategy, capturing feedback, insight and suggestions from colleagues using a range of different methods and channels. The feedback is subject to rigorous analysis to identify emerging themes and trends. During the year the following Board engagement actions were taken:

- **Inform** - Employee communication this year has been further supported by the company wide roll out of office 365 and Microsoft Teams in line with the technology strategy approved by the Board. This has enabled real time information to be provided on matters of interest to our employees.
- **Consult** - In September 2019, employees were invited to take part in our employee opinion survey which provided a 58% response rate with three key indices: Inclusion index 68%; Sustainable engagement index 79% and Leadership score 59%. The Board have reviewed the feedback and agreed an action plan based on this.
- **Participation** - Employees are invited to get involved in helping drive performance at a company and local level. Safety champions represent all departments to advocate safe working practices and support with safety related campaigns and initiatives. Safety champions have an opportunity to meet directly with the Board during office and sight visits to provide this feedback.

Employee engagement is invaluable as it provides Directors with valuable insight to help inform decision making.

Engagement with Suppliers, Customers and Others

We are a business which truly listens to our stakeholders, taking steps to ensure everyone has an opportunity to share with us their views about what matters to them. We've used the valuable insight gathered from our customers and stakeholders to shape our business, and now structure our activities to align with the customer and stakeholder-driven commitments:

- We will make a **positive impact** on society, by supporting vulnerable communities and providing excellent service.
- We will deliver a **safe and efficient** service by acting safely, keeping the gas flowing and keeping costs down.
- We will build a **shared future** by accelerating decarbonised energy solutions and minimising our environmental impact.
- We will **create value** by accelerating commercial opportunities which complement the core; maximise the value from our existing asset base; invest in opportunities for the sustainability of our network and keep the Company at the forefront of the delivery of heat.

This year we have adopted a revised governance structure as outlined in the S.172 statement, this includes the SAP and Stakeholder, Environment and Customer Board Committee which will help the group to meet its stakeholder engagement ambitions.

Continuous Improvement

We strive for continuous improvement in our approach to stakeholder engagement. This year, working with our SAP we have refined our six principles of stakeholder engagement, and included a statement affirming our commitment to the AA1000 Stakeholder Engagement Standard. These longstanding six principles guide our approach to stakeholder engagement and are detailed below. The enhancements to these principles that we've introduced this year are identified in bold.

1. Delivering measurable benefits:

We will engage directly with customers and stakeholders to embed their interests in our decision-making and deliver valued, measurable benefits.

2. Focusing on material issues:

Customers and stakeholders should have a say in relevant issues they care about and that will have the most impact on them, both now and in the future.

3. Driving inclusivity and diversity:

Engagement with customers and stakeholders should be broad and inclusive; we will seek out the diverse perspectives of challenging and hard to reach groups and ensure complex issues are communicated in a way that is easily accessible and understandable to all.

4. Providing ongoing opportunities for challenge and collaboration:

Engagement will be tailored to the needs of stakeholders to ensure genuine opportunities for ongoing dialogue, mutual education, challenge, review and collaboration are created.

5. Being responsive and transparent:

The Company will be responsive and transparent, explaining how the views and priorities of stakeholders have influenced decision-making and how we have balanced the needs of different stakeholders.

6. Continually improving:

The Company will continuously improve and develop its engagement with customers and stakeholders, finding new and more innovative approaches to respond to their changing needs.

Our six-stage engagement cycle

Our engagement strategy details the six, iterative stages of our engagement cycle we use to embed the above principles of stakeholder engagement across our organisation. These are as follows:

1. For each of our key businesses priorities and processes we identify the stakeholders impacted by or interested in our activities
2. We tailor our methods of engagement with our stakeholders depending on their preferences and their levels of knowledge and interest
3. We engage with a purpose and listen to our stakeholders
4. We respond to the views of stakeholders across our business
5. We measure the benefits of our engagement and its effectiveness
6. We review and refine our strategy and engagement plans

Identifying and mapping our key stakeholders

Our digital Stakeholder Relationship Management (SRM) tool allows us to capture and analyse our engagement activities with a diverse range of stakeholders across our business. We use SRM to maintain records of which topics each stakeholder has told us are priorities or of interest to them, the geographical areas in which they operate and their communication preferences.

This year we have worked with our SAP to adapt our stakeholder mapping, categorising all our stakeholders into one of twelve main groups as outlined below.

Supporting Section 172

A critical aspect of working constructively with the Company's key stakeholder groups is the engagement which takes place to understand material issues of interest and set out below are details of the engagement mechanisms that exist within the Group, which ultimately support the Board's understanding of relevant stakeholder views. This approach ensures that all decision-making is adequately informed and is supportive of a Director's duty under Section 172 of the Companies Act 2006.

The Board had regard to the interests of all stakeholder groups were considered during the shaping of the 5-year business plan

Stakeholder type	Key stakeholders	2019/20 Board impact areas
Internal Stakeholders SGN employs around 4,000 people across its workforce and has four shareholders.	<ul style="list-style-type: none"> • Employees/workforce • Trade unions • Shareholders 	<ul style="list-style-type: none"> • Employee engagement and action plan • Remuneration • Talent and succession • Diversity and inclusion
Customers SGN provides gas distribution and related services to millions of customers.	<ul style="list-style-type: none"> • Domestic and industrial customers • Small and medium enterprises • Future of gas customers 	<ul style="list-style-type: none"> • Sustainability - pathway to the decarbonisation of heat • Environmental action plan • Safety performance
Regulatory bodies SGN works constructively with regulatory bodies	<ul style="list-style-type: none"> • Ofgem • HSE • Environment Agency • SEPA • UREG 	<ul style="list-style-type: none"> • Stakeholder engagement strategy • Sustainability – pathway to the decarbonisation of heat • Environmental action plan • Safety performance
Local government SGN works constructively with central and local government	<ul style="list-style-type: none"> • Government departments • Local authorities • Politicians 	<ul style="list-style-type: none"> • Stakeholder engagement strategy



	<ul style="list-style-type: none"> Local energy plan partners 	<ul style="list-style-type: none"> Sustainability – pathway to the decarbonisation of heat Environmental action plan UN sustainability development goals
<p>Energy partners and industry peers SGN works in collaboration with third party energy partner providers and industry peers</p>	<ul style="list-style-type: none"> GDNs/DNOs Shippers/suppliers Industry groups IGTs/UIPs Other utilities (water, telecom, etc.) 	<ul style="list-style-type: none"> Sustainability - pathway to the decarbonisation of heat Environmental action plan UN sustainable development goals
<p>Supply Chain SGN works closely with its supply chain</p>	<ul style="list-style-type: none"> Appliance manufacturers Construction and engineering companies Services providers 	<ul style="list-style-type: none"> Approval of Modern Slavery Statement Technology – digital development Large project performance Contract approvals
<p>Local interests SGN works in partnership with many third-party organisations to support local interest</p>	<ul style="list-style-type: none"> Community groups Energy and health services Public transport providers Housing providers 	<ul style="list-style-type: none"> Sustainability - pathway to the decarbonisation of heat Environmental action plan UN sustainable development goals
<p>Environmental experts and Advisory groups SGN works closely with its environmental groups to ensure it minimises its environmental impact</p>	<ul style="list-style-type: none"> NGOs Environmental charities Sustainability specialists 	<ul style="list-style-type: none"> Sustainability - pathway to the decarbonisation of heat Environmental action plan UN sustainability development goals
<p>Consumer welfare agency groups/providers SGN works closely with its consumer welfare groups to support vulnerable communities</p>	<ul style="list-style-type: none"> Consumer groups Charities Private and community interest groups 	<ul style="list-style-type: none"> Sustainability - pathway to the decarbonisation of heat Environmental action plan UN sustainability development goals