

SGN MidCo Group – Section 172(1) Statement

2021/22



SGN

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1 Section 172(1) Statement

The Companies (Miscellaneous Reporting) Regulations 2018 require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) (A) to (F) of the Companies Act 2006 ('S172') when performing their duty to promote the success of the Company under S172. In particular, how they have considered the long-term success of the company whilst balancing the interests of a wide range of stakeholders.

Confirmation of Directors' duties

The Company's Directors strive to ensure that they act in good faith, in promoting the future success of the Company, and in doing so having regard (among other matters) to:

S172(1) (A) "The likely consequences of any decision in the long-term"

The Directors' role is to promote the long-term success of the Company through the setting of a clear purpose, vision and sustainable strategy which creates value for existing and future customers, stakeholders and shareholders.

The Board have provided continued focus on the long-term success of the Company through the approval of a refreshed purpose, vision and values, following extensive internal and external research programmes. These are outlined further in the points below and throughout the Strategic and Directors' Report.

S172(1) (B) "The interests of the company's employees"

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

Several of the Board's sub-committees have a high degree of focus on employee's interest, for example the Safety, Health and Environmental Advisory Committee which recognises that the health and safety of the Company's staff (as well as the other key stakeholders) are of critical importance. The People and Reward Committee also considers the appropriateness and relevance of the remuneration policy.

The Directors recognise that our pensioners, though no longer employees, also remain important stakeholders.

S172(1) (C) "The need to foster the company's business relationships with suppliers, customers and others"

The Directors' have taken steps to ensure everyone has an opportunity to share their views about what matters to them with the Company.

We have well-established customer engagement channels ranging from dedicated panels and focus groups to ensure perspectives of vulnerable customers are considered, to forums to engage with large business customers. Customer satisfaction surveys drive KPIs which measure how successful we are and provide feedback on the impact of our decisions. We use consumer research groups to engage and shape the key decisions we make. We use social media and our website to communicate directly with our customers. The Consumer Engagement Group (CEG) and Stakeholder Advisory Panel (SAP) help shape our engagement strategy by providing independent challenge on the use of our customer engagement in our business planning.

The Company has 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 net-zero 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.

We work closely with suppliers as well to ensure their values on issues, such as, safety, environment and modern slavery are upheld throughout our supply chain. Meetings are held with strategic suppliers through our Supplier Relationship Management (SRM) programme, helping enhance performance and strengthen relationships to deliver mutual value as well as key relationship meetings with our Executive and CEO.

During the period, the Directors received information to help them understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and focus groups).

As a result of this, the Directors have had an overview of engagement with stakeholders and other relevant factors which allows them to understand the nature of the stakeholders' concerns and to comply with their Section 172 duty to promote the success of the Company.

S172(1) (D) "The impact of the company's operations on the community and the environment"

Working with communities at local, regional and national levels enables us to build our shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact.

During the year, the Board has approved continuing investment in our Cyber Security Programme. By not investing in cyber resilience, we would put our company at risk of attacks from national states, hacktivists, criminals and/or insiders.

The UK National Cyber Security Strategy 2016-21 identified that cyber-attacks are growing more frequent, sophisticated and damaging. We, along with UK Government and Ofgem, recognise the scale of the cyber threat to critical national infrastructure, such as our gas networks.

In our 2021-26 RII0-GD2 business plan, we committed to keeping our network safe and resilient to keep our customers safe from cyber and physical attacks. To ensure our continued cyber resilience, we must substantially increase our cyber security and that requires significant financial investment.

S172(1) (E) "The desirability of the company maintaining a reputation for high standards of business conduct"

The Directors' aim to ensure that the Company maintains high standards of business conduct through the support of the Company's culture and values which underpin decision making at a Board and management level.

Our previous vision and values were determined in 2005 when the company was first formed. Our vision was to be dedicated to keeping our customers safe and warm by leading the way in energy delivery. This was supported by our five values:

- **Safety first** - We take responsibility for our own safety and the safety of those around us
- **Driving performance** - Efficiency, innovation and continuous improvement will help us deliver excellence and achieve commercial success
- **Putting people at the heart** - we always work together, talk honestly and trust people with respect
- **Looking after customers** - by listening to our customers, understanding their needs and keeping our promises we can deliver an excellent service that people trust
- **Sustaining our world** - we maximise our effect on local communities and minimise our impact on the world



As we look ahead to a net-zero energy future, we recently amended our existing vision and values to reflect our organisation as we are now, and our aspirations throughout RIIO-GD2 to unite and engage our employees through the energy transition.

During the year, having undertaken an extensive programme of engagement with around 1,300 of our people working across our business, including our Board, as well as consulting external stakeholders, we have established the following purpose, vision and values:

- **Our purpose** - serving our communities by keeping everyone safe and warm.
- **Our vision** - to give our customers the best clean energy experience.
- **Our values** - safety, innovation, reliability, openness, respect

S172(1) (F) "The need to act fairly as between members of the company"

The Directors recognise the responsibility to act fairly as between members of the company. This is outlined by the Company's vision, purpose, and engagement which is supported by the Board of Directors.

These are outlined further in the points above.

The Directors' Report outlines examples of how each of the sub-committees of the Board have applied these principles in key decision-making activities.

1.1 ENGAGEMENT WITH EMPLOYEES

We will only deliver our vision if we recruit, skill and retain the best talent and develop a flexible, motivated, efficient, diverse and engaged team.

We have numerous, established channels for engaging with our people, whether they're field-based, home-based or work from our offices and depots. This year, we've also introduced a new audio channel, EnergyFM, and our digital magazine Future Proof.

Our internal communication channel SGNapp continues to successfully enable us to reach every employee - regardless of where they're based - and share multiple news stories and organisational updates each day, while also facilitating open and honest two-way communication between colleagues across all levels of the business.

This two-way approach to engaging our people is reinforced through on-site and office visits, Let's Chat sessions, employee forums and structured engagement with trades unions and pension trustees. Our senior leaders are supported to engage their teams through monthly Extended Leadership Team town hall sessions, Team Talk, safety briefings and regular 121s.

Our diversity and inclusion networks help us promote a diverse and inclusive culture through events and awareness campaigns, including D&I Partners, Let's Talk about Race and Rise Programme. Expanding our People Portal HR platform to include an online learning portal allows our people to become more engaged in their development and career progression.

We use employee surveys to help measure the progress of our engagement plans and make sure we're moving in the right direction. More than 60% of our colleagues participated in our annual employee engagement survey.

Engagement with our people ensures that employees remain informed about business strategy and developments in real-time. Corresponding feedback allows both management and the Board to ensure areas of importance highlighted by employees' perspectives are considered and reflected in future decisions and communications. The employee engagement survey results are reviewed at management, Executive and Board level. Each business area uses the feedback to develop action plans and inform its approach, which is communicated to employees and teams.

Key board decisions made in the year that impact our employees:

- Approval of refreshed purpose, vision and values
- Agreement of the fleet purchase framework for procuring new operational vehicles for our teams

1.2 ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS

Engaging with our stakeholders is fundamental not just to our day-to-day activity, but fundamental to the long-term success of our business. It's this invaluable, continual insight generously shared by our wide range of stakeholders that helps the Board shape policies and practices, best predict future developments, and react to emerging threats and trends.

We 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.

Continuous Improvement

We strive for continuous improvement in our approach to stakeholder engagement. Our longstanding six principles guide our approach to stakeholder engagement and are detailed below.

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. Our stakeholders are categorised into one of ten 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.

Stakeholder type	Key stakeholders	2021/22 Board impact areas
Internal Stakeholders SGN employs around 3,800 people across its workforce and has three shareholders.	Employees/workforce, trade unions, shareholders	Approval of refreshed purpose, vision and values Agreement of the fleet purchase framework for procuring new operational vehicles for our teams Appointments of the new board March 2022 Dividend
Debt investors SGN has a large debt provider base	Bank lenders, public debt investors, private placement investors and credit rating agencies	Committed a new £100m CPI-linked loan facility - £50m 7yr and £50m 10yr at Scotland Gas Networks plc Cancellation and settlement of mirror swaps at Southern Gas Networks plc and Scotland Gas Networks plc Transacted £670m of CPI-linked swaps at Southern Gas Networks plc and Scotland Gas Networks plc Transition of all GBP LIBOR based financing and risk management arrangements to SONIA
Customers SGN keeps gas flowing safely and reliably to 5.9 million homes and businesses, all day, every day	Domestic and industrial customers, small and medium enterprises, future gas customers	GD2 Customer Strategy approved
Regulatory bodies SGN works constructively and collaboratively with regulatory bodies such as Ofgem and the HSE.	Ofgem, HSE, Environment Agency, SEPA	Review of Supplier of Last Resort (SoLR) and impacted parties Approval of continuing investment in our Cyber Security Programme Decarbonisation projects

Local government SGN works constructively and collaboratively with both UK and Scottish Governments as well as local government	Government departments, local authorities, politicians, local energy plan partners	Review of Supplier of Last Resort (SoLR) and impacted parties Approval of continuing investment in our Cyber Security Programme Decarbonisation projects
Energy partners and industry peers SGN works in collaboration with third party energy partner providers and industry peers	GDNs/DNOs, shippers/suppliers, industry groups, IGTs/UIPs, other utilities (water, telecom, etc.)	Decarbonisation projects
Supply Chain SGN works closely with its supply chain	Appliance manufacturers, construction and engineering companies, services providers	New framework instituted for GD2 contracting
Local interests SGN works in partnership with many third-party organisations to support local interest	Community groups, energy and health services, public transport providers, housing providers	Decarbonisation projects
Environmental experts and Advisory groups SGN works closely with its environmental groups to ensure it minimises its environmental impact	NGOs, environmental charities, sustainability specialists	Decarbonisation projects
Consumer welfare agency groups/providers SGN works closely with its consumer welfare groups to support vulnerable communities	Consumer groups, charities, private and community interest groups	Decarbonisation projects