

SGN MidCo Group – Section 172(1) Statement

2022/23



SGN

Your gas. Our network.

1 Section 172(1) Statement

Section 172(1) of the Companies Act 2006 requires a Director of a Company to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole.

In doing so Section 172(1) requires a Director to have regard (among other matters) to:

- a. The likely consequences of any decisions in the long term.
- b. The interests of the Company's employees.
- c. The need to foster the Company's business relationships with suppliers, customers and others.
- d. The impact of the Company's operations on the community and environment.
- e. The desirability of the Company to maintain a reputation for high standards of business conduct.
- f. The need to act fairly between members of the Company.

In discharging their Section 172 duty, the Directors of the Company have regard to the factors set out above. We acknowledge that every decision the Board makes will not necessarily result in a positive outcome for all of our stakeholders.

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.

In the following, we have set out an example of how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) when discharging their Section 172 duty and the effect of those on decisions taken by them.

Board decision: Supporting the development of SGN's future of Energy strategy and continued investment

Section 172 factors	Directors' consideration of Section 172 Factors
Long-term impact	The UK Government plans for decarbonisation of heat in order to achieve net zero by 2050, and 2045 in Scotland. This presents both an opportunity for the Group to be influential in shaping the future of energy and a challenge. The Group must be able to articulate and execute a robust strategy based on a comprehensive analysis and evaluation of the strategic options in context of likely future states. Establishing a strategic approach and continuing to invest in the future of energy/decarbonisation pathway to achieve net zero will help transition the business to provide a clean energy experience which is key to the Group's vision.
Impact on employees	The Group is committed to providing job security for our colleagues during the energy transition and beyond. In order to do so, the Group continues to work toward proving the viability of future of energy associated projects. To further ensure the success of the strategic approach and keeping our people in mind, the Group provides regular updates on the progress of projects and developments to ensure our people are kept informed and actively encouraged to provide any feedback.
Nurturing business relationships	SGN continues to collaborate and work alongside industry peers, the government, local authorities and Ofgem to support and participate in the development of the

	UK's pathway to decarbonisation which includes developing pioneering clean energy projects to help shape the UK's future.
Impact on community and environment	<p>The UK's biggest net zero challenge is decarbonising our homes and buildings. It's the second biggest emitting sector with around 30% of our national emissions coming from around 25 million homes which are connected to gas networks across the UK. The decarbonisation of homes will impact our communities, customers and environment. Customer research helps SGN to understand what matters most to our end-users.</p> <p>Our policy and political work linked to our strategy will amplify our hydrogen demonstration projects and establish as the clear and cost-effective pathway to decarbonise heat at lower cost and disruption to end-users, at pace and scale.</p>
Enhanced corporate reputation	SGN continues to create the political space to ensure hydrogen is an option in the UK's energy transition and alongside this, that the Group's reputation is strengthened as a world-leading network in the transition from natural gas to hydrogen.
Acting fairly between members	SGN has three supportive shareholders with each having nominated representation on the Board. The Board seeks to always act fairly between shareholders and treat them equally, including ensuring that adequate procedures are in place to address any conflicts of interests that could arise and ensuring equal access to information. With this in consideration, the Board acknowledges the support from its members and also support the ongoing development of the future of energy strategy to support our customers, the community and the Government's plans in reaching net zero and longevity of the business.

Board decision: Approval of continuing investment in our Cyber Security Programme

Section 172 factors	Directors' consideration of Section 172 Factors
Long-term impact	<p>The UK National Cyber Security Strategy 2016-21 identified that cyber-attacks are growing more frequent, sophisticated and damaging. The Group, along with UK Government and Ofgem, recognises the scale of the cyber threat to critical national infrastructure, such as our gas networks.</p> <p>By not investing in our cyber resilience, we would put our Company at risk of attacks from national states, hacktivists, criminals and/or insiders. Investment is required to ensure our continued cyber resilience against ever-growing threats.</p>
Impact on employees	To maximise the effectiveness of our cyber security programme, we continue to raise employee awareness of cyber risks, and how to protect employees and our Company against cyber threats through training and awareness campaigns.
Nurturing business relationships	The Group continues to work with industry peers and government agencies to ensure our cyber security programme is robust and complies with relevant directives. The Group also receives learnings and best practice from its shareholders' portfolio companies. Following Russia's attack on Ukraine, the National Cyber Security Centre called on UK organisations (including SGN) to bolster their online defences. Ofgem has also provided a Cyber resilience briefing to the Company and its Board of Directors. The continued investment allows SGN to deliver on stakeholder expectations.

Impact on community and environment	An extreme cyber event could prevent us from distributing gas to our 6 million customers. Investment is essential to ensure our cyber defence continues to adapt and improve to the ever-evolving cyber threat landscape, as well as to minimise the risk and impact of cyber events on our core business.
Enhanced corporate reputation	We must invest in our cyber resilience through the cyber security programme to give us the best chance of mitigating the threat of attacks. An attack on our systems that impacts our ability to keep our customers safe and warm could have a catastrophic impact on our corporate reputation.
Acting fairly between members	SGN's shareholders and the Executive management team fully support the decision to continue investing in cyber security.

Board decision: Decision to accept Northern Ireland Utility Regulators GD23 Final Determination for SGN Natural Gas Limited


Section 172 factors	Directors' consideration of Section 172 Factors
Long-term impact	In determining whether to accept the GD23 Final Determination, the Directors considered the long-term impact the final determination and supporting licence modifications would have on SGN Natural Gas Limited. Taking into account the full determination, including allowances and all modifications, Directors considered it would be in the long-term interest to accept the overall package.
Impact on employees Nurturing business relationships	Directors considered the impact any appeal would have on employees and wider business relationships when considering whether or not to appeal or accept the final determination.
Impact on community and environment Enhanced corporate reputation	Directors considered whether the final determination was in the best interest of each of its stakeholder group and the wider community. In doing so, Directors considered the impact any appeal would have on the deliverability of the licence requirements.
Acting fairly between members	All shareholders were consulted and supported the decision to accept the GD23 final determination.

2 Engaging with Stakeholders

Engaging with our stakeholders is fundamental not just to our day-to-day activity, but also 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 encourage genuine two-way engagement with our key stakeholder groups. Stakeholder engagement takes place at both the operational day-to-day level within the business and at Board level, as part of an extensive engagement programme with our six key stakeholders:

- Customers
- Our People
- UK and Scottish governments and Regulators
- Communities and Environment
- Suppliers, Contractors and Partners
- Shareholder and Debt Investors



The Board takes insight from each level of engagement into account in its decision-making process. Following the lifting of Covid-19 restrictions, we conducted a mixture of face-to-face and virtual engagement to ensure that this remained inclusive and allowed for a two-way dialogue with our stakeholders.

The panels that follow set out some of the most notable ways in which we engaged with each of our six key stakeholder groups and, where relevant, the impact of that engagement on our strategy.

2.1 Our People

We employ approximately 3,800 highly skilled and dedicated people across Scotland, the south of England and in Northern Ireland.

Why we engage

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

How we engage

- SGNapp, Energy FM, Yammer and DigitalHub
- Town hall sessions, Team Talk, employee networks, CEO coffee sessions and safety briefings
- Trade union and pension trustee engagement
- Diversity and inclusion networks
- Annual employee engagement survey
- In person confidential engagement sessions between the Board and our people

Stakeholder issues raised

- Cost of living crisis and pay
- Availability of resources, vans and equipment
- Post-pandemic desire for more flexible ways of working

Outcomes of engagement on key decisions

- Conducting a benchmarking exercise on pay
- Additional investment in resourcing and procurement of essential tools and equipment, including operational vehicles
- Supporting the implementation of the flexible working model developed following the workplace review
- Working with relevant unions and stakeholders to ensure the Group operates as fair employer
- Continued reporting on performance of the stakeholder issues raised at every meeting of the Board and bi-monthly CEO Board update calls
- Continued focus and discussions on safety of our people, company culture, diversity and inclusion, employee training programs, retention and recruitment, fleet given the issues raised

Key Board decisions

- Communication and cascading of key insights and actions to the Group's leadership team
- Approval of strategic architecture to deliver excellence today and assist in the transformation of the Group for a decarbonised future
- Support to invest further in the resourcing of direct labour
- Approval of the recommendations presented following the benchmarking exercise regarding pay for our people
- Approval of SGN's Code of Conduct which additionally includes expectations regarding culture, safety, diversity and inclusion for our people

2.2 Customers

We keep gas flowing safely and reliably to 6 million homes and businesses, all day, every day.

Why we engage

Understanding our existing and future customer needs and behaviours helps us to achieve our vision of giving our customers the best clean energy experience.

How we engage

- Customer forums, focus groups and research panels
- Customer satisfaction surveys
- Our Customer and Stakeholder Engagement Group (CSEG)
- Our Vulnerability Steering Group
- Our website and social media channels

Stakeholder issues raised

- Changes in customers' expectations relating to service delivery and customer experience in the post-pandemic era
- Regulatory changes pertaining to customer satisfaction performance, guaranteed standards of service and support for customers in vulnerable circumstances
- Customer experience is impacted by behaviours of our people, quality of communication, information quality, and efficiency of processes and timescales for delivery

Outcomes of engagement on key decisions

- Investment and implementation of the customer strategy to continually improve and strive for number one in customer satisfaction across GDNs by further enhancing our responsiveness, implementing proactive measures and improved data and insight to predict where issues may occur in the future
- Approval of the annual health & safety targets for the financial year which impacts customers and other stakeholders

2.3 Communities and the Environment

We've established multiple strategic and long-term partnerships with third-sector organisations representing hard-to-reach and vulnerable groups within our communities, as well as environmental bodies.

Why we engage

Engaging with communities enables us to build our shared net-zero future by accelerating decarbonised energy solutions and minimising our environmental impact, while also ensuring the support we provide to vulnerable groups is delivering tangible benefits to those most in need of help to stay safe and warm at home.

How we engage

- Community liaison groups
- Drop-in community events and virtual workshops
- School assemblies and hydrogen education workshops
- Our Environmental Advisory Group
- Our Vulnerability Steering Group

Stakeholder issues raised

- Carbon impact associated with operating our business
- The role of green gases in the transition to net zero carbon emissions
- ESG performance and Task Force on Climate related Financial Disclosures ('TCFD') reporting

Outcomes of engagement on key decisions

- Focused discussion on shrinkage performance, and innovative activities to drive down emissions
- Continued performance reporting on SGN's operations and Repex delivery programme at Board meetings

- Conducted a dedicated Energy Futures strategy session covering hydrogen and the journey to net zero
- Development of the Environmental Action Plan and Communities investment strategy

Key Board decisions

- Approval to publish our inaugural TCFD report
- Investment in third-party partnerships with strong board support
- Approved further investment into SGN's hydrogen (H100) project
- Agreement to SGN's community support plan for winter 2022

2.4 Suppliers, Contractors and Partners

We're supported by a significant number of suppliers and contractors to keep our customers safe and warm, while our joint venture partners enable us to develop new technologies and alternative heat solutions.

Why we engage

Our suppliers, contractors and partners play a critical role in enabling us to deliver a safe and efficient service and collectively reduce our environmental impact.

How we engage

- Operational contractor roadshows
- Supplier checkpoint review meetings
- Supplier Relationship Management (SRM) programme
- Sustainability Supply Chain School

Stakeholder issues raised

- The conclusion of existing contracts including fleet and IT services
- Contractors' and suppliers' ability to provide ESG-related information
- Resourcing crisis - recruitment and retention

Outcomes of engagement on key decisions

- The development and launch of SGN's Sustainable Procurement Code has introduced a new requirement for Suppliers we contract with to adhere to the code, including greater provision of ESG-related data and information
- Introduction of a new fleet framework contract approved for provision of operational vehicles
- Development of the Group's Safety Improvement Plan which includes active engagement with the supply chain in setting clear health and safety expectations

Key Board decisions

- Approval of Modern Slavery Statement
- Approval of new fleet service providers
- Approval of a new supplier for the delivery of Service Desk, End User Computer and IT Service Management processes
- Support for suppliers delivering greater sustainability through procurement and training

2.5 Government and Regulators

We work constructively and collaboratively with both UK and Scottish governments as well as regulatory bodies such as Ofgem, UREGNI and the HSE.

Why we engage

Understanding what drives government and regulatory policy decisions helps us to ensure we deliver on our regulatory outputs to keep our customers safe and warm.

How we engage

- Senior government and regulatory engagement is led by the CEO on behalf of the Board. The type of engagement includes: bilateral meetings; attendance at round tables; government/industry working groups.

- The CEO also has oversight of formal government and regulatory consultations that has material impact on our operations and customers.

Stakeholder issues raised

- Price controls
- Supplier of last resort
- Decarbonisation of gas
- Cost of living crisis impact on fuel poor and vulnerable customers
- Cyber security
- Operational resilience and security of supply

Outcomes of engagement on key decisions

- Continued investment in our Cyber Security Programme to put in place additional precautionary measures to mitigate increasing threat levels
- Cyber Security Resilience briefing by Ofgem received by the Board
- Provision of wider support for the company for increased political engagement on decarbonisation
- Support with the development of a solution to Supplier of Last Resort (SoLR) claims arising from the financial pressures on gas suppliers

Key Board decisions

- Approved the submission of the Company's response to Utility Regulator of Northern Ireland's Draft Determination for the GD23 Price Control
- Approval of continuing investment in our Cyber Security Programme to help meet government and regulatory requirements and National Cyber Security Centre standards
- Approval to increase political engagement on key issues such as decarbonisation and consumer vulnerability
- Agreement to re-purpose the Group's unused fuel poor network extension scheme allowance to support vulnerable customers

2.6 Shareholders and Debt Investors

We have a solid shareholder base, made up of large infrastructure and pension funds, and a large and diverse debt investor base across public bonds, private placements

Why we engage

Understanding our shareholders' and debt investors' needs helps us access a cost-effective, stable, diversified financing base for the business. This also ensures we have access to low-cost debt and equity capital to support growth, which delivers long-term value for existing and future customers.

How we engage


- Annual General Meeting (AGM)
- Board representation and dedicated sub-committees
- Regular and ad hoc bilateral meetings with shareholders and debt investors
- Annual results presentations for debt investors
- Regular and ad hoc meetings with our three rating agencies

Stakeholder issues raised

- Delivery of Energy Futures initiatives
- Driving 'best-in-class' safety performance for employees and customers
- Stable, risk-adjusted investment returns for shareholders and debt holders
- Continued efficient investment

Outcomes of engagement on key decisions

- 2022 AGM attended by the Board with new shareholders. All resolutions passed.
- New Board Director appointments

- 
- Awareness that the priorities and strategic imperatives of shareholders will not all be the same. The Board aims to understand the views of shareholders and to act fairly as between members of the Group.
 - Dedicated strategy sessions for Energy Futures, RIIO - GD3 and annual safety review were held
 - Liaising with shareholders to discuss the Group's ESG and TCFD strategy

Key Board decisions

- Approved H100 Energy Futures investment
- Approved the additional resourcing plan
- Targeting stable credit ratings
- Formation of the Nomination Committee
- Appointment of Key Executives to drive strategy and the company vision
- Dividend payment
- Support and engagement with the Group's approach to the TCFD reporting requirements