

SGN MidCo Group – Section 172(1) Statement

2023/24



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.

We have set out below 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: The Group’s Vulnerability and Carbon Monoxide Allowance (VCMA) strategy to provide support to the most vulnerable customers and ensure access to a safe heat network

Section 172 factors	Directors' consideration of Section 172 Factors
Long-term impact	Following the cost-of-living crisis, there has been more need than ever to provide support to the most vulnerable members of society. The Group is committed to taking care of our customers and making a positive impact on the communities we serve. There is a strategy in place to identify vulnerable households and ensure they are able to access energy safely, efficiently and affordably for the foreseeable future and beyond.
Impact on employees	The Group is committed to being an employer our employees can be proud to work for. Taking action to support vulnerable people in the community encourages a caring culture and also allows employees an opportunity to be part of making a positive impact.
Nurturing business relationships	The Group continues to collaborate and work alongside industry peers, the government, local authorities, key charities and Ofgem to support communities and ensure a collaborative effort to provide effective assistance where it’s needed.

Section 172 factors (continued)	Directors' consideration of Section 172 Factors (continued)
Impact on community and environment	Providing support to vulnerable customers improves the lives of not just those the Group assists directly, but also those around them. Part of the commitment of the Group is to ensure that energy is accessed safely minimising risk to the community and the environment.
Enhanced corporate reputation	The Group campaigns to ensure those who need support most are prioritised and are committed to reviewing the strategy of meeting vulnerable customers' needs. Allocating business funds to support those in need demonstrates that the SGN Group has more than just profit in focus and is committed to providing safe access also.
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 vulnerable customer programme and activities to ensure the safety of the network and those that use it.

Board decision: Supporting the development of the Company's commitment to cyber resilience and digitisation

Section 172 factors	Directors' consideration of Section 172 Factors
Long-term impact	The Group has an approved programme of works to improve mitigation of Cyber Risk and has a strategy for upgrading this plan and adopting more efficient digital solutions to improve the ways of working for employees and a smoother customer experience.
Impact on employees	The Group is committed to providing job security for our colleagues and a safe environment for them work within. As cyber risks grow and technology advances, it is important that all mitigations are taken to ensure the cyber safety of SGN colleagues and make improvements to the digital tools they use in completing their roles.
Nurturing business relationships	The Group continues to collaborate and work alongside industry peers, the government, experts and Ofgem to make improvements to cyber security and the digital tools available within the industry. Third-party experts are particularly key to this area and have been involved in providing information and assurance to both the management teams and the Board of Directors.
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	The Group endeavours to provide efficient and effective service to customers and the wider community and a cyber-attack or the use of sub-standard digital tools could cause significant disruption to doing so.

Section 172 factors (continued)	Directors' consideration of Section 172 Factors (continued)
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 SGN Board acknowledges the support from its members and also support the ongoing development of the strategy to improve cyber resilience and upgrade digital tools and software.

Board decision: Supporting the continued prioritisation of Safety with the development and introduction of the PROTECT framework, underpinned by SGN's Life Saving Rules

Section 172 factors	Directors' consideration of Section 172 Factors
Long-term impact	Safety is critical. It's the Group's number one priority to ensure we have a zero-harm business and that everyone goes home safe and well every day. It's an integral value and is central to all our decision making and our drive for business excellence. To continue this prioritisation, the Group has introduced the PROTECT framework and Life Saving Rules, which is used in all aspects of our work, now and for the future.
Impact on employees	PROTECT and the Life Saving Rules was created in partnership by direct interaction and input from employees on what matters to them (as well as our other stakeholders). Achieving zero-harm is a commitment shared by all employees where each takes individual ownership of Safety. To further ensure the success of this approach and keeping our people in mind, the Group provides regular PROTECT updates and training to ensure our people are kept informed and can confidently make their commitment visible on a daily, even hourly basis, through their actions and words. Helping to ensure that the right option and the safe option is always chosen for every job and task.
Nurturing business relationships	The Group continues to collaborate and work alongside industry peers, the government, local authorities and our regulators to ensure safety is at the top of our agenda.
Impact on community and environment	One of three core principles of PROTECT is that any and all harm to people, property and the planet is preventable. Therefore, our Life Saving Rules aim to ensure that all of the Company's activities are harm free for our customers, communities and the environment by making the appropriate risk assessments, using the right tools for the job, being competent and by following policies and procedures.
Acting fairly between members	SGN's 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. With this in consideration, the SGN Board acknowledges the support from its members and also supports our safety value being SGN's top priority along with achieving zero-harm through the PROTECT initiative and Life Saving Rules.



Engaging with Stakeholders

We believe we make better decisions for our customers and stakeholders when we understand their needs and priorities.

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 six key stakeholder groups to gain valuable insight and expertise to help inform our decision-making. 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.

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.

1.1 Our People

We employ approximately 4,500 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

- Employee Engagement sessions and informal discussions with employees and management
- SGNapp, Energy FM, Viva Engage and Future Proof digital magazine
- Town hall sessions, Team Talk and safety briefings
- Trade union and pension trustee engagement
- Diversity and inclusion networks
- Annual employee engagement survey

Stakeholder issues raised

- Employee compensation and review of LTIP, STIP and KPIs of Executive
- Availability of resources, vans and equipment
- Diversity throughout the Company in terms of gender, ethnicity, disability and age

Outcomes of engagement on key decisions

- Continued promotion of, and encouragement to use, the ‘Safe to Speak Up’ mechanism across the business, greater focus on recognition and appreciation of great work, increased focus on people management within the organisation and provision of more development opportunities for our people
- Remuneration benchmarking exercise and approval of strategy to implement recommendations
- Additional investment in resourcing and procurement of essential tools and equipment, including operational vehicles.

Key Board decisions

- Communication and cascading of key insights and actions to SGN leadership team
- Approval of strategic architecture to deliver excellence today and assist in the transformation of SGN for a decarbonised future
- Transformation Plan to improve ways of working throughout the business

1.2 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

- Regulatory requirements 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

- We have further invested in customer experience and to ensure the key areas of importance are focused on
- Utilisation of digital channels including live chat and two-way SMS has enabled more efficient resolution, and improvements in service
- Increase in vulnerable customer assistance programmes and renewed commitment to keeping everyone in our communities safe and warm

Key Board decisions

- Continuation of vulnerable customer assistance programme.
- Continuation of a tailored customer service strategy to further enhance responsiveness, proactive measures and improve data and insight to predict where issues might occur in the future

1.3 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 locally, regionally and nationally 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

Outcomes of engagement on key decisions

- We have entered into a commercial partnership with Acorn BioEnergy on the development of a biomethane injection hub
- Biomethane is currently producing c.19TWh of biogas in the UK, which is enough to heat 1.6 million homes and has the potential to provide enough gas to offset natural gas demand of 6.4 million homes, reducing emissions by 6%.

Key Board decisions

- Continuation of the H100 Fife Project
- Approval of continuation of LTS Futures Project
- Development of relationship and entry into contract for the design and build of a biomethane injection hub at Banbury site

1.4 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

Key Board decisions

- Approval of Modern Slavery Statement
- Approval of new PE pipe framework agreement
- Approval of a new supplier for the delivery of Service Desk, End User Computer and IT Service Management processes

1.5 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
- Decarbonisation of gas
- 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 and provision of deep dive with the Board from external expert.
- Provision of wider support for the Company for increased political engagement on decarbonisation

Key Board decisions

- Approval of continuing investment in our Cyber Security Programme
- Approval to increase political engagement on key issues such as decarbonisation and consumer vulnerability
- Approval to improve various policies supporting compliance throughout the year.

1.6 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 and bank lending.

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

- AGM and Annual Report
- Rating Agency Reports
- Financial Reports, Dividends and credit ratings
- Energy Futures and Pathway to decarbonisation
- ESG

Outcomes of engagement on key decisions

- 2023 AGM attended by the Board with new shareholders. All resolutions passed.
- New Board Director appointment
- 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.
- New Independent Non-Executive Director Appointment.

Key Board decisions

- Appointment of new Board Directors
- Dividend arrangements
- Investment performance reviews and updates
- Update to Revolving Credit Facility