



## Company Governance

### Background

South Hook LNG Terminal Company Ltd (the “Company”) operates one of Europe’s largest Liquefied Natural Gas (“LNG”) receiving and regasification Terminals at Milford Haven, West Wales, UK. Ground-breaking in terms of its size and strategic importance, the Terminal is a strategically significant link in the world’s first fully integrated Supply Chain that stretches from the gas fields off the north east coast of Qatar to the deep waterway of Milford Haven. LNG is delivered to the Terminal where it is regasified into natural gas for delivery to UK market on behalf of Terminal Users. The safe and reliable regasification of natural gas is the Company’s primary purpose.

The Terminal was constructed in two phases; Phase I was successfully commissioned during 2009 and Phase II was brought online in early 2010. The Company has the capability of offering Terminal Users the facility to receive 15.6 million tonnes per annum of LNG together with a regasification service capable of delivering up to 650 GWh per day of natural gas into the UK market.

The Company has a Terminal Capacity Agreement (“TCA”) with South Hook Gas Company Ltd (the “Base User”), a related party, for the use of this regasification capacity under a twenty-five year agreement. Arrangements under this agreement commenced in March 2009 and is underpinned by a Regulated Third Party Access (“RTPA”) exemption granted by Ofgem under the Gas Act 1986.

The activities of the Company are governed by a Joint Venture Agreement with its Shareholders whose interests in the Company are as follows:

Qatar Petroleum LNG Services (QG II) Limited	67.50%
ExxonMobil Qatargas (II) Terminal Company Limited	24.15%
Elf Petroleum UK Limited	8.35%

### The Board’s approach to section 172(1)

Collectively the Board of Directors (the “Board”), appointed by the Company’s Shareholders are responsible for the effective oversight of the Company and have implemented a governance structure to support the long-term success of the Company to deliver sustainable shareholder value. Responsibility for the day-to-day management of the Company is delegated to a shareholder appointed General Manager, who plays a key role in ensuring the Company is operating in accordance with the direction set by the Board. The Board works closely with the General Manager to determine the Company’s strategic direction and objectives, business plans, and to embed the desired culture throughout the organisation.



The key means of embedding this culture is through the Company's Board approved Code of Business Ethics policy, along with a number of supporting policies and procedures. These policies describe the Company's desire to carry out its business in accordance with the highest ethical standards, and emphasise the importance of upholding ethical principles such as honesty, integrity, respect, reliability, fairness, and openness.

The Company has in place a controls framework to ensure proper functioning of the Company's governance arrangements, and is overseen by an Audit Committee.

The Board acknowledges that the long-term success of the Company is critically dependent on the way it works with a number of important stakeholders. Key stakeholders are considered in their decision-making, and in doing so, ensures the directors duty is discharged under section 172 of the Companies Act 2006.

### **Stakeholder engagement**

The Company's focus on key stakeholder relationship management is set out below, and how this engagement is reported up to the Board to support its decision-making. A significant amount of stakeholder engagement is managed locally, with an overview of developments reported to the Board on a regular basis. In most cases, this will be in the form of periodic updates from the General Manager.

### ***Employees***

The Company aims to attract and retain the best human resources through its recruitment and training opportunities so that its people operate at an optimum level and contribute to achieving the goals of the business. The Company strongly believes that motivated and competent people are vital to the success of the business in achieving its Vision, and upholding its Values.

The Company is committed to equal opportunities for all, free from discrimination and harassment. The Company values the contribution of all employees. All job applicants and employees, customers, visitors or contractors will receive equal treatment regardless of sex, race, disability, sexual orientation, religion or belief, age, colour, marital status, trade union membership, nationality or ethnic origins. Within the Company, applicants and employees will be recruited, selected, trained and promoted on objective grounds, i.e. on the basis of their abilities to contribute most effectively to the success of the Company. Wherever possible, the Company will assist disabled employees to enable them to work for the Company and maximise their contribution and performance.

Engagement with employees takes many forms including surveys, formal and informal meetings and general updates. Management ensure staff are kept up to date on the Company's performance, plans and objectives together with the potential impacts on them as employees. The Company operates an employee forum comprised of representatives from across the organisation, and chaired by the Human Resources Manager. This forum provides a two-way communication mechanism between the Company and its employees.



The Board receives regular updates on employee matters, engagement, and performance against key measures.

The Company undertook an employee engagement survey during the year, with positive results showing improved engagement since the last survey. The key focus of engagement during the year has been enhancement of social and well-being initiatives with a particular focus on physical and mental health.

### ***Suppliers***

The Company looks for suppliers and contractors with proven experience in the Oil and Gas industry to provide a range of goods and services. The Company has developed business relationships with both large international suppliers, and a number of smaller local suppliers.

The Company relies on its suppliers to provide quality goods and services in order maintain the highest standards of safety and reliability in meeting the needs of Terminal Users.

The Company is committed to having professional and ethical relationships with its suppliers. The Company clearly articulates its stance on anti-corruption, anti-bribery, and modern slavery with all suppliers ensuring the highest standards of ethics and transparency are maintained.

The Company engages with existing suppliers through regular business-level meetings. The Company has fair and auditable processes with respect to tendering of contracts and engaging with new suppliers.

The Company acknowledges the importance of prompt payments to suppliers, publishing its payment practice report, as approved by a member of the Board, on a six-monthly basis.

The main topic of engagement during the year has been around ensuring arrangements are in place for the continued supply of critical spares and services in light of the UK's withdrawal from the European Union.

### ***Community***

The Company has a corporate responsibility to operate safely and effectively within the local community. Building strong relationships within the local community is essential to maintaining the Company's licence to operate.

The Company continues its active engagement programme with community groups and voluntary projects across Pembrokeshire. The programme echoes the core values of the Company within the community, supporting the development in the areas of safety, the environment, education and wellbeing.



The Company continues its partnership with Pembrokeshire Association of Voluntary Services, supporting local community initiatives, concentrating its financial assistance in the communities across Pembrokeshire, through its Community Fund.

In addition, the Company supports community groups across Pembrokeshire through staff volunteering, matched funding, and volunteering time recognition. The Company hopes to bring about long-term sustainable and measurable benefits to the communities of Pembrokeshire through the engagement of staff with local community projects.

The Company has in place a Community Liaison Group, where elected representatives from the community meet with the Company's Management on a regular basis to share relevant information and receive feedback from the wider communities or organisations that they represent.

### ***Environment***

The Company is committed to being a considerate and environmentally focused neighbour and takes its environmental responsibilities extremely seriously. The Company operates in accordance with a comprehensive suite of Environmental Permits, closely regulated by Natural Resources Wales (NRW). Meeting the requirements laid down in the Environmental Permits is key to maintaining both the Company's licence to operate, and its reputation for upholding the highest ethical standards of business.

The Company continually monitors its operations and any potential impact on the surrounding environment and wider community. The Company works with experts in the field to identify techniques on how best to mitigate any impact.

A large section of the Terminal is designated as a Nature Conservation Area, which falls within the Pembrokeshire Coast National Park. The Company works closely with the Pembrokeshire Coast National Authority (PCNPA) to preserve the undisturbed nature of this protected piece of land. Human access is limited to encourage priority species to inhabit and thrive.

### ***Customers***

The Company has in place a twenty-five year TCA, which commenced in March 2009, with the Base User for the full use of the regasification capacity at the Terminal. Proactive engagement with the Base User is crucial to ensure the Company is able to meet the obligations set out in the TCA, and ensure the efficient functioning of the value-chain, to deliver long-term shareholder value. There are regular communications between the Company and the Base User through both formal and informal meetings, at the business level.

### ***Regulators & Government Organisations***

The Company has regular interactions with a number of regulators and government organisations including the Health and Safety Executive (HSE), NRW, Office for Gas and



Electricity Markets (OFGEM), Department for Business, Energy and Industrial Strategy (BEIS), Department for Transport (DFT), and Her Majesty's Revenue and Customs (HMRC).

Maintaining a transparent and constructive relationship with all regulators is critical to the ongoing success of the Company, and delivering shareholder value. The Company takes a proactive approach to engagement with these stakeholders through regular meetings and communication in respect to both current and future business developments.

The Board is regularly updated with any relevant information with respect to the business level interactions with regulators via periodic briefings, and during face-to-face meetings. As part of the Company's tax compliance framework, the Board annually approves a tax strategy.

### ***Debt investors***

The construction of the Terminal was partly funded under a project financing arrangement, and the Company is subject to ongoing loan compliance obligations.

Meeting the ongoing compliance obligations of loan covenants ensures the Company is able to meet its capital management objective of maintaining adequate capital ratios, whilst maximising shareholder value. In particular, compliance with relevant debt service funding and maintaining adequate interest cover is a key part of the Company's ability to meet its capital allocation objective of payment of dividends.

The Company proactively engages with its debt investors through an Inter-Creditor Agent, providing all relevant reporting and responding to any requests for information in a timely manner.