

Corporate Governance Statement

EDF Energy Nuclear Generation Limited

(2021)



Statement approved by the Board of Directors on 22 June 2022 as part of the Company's Consolidated Annual Report & Financial Statements (2021) and signed on its behalf by David Tomblin, Director, on 8 July 2022.

PART 1

INTRODUCTION

The Company is not required to comply with the UK Corporate Governance Code but seeks to apply best practices from the Code using the Wates Principles for Large Private Companies (the **Wates Principles**). This approach allows the Company to maintain robust corporate governance arrangements whilst continuing to support the corporate governance practices of its parent company, EDF SA Group (a listed company on the Euronext Paris), with its compliance obligations under the French Afep-Medef Code.

The Company purpose and strategy is set out in the Strategic Report and published on the EDF Energy (**EDF UK**) website. The purpose is summarised as helping Britain to achieve Net Zero. The purpose and strategy are guided by: i) feedback from stakeholder engagement; ii) consideration of the long-term impact of strategic decisions on the long-term objectives of the Company and the wider EDF UK Group, being EDF Energy Holdings and its subsidiaries (the **Group**); and iii) the environmental impact of those decisions.

The purpose is a UK articulation of the EDF SA Group **Raison d'être**. It underpins strategy setting and decision making by the Board and ensures activity within the Company is compatible with achieving these objectives in order to promote long term success.

To ensure strong corporate governance practices are maintained, the Group acts in accordance with multiple overarching internal policies that are tested on an annual basis to satisfy the French Securities Markets Authority (**Autorité des Marchés**) Listing Requirements.

This statement will explain what arrangements the Company had in place during 2021 to maintain its strong corporate governance culture and support delivery of the purpose and strategy, which, for ease of review, have been aligned with the Wates Principles to ensure consistency with the principles of formal codes of governance.

The Company operates an effective board that has developed and promoted the Company purpose and ensured the Company values, strategy and culture align with that purpose.

EDF is proud to be Britain's biggest generator of zero carbon electricity¹ and in order to help Britain achieve Net Zero EDF intends to lead the transition to a decarbonised energy system across its seven business areas.

The Company's principal activity is the generation and sale of electricity and it supports the Raison d'être by generating low carbon electricity and maximising the value of the existing generation fleet to rebalance the UK generation mix.

To ensure the strategy, objective and purpose of the Company is articulated and implemented throughout the Generation business, the Group has a communications team to support the Company with issuing tailored communications to employees. Public and political opinion with regard to EDF UK is monitored and the team frequently engages with political parties and other stakeholders. The social media team also has an active listening, response and monitoring strategy to gauge market perception of delivery of the strategy of the Company.

The Group conducts its EDF Group Employee Engagement Survey, 'My EDF', annually which gathers the views and opinions of all employees with regard to their work situation, as well as their impression of the relevant company they work for, at local level or EDF SA Group-wide. It identifies areas of satisfaction and opportunities for improvement in order to help establish priorities within the Group and to implement action plans within the different teams. The results of the My EDF survey are used to support the setting of company strategy, realign company purposes / values (where identified as being required) and define individual team objectives to help deliver the 2030 strategy.

¹ UK Fuel Mix disclosure information, published by Government Department BEIS, recognises electricity from wind, solar and nuclear fuel produces zero carbon dioxide emissions at the point of generation.

The Company's generating fleet in the future will be very different from today. The continued long-term operation of Sizewell B, coupled with the Group's operation of Hinkley Point C and eventually Sizewell C which was recently backed by government funding to support the continued development of the project means it is crucial to have the right people to ensure safe, reliable generation from the Company's and the Group's future fleet. At the same time, the Company's AGR and coal stations are moving towards decommissioning over the course of this decade and the organisation and the way it supports the fleet will need to evolve. The Company also needs to ensure it is ready to manage decommissioning of the AGR power stations following their closure, noting Dungeness B moved into defueling phase of operations in 2021 and Hunterston B and Hinkley Point B are due to follow in 2022.

The business is undergoing a transformational change, on a scale unprecedented in the Company. To guide this change, the Company ensures that its activities are in line with its vision and strategic priorities which then inform and guide the business as it refocuses on the challenges and opportunities ahead. The ongoing transformation is preparing the Company and the generation business in the Group in the long term, as a highly skilled business ready to deliver on Britain's ambition to tackle climate change with low carbon electricity.

Generation's strategic priorities focus on three activities:

- **Generate:** Delivering operational excellence to maximise safe, reliable generation of the Company's existing nuclear and thermal assets;
- **Decommission:** Safely and efficiently defueling the AGRs and decommissioning the coal stations;
- and
- **Transform:** Transforming the business to maximise the existing and future value of the Company's unique capability.

The Company has an effective board composition, with an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity and expertise to make a valuable contribution. The size of the board is appropriate to the scale and complexity of the company.

The Board has an obligation to discharge all of the Company's statutory and regulatory requirements as a holder of a Nuclear Site Licence granted by the Office for Nuclear Regulation. Additionally, the Board is required to set the strategy established within the Group, approve plans to achieve objectives in furtherance of the strategy and monitor the Company's performance against its objectives. The Board receives standing reports at each meeting to monitor business as usual activities and current trends, whilst also focusing on forward strategy and discussing ad-hoc matters of focus as they arise. The main areas of responsibility are as follows:

- To discharge the duties of the nuclear site licensee;
- To ensure nuclear safety and security in discharge of its licensee obligations;
- To monitor the safety and operational performance of the business;
- To monitor health, safety, security and environmental protection policies;
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- To monitor compliance with Government and regulatory requirements;
- To monitor the Company's organisational structure and approve modifications;
- To approve contributions to the Nuclear Liabilities Fund and the budget for decommissioning works;
- To approve all policies and strategies applicable to the Company's business;
- To approve the acquisition and disposal of the Company's assets;
- To receive and approve capital investment programmes;
- To ensure that changes to Company organisation, resources and processes are properly justified and managed; and
- To review power station security arrangements.

To assist with the above responsibilities, the Company, together with EDF Energy (Thermal Generation) Limited, has management teams for: Nuclear Generation; Thermal Generation and Nuclear Decommissioning, which are responsible for the day-to-day management and comprise members of the Company's Executive Team.

The directors of the Company have given careful consideration to the size and structure of the Board, in order to meet the strategic needs and challenges of the organisation. There are regular Board evaluations undertaken with input from the Board's Independent Advisors. Structurally, the business of the Group is transacted at either operational Board level or at a holding group Board level. In addition, the Group has adopted and acts in accordance with a Financial Authority Limit (**FALs**) framework which means contracts and transactions up to a certain financial threshold are not required to be presented to a board for approval (unless otherwise required).

The composition of the Company's Board as at 31 December 2021 includes eight Executive Directors, three Independent Advisors and other attendees bringing oversight from other aspects of the business including HR, Legal and Technical Client Organisation. All directors appointed have a strong background in the relevant sector(s) The Company's Board has recognised a need to improve the diversity on the Board but the roles in which the Directors are appointed are sufficient to satisfy the need of this particular Board, having strong knowledge and expertise of operations in order to discharge any decision making.

All changes to the Board composition of the Company, particularly appointments, are approved in accordance with the 'Politique Gouvernance des filiales' policy mandated by EDF SA for the worldwide EDF SA Group before being approved by the Company.

On appointment, Directors are provided with the EDF Directors Training and Induction Manual which outlines their obligations as a Director, including those in the Companies Act 2006, and EDF's corporate governance framework. Directors are able to participate in bespoke training and are encouraged to update their skills and knowledge of the Group by meeting with senior management, visiting sites (such as the power stations), undertaking external training and engaging with stakeholders across the Generation business and its operations.

To ensure that all conflicts of interest are identified and duly authorised, newly appointed directors are required to complete a Conflicts of Interest Questionnaire and sign a declaration to this effect. This information is collected by the Company Secretary. Directors are aware that any new conflicts arising thereafter must be declared and authorised in advance by the board of directors or by the shareholders. In addition, at the start of every board meeting directors are asked to declare the nature and extent of their respective interests in the matters tabled or relevant to the Board.

The Office for Nuclear Regulation undertakes periodic reviews of the Board's governance arrangements through observations of Board meetings and through meetings with the Board's Independent Advisors. The Board also receives reports from the Company's Independent Nuclear Assurance function which enables the Company to meet its obligations to have a strong internal regulator and the Nuclear Safety Committee which acts on its behalf in respect of Licence Condition 13. In addition, the Company receives further assurance with regards to its governance arrangements and performance from Lloyd's Register Quality Assurance Reports and from the oversight of the Nuclear Safety Review Board.

The Company is also part of the World Association of Nuclear Operators (**WANO**), which is a nuclear industry body established to ensure standards of nuclear safety governance across the nuclear industry, including processes, procedures and behaviours. The Company shares in their good practices around governance and organisational effectiveness. Additionally, the Company receives peer reviews from WANO and sends employees into WANO which enables learning and best practice to be shared. The Company also adheres to the standards set by the International Atomic Energy Agency in respect of nuclear safety, design authorities and safety management principles.

The Company is also assessed by the Inspector General for Nuclear Safety and Radiation Protection, which produces annual reports on nuclear safety and radiation protection performance within the Group. The report confirms whether the Company is operating within the Group's nuclear safety policy and is published annually for analysis by the public.

The board and individual directors have a clear understanding of their accountability and responsibilities. The Company's policies and procedures support effective decision-making and independent challenge.

The Company's constitutional documents set out the authority, role and conduct of Directors. As Executive Directors, the Board and individual Directors understand their fiduciary accountabilities and responsibilities to the Company in addition to those of the wider Group. As at 31 December 2021, the Board was subject to appropriate independent challenge from three Independent Advisors and a Shadow Board.

The Directors receive regular, updates on all aspects of the Generation business ahead of each Board meeting and are confident

in the integrity of the information used for decision-making. This is dictated by the Company's internal procedures relating to financial reporting, key performance indicators (**KPIs**), workforce data, environmental data, stakeholder engagement feedback and consumer data. Information provided to the Board as part of its Board pack or appended to any written resolution of the Board is verified by the respective Executive Team and/or Senior Leadership Team member before presentation or circulation to the Board.

The Board recognised its limited level of diversity and created a Shadow Board in response to this issue. The Shadow Board is made up of individuals from the Company's Early Talent and Diversity and Inclusion groups. The Shadow Board reviews the Board pack ahead of the Board meeting and a representative attends the Board meeting to provide feedback and help to inform discussions. This has provided the Board with an opportunity to take on more views from a diverse selection of the workforce, thus demonstrating the Board's commitment to diversity and inclusion.

Key financial information is collated from SAP, the Group's accounting system. The Group's finance function is appropriately qualified to ensure the integrity of this information is provided with the necessary training to keep up to date with regulatory changes.

The Company uses Financial Authority Limits (**FALs**) (as detailed in the Group Corporate Governance Policy) and contract signatory authority mechanisms to control and provide oversight over the various financial commitments it enters into. The Company formally adopts the FALs annually. There are set principles of delegation for each high-level authority.

In addition, the Group Audit Charter provides internal authority to independently assess the effectiveness of risk management, control and governance processes by the Company and wider Group. The findings of any such review are reported to the Audit Committee of the EDF Energy Holdings Limited Board and presented to the Company to discussion.

The board promotes long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risk.

The Company has stringent risk management culture through policies, reporting and internal audit and assurance enabling Directors to make robust decisions concerning principal risks to the Group. The Group has developed a Risk Management, Internal Control, Business Continuity and Crisis Management Policy which defines key standards the companies within the Group are required to achieve. The Company self-assess against these standards, and the Group is audited against them to provide assurance that group companies have an appropriate risk culture.

Control testing against each Group policy is carried out at least annually through the Internal Control Self-Assessment process. Actions are identified following completion of the results, where required, to facilitate continuous improvement across teams. This presents an opportunity for the directors to consider any emerging risks and provides a forum to devise solutions to minimise the impact of those risks. The results are then reported to the EDF Group Risk department to support EDF SA's compliance with the French Afep-Medef Code.

The Company has processes in place to ensure that all significant risks are effectively managed, at an appropriate level in the business, ensuring risks are 'communicated and escalated' and 'trends and interfaces are monitored' providing visibility of risks from a local level (power station or business unit) right through to company level (the '**Golden Thread**'). As the significance of the risk increases so does the level of communication and escalation in order to ensure significant risks are appropriately reviewed and stress tested, supporting effective decision making by key stakeholders at the appropriate level in the business. Risk reviews on progress against delivering mitigation plans and controls are conducted on a regular basis. On a quarterly basis, the business-level risk committees conduct a holistic review of the significant risks as well as the linkages to other risks challenging the effectiveness of the deployed risk strategies. Membership includes senior management from across the organisation providing diverse, independent and intrusive challenge of risks.

The day-to-day management and the implementation of strategies agreed by the Board are delegated to the relevant Director(s), who are also members of the Company's Executive Team. The reporting structure below board level is designed so that decisions are made by the most appropriate people in a timely manner. This is underpinned by the Management System Manual (**MSM**) of which the processes within detail the internal procedures in relation to all aspects of the business. An annual assessment of the

controls of each process within the MSM is undertaken to ensure they remain fit for purpose at site and fleet level. There are periodic deep dives on the performance of the company processes and key performance indicators are monitored through both line management and functional oversight. The annual process control effectiveness assessments are reviewed and challenged and action plans to address gaps in controls are monitored on a regular basis. The overall outcome of the annual process control assessment is presented to the Company's Executive Team and is submitted to EDF Energy Limited for information.

During the Covid-19 pandemic the Company set up various internal teams including the Incident Management Team and a Pandemic Working Group. At the outset of the pandemic the Board communicated to these groups that the overriding priority throughout the pandemic was to protect the Company's employees, its Customers and those in the communities that EDF UK operates in. This message has in turn influenced the day-to-day decisions taken within the Company to manage the influence of the pandemic, ensuring business continuity underpinned by a focus on promoting the wellbeing and safety of the Company's internal and external stakeholders.

Key decisions taken to maintain the critical national infrastructure in the UK during the pandemic through ensuring safe and reliable electricity generation:

- Clear guidance to employees on COVID related sickness, signs and symptoms and supportive procedures to ensure that symptomatic individuals stayed at home.
- Early decision to install thermal imaging cameras at all of our sites.
- Early proactive decision to purchase Radox Testing machines, later complimented with the procurement of two LAMP trailers to enable high volume fast PCR testing of staff supporting outages.
- Establishment of Covid Hubs to coordinate testing and follow up with track and trace activities, ensuring individuals are requested to isolate quickly if identified as a contact.
- Clear definition of 'A' contacts for track and trace, with the additional 'B' contact definition which is above and beyond the government requirements.
- Ongoing advice, guidance and reporting support coordinated from the COVID Hubs.
- Enhanced employee management system (myHR) to track testing, vaccine, COVID related sickness to enable informed decision making.
- Clear guidance to employees on support during school closures.
- Procurement of approx. 2000 laptops to enable staff to work from home where possible.

In 2020, the Company provided clarity on the end of generation dates of both Hunterston B and Hinkley Point B. The sub-committee of the Executive Team that supported the process by which the end of generation date for these power stations then continued to support the Company to bring clarity to the end of generation dates for the remaining AGR Stations. In 2021 this sub-committee made a recommendation to the Board (when it had sufficient technical evidence to support any decision) to end operations at Dungeness B and move that station into the defueling phase of operations. The sub-committee also made recommendations to the Board in respect of the lifetime strategy for the remaining AGR Stations which were then subsequently confirmed by the Board.

In 2021, the Company also entered into updated arrangements with the Secretary of State for the funding of the decommissioning programme and agreed the transfer the AGR Stations to Magnox shortly after an AGR Station has received its fuel free verification.

The board promotes executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

The Group's executive remuneration structures and policies are set and implemented within the wider framework of EDF Group policies for Senior Leaders and operate under the supervision and governance of the Remuneration Committee of the main governance board of the Group, EDF Energy Holdings Limited (EDF Energy Remuneration Committee). Although the purpose of

the EDF Energy Remuneration Committee is to provide a forum for considering the level and composition of the remuneration of the EDF Energy Holdings Board and Executive Team, its responsibilities are wide and go beyond that. One of its responsibilities is to make recommendations about the overall remuneration policy of the Group having due regard to the practices adopted by comparator UK companies and the need to attract, retain and motivate employees of the experience and calibre required, including detailed elements of the remuneration packages, pension arrangements and service contracts for the above group.

The Company is committed to building a sustainable future for all employees. Honouring this commitment means fostering a work environment where everyone is rewarded fairly for the work they do and the contributions they make to the Company's success. The Group is also an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit. The Company publishes its annual Gender Pay Gap report on its website.

Directors foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

The Company's key stakeholders, and the ways in which it engages with them, are set out in the Strategic Report.

Good governance and effective communication are essential to deliver the purpose, the Raison d'être of EDF SA, and to protect EDF's reputation and relationships with all stakeholders including shareholders, customers, employees, suppliers, regulators and the local communities.

The Board is committed to social responsibility, community engagement and environmental sustainability which is demonstrated, through the sustainable business roadmap (available online). The roadmap showcases our commitment to operating as a responsible business and continued engagement with internal and external stakeholders.

The Group engages, informs and consults with its employees on matters affecting them and has regard to their interests in decision making. Employees who possess a diverse range of talents and perspectives, that feel engaged in their roles, is fundamental to the long-term success of the Company.

In the summer of 2020, EDF UK launched its Everyone's Welcome vision for being a great place to work, where everyone is welcome. Following this launch and engagement with our employee networks, EDF UK issued a Standards of Behaviour statement in September 2021. This statement applies to everyone, makes it explicitly clear that our people deserve a respectful working environment and that we will not tolerate any behaviour that is not in line with our Everyone's Welcome vision.

Employee engagement mechanisms include:

- Formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the Group intranet.
- Trade Union & personal contract holder structures - Company Council, European Works Council, Corporate Social Responsibility Forum, Strategy meetings, and business unit specific forums.
- Employee networks sponsored by senior management to provide diverse and inclusive environments for employee support, feedback and comment. They help build cultural awareness and understanding of identity, and how different demographic groups face different challenges.
- Diversity and Inclusion Strategy Group (**DISG**) chaired by the CEO reviews Group strategy and actions taken to promote Diversity and Inclusion (**D&I**). It discusses items raised via the employee networks to guide policy development within the Group..
- Regular employee surveys where senior leaders gather feedback on employee wellbeing which inform policy, for example the EDF Group Employee Engagement Survey 'My EDF' discussed in further detail above at page 3.

Throughout the Covid-19 pandemic, the Company issued regular communications to employees to ensure awareness of the actions taken by the Company and the reason behind them. The protection of EDF employees has remained of paramount importance to the Company as the pandemic continued throughout 2021 and concern for the safety of employees has remained at the forefront of the Board's mind in decision making.

The Company has faced serious challenges during 2021 due to the impact of the current UK energy market crisis. The Board advised that the mental health and wellbeing of employees, particularly those in customer facing roles, should remain a top priority for management.

The Company and wider Group proactively engages with relevant external stakeholders including trade associations (such as Confederation of British Industry, Energy UK, Nuclear Industry Association and Renewable UK, etc). Directors and other attendees share feedback from these external discussions with internal stakeholders to support decision making and facilitate transparency.

The Company maintains four levels of interaction with the Office for Nuclear Regulation. These meetings, coupled with workshops when required, take place on a regular basis and ensure effective communication between the Company and its regulator. The Company adopts a similar approach to its engagement with the Environment Agency and the Scottish Environment Protection Agency.

In addition, as part of its work on the future defueling and decommissioning of its AGR power stations, the Company is proactively engaging with the Department for Business, Energy and Industrial Strategy, the Nuclear Liabilities Fund and the Non NDA Liabilities Assurance department.

The Company takes a proactive approach to communications with the public, regulators and stakeholders through communications on its website. The Company also engages with communities local to its power stations through its Site Stakeholder Groups and uses this as an alternative forum for communications. It is essential that the Company provides a range of opportunities to engage with the people in local communities, from constituency MPs and MSPs to local schoolchildren. Each nuclear site has a fully-equipped visitor centre and hosts school visits and station tours by appointment. The Company also hosts community meetings throughout the year when the station director provides information about operations and takes questions from attendees. The Company ensures that it keeps in touch with the community between meetings and issues written updates from the station director as required. The Company also participates in local careers events and sponsors the Cheltenham Science Festival to help encourage young people to study STEM subjects. Employees select an employee charity every three years and from 2020 that is Prostate Cancer UK. Each site works with local branches of this and other local charities to raise funds and help their cause.