

# S.172 Directors Duties Statement

## EDF Energy (Thermal Generation) Limited

### (2020)



**Statement approved by the Board of Directors on 29 June 2021 as part of the Company's Consolidated Annual Report & Financial Statements (2020) and signed on its behalf by David Tomblin, Director, on 29 June 2021.**

#### INTRODUCTION

The Company is not required to comply with the UK Corporate Governance Code but seeks to apply best practices from the Code as appropriate to the Company and aligned with the corporate governance practices of the EDF SA group. Going forward it will use the Wates Principles for Large Private Companies as a benchmark for its corporate governance practices. This approach ensures the Board can demonstrate how it makes decisions for the long-term success of the company and its stakeholders and also how the Board ensures the Company and wider EDF Energy Group (the **Group**) complies with the requirements of Section 172 of the Companies Act 2006 (**s.172**).

The Directors are fully aware of their responsibilities to promote the success of the company in accordance with s.172 of the Companies Act 2006. This statement shall illustrate how the Directors of the Company have had due regard to those responsibilities and fulfilled their duties under s.172 with the level of disclosure being consistent with the size and complexity of the business.

For financial year ending 2020, the Company continued to act in accordance with the robust corporate governance arrangements, outlined further in this Statement, which are embedded across the Group. The Company also continued to support its ultimate parent company, EDF SA, a listed company on the Euronext Paris, complying with its obligations under the French Afep-Medef Code.

Notwithstanding the ongoing support to EDF SA, the Company takes its own approach to corporate governance very seriously, which is demonstrated through the company culture and behaviours adopted across the Group. To ensure strong corporate governance practices are maintained, the Company acts in accordance with 13 overarching internal policies which are underpinned by our sustainable business roadmap that sets out how we are delivering our Company purpose: Helping Britain Achieve Net Zero (the **Purpose**) sustainably and responsibly by:

1. Accelerating the UK's shift to low-carbon nuclear and renewable energy storage;
2. Helping households switch to low-carbon lifestyles through smarter innovative solutions;
3. Empowering our business customers to switch to low-carbon growth; and
4. Bringing everyone with us as our business transforms towards Net Zero impact.

Our Purpose and sustainable business roadmap is also published on the EDF Energy website. Application of the 13 policies is tested by Group on an annual basis as part of its companywide internal controls self-assessment, this is also linked to EDF SA's requirement to satisfy the French Securities Markets Authority (**Autorité des Marchés**) Listing Requirements.

The Purpose was launched in July 2020, and it forms the basis of all company decision making and all communication and engagement with both internal and external stakeholders. The reason for its creation, as well as that of the sustainable business roadmap, was to firmly align the Group with the values and goals of its parent, being to build a net zero energy future with electricity and innovative solutions and services to help save the planet and drive wellbeing and economic development (the **Raison d'être**). The Purpose is a UK articulation of the Raison d'être with which it is entirely consistent and underpins all strategy setting and decision making by the Board, ensuring activity within the Company is compatible with achieving these objectives.

Further, our sustainable business roadmap closely links to its EDF SA's group's Corporate Social Responsibility Goals and, in turn, the United Nations' long term vision for sustainable development – the UN Sustainable Development Goals. In July 2019, EDF SA launched a new Group Ethics Charter which supports the Raison d'être while bringing ethical requirements back to the heart of its corporate responsibility. Built upon EDF SA Group's three values of respect, solidarity and responsibility, it sets out the principles which guide the everyday actions and behaviour of EDF SA Group employees worldwide, which includes employees of the Group.

#### 1. OUR STAKEHOLDERS - WHO ARE THEY AND HOW DO WE ENGAGE WITH THEM?

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The Company engages with a large variety of stakeholders, either directly and indirectly through its various subsidiary companies. The Company's key stakeholders are summarised below:



The Company is clear that good governance and effective communication are essential on a day-to-day basis to deliver the Purpose, the Raison d'être of EDF SA and to protect the Company's reputation and relationships with all our stakeholder community including shareholders, customers, employees, suppliers, regulators and the local communities in which we work. The Board is committed to social responsibility, community engagement and environmental sustainability which is demonstrated, in particular, through the sustainable business roadmap which showcases our commitment to being a responsible business (discussed in further detail at "**Setting Strategy**") and our engagement with internal and external stakeholders. By maintaining a dialogue with our stakeholders and having due regard to the sustainable business roadmap, the Board ensures that it takes decisions which are aligned with the Purpose and supports its achievement.

### ***Employees and Trade Unions***

The Company engages, informs and consults with its employees (whether directly employed by the Company or seconded from other Group companies, refer to note 6 for further information) on matters affecting them and the Company ensures that it has regard to the interests of employees in decision making. Having people who bring a diverse range of talents and perspectives, and who feel engaged in their roles, is fundamental to the long-term success of the Company. Employee engagement is carried out in a number of ways which give employees a voice and in which our senior leaders actively participate. This has been demonstrated throughout some large change programmes where leaders have worked closely with employees and key stakeholder. Some of the mechanisms include:

1. Formal and informal briefings, departmental meetings and regular reports in staff newsletters and on the Group intranet.
2. Through our existing Trade Union & Personal Contract holder structures.
3. Our employee networks which are sponsored by senior management and provide diverse and inclusive environments for employee feedback and comment.
4. Our annual EDF Group Employee Engagement Survey, 'My EDF', gathers the views and opinions of all employees with regard to their work situation, at local level and within the EDF SA Group. It identifies areas of satisfaction and opportunities for improvement in order to help establish priorities within the Group and to input action plans within the different teams.

The Board considers the results of all employee engagement surveys as a good barometer of the workforce's confidence in the Company's strategic direction, optimism in the future and career opportunities. The results 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 our purpose and deliver the 2030 strategy.

5. Regular employee surveys where senior leaders gather feedback on employee wellbeing which inform policy.

Throughout the Covid-19 pandemic (the **Pandemic**) the Company has also ensured that there have been clear and regular communications with employees to ensure awareness of the actions the Company was taking and why these were necessary.

### ***Communities & Environment***

The Board has regard to the impact of the company's operations on the community and the environment and its need to balance the need to foster the company's business relationships with suppliers, customers and others and interests of the company's employees.

EDF Energy believes in a decarbonised future and is committed to leading the UK's transition to a safe, low-carbon energy system. As the UK's largest low-carbon generator, EDF Energy is helping support the reduction in carbon emissions enacted by The Climate Change Act in 2008 and Paris Agreement on Climate Change. Through the Board's stewardship of land around its power stations and the commitments the Company and wider Group make as part of its renewables and new nuclear projects, it protects the natural environment and biodiversity and consults with local communities on these topics to enable better decision making around projects of this nature. The Company has also commenced decommissioning of one of its two coal-fired stations and confirmed plans to end generation of the sole remaining coal-fired station in 2022, well in advance of the Government deadline,

EDF partners with a wide range of organisations to ensure safe, secure and responsible energy generation and to deliver fair value, better service and simplicity for our customers. The Board recognises the key role these suppliers play in ensuring the longevity of the business and the wellbeing of our suppliers is a key priority for EDF. One of the ways EDF supports its suppliers is by offering a Santander backed Supply Chain Financing scheme which allows suppliers to get early access to payment for invoices which have cleared and been approved through our payment process. The Board will review and approve the implementation of processes such as this. As a result, the Directors can ensure that any decisions taken to implement significant process aligns not only with the Company's purpose but also with that of its parent whilst also ensuring that the best interests of key stakeholders, such as suppliers, are prioritised when setting policy.

### ***External Stakeholders***

The Company and wider Group proactively engages with relevant external stakeholders where we have various trade association memberships (such as the Confederation of British Industry, Energy UK, Nuclear Industry Association and RenewableUK, etc). The Group's active participation in these forums is a useful way to enhance relationships with stakeholders, providing a valuable channel for communication with government and regulators on matters of common interest. Through our affiliations the Company can gain the knowledge and skills necessary to operate in a highly competitive marketplace. The Company and Group have different types of memberships and affiliations relating to the different activities undertaken throughout the Group.

The Company and wider Group also engages directly with central Government (such as the Department for Business Energy and Industrial Strategy, the Department for Environment, Food and Rural Affairs and HM Treasury) and industry & environmental regulators (such as Ofgem, the Environment Agency and the Scottish Environment Policy Agency). We engage with political and regulatory stakeholders to help them understand our business better, and so shape the policy and the environment where we operate. Our direct engagement with these stakeholders is supplemented with additional engagement through trade associations where it is useful to do so. We have a role to play in sustainability, through our Purpose and enabling Britain to achieve Net Zero by championing the transition to a low-carbon future.

### ***Other Reporting***

The Company, in addition to other companies within the Group that meet the applicable threshold, publishes its Modern Slavery Act Statement, Gender Pay Gap Report, Payment Practices and Report and Tax Strategy Statement in accordance with UK law and regulation. Each of these is published externally and gives a view as to the business relationships the Company has with its suppliers, particularly the Modern Slavery and Payment Practice and Reporting Statements. The Board welcomes the transparency and uses these reports to help the Company continue to improve its performance in these areas.

## **2. HOW DOES THE BOARD SET STRATEGY AND TAKE DECISIONS?**

### **Setting Strategy**

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#### ***Purpose and Objective***

To aid the fulfilment of our Purpose, EDF Energy launched its sustainable business roadmap which sets out its three commitments towards being a responsible business:

1. To demonstrate real progress towards a Net Zero environmental impact by reducing our carbon emissions, waste, water use and effect on biodiversity;
2. To create a great workplace for our people by supporting their health and safety, diversity and inclusion and skills development; and
3. To make a positive social contribution by supporting vulnerable customers, local economies and the STEM skills of tomorrow's energy innovators.

The Purpose, together with the sustainable business roadmap and its accompanying commitments, underpins all policy and decisions taken by the Board.

The Board was engaged in discussions on setting the Purpose and accompanying strategy, together with others across the Group in order to promote the long term success of the Company. These conversations were guided by: i) feedback from genuine stakeholder engagement; ii) consideration of the long-term impact any strategic decisions would have on furthering the long-term objectives of the Company and the wider Group; and iii) consequently the potential environmental impact of those decisions.

The overriding objective of the Board is to operate to the highest ethical and health and safety standards, to preserve and enhance its investments through establishing a culture of zero harm and zero tolerance to bribery and fraud. The purpose of the Board is to provide proper stewardship of the Company, providing vision and leadership to supervise the management of the Company's business, to grow value responsibly in a sustainable manner, ensuring that the Company's fiscal and statutory obligations are met and that shareholder value is preserved and enhanced.

The Board continues to actively oversee and guide the Company's transformation for the future. Cottam Power Station ceased generation in 2019. To guide future change the Board frequently discussed and continues to discuss its vision and strategic priorities of the Generation Business to inform and guide the Company as it refocuses on the challenges and opportunities ahead.

#### ***The Communications Team***

To ensure the overriding strategy, objective and purpose of the Company is articulated and implemented throughout the organisation, the Group has a communications team to support the Company issuing tailored communications to employees that support the Company's strategy, sustainable business plan and brand vision. The Company also has an open and ongoing dialogue with trade unions and other employee representatives, regulators and policy organisations and other stakeholders. The social media team has an active listening, response and monitoring strategy to gauge market perception of delivery of the strategy of the Company.

Externally, the communications team supports the Company to manage reputational issues and stakeholder engagement. Public and political opinion with regard to EDF Energy is monitored and the team frequently engages with political parties and other stakeholders to ensure engagement continues.

The work carried out by the communications team enables a platform for Directors to engage with stakeholders, e.g. by attending external seminars to present on topical matters aligned to the Group's strategy or by filming a short video clip to upload on the Group's intranet or website giving an insight into its priorities. This type of activity helps Directors identify any key stakeholders to engage with further as part of reaching targets before presenting back to the Board in the future.

Our Purpose was developed with input from both our employees and customers to ensure buy in from those stakeholder groups and to make sure the purpose held relevance for to those individuals. The quality feedback received from these stakeholders, gathered through the various channels of communication, had an impact on the development of the Purpose and generally informed Board discussions during 2020.

## **Taking Decisions**

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### ***Meet the Board***

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 and ensure there is a suitable level of knowledge and expertise of the Company and Group in order to discharge any decision making responsibilities appropriately and satisfy the needs of this particular Board. In doing so, the composition of the Board is most likely to factor into promoting the success of the Company.

The composition includes the Generation Managing Director as Chair, Head of Thermal, four other directors of the Company, three Special Advisors bringing experience from a broad range of energy backgrounds, with standing invitations to attendees including Legal, HR and Operations. The balance of skills and experience of the Board composition facilitates constructive challenge and effective decision-making.

The Board is scheduled to meet six-weekly with a rolling pipeline of strategic, financial and statutory agenda items agreed by the Chair in conjunction with the Head of Thermal and the other constituents of the Board.

In addition to scheduled meetings, the Board may meet on an ad hoc basis as and when required to meet the needs of the business.

During the pandemic the Company utilised various internal teams established in the wider Generation Business Unit including a Crisis Management Team, Incident Management Team and a general Health and Safety team. 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 Energy 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.

### ***Scope of the Board & Delegations of Authority***

Key financial information is collated from SAP, the Company's accounting system. The Company'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 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.

### ***Stakeholder concerns identified***

Each business unit and the respective teams therein, are responsible for engagement with relevant stakeholders, evaluating any feedback and escalating information (where relevant) to the Board for consideration in order to aid its principle decision making. More details around stakeholder engagement and how feedback is utilised by the Board in decision-making is covered above under the heading 'Our Stakeholders – Who they are and how we engage with them'.

As highlighted above, an example of this would be the annual My EDF survey, the results of which are disseminated by each team within the business before being presented to the Board to support the setting of company strategy etc. Throughout the pandemic the Company has also undertaken more frequent employee surveys to garner feedback from employees regarding their wellbeing during the pandemic. These results enabled the Company to strategise ways in which it could better support its employees whilst working from home and has influenced Company policy such as implementing more flexible working opportunities for parents and the provision of IT equipment to better equip those employees working from home. Another example could be the ongoing engagement with the Group's various Pensions Trustees and Advisors to ensure the three schemes in place are run properly and that members' benefits are secure. This information is used to inform and support the Board taking decisions impacting the schemes, considering triennial valuations every three years and setting future pensions strategy.

## **3. DIRECTORS TRAINING & INDUCTION**

### **Board Composition and Training**

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There has been a considered effort to establish an appropriate balance of expertise, diversity and objectivity at Board meetings. Diverse characteristics considered are gender and social backgrounds, and cognitive and personal strengths. All directors appointed have a strong background in the relevant sector(s). Any 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 Energy Directors Training and Induction Manual which is intended to provide them with key information they need to understand their obligations as a Director, including those in s.172 Companies Act 2006, how to comply with them, and how to operate within EDF Energy's corporate governance framework. Directors are also offered face-to-face bespoke training should they need additional support in their new role and are encouraged to update their skills, knowledge and familiarity with the Group by meeting with senior management, visiting sites (such as the power stations and call centres) and by attending appropriate external seminars and training courses and engaging with a wide variety of stakeholders across the business and externally with government and communities.

In order to ensure that all potential conflicts of interest of Directors are identified and duly authorised, any newly appointed Director is 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 reminded that any new conflicts arising thereafter must be declared and authorised in advance by the board of directors or by the shareholders.

The Company recognises the importance of board evaluation and development. This constitutes good governance and is a valuable process in improving board performance, even where the Board is composed of Directors who are experienced in fulfilling the role of Director on a number of senior boards. The continuous improvement of the Board and how it operates is critical to both the success of the Company and overall success of the Group; which in turn, highlights the paramount importance of ensuring the Directors fulfil their responsibilities to the Board and maintain relationships with key stakeholders to ensure all decisions taken are supported by the highest level of information to enable strong decision making. Board evaluations are carried out on an annual basis with a summary of the key strengths and areas for improvement presented back to the Board to discuss and agree actions to implement any proposed changes.

In 2020, there was two new appointments to the Board.

## 4. POLICIES & PROCESSES

### Ensuring Best Practice

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As mentioned above, the Company takes its own approach to corporate governance very seriously; something which is demonstrated through the company culture and behaviours adopted across the Group including the application of the 13 policies which are tested by Group on an annual basis as part of its companywide internal controls self-assessment.

The Group Corporate Governance Policy underpins the company policy framework and sets out:

1. the requirement for there to be governance bodies;
2. their composition;
3. the Financial Authority Limit (**FALs**) framework;
4. the Policy Operating Framework;
5. the requirement to have processes and procedures in place to facilitate the discharge of board duties as well as to provide evidence of decision-making and stakeholders considered as part of that decision-making; and
6. the requirement for board members to receive training.

The above-mentioned policies and procedures enable the Board to make informed decisions on key issues including strategy and risk management.

The Company has a stringent risk management culture through policies, reporting and internal audit and assurance enabling Directors to make robust decisions concerning principal risks. The Company uses a Risk Management, Internal Control, Business Continuity and Crisis Management policy, which defines key standards to be achieved. The Company assesses itself against these standards, is audited by the Group to provide assurance that the Company has an appropriate risk culture. The Directors have agreed on how these principal risks should be managed or mitigated to reduce the likelihood of their incidence or magnitude of their impact. These risks are set out in the "Principal risks and uncertainties" section of the Strategic Report.

In practice, control testing against each Group policy is carried out at least annually through the Internal Control Self-Assessment process. Improvement actions are identified following completion of the results (where required) to facilitate continuous improvement across teams. These results are then reported to the EDF Group Risk department to support EDF SA's compliance with the French Afep-Medef Code. These results are shared with the ET for managing actions at a local Business Unit level, but also presented back to the Board as part of the Annual Risk and Internal Controls Report (the **Report**). The Report sets out the top risks to the Company's objectives for their consideration. This presents an opportunity for the Directors to consider any emerging risks for the Company and its key stakeholders and provides a forum for them to devise solutions to minimise the impact of those risks, ensuring objectives are met and the long-term viability of the business guaranteed.

In addition, the Group Audit Charter provides internal authority for the Company to be independently assessed in relation to 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 Company and presented to the Board for discussion.