

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its company as a whole.

In doing this, section 172 requires the directors to have regard to, amongst other matters:

- > the likely consequences of any decisions in the long-term;
- > the interests of the company's employees;
- > the need to foster the company's business relationships with suppliers, customers and others;
- > the impact of the company's operations on the community and environment;
- > the desirability of the company maintaining a reputation for high standards of business conduct; and

In discharging their section 172 duties, the directors have regard to all the matters set out above.

Authority for day to day management of the Company is delegated to Business Sector Boards. The directors are provided with information in a variety of formats to ensure they are able to discharge their section 172 duties and engage with the Business Sector Boards regularly in:

- > setting, approving and executing business strategy, plans and policies;
- > reviewing business performance;
- > managing risk; and
- > decisions relating to material business initiatives and other matters.
- > reviewing health and safety
- > Reviewing the impact of COVID 19

The directors and Business Sector Boards manage the business in a responsible manner with the aim of ensuring that the Group maintains a reputation for high standards of business conduct and good governance. The Group has policies in place in relation to conduct and standards, criminal finance act, anti-bribery and corruption measures, equal opportunities and diversity, and modern slavery. The Group's statement on modern slavery can be found on its website www.vitalenergi.co.uk

The Company's key stakeholders are its employees, clients, suppliers, the community and its investors. The directors have regard to the views of all these stakeholders in their decision making. Engagement with these stakeholders occurs through various channels, including:

- > **Employees:** receive regular business sector briefings on the performance of the business area, Group results, and other matters of concern to them. There are monthly newsletters briefing employees on new business, project progress and new employees.
- > **Customers:** The directors, Business Area Boards and Employees are focused on delivering outstanding services to its customers. Customer feedback is regularly obtained to ensure that we offer excellent service and value for money and to ensure that our performance is aligned to current and future customer requirements.
- > **Suppliers:** the Company maintains close relationships with its key suppliers though regular feedback and periodic meetings. The Group's procurement approach requires that suppliers have core values that are consistent with those of the Group and contract terms ensure that the interests of the Group and its Suppliers are closely aligned. The Group is currently reviewing its payment practices to suppliers in line with its payment practices reporting ratios.

- > **Corporate Social Responsibility (CSR):** Vital Energi's CSR touches on the community, the marketplace, environment and workplace. It covers a wide range of activities and programmes including introducing and focusing all employees on our recycling targets
- > **Investors:** the **Group's** investors are represented in the corporate governance and operational structure of the Group. The Directors of the Company ensures alignment with investor interests through monthly Group board meetings and reporting where third party shareholder representatives are present.

Effect and impact – principal Board decisions and how the Board considered stakeholders views:

1. Response to COVID-19

With significant uncertainty created by the COVID-19 pandemic the Board oversaw the Group's response with the aim of ensuring we emerge from the crisis well positioned for long-term success, whilst supporting our employees and their safety and continuing to deliver for our customers.

Consideration

Employees

Considered the health, safety and wellbeing of all Vital employees. In particular, for those still required to be on-site to support customer delivery, the Board deliberated the safety measures to protect their wellbeing. For those able to work from home the Board considered the infrastructure to support this and their working efficiency. Given the increase in homeworking consideration was also given to the increased risk of cyberattacks and data breaches and how to mitigate this.

A range of scenarios whereby Vital experiences subdued demand or inability to deliver for a period of time were debated, with consideration given to how Vital could manage the workforce to match this, whilst protecting our employees' interests and engagement and retaining their expertise within the business for the long-term.

Customers

Considered continuity plans and our ability to continue delivering for our customers in the event of a significant proportion of the workforce being unable to work due to sickness. The Board also considered near-term demand and how customers' priorities might change over a longer period of time.

Shareholders

Considered the current liquidity and financial position of the business and various scenarios whereby cash flow deteriorates.

Suppliers

Considered the financial health of suppliers, in particular SMEs and their ability to continue supporting Vital in delivering for our customers over the long-term.

Outcome / Impact

The Board was satisfied that sufficient measures were in place to protect the health, safety and wellbeing of our people and continue to monitor the situation.

Additional security measures were deployed to enhance the security of our networks further, in light of homeworking.

Actions were taken to reduce costs and minimise the impact on employees, with discretionary costs being reduced, and the senior leadership community agreeing to pay cuts. No bonus payments were made and the Group deferred the annual pay review until June 2021.

The Board were satisfied with the continuity plans in place to ensure the continued delivery of mission-critical work were a large proportion of the workforce to be absent. Particular attention was given to how we will respond to changing customer priorities over a longer time horizon.

The Board concluded that the Group was in a strong financial position but given the considerable uncertainty it was prudent to reduce discretionary cash outflows where possible, to ensure that the Group emerged well positioned to deliver long-term sustainable growth for shareholders.

The Board supported the acceleration of supplier payments to SMEs to help minimise the impact of the pandemic on their financial health to ensure they can continue supporting us in delivering for our customers over the long-term.

Waste to Energy Market

2. Strategic move into the Waste to Energy Market

In July 2019 we acquired certain employees, assets and know-how from Biomass Power Holdings Group Ltd which, combined with our existing in-house skills, gave us the expertise to enter into the waste to energy market. In January 2020 we completed the acquisition of FEE Drakelow Limited which had an option to lease the land at the de-commissioned Drakelow power station in Derbyshire. We had developed a business plan for a waste to energy plant for this site and were in advanced contractual negotiations with a funder for this project. The Board concluded that these acquisitions would promote the success of the Group over the long-term by substantially growing our business and enhancing our capabilities in waste to waste to energy and positively contributing to overall growth.

Consideration

Outcome / Impact

Customers

The Board considered the impact on our existing customers of a significant move into a related area to our core business, and into asset ownership, and concluded that we had the necessary people and financial resources to not adversely impact on our existing business.

Shareholders

Considered the strategic fit, financial merits, including the additional debt that Drakelow would add to the Group balance sheet, and valuation of FEE Drakelow Limited as well as our ability to successfully build a waste to energy plant on this site.

Employees

Considered the impact on our existing employees of adding a new venture to our core business and concluded that this would create opportunities for existing Group employees to work in the new business and would allow us to incentivise existing senior employees properly.

Suppliers

We considered how the move into waste to energy would impact on existing suppliers and concluded, while there would be a positive impact on certain of our existing suppliers, many of the components would be delivered by new suppliers who had existing relationships with the ex-Biomass Power employees, and would have little impact on our existing supply chain.

Governance

The Board considered the importance of the governance structure under which Drakelow would operate for all stakeholders. This extended to considering the environmental credentials of Drakelow.

The Board concluded there was a strong strategic fit and that the move into waste to energy would deliver attractive returns in excess of our cost of capital over the long-term.

The Board was satisfied that the combined businesses would have the skills to deliver the Drakelow project and that this would in turn lead to further opportunities to invest in asset ownership in waste to energy.

