

Drax Power Limited

Governance arrangements

Good governance is a key factor in securing the long-term success of our business. During 2023, the Company applied its own corporate governance arrangements. As a minimum, the Company has arrangements in place that largely mirror the Wates Principles, however, some of the arrangements take into account the need to comply with the UK Corporate Governance Code which is applied throughout the Drax Group plc group (“Group”).

Our purpose

Our purpose is to enable a zero carbon, lower cost energy future. Our three strategic aims – to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable generation – are aligned with a number of global energy policies. These objectives are closely aligned with our ambition to be a carbon negative company and we continue to develop options for bioenergy with carbon capture and storage (BECCS) which we believe, alongside the use of sustainable biomass and flexible, renewable generation and energy systems, can make an important contribution to decarbonising and protecting energy security. Responding to climate change is a core component of the Group’s purpose. This is reflected in our governance – from our Board through our Executive Committee and their leadership to our business units and their functions. The Group CEO regularly reports to the Drax Group plc Board on Environmental, Social and Governance performance, including climate-related matters. Climate change factors are considered in decisions taken by the Drax Group plc Board.

Culture and values

Our values are driven by our culture, fundamental to which is acting with integrity – what we call “doing the right thing”. This belief underpins our People strategy which encompasses all aspects of a colleague’s experience, including the systems we use, the values we live by, our policies, and the culture we foster. Our approach is to ensure the Group has the diversity, capability, and experience to deliver our strategic aims. We want each of our colleagues to feel a valued member of a winning team on a worthwhile mission.

The safety and health of our people remains a key priority for the Group and the Board. Safety is a long-held and central commitment of our operational philosophy. We believe that safe and compliant operations are integral to the delivery of our strategy, and we continue to work across the Group to identify, implement and maintain high standards supported by a positive culture of safe working. For more information see pages 67 and 68 of the Drax Group plc 2023 Annual Report and Accounts.

We are committed to a supportive, diverse and inclusive working environment and continue to enhance Diversity, Equity and Inclusion (DEI) across the Group. Additionally, the Group CEO regularly reports DEI progress updates and People Reports to the Board. For more information see pages 65 and 113 of the Drax Group plc 2023 Annual Reports and Accounts.

We are committed to conducting business ethically, with honesty and integrity. We have established a number of Business Ethics programmes to support this commitment.

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Our business ethics and privacy documentation framework identifies the expected behaviours from colleagues and relevant individuals working on our behalf on a broad range of topics. In 2023, we strengthened our Ethical Due Diligence programme by establishing a second line assurance structure and activity plan. The Business Ethics team also commenced work on creating dedicated programmes to support our Anti-Fraud and Political Engagement policies. Furthermore, we continued our annual eLearning refreshers and provision of additional training to certain 'high risk' teams to reinforce our resilience. For more details on how the business ethics programme is managed across the Drax Group, see pages 70 to 71 of the Drax Group plc 2023 Annual Report and Accounts.

Leadership and Succession

Investing in the development of our people is essential to the delivery of our business strategy. We are committed to supporting colleagues to develop skills and capabilities to fulfil their career aspirations. Our Potential and Succession processes enable senior leaders to identify individuals with the skills and capability needed for critical roles. Individuals identified can be nominated for our Future Creators programme. Our Future Creators programme is designed to support the development, retention and growth of our future leadership pipeline. Each individual has a personal development plan and a Drax Group plc Executive Committee sponsor.

We are committed to developing new talent and providing our colleagues with the skills and capabilities to support them in fulfilling their career aspirations. Our senior leaders continue to participate in our Inclusive Leadership Programme, which supports managers in helping to improve diversity outcomes across the Group.

Further information on leadership, succession and diversity can be found on page 64 of the Drax Group plc 2023 Annual Report and Accounts.

Effectiveness and accountability

Management meet regularly to discuss strategic and operational matters. Management regularly reviews safety performance and monthly KPIs which include Total Recordable Injury rate (TRIR) and Lost Time Injury Rate (LTIR) as well as financial and environmental KPIs. Throughout the year management also reviewed HR data, risk matters and feedback from stakeholders. There is open debate and constructive discussion at the meetings and there are formal and robust processes in place to ensure the data provided to management is reliable. Those who submit information to management must include considerations of key stakeholders.

Risk management

The Board is responsible for the management of all risks at the Company. The Company operates a three lines of defence model to facilitate the effective operation of the Drax Group's Risk Management Framework. This model provides a standardised risk management process that defines the accountability and ownership of risk across the business. The Drax Group Risk Management Framework ensures each of the Company's principal risks have appropriate oversight.

Oversight of each principal risk is delegated to a specialist committee and each committee conducts a regular 'deep dive' of the underlying risks related to its Principal Risk category. All relevant risks are recorded on an appropriate risk register and are mapped to one of Drax Group's Principal Risk categories.

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The internal control environment is based on Group-level financial, operational and compliance controls supported by controls within each business unit and independent assurance from internal and external audit. The effectiveness of internal controls at the Company is supported by a control risk self-assessment process and reported to the Drax Group Executive Committee and Audit Committee.

Remuneration

The remuneration of those directors who are also executive directors of Drax Group plc are subject to the Drax Directors Remuneration Policy (Policy) which is approved by Drax Group plc shareholders. The implementation of the Policy is the responsibility of the Drax Remuneration Committee (a Committee of the Drax Group plc Board). The Remuneration Committee may choose to apply discretion to the remuneration of those directors if they believe the formulaic outcomes of variable pay programmes do not appropriately reflect company performance. In the event any discretion is applied, the justification is clearly stated in the Annual Report for the relevant financial year. The Remuneration Committee considers external market benchmarking data to inform executive remuneration decisions, as well information and insight from shareholders, industry bodies and employees.

A key priority for Drax is to ensure fair and appropriate remuneration decisions for directors and the wider workforce. Details of the Drax Remuneration Policy, which was approved at the 2023 AGM, can be found on page 148 in the Drax Group plc 2023 Annual Report and Accounts.

Whilst the rate of inflation generally decreased during the course of 2023, the cost-of-living remained a challenge for many colleagues, particularly in the UK. For the 2024 pay review budget (effective from 1 January 2024) a budget of 5% applied for our UK colleagues. Additionally, as in previous years, all colleagues were eligible to take part in the annual bonus programme, unless precluded by alternative arrangements with their respective trade union group or acquisition agreement. The bonus award is designed to reward the delivery of targets and objectives directly linked to the financial and strategic performance of the Group.

The directors, the Group Executive Committee members and all others in senior management roles also participated in a Long-Term Incentive Share Plan. In line with the current Directors Remuneration Policy, an award from the Long-Term Incentive Share Plan is subject to the achievement of Total Shareholder Return relative to the FTSE 350 and Cumulative Adjusted Earnings Per Share; both are measured over a three-year performance period. These performance measures are linked to the Group's strategy and aligned with long-term creation of value for the Group's shareholders.

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The Drax Diversity and Inclusion Steering Group monitors diversity and inclusion across the Group, including the gender pay gap. The gender pay gap is monitored across individual business units so that actions to address the pay gap can be appropriately considered for each business unit. The working group works with the HR function and wider leadership teams to identify, develop and implement initiatives to promote diversity.

Working with our stakeholders

Engaging with our stakeholders is fundamental to our success. We recognise that to achieve our purpose, we need to listen to, and work with, a diverse range of interested parties. For more information on our stakeholders, how we engage with them and have regard to their interests, please refer to the Companies Act, Section 172 statement.

Companies Act, Section 172 statement

The Directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board is responsible for ensuring effective engagement with stakeholders it recognises that decisions taken today will have an impact upon stakeholders, as well as shape the longer-term performance of the business. Appropriate consideration is important in enabling Drax to deliver positive outcomes for the climate, nature and people, and to deliver sustainable value creation.

Examples of how the Board have had regard to the matters set out in Section 172 are set out below. Comprehensive details in respect of stakeholders identified across the Drax Group plc group (the “Group” or “Drax”) and how we engage with them and have regard to their interests, can be found from page 33 to 36 in the Drax Group plc 2023 Annual Report and Accounts.

The likely consequences of any decision in the long term

Our purpose is to enable a zero carbon, lower cost energy future. With multi-year time horizons for many of our strategic and investment decisions, we recognise that these decisions can have an impact far beyond our business and well into the future. Our decisions support the Group’s long-term strategy: to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power.

The interests of the Company’s workforce

Engaging with our colleagues is a priority and starts with listening to, and better understanding, their views. Established in 2019, our workforce engagement forums (“MyVoice Forums”) are a valuable way for the Board and senior management to undertake such engagement. The MyVoice Forums are made up of colleague

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members from each part of our business, to ensure representation for every function. They provide us with a view of colleague sentiment and key topics that are on colleagues' minds. In 2023, to support the implementation of our listening strategy, we moved to a new colleague survey platform that will help us track cultural metrics which we believe can help identify areas of improvement for colleague experience. In addition, during 2023, we worked on responding to our key actions from 2022 through our new Wellbeing, Diversity, Equity and Inclusion and Community strategies.

A member of the senior leadership team and an HR representative support these forums and attend each meeting. The MyVoice Forum chairs meet with the Chair and CEO of the Group to discuss colleague sentiment and to provide feedback on key topics. Each of these meetings features a discussion about the feedback on topics previously agreed to be important to the workforce. Topics discussed in 2023 included BECCS, the ongoing cost-of-living crisis, wellbeing of employees, and the new community strategy.

We also maintain regular dialogue with our workforce through our colleague briefings, weekly updates from the Group CEO with a question-and-answer section responding to colleague questions, our engagement surveys, and communication about the Group's strategy, plans and performance. During 2023, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to financial, strategic, safety and sustainability performance. Annual bonuses for colleagues are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned. We actively encourage participation in the Group-wide all-employee Sharesave scheme, offering the maximum discount of 20% and waiving any length of service requirements.

The need to foster the Company's business relationships

Suppliers

Our relationships with relevant suppliers are governed by contracts that include compliance with relevant regulatory and legal requirements, anti-bribery and corruption, modern slavery and supplier code of conduct, to which suppliers are expected to adhere. These are regularly reviewed by our Procurement, Legal, and Business Ethics functions. Drax has also signed up to the Prompt Payment Code, and monitors performance to both continue to improve payment performance and maintain positive supplier relationships.

Regulators and network operators

Engagement with Ofgem, DESNZ, and the Electricity System Operation allows us to promote the delivery of a secure, reliable energy system offering best value for consumers. Engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with latest guidance.

The impact of the Company's operations on the community and the environment

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Tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas. Our Group ambition is to become carbon negative by 2030. For more information see pages 50 to 55 in the Drax Group plc 2023 Annual Report and Accounts.

We believe strong community relationships and effective engagement strengthen our ability to operate effectively. We engage regularly with communities through supporting local initiatives and holding drop-in sessions. To read more about our positive social impact across the Group, see pages 33 to 39 in the Drax Group plc 2023 Annual Report and Accounts.

Drax is committed to being a good neighbour in the communities where we operate. We achieve this by combining active community engagement with corporate giving. In 2023, the Drax Foundation was established to provide grant funding for non-profit organisations that share our commitment to improving equitable access to STEM education, community green spaces, and renewable energy. We prioritise projects and programmes that support underrepresented and underserved groups.

The desirability of the Company maintaining a reputation for high standards of business conduct

At Drax, we are committed to conducting business ethically, with honesty and integrity. We do not condone any behaviour that could lead to actual or perceived bribery or corruption.

Our business ethics compliance framework identifies the behaviours expected from colleagues on a broad range of topics. In 2023, we strengthened our Ethical Due Diligence programme by establishing a second line assurance structure and activity plan. Additional training was provided on Business Ethics and Privacy to 'high risk' teams to reinforce our resilience. For more details on how the business ethics programme is managed, see pages 70 to 71 of the Drax Group plc 2023 Annual Report and Accounts.

The need to act fairly as between members of the Company

Our ultimate parent company is Drax Group plc and therefore we act in the best interests of our immediate and ultimate parent companies and, in doing so, in the best interest of the investors and shareholders of the Group. This ensures that the interests of all relevant stakeholders, and the need to act fairly between members of the Company, are considered during decision-making.

Engagement with shareholders of the Group allows us to understand the concerns and priorities of current and prospective investors, in areas such as climate change; sustainability; executive pay; dividends; longer-term capital allocation policy; and strategy, which are taken into account in our decision making.

This report was approved by the Board on 26 June 2024 as part of the Company's 2023 Annual Report and Accounts.