

Drax Group plc

Remuneration Committee Terms of Reference

Approved by the Board on 10 November 2015 and amended on 8 January 2018 and on 17 April 2019

1 Introduction

- 1.1 The board of directors of Drax Group plc (the “**Board**”) has constituted a remuneration committee (the “**Committee**”). These terms of reference have been produced to identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the UK guidance on corporate governance and to assist the Committee in achieving best practice in corporate governance for Drax Group plc (the “**Company**” or “**Drax**”) and its subsidiaries (together, the “**Group**”).

2 Role

- 2.1 The Committee has delegated authority on behalf of the Board:
- 2.1.1 to set the Group's policy in relation to the remuneration of the executive directors of the Group (“**Executive Directors**”), as well as the remuneration of the members of the Executive Committee and the Company Secretary (together, “**Senior Management**”);
- 2.1.2 to determine the specific remuneration packages and terms of employment of each of the Executive Directors and Senior Management;
- 2.1.3 to review wider workforce remuneration and related policies including both the prevailing incentive arrangements and any significant changes that management intend to make, ensuring when setting the policy and remuneration for Executive Directors and setting the remuneration of Senior Management there is consistency with the culture and values of Drax; and
- 2.1.4 to set the fee payable to the Chair of the Company (“**the Chair**”).

3 Appointment of Members

- 3.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chair of the Committee. The Committee shall consist of a minimum of three members, all of whom shall be independent non-executive directors. In addition, the Chair may be a member of the Committee, if he or she was considered independent when appointed Chair.
- 3.2 The Board shall appoint the chair of the Committee (the “**Committee Chair**”) who shall be an independent non-executive director. On appointment, the Committee Chair should have served on a remuneration committee for at least 12 months (either at Drax or elsewhere). In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The Chair shall not be Committee Chair.
- 3.3 Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chief Executive, the head of human resources, head of reward and external advisers, may be invited to attend the Committee's meetings. Executive Directors and any other invitees shall not be entitled to vote at any meeting of the Committee.
- 3.4 No member of the Board (or of the Committee) shall attend part(s) of the meeting(s) of the Committee where his or her own remuneration arrangements are determined.

- 3.5 Each member of the Committee shall be appointed for a term of up to three years with effect from the date of their appointment subject to their continuing to be a member of the Board. This appointment may be extended by two further three-year periods, provided the director remains an independent non-executive director.

4 Secretary

- 4.1 The Company Secretary or their nominee shall act as the secretary of the Committee and shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration of the issues.

5 Quorum

- 5.1 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

6 Meetings

- 6.1 The Committee shall meet at least three times per annum and at such other times as the Committee Chair shall require.

7 Notice of Meetings

- 7.1 Meetings of the Committee shall be summoned by the secretary of the Committee (or their nominee) at the request of any of its members.

- 7.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time or as soon as practicable thereafter.

8 Minutes of Meetings

- 8.1 The secretary of the Committee shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance.

- 8.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board, unless a conflict of interest exists.

9 Annual General Meeting

- 9.1 The Committee Chair shall attend the Annual General Meeting and any other General Meeting at which matters pertaining to the remuneration of Executive Directors or the Remuneration Policy are to be formally considered and be prepared to respond to any questions from shareholders or other stakeholders on the Committee's activities and responsibilities.

10 Duties and Responsibilities

- 10.1.1 The Committee shall determine and recommend for approval by the Board the policy for the remuneration of Drax Group plc's Chair, Chief Executive and the other Executive Directors, and also the remuneration of Senior Management – including base salary, bonus, long term incentives, pension and other benefits, termination payments, any recruitment compensation payments, and any other components of remuneration. The Committee shall determine and, using internal and external benchmarking, monitor the level and structure of remuneration for these roles.

- 10.2 The remuneration of non-executive directors shall be a matter for the Chair and the Executive Directors. No director or manager shall be involved in any decisions as to their own remuneration.
- 10.3 In respect of the Executive Directors and the Chair, the Committee shall determine a policy for remuneration (the “**Remuneration Policy**”) which shall be subject to a shareholder vote at a general meeting of the Company in accordance with applicable law. All future remuneration for Executive Directors and the Chair must fall within this approved policy, unless it is approved separately by shareholders or is covered at the time of payment by a revised policy approved by shareholders.
- 10.4 The Committee shall:
- 10.4.1 in determining the Remuneration Policy, take into account all factors which it deems necessary, including, where appropriate, the views of shareholders and other stakeholders. The objective of such policy and the determination of the remuneration of the Group’s Executive Directors and Senior Management shall be to:
- (a) attract, retain and motivate the Group’s Executive Directors and Senior Management;
 - (b) ensure that Executive Directors and Senior Management are provided with remuneration that supports the business strategy of the Group and promotes long-term sustainable success;
 - (c) provide remuneration which is transparent and aligned with the Group’s culture and values;
 - (d) reward, in a fair and responsible manner aligned with the Group’s purpose and values, Executive Directors and Senior Management for their contribution to the success of the Group; and
 - (e) promote long-term shareholdings by the Group’s Executive Directors;
- 10.4.2 liaise with the Nominations Committee to ensure that the remuneration of any newly-appointed Executive Director is within the Company’s Remuneration Policy. If any part of the remuneration for a newly-appointed director is outside the Remuneration Policy, then it will be subject to a shareholder vote at a general meeting of the Company in accordance with applicable law;
- 10.4.3 review the ongoing appropriateness and relevance of the Remuneration Policy;
- 10.4.4 review and monitor the remuneration levels of the Chair, each Executive Director and Senior Management;
- 10.4.5 determine annually the total individual remuneration package of the Executive Directors and Senior Management including bonuses, incentive payments and share options or other share awards and the fee level for the Chair. For the Chair and the Executive Directors, remuneration must be set within the terms of the existing shareholder approved Remuneration Policy;
- 10.4.6 in determining such remuneration packages and arrangements:
- (a) give due regard to laws, regulations and any published guidelines or recommendations regarding directors’ remuneration and formation and operation of share schemes, including but not limited to:
 - (i) the provisions of the UK Corporate Governance Code (the “**Code**”);
 - (ii) the requirements of the UK Listing Authority’s Listing Rules, Prospectus Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority (the “**FCA**”);

- (iii) the FCA's Remuneration Code, albeit recognising that the Company is not bound by this; and
 - (iv) any other applicable rules or regulatory guidance as appropriate;
 - (b) identify and mitigate the risk of reputational damage and of excessive rewards by implementing incentive plans which do not promote inappropriate behaviours;
 - (c) take into account workforce remuneration and policy, and the alignment of incentives and rewards with culture and values; and
 - (d) have particular regard to any concerns raised by the Board on the implications of the Remuneration Policy for risk and risk management;
- 10.4.7 be aware of, and oversee, any major changes in the structure of employee remuneration throughout the Group;
- 10.4.8 agree the policy for authorising claims for expenses from the Chief Executive and Chair;
- 10.4.9 be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- 10.4.10 review annually a summary of the year's fees of such consultants and ensure it is satisfied with the consultants' policy and procedures on dealing with potential conflicts of interest. The annual report on the Company's Remuneration Policy should identify such consultants and state whether they have any other connection with the Company or individual Directors;
- 10.4.11 approve the design of, and determine targets for, any performance-related pay schemes operated by the Group in respect of Executive Directors and the members of the Senior Management, including the application of relevant performance criteria and exercising judgement and discretion (if appropriate) when approving the extent to which those targets are satisfied under such schemes taking into account performance and wider circumstances;
- 10.4.12 review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors and the members of Senior Management and the performance targets to be used;
- 10.4.13 review and consider annually the outcome of any engagement with the workforce on executive pay and wider Group pay policy, and agree how views of the workforce will be taken into account in determining the remuneration of Executive Directors and Senior Management;
- 10.4.14 review and consider following the annual general meeting (and at any other relevant time) the views given by shareholders and the results of the shareholder votes on Executive Director remuneration, and agree how the views of shareholders will be taken into account in determining Executive Director remuneration;
- 10.4.15 obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity and market practice generally. The Committee shall have full authority to commission any reports or surveys which it deems necessary;
- 10.4.16 determine the policy for and scope of pension agreements, service agreements, termination payments and compensation commitments for the Executive Directors and Senior Management; and
- 10.4.17 ensure that contractual terms on termination of any Executive Director or member of Senior Management, and any payments made, are fair to the individual, and the Group, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

11 Reporting Responsibilities

- 11.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. It shall ensure that all provisions regarding disclosure of remuneration as set out in relevant regulations and the Code are fulfilled.
- 11.3 With regard to the annual report of the Company, the Committee shall:
- 11.3.1 produce the Committee's remuneration report, to be included in the Company's annual report, which should be fair, balanced and understandable, within the context of the rest of the annual report, providing clarity on the actions taken by the Committee and should set out the various elements of remuneration of Executive Directors and fees paid to the Chair and other non-executive directors. The report should be comprised of:
- (a) a statement from the Committee Chair;
 - (b) a Remuneration Policy for the future, to be put to a binding shareholder vote at least every three years; and
 - (c) an annual report on remuneration, which sets out how policy has been implemented in any given year, to be put to shareholders as an advisory vote each year at the Annual General Meeting;
- in each case in accordance with applicable law.
- 11.3.2 Where the Company receives at least 20% of votes against a remuneration-related resolution at a general meeting, the Committee shall provide a statement which explains what actions it intends to take to consult shareholders and understand the reasons behind the result. An update on the views received from shareholders and actions taken shall be provided within six months of the general meeting.

12 Other

- 12.1 The Committee shall, on an annual basis, review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.
- 12.2 The Committee shall, in consultation with the Chair, ensure that the Company maintains contact as required with its principal shareholders about remuneration.
- 12.3 The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.

13 Authority

- 13.1 The Committee is authorised by the Board to seek any information it requires from any employee of the Group in order to perform its duties.
- 13.2 The Committee shall have access to sufficient resources to carry out its duties, including access to other Group functions for assistance as required. In connection with its duties, the Committee is authorised by the Board to obtain, at the Company's expense, any outside legal or other professional advice.

14 General

- 14.1 The Committee shall make publicly available these terms of reference, explaining its role and the authority delegated to it by the Board.