

Drax Group plc

Audit Committee Terms of Reference

Approved by the Board on 28 July 2020.

1 Introduction

The board of directors of Drax Group plc (the “**Board**”) has established an audit committee (the “**Committee**”). These terms of reference identify and formalise the roles, tasks and responsibilities of the Committee for compliance with the UK code on corporate governance, to assist the Committee in achieving best practice in corporate governance for Drax Group plc and its subsidiaries and establish principles associated with systems of financial management and control.

2 Membership

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 have at least three members who shall comprise independent non-executive directors. The Chair of the Board shall not be a member of the Committee.

At least one member of the Committee shall have recent and relevant financial experience. The Committee as a whole shall have competence relevant to financial matters and appreciation of the energy sector.

Only members of the Committee have the right to attend Committee meetings. The chief financial officer, head of internal audit, head of risk and external audit lead partner shall be invited regularly to attend meetings. Others such as the Chair of the Board, the chief executive, other executive directors and members of management from various disciplines may be invited to attend all or part of any meeting.

Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods provided the non-executive director remains independent.

The Board shall appoint the Committee Chair. 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.

3 Secretary

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.

4 Quorum

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.

5 Frequency of Meetings

The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle.

Outside of the formal meeting programme, the committee Chair and, as appropriate to the matters under discussion, the other committee members, will maintain a dialogue with key individuals involved in the company’s governance, including the board Chair, the chief executive, the chief

financial officer, the external audit lead partner, the head of internal audit, the head of risk and the head of health & safety.

6 Notice of Meetings

Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

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.

7 Minutes of Meetings

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

The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.

Minutes of Committee meetings shall be agreed by the Chair of the Committee and then circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

8 Duties

8.1 Annual reports and other financial reporting

The Committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports, preliminary results' announcements, forecasts and any other formal announcement, report or return containing financial information for which Board approval is required, reviewing significant financial reporting issues and judgements which they contain.

The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the company/group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in the company's financial reports and the context in which statements are made;
- (e) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management); and
- (f) related information presented with the financial statements, including the Strategic Report and corporate governance statements relating to the audit and to risk management;

The Committee shall review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides information necessary for shareholders to assess the company's performance, business model and strategy, and whether it informs the Board's statement in the annual report on these matters required by the UK Corporate Governance Code.

8.2 Internal Controls and Risk Management Systems

The Committee shall:

- (a) review the company's risk management and internal control systems, including operational and compliance controls, having due regard to the Company's risk appetite, tolerance and strategy as set by the Board, and, at least annually, review their

effectiveness, receiving reports from management, including reports from the risk management committees established under the Risk Management Policy, on the effectiveness of the systems and the conclusions of testing carried out by the internal and external auditors;

- (b) ensure that effective and robust risk management is an integral part of Drax's strategy setting, business planning and decision making process; and
- (c) review and recommend to the Board the disclosures included in the annual report and accounts in relation to risk management, internal control and the Board's statements on longer term viability and on the going concern basis of accounting.

8.3 Internal Audit

The Committee shall:

- (a) review and approve the mandate of the internal audit function as set out in the internal audit charter, approve the annual internal audit plan to ensure that it is aligned with the key risks of the business,
- (b) ensure the internal audit function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate and to perform in accordance with the relevant professional standards;
- (c) approve the appointment or termination of appointment of the head of internal audit, or, as appropriate the external party undertaking such function;
- (d) ensure that internal audit has access to the Committee and the Chair of the Board where necessary and a reporting line which enables it to be independent of management; and meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out;
- (e) review promptly all reports on the company from the internal auditors and monitor management's responsiveness to their findings and recommendations;
- (f) be consulted on and guide management on the engagement of any third party which might be consulted or which might undertake any aspect of the review and audit of particular aspects of the Group's operations (for example health and safety)
- (g) monitor and assess the effectiveness of the internal audit function in the overall context of the Company's risk management system, confirming that it is satisfied that the quality, experience and expertise of the function (including any contracted third party resources) is appropriate for the business.

8.4 External Audit

Appointment, terms and remuneration

The Committee shall annually assess, and report to the Board on, the qualification, expertise, resources and independence of the external auditors and the effectiveness of the audit process, with a recommendation on whether to propose to the shareholders that the external auditors be reappointed.

The Committee shall ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

If the external auditor resigns, the committee shall investigate the issues giving rise to the resignation and consider whether any action is required.

The Committee shall approve the terms of engagement of the external auditors, including any engagement letter issued at the start of each audit and the scope of the audit.

The Committee shall approve the remuneration of the external auditors, satisfying itself that the level of fees is appropriate to enable an effective, high quality audit to be conducted.

Independence, including the provision of non-audit services

The Committee shall:

- assess annually their independence and objectivity of the external auditors, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- agree with the Board and monitor the application of a policy on the employment of former employees of the company's auditor;
- monitor the auditor's processes for maintaining independence and compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, or relevant part of it, and other related requirements; and
- develop and implement a policy on the provision of non-audit services by the external auditor, to include consideration of:
 - (a) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (b) the nature of the non-audit services;
 - (c) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (e) the criteria governing compensation

the general principle will be that no non-audit services are undertaken by the incumbent audit firm. Such appointment will only be permitted where the work is pre-approved in accordance with paragraph 5.2 of the Group's Auditor Independence Policy, the work to be allocated requires a certificate or other assurance of the Company's appointed auditor, the services provided relate to reporting accountant activity, or exceptional circumstances warrant it, and only then where the work is permitted by the Revised Ethical Standard (2019), the non-audit fee cap (70% of the average audit fees paid by the Group for the preceding three financial years) is not breached, and the Committee is satisfied the engagement of the audit firm is justified on merits which are clearly articulated by management and agreed in advance by the Committee. In the first instance the Audit Committee Chair should be consulted on any proposed work to be undertaken, explaining the scope, rationale for the engagement of the audit firm, expected cost and management's explanation of other service providers which have been considered,

Annual audit cycle

The Committee shall:

- (a) meet regularly with the external auditor, including at the audit planning stage and at the conclusion of the audit. The Committee shall meet the external auditors at least once a year without management being present, to discuss their remit and their perceptions of their interactions with senior management and other members of the finance team;
- (b) consider whether the auditors' overall work plan, including planned levels of materiality and proposed resources to execute the plan, appears consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

- (c) review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
 - a discussion of any major issues which arose during the audit;
 - key accounting and audit judgements and the evidence they have received in relation to each of the areas of significant judgement; and
 - levels of errors identified during the audit, obtaining explanations from management as to why any errors have not been corrected;
- (d) review the representation letter(s) requested by the external auditor, giving particular consideration to matters that relate to non-standard issues;
- (e) review the external auditors' management letter and management's response to the findings and recommendations;

Assess the effectiveness of the audit process

The Committee shall assess the effectiveness of the audit process in the particular circumstances of the company. The assessment will take account in particular of the mind-set, skills and character of the audit team, their understanding of the company's business, their perceptiveness and robustness in handling key areas of audit risk and accounting judgement, and the quality of their reports to the Committee and of the responses to questions from the Committee. The Committee shall also obtain feedback about the conduct of the audit from key members of the finance team. It should discuss with the auditors the findings from any internal or external inspections of (a previous) audit of the company's financial statements and inspections of the audit firm.

8.5 Reporting Responsibilities

The Committee Chair shall report formally to the Board on how the Committee has discharged its responsibilities, including the significant issues that it considered in relation to the financial statements and how those issues were addressed, its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor, and any other specific issues the Board requested the Committee to consider.

The annual report and accounts shall include a separate section describing the work of the Committee. This section shall include:

- (a) a summary of the role and work of the Committee together with the names of Committee members and the number of Committee meetings;
- (b) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- (c) an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, together with information on the length of tenure of the current audit firm and lead audit partner, when a tender was last conducted and advance notice of any retendering plans;
- (d) an explanation of how auditor objectivity and independence is safeguarded in the context of any non-audit services provided by the external auditor;
- (e) an explanation of how the Committee has assessed the effectiveness of the internal audit function and satisfied itself that the quality, experience and expertise of the function is appropriate for the business;
- (f) how the Committee's performance evaluation has been conducted; and
- (g) the nature and extent of any interaction with the Financial Reporting Council's (FRC's) Corporate Reporting Review team and, where a (previous) audit of the Company's financial statements has been reviewed by the FRC's Audit Quality Review team, any significant findings of the review and actions the auditors have taken or plan to take.

8.6 Compliance, whistle-blowing and fraud

The committee shall:

- (a) review the adequacy and security of the company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- (b) review the company's procedures for detecting fraud;
- (c) review the company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- (d) review regular reports from the Compliance Director and keep under review the adequacy and effectiveness of the company's compliance function;
- (e) review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls;

9 Engagement with Shareholders

The Committee Chair should attend the annual general meeting to answer any shareholder questions on the Committee's activities. In addition the Committee Chair should consider undertaking engagement with shareholders on significant matters related to the Committee's areas of responsibility.

10 Authority

The Committee is authorised:

- (a) to seek any information it requires from any employee of the company in order to perform its duties;
- (b) to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference;
- (c) to call any employee to be questioned at a meeting of the Committee as and when required; and
- (d) to publish in the company's annual report details of any issues that cannot be resolved between the Committee and the Board.

11 Other Matters

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- (b) 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;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the relevant Listing Authorities Listing Rules as appropriate;
- (d) have regard to any other applicable rules or regulatory guidance, as appropriate;
- (e) be responsible for co-ordination of the internal and external auditors;

- (f) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort;
- (g) work and liaise as necessary with all other committees of the Board; and
- (h) at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

12 General

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