

Drax Power Limited

Governance arrangements

Good governance is a key factor in securing the long-term success of our business. During 2019, 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.

Our purpose

Our purpose is to enable a zero carbon, lower cost energy future. Through our purpose we are aligned both with the UK's commitment to become carbon neutral by 2050, and with wider public recognition of the need for positive action on climate change.

Values and culture

Our aim is to maintain an open and collaborative culture. Setting the right standards helps to protect the business and the interests of stakeholders. Of primary importance is the safety and wellbeing of our people, and safety is a standing agenda item at management meetings. We also have dedicated health and safety committees to continually review safety practices.

We are committed to conducting business ethically, with honesty and integrity, and in compliance with all relevant laws and regulations. We do not tolerate any form of bribery, corruption or other unethical business conduct.

Our compliance framework is set out in the Drax Group ethics handbook, *Doing the right thing*. The handbook identifies the behaviours expected from our employees and contractors on topics including human rights, ethical business conduct and integrity. Our policies and procedures provide further guidance and instruction, in line with best industry practice. These include our Corporate Crime policy and Gifts and Hospitality, Conflicts of Interest and Due Diligence procedures.

The Group Ethics and Business Conduct Committee ("EBCC") is responsible for monitoring ethical behaviour and practices across the Drax Group. You can read more about the responsibilities and activities of the EBCC in the 2019 Drax Group plc Annual report and accounts.

In 2019, we established and deployed new annual eLearning training, including Data Protection and Anti-Bribery and Corruption training for all colleagues. Targeted training on Supply Chain Human Rights, the Criminal Finances Act and Fair Competition was provided for managers and teams in higher risk areas. Refresher training was also provided on the Market Abuse Regulation for the Drax Group plc Board, Executive Committee and relevant management and employees throughout the Drax Group.

We are also committed to the elimination of unlawful and unfair discrimination. We value the differences that a diverse workforce brings to the organisation and our goal is to create and maintain a working environment that is both safe and supportive for all of our people. This is reflected in the Group-wide diversity policy.

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Leadership and Succession

Investing in the development of our people is essential to the delivery of our business strategy. 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. Launched in 2019, the Future Creators programme is designed to develop and retain high-potential individuals and grow our leadership pipeline. Each individual has a personal development plan and a Drax Group plc Executive Committee sponsor. A One Drax award may also be awarded for those identified as having potential to add significant value to the Group.

Effectiveness and accountability

Management meet at least once a month to discuss strategic and operational matters. Every month management 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 reviews 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.

The Group has a number of committees that provide specialist advice and constructive challenge to the directors. Examples include (i) the Generation Operating Review Committee, chaired by the Group CEO and meets monthly, which reviews the operational and financial performance of the Generation business unit and ensures that risks to performance are managed appropriately, (ii) SHEWLEC which meets quarterly and establishes standards for health, safety, environmental and wellbeing issues and reviews performance against those standards including any mitigation of key risks associated with those matters, and (iii) Financial Risk Management Committee which reviews and challenges the effective management of all financial risks, including trading, commodity, treasury and currency risk across the Drax Group. The Board also receives feedback from the Drax Group plc Executive Committee and ultimately Drax Group plc Board. During 2019, Drax Group plc non-executive director John Baxter visited the Company's generation facilities. John was able to use his deep knowledge of engineering and safety to provide valuable observations and constructive feedback on outage and safety processes.

Risk management

The Board is responsible for the management of all risks at the Company. There are two committees that support the Board with this responsibility:

- The Safety, Health, Environment and Production Integrity Committee ("SHEPIC"), is responsible for safety, health, environment and production risks.
- The Commodity and Currency Risk Management Committee ("CCRMC") chaired by the Group Financial Controller, is responsible for commodity trading, counterparty, currency, compliance and regulatory risks.

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All risks are recorded on risk registers and are mapped to one of the Drax Group's Principal Risk categories. Management conduct a 'deep dive' into at least one of the Principal Risk categories each month. Each of the Drax Group's Principal Risk categories are overseen by one of the specialist committees who report to the Drax Group plc Executive Committee and further oversight is provided directly by the Drax Group plc Executive Committee itself.

The internal control environment is based on Group-level financial and operational 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 plc 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 Group Remuneration Policy which is approved by Drax Group plc shareholders. The implementation of the Remuneration Policy is the responsibility of the Drax Group Remuneration Committee. The Remuneration Committee may apply discretion to the remuneration of those directors to override formulaic outcomes of variable pay programmes to ensure that pay appropriately reflects company and individual performance. Where any discretion is applied, the justification is clearly stated. The Remuneration Committee considers external market benchmarking data to inform executive remuneration decisions. External market benchmarking data is also considered in relation to remuneration decisions of the wider workforce. Details of the Drax Group Remuneration Policy can be found on pages 91 to 102 in the 2019 Drax Group plc Annual report and accounts.

Directors across the Group also participate in a Long-Term Incentive Share Plan. An award from the Long-Term Incentive Share Plan is subject to the achievement of Group-wide performance conditions which align with the long-term interests of the Company and the Drax Group.

The Drax Group Diversity and Inclusion working group monitors diversity and inclusion across the Drax 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 to suggest and implement initiatives to reduce the gender pay gap and 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 below.

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Companies Act, Section 172 statement

Understanding the needs of our stakeholders is essential to our long-term success. We recognise that to achieve our purpose, we need to listen to, and work with, a diverse range of interested parties. The Company has a wide range of stakeholders and takes care to ensure that there is an effective strategy to identify and engage with stakeholders.

The Board takes care to develop a strategy that will create long-term value for the Company and for its stakeholders. In supporting the Board's duty to promote the success of the Company, management discussions include information on stakeholders likely to be affected by items under discussion and the potential impact on them. There are formal and robust processes in place to ensure the data provided to management is reliable.

A comprehensive list of stakeholders identified across the Group and how we engage with them and have regard to their interests, can be found from page 24 in the 2019 Drax Group Annual report and accounts. Examples of some of the Company's key stakeholders include:

Workforce

Engaging with the workforce is important as we want to create an engaging environment where our employees can thrive. We maintain regular dialogue with our workforce through our Generation Workforce Engagement ("My Voice") Forums and annual engagement survey, Open Forum meetings, and weekly updates and Q&A from the Group CEO.

The Generation My Voice forums are made up of members nominated by colleagues from the Generation business unit and meet quarterly to discuss matters raised by colleagues, by the Board and by the Group plc Board. The Generation CEO and another Generation director attended the meetings that took place in 2019. The Generation My Voice Forum Chairs also meet quarterly with the Group CEO and Chair to further discuss topics raised at the Generation forums. Matters discussed during 2019 include how effectively communication filters down from senior leadership to the wider business; living our values; and wellbeing, including a greater focus on mental wellbeing. In response to employee feedback, plans have been developed to address wellbeing across the Group, including mental wellbeing, which were shared with the My Voice forums to seek their input before rolling out a wellbeing programme in 2020.

Our dialogue with employees includes regular communication about the Company's, and the Group's, strategy, plans and performance. During 2019, 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 a large number of employees are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned. We actively encourage employee participation in the Group-wide All-Employee Sharesave scheme, offering the maximum discount of 20% and waiving any length of service requirements. During 2019, nearly half of all UK employees across the Group participated in a Drax Sharesave scheme.

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Many Company employees are represented by a trade union so there is regular engagement with trade union representatives. During 2019, pay and conditions, shift pattern changes and changes required to implement the Company's strategy were discussed with union representatives.

Strategic suppliers

There are suppliers who deliver goods and services that are critical to the long-term strategic success of the Company. Strong relationships with suppliers and contractors allow us to mitigate health and safety risk, promote high standards and ensure realistic expectations on project delivery. Collaboration with strategic partners starts from outset and discussions throughout the relationship are led by the Board.

Our relationships with smaller suppliers are also important. Understanding their needs informs our prompt payment policy. Engagement also allows us to set out our expected standards of conduct.

Regulators, network operators and commodities counterparties

We regularly engage with Ofgem, National Grid and our commodities counterparties. This is important as it helps us to deliver a secure, reliable electricity network. This also helps us to understand and be prepared for upcoming policy developments and industry change, and also gain insights from them regarding best practice.

Shareholders

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. Drax Group plc engages with its shareholders and investors through a wide range of channels, including our website, AGM, full year and half year results, Capital Markets days, an ongoing programme of investor relations meetings and engagement by the Chair of the Remuneration Committee. This engagement allows the Drax Group plc Board to understand their concerns and priorities and take these into account in decision making.

Community and the environment

Our purpose is to enable a zero carbon, lower cost energy future, and we seek to achieve a positive long-term economic, social and environmental impact. We support the UN's Sustainable Development Goals and we're proud to contribute to the share of renewable energy in the global energy mix. We take action to combat climate change and its impacts across our business.

We regularly engage with the local community by supporting local initiatives and hosting drop-in sessions to help understand the needs of the local community and the impact that our business has on them. In 2019, Drax Power Station welcomed 9,763 visitors. Our tours are focused on learning outcomes and are tailored for visitors of all ages. To read more about our positive social impact across the Group, see pages 45 to 48 of the 2019 Drax Group Annual report and accounts.

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Standards of business conduct

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