Our values are driven by our culture, fundamental to which is acting with integrity – and what we call “doing the right thing”.

**We care about what matters**
We believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation. We’re committed to creating a business model where financial performance, value creation and sustainability outcomes are aligned.

**We’re a can-do kind of place**
We have a diverse, inclusive culture where the continual exchange of ideas and perspectives leads to great things. The conversion of our coal-fired power plant to biomass and the development of our Electric Vehicles service was due to the ingenuity of our people.

**We see things differently**
We look at the world and see possibilities in how we can help to solve the climate crisis. We seek new ways of doing things. We repurpose existing assets (such as the coal to biomass conversion), use our expertise and new technologies to innovate (such as bioenergy with carbon capture and storage (BECCS) or alternative fuels), and embrace opportunities to learn so we can become even better.

**We listen carefully**
We listen to our colleagues, communities, customers and other stakeholders, working with them to better understand their needs, and deliver the best possible outcomes. Our new ways of working, to more flexibly support colleagues, are a direct result of colleague feedback.

**We do what we say we’ll do**
We are delivering on our purpose – to enable a zero carbon, lower cost energy future – and we believe we’re a world leader in sustainable biomass and BECCS.
Market context

Our role in delivering clean power, tackling climate change, promoting the UK’s socio-economic growth, and global leadership ambition through negative emissions

Decarbonisation, electrification, the role of negative carbon emissions and the UK’s global role

2021 was a tumultuous year for the global economy. There were widely reported shortages and supply chain issues across multiple sectors, mostly caused by a combination of disruption from both Covid-19 and, in the UK, from Brexit.

This issue did not detract from the UK Government’s focus on decarbonisation, both domestically and globally. The Government’s Net Zero Strategy, published in October 2021, shortly before COP26, contained many commitments to help the UK meet the 2050 Net Zero target, as well as interim carbon targets. The most notable of these was the announcement that by 2035 the UK would fully decarbonise its power sector, and a commitment to support greenhouse gas removal technologies, such as bioenergy with carbon capture and storage (BECCS), to deliver at least 23Mt of negative emissions. By way of illustration, realising this scale of negative emissions would be the equivalent of six Drax Power Station biomass units fitted with BECCS.

The Government’s Net Zero Strategy outlines a pathway to reaching net zero and includes tough targets both in the medium and long-term. The next steps for the Government include ensuring that targets are backed up by robust policy to ensure that industry can deliver what is required. COP26 presented a clear platform for countries to outline their strategies and targets to address their contribution to climate change. If achieved, the targets and commitments would place the world on a trajectory towards limiting the worst effects of climate change.

At COP26, and after months of negotiations, policymakers from 197 countries struck an agreement aimed at strengthening the global fight against climate change. Despite its shortfalls, the deal establishes a consensus that all countries need to do more to fight climate change and sets up better rules on transparency to hold them accountable. Above all, it’s the first time the need to draw down fossil fuels is explicitly mentioned in a global climate agreement. Drax attended COP26 where we showcased our commitment to tackling climate change, and the critical role that biomass and BECCS will play in this transition was well recognised by key global stakeholders and Government.

Bioenergy with carbon capture and storage (BECCS)

The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050, identifying a requirement of between 2 billion and 7 billion tonnes of negative emissions globally from BECCS.

Separately, the UK Government published its Net Zero Strategy and Biomass Policy Statement reaffirming the established international scientific consensus that sustainable biomass is renewable and will play a critical role in helping the UK achieve its climate targets. The Net Zero Strategy set a new Government ambition for at least 5Mt p.a. of negative emissions from BECCS and Direct Air Capture by 2030; 23Mt p.a. by 2035; and up to 81Mt p.a. by 2050. The reports commit the Government to the development of a financial model to support BECCS to meet these requirements.

Drax impact

The East Coast Cluster initiative was selected as one of the UK’s first carbon capture and storage clusters in the UK. This is the first step towards ensuring that the CO2 transportation and storage infrastructure will be in place to safely take and store the CO2 captured by the BECCS project. Subject to the right regulatory and investment framework, we plan to transform Drax Power Station into one of the world’s leading carbon capture projects, using BECCS to permanently remove 8Mt of CO2 emissions from the atmosphere each year by 2030.

The project is well developed, the technology is proven and an investment decision could be taken in 2024, with a first BECCS unit operational in 2027 and a second in 2030. We aim to complement this innovation with a new target to deliver 4Mt of negative CO2 emissions p.a. from new-build BECCS outside of the UK by 2030, and are currently developing models for North American and European markets.
Despite global supply chain problems, Drax impact cost for the consumer. Prices in 2021, helping to keep down the significant beneficiary of higher power in advance, so we have not been a generate is forward sold up to two years.
The reliable, dispatchable power we generate is forward sold up to two years in advance, so we have not been a significant beneficiary of higher power prices in 2021, helping to keep down the cost for the consumer.

The role of sustainable biomass is increasingly recognised by policy makers in Europe, North America and Asia as a way to deliver rapid large-scale decarbonisation, as well as the potential for enabling negative emissions.

**Drax impact**
Drax is a major producer, supplier and user of sustainable biomass, active in all areas of the supply chain with long-term relationships and almost 20 years’ experience in biomass operations. The Group’s innovation in coal-to-biomass engineering, supply chain management, together with the development of a leading position in negative emissions, can be deployed alongside our large, reliable and sustainable supply chain to support customer decarbonisation journeys with long-term partnerships.

We aim to double sales of biomass to third parties to 4Mt p.a. by 2030, developing our market presence in Asia and Europe, facilitated by creating new business development teams in Tokyo and London.

**Dispatchable, renewable generation**
While the UK has not recently faced a genuine failure of security of supply, the UK Government must continue to ensure a diverse range of both low carbon and dispatchable technologies are adopted. The Smart Systems and Flexibility Plan, published in summer 2021, highlighted the significant barriers to deployment faced by Large-Scale Long-Duration Storage technologies, such as pumped storage hydro. Measures to address these barriers could include the introduction of a revenue stabilisation mechanism, which would enable investment in these technologies. The Government also issued a call for evidence on better aligning the Capacity Market with net zero and gradually phasing out Capacity Market support for high carbon technologies. Biomass, as a low carbon and flexible technology, is well placed to be supported via the Capacity Market following the end of the current regime of subsidies for biomass in 2027.

**Drax impact**
Drax is the UK’s largest source of renewable power by output and our portfolio of biomass, pumped storage and hydro offers the dispatchable power the UK needs to support further deployment of intermittent renewables.

Our continued focus on delivering BECCS and the development of new pumped storage hydro is well placed to support decarbonisation and help ensure security of supply.

**Biomass acceptability**
Global government support for biomass and BECCS remains strong. Both the EU and the UK Government reaffirmed support for the role of biomass in the Green Deal and Biomass Policy Statement respectively. US President Joe Biden’s long-term climate strategy recognises biomass as a key component to decarbonising the US.

**Drax impact**
We continue to engage with global policymakers on the role of biomass and BECCS, and we will continue to promote the role of sustainable biomass in helping the UK meet its net zero targets. Our biomass sourcing and audit policies go beyond compliance. We take great care to only source from sustainable sources, and we maintain a full chain of custody throughout our supply chain, to ensure we meet certification standards. We conduct independent audits of suppliers and our own supply chain.
At a glance

Drax is the second largest sustainable biomass producer globally, and the UK’s largest source of renewable power by output. We are progressing options for bioenergy with carbon capture and storage (BECCS).

Our integrated flexible and renewable value chain...

*Pellet Production*

Our pellets are manufactured from forestry and agricultural by-products and residues. They provide a sustainable, low carbon fuel source that can be safely and efficiently delivered through our global supply chain. The pellets are produced to best practice sustainability standards. Based in the US south and in Western Canada, we have 17 operational and development sites with nameplate capacity of around 5Mt once expansions are complete.

We have US$4.5bn of long-term contracted sales to third parties across Asia and Europe. Our Generation business also uses these pellets to make flexible, renewable electricity for the UK.

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Business unit breakdown**

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Pellet Production</th>
<th>Generation</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group EBITDA</td>
<td>£86m</td>
<td>£372m</td>
<td>£6m</td>
</tr>
</tbody>
</table>

**Generation**

Our portfolio of flexible, low-carbon and renewable UK power assets – biomass, hydro and pumped storage generation – provides renewable, dispatchable power and system support services to the electricity grid.

We are the UK’s largest source of renewable power by output, and Drax Power Station is the UK’s largest single source of renewable electricity by output. Our portfolio provides long-term earnings stability and opportunities to optimise returns from the transition to a low-carbon economy.

We are developing options for BECCS at Drax Power Station and exploring options for international new-build BECCS.

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)

**Employees**

- Pellet Production: 616
- Generation: 692
- Customers: 835

**Adjusted EBITDA**

- Pellet Production: £86m (2020: £52m)
- Generation: £372m (2020: £446m)
- Customers: £6m (2020: £(39)m)

**Pellets produced**

- Pellet Production: 3.1Mt (2020: 1.5Mt)

**Production cost**

- Pellet Production: $143/t (2020: $153/t)
Drax completes acquisition of Pinnacle Renewable Energy, Inc.

The acquisition positions Drax as the world’s leading sustainable biomass generation and supply business. It transforms Drax into an international business, trading bioenergy from the North American continent to Europe and Asia, and positions the enlarged Group to take advantage of global growth opportunities, with the market for biomass pellets for renewable generation in Europe and Asia expected to grow significantly.

Find out more on page 12
Our business model

A leading UK renewable energy company with global growth opportunities aligned to net zero targets

Our business model and strategy address key trends in global energy

• The increasing demand for electricity and the need for renewable energy
• The need to decarbonise and the importance of negative emissions
• The need for dispatchable generation to enable increased reliance on intermittent renewables

Our integrated flexible and renewable value chain...

Sustainable biomass pellets

Drax believes that the global market for sustainable biomass will grow significantly, creating opportunities for sales to third parties, BECCS, generation, and other long-term uses of biomass. Delivery of these opportunities is supported by the expansion of the Group’s biomass pellet production capacity.

The Group has 17 operational and development sites with nameplate capacity of around 5Mt p.a. once expansions are complete. Drax is targeting 8Mt p.a. of production capacity by 2030, which will require the development of over 3Mt p.a. of new biomass pellet production capacity.

Underpinned by this expanded production capacity, Drax aims to double sales of biomass to third parties to 4Mt p.a. by 2030, developing its market presence in Asia and Europe.

Pellet production capacity

\[
\text{c.} 5\text{Mt} \quad \text{Production cost}
\]

\[
(2020: 1.5\text{Mt}) \\
(2020: $151/\text{t})
\]

Negative emissions

Post-combustion removal of carbon from the atmosphere (such as BECCS) and afforestation (planting new trees in new areas) are recognised as important sources of negative emissions – removing CO₂ from the atmosphere\(^\text{1}\).

Building on its biomass expertise, Drax is developing options for BECCS. Subject to the right regulatory environment, Drax plans to transform Drax Power Station into one of the world’s leading carbon capture projects using BECCS to permanently remove 8Mt of CO₂ emissions from the atmosphere each year by 2030. The project is well developed, the technology is proven, and an investment decision could be taken in 2024, with the first BECCS unit operational in 2027 and a second in 2030, subject to the right investment framework.

The Group aims to build on this innovation with a new target to deliver 4Mt of negative CO₂ emissions p.a. from new-build BECCS outside of the UK by 2030.

Carbon negative company by 2030

Targeting 12Mt of negative emissions globally by 2030

Dispatchable, renewable generation

Drax Power Station is the UK’s largest source of renewable power by output and the largest dispatchable plant. The Group is continuing to develop a lower cost operating model for this asset, supported by a reduction in fixed costs associated with the end of coal operations.

Drax is also developing an option for new pumped storage – Cruachan II – which could take a final investment decision in 2024 and be operational by 2030, providing an additional 600MW of dispatchable long-duration storage to the power system.

% renewable

\[
93.8\% \\
(2020: 77\%)
\]

Capacity

\[
2.6\text{GW biomass} \\
0.6\text{GW pumped storage and hydro}
\]
Compelling competitive advantages

• Geographically diversified biomass supply chain with opportunities for growth, innovation and cost reduction
• Development of large-scale negative emissions technology, which positions Drax as a world-leading carbon negative company
• UK’s largest source of renewable power by output
• A leading provider of dispatchable UK generation, offering the flexibility that other renewables (such as wind and solar) cannot
• All underpinned by a culture of safety, sustainability and cost reduction

Creating value for stakeholders

We engage with a broad range of stakeholders, including: shareholders; our workforce; local communities, schools and colleges; governments; network operators and regulators; customers and suppliers; and non-governmental organisations.

You can read more about our stakeholders, together with our section 172 Statement, on pages 34 to 41.

• Global growth opportunities aligned to net zero targets
• Strong financial position, delivering high quality earnings; a sustainable and growing dividend; and a strong balance sheet
• Global leadership in negative emissions technologies
• 95% reduction in generation emissions since 2012 and carbon negative by 2030
• Major contribution towards UK climate targets
• Sustainable development framework and robust biomass sourcing and audit policies
• Giving customers control of their energy
• Investment in our communities in UK, US and Canada
• Commitment to safe and sustainable operations
• Commitment to diversity and inclusion, creating a safe and engaging culture where colleagues feel valued and respected

Sustainable Development Goals

(1) The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050, identifying a requirement of between 2bn and 7bn tonnes of negative emissions globally from BECCS.
We are delivering on our purpose to enable a zero carbon, lower cost energy future, creating robust plans and making the investments necessary to help us achieve our aims.

“We do what we say we’ll do

Safety is our top priority and at the heart of everything we do.”
At Drax, safety is our top priority and at the heart of everything we do. We all have a responsibility to ensure the health, safety, and wellbeing of our people, assets and the environment. And to ensure that everyone – regardless of location or role – goes home at the end of every day, safe and well.

That's why our teams have been hard at work behind the scenes to look at site-by-site safety procedures, identify best practice and any areas where we could do better.

We're creating a new Integrated Management System, bringing best-in-class processes to all our North American sites.

We want to raise the bar when it comes to safety and deliver on our OneSafeDrax vision.

Amber Bouska
VP HSE, North America

**Percentage of total UK renewable electricity generation output (2021)**

12%

**Total recordable incident rate**

0.22
Chair’s statement

2021 was a transformational year for the Group – driven by our purpose to enable a zero carbon, lower cost energy future, and our ambition to be a carbon negative company by 2030.

The Group aims to realise its purpose and ambition through three strategic objectives – to be a global leader in sustainable biomass pellets, to be a global leader in negative emissions, and to be a leader in UK dispatchable, renewable power. These objectives are closely aligned with global energy policies, which increasingly recognise the unique role that biomass can play in the fight against climate change.

Since 2012, we have reduced our carbon emissions from power generation by over 95%, principally reflecting our long-term investment in sustainable biomass. More recently, in January 2021 we completed the sale of our CCGT gas assets, and in March 2021 ended commercial coal generation, further reducing our carbon emissions. Beyond this reduction, we have continued to progress our ambition to become a carbon negative company by developing opportunities for bioenergy with carbon capture and storage (BECCS) in the UK and internationally.

We believe sustainable biomass has a long-term role to play in the UK and global energy markets, both as a dispatchable and sustainable source of renewable energy, and as a means of delivering negative carbon emissions. Our biomass supply chain strategy has continued to progress, with the acquisition of Pinnacle Renewable Energy Inc (Pinnacle) in April 2021 positioning Drax as the world’s leading sustainable biomass generation and supply business.

Operations

In North America, alongside the process of integrating Pinnacle, our Pellet Production business managed the impacts of summer wildfires, heavy rainfall and flooding in Canada, leading to some disruption to rail movements and restricted exports. While managing these issues across our enlarged and diversified supply chain, we have continued commissioning new capacity in the US southeast and further reduced production costs across the portfolio.

In the UK, our generation portfolio has continued to support the UK power system and deliver high levels of renewable electricity. In 2021, the Group was once again the largest source of renewable electricity by output in the UK, providing 12% of the total from its biomass and hydro generation assets.

Investment case

• Long-term global growth opportunities align with net zero strategies
• Differentiated position with operations across the biomass value chain
• >95% reduction in generation carbon emissions since 2012
• High-quality, strategic asset base
• Strong operational and financial performance
• Clear capital allocation policy

Find out more in the CEO’s review on page 12
Our Customers business, which supplies electricity and gas to businesses in the UK, has continued its recovery from the impact of Covid-19, which was principally associated with its small and medium-sized enterprise (SME) business.

Results and dividend
Adjusted EBITDA in 2021, including both continuing and discontinued operations, was £398 million. This was slightly lower than 2020 (£412 million), principally reflecting a major planned outage on one biomass generation unit at Drax Power Station. In the context of that outage, we believe this was a strong performance.

The balance sheet also remains strong with net debt of £1,044 million in line with our plans and, we believe, supportive of our credit rating.

At the 2021 Half Year Results, we confirmed an interim dividend of £30 million (75 pence per share). The Board proposes to pay a final dividend in respect of 2021 of £45 million, equivalent to 11.3 pence per share, making the full year 2021 dividend £75 million (18.8 pence per share) (2020: £68 million, 171 pence per share). This represents a 10% increase on 2020 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

The Group has a clear capital allocation policy which it applied throughout 2021. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows from contracted income, the less predictable cash flows from the Group’s commodity-linked revenue streams and future investment opportunities. The latter includes our stated intent to invest to expand the Group’s biomass supply chain, in addition to options to develop BECCS and pumped storage. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

Safety and sustainability
Safety is a long-held and central commitment of our operational philosophy. While the number of incidents is low, we remain vigilant and work continuously to reduce them. We are committed to the highest standards and have continued our efforts to strengthen our approach across the Group.

Sustainability is at the heart of the Group and we believe that achieving a positive economic, social and environmental impact helps us create sustainable long-term value. Throughout 2021 we have continued our work as a Task Force on Climate-Related Financial Disclosures (TCFD) supporter, developing science-based targets and identifying opportunities for further reductions of carbon emissions in our supply chain. The Board has also considered proposals for a Group Sustainability Framework, the aim of which is to instil, and monitor, sustainability objectives across the Group. This is an ongoing process that will continue in 2022.

People and values
I would like to thank all colleagues and contractors for their valuable contribution to the Group in 2021. In addition, I would like to welcome our new colleagues from Pinnacle who joined the Group in April. The Board has been hugely impressed by the professionalism of our Pinnacle colleagues and their willingness to embrace working together as a part of the enlarged Group.

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. We continue to engage with, and listen to, our colleagues. During 2021, Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums, and we will continue to do so in 2022. These meetings provide valuable ongoing insights and feedback for the Board. A key topic was our Covid-19 response and plans for returning to the offices. In response to feedback, we introduced a new, hybrid and flexible way of working to support colleagues.

Sustainability is at the heart of the Group, and we believe that achieving a positive economic, social and environmental impact helps us create sustainable long-term value.

We have monitored and challenged management on the steps being taken, and receive regular updates at Board meetings on the work being done to address diversity. We are making progress and, by the end of 2021, we had improved our gender representation at Board level to 44% (2020: 29%) and at the Executive Committee to 40% (2020: 22%).

Board changes
In October 2021, we welcomed two new Non-Executive Directors – Erika Peterman and Kim Keating. Their extensive experience in the US and Canada, will strengthen our Board and contribute to the diversity of backgrounds, insights and skills, which reflect the continued growth and international presence of Drax and the evolution of the Group as a leading global provider of sustainable biomass and dispatchable, renewable energy.

Summary
In 2021 we delivered a strong financial performance, supported our stakeholders and continued to pay a sustainable and growing dividend.

At the same time, we have made progress with our strategic objectives. Our biomass growth strategy is clear; our plans for biomass sales, BECCS and generation are all underpinned by the expansion of our supply chain. Through these complementary opportunities we believe we can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and become a carbon negative company.

Philip Cox CBE
Chair

Drax Group plc Annual report and accounts 2021 11
2021 was a pivotal year for Drax as we took major steps to reduce further the Group's carbon emissions and focus increasingly on renewable biomass activities.

We ended commercial coal generation, sold our CCGT generation business to VPI Generation Limited for £186 million and acquired Pinnacle Renewable Energy Inc. (Pinnacle), a leading Canadian renewable energy company, for a cash consideration of £222 million (enterprise value of C$796 million).

The Group’s purpose remains to enable a zero carbon, lower cost energy future and this drives our commitment to address climate change. Since 2012, the actions the business has taken have reduced our generation carbon emissions by over 95%, which are now amongst the lowest in Europe. We are the UK’s largest source of renewable power by output and our ambition is to become a carbon negative company by 2030.

Globally there has been increased recognition and policy support for biomass and Bioenergy with Carbon Capture and Storage (BECCS). The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050.

Separately, in the autumn of 2021 the UK Government published its Net Zero Strategy and Biomass Policy Statement reaffirming the established international scientific consensus that sustainable biomass is renewable and that it will play a critical role in helping the UK achieve its climate targets. The Government also signposted an ambition for at least 5 million tonnes (Mt) p.a. of negative emissions from BECCS and Direct Air Capture by 2030. There are also targets beyond this point – 23Mt p.a. by 2035 and up to 81Mt p.a. by 2050.

Bioenergy is the EU’s largest source of renewable energy, and the EU has noted continued support for sustainable biomass through the development of its third Renewable Energy Directive. In Japan, the government has approved 8GW of biomass generation as part of its own decarbonisation objectives.

We believe Drax is a world leader in sustainable biomass, and that BECCS can become a world leading, UK-led, and exportable solution for large-scale negative emissions.

Through our strategy we are creating exciting opportunities for growth aligned to global decarbonisation efforts. These include biomass supply chain expansion, UK BECCS, international options for BECCS and new pumped storage. Our investments in these areas are underpinned by strong cash flows and we expect to deliver high quality earnings, which continue to support our commitment to a sustainable and growing dividend.

**Acquisition of Pinnacle**

The acquisition of Pinnacle, which completed in April 2021, transformed the Group’s supply chain, making Drax the world’s leading sustainable biomass generation and supply business. It advanced our strategic objectives by increasing production capacity, reducing cost and adding third party sales as well as a platform to further grow those sales.

**2021 highlights**

- Adjusted EBITDA of £398 million from continuing and discontinued operations
- Strong balance sheet and liquidity
- Sustainable and growing dividend
- Sale of gas generation, completed in January 2021, and end of commercial coal generation in March 2021
- Acquisition of Pinnacle Renewable Energy Inc.
- Progressing plans for biomass growth, including BECCS

Find out more in the Financial review on page 22
Combining Pinnacle with our existing assets, we now have 17 operational and development sites in the US southeast and Canada, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and located in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to growing markets in Japan and Korea, where we already have long-term contracts, the UK and mainland Europe, which we can service out of the US southeast.

Summary of 2021
Safety remains our primary focus and in 2021 the Total Recordable Incident Rate was 0.22 (2020: 0.29). This is a good performance that reflects our ongoing focus on the delivery of safe, reliable and compliant operations. Our performance in the UK has improved over previous years, however performance at our newly acquired Pinnacle sites was not as good as we would like and we are working hard to improve there.

Our colleagues have responded tremendously to the challenges of Covid-19. We continue to operate Covid-19 secure workplaces, following relevant jurisdiction guidance with operational staff working in a safe manner, while the rest of our colleagues have adopted hybrid models of work.

Adjusted EBITDA of £398 million from continuing and discontinued operations represents a 3% decrease compared to 2020 (£412 million). The reduction principally reflects a major planned outage on one biomass unit at Drax Power Station, completed in the second half of 2021. In context we believe this was a strong performance, which reflected the acquisition of Pinnacle, higher output and lower cost in pellet production, and an improvement in the Customers business following the easing of lockdown restrictions in the UK.

While power prices remain an important driver of the Group’s earnings, a strong forward sold position in 2021 means we have not been a significant beneficiary of higher power prices from these activities. However, we have been able to add forward hedged prices in future years at higher prices.

Our balance sheet is strong with cash and total committed facilities of £549 million as at 31 December 2021 and net debt of £1,044 million. Consistent with our fully funded plans for investment in growth through 2030, we continue to target long-term net debt to Adjusted EBITDA of around 2.0x, but we now expect to be below this level in 2022.

Operationally, alongside the integration of Pinnacle we delivered increases in pellet production and further reductions in cost, while managing supply chain challenges associated with weather and forest fires in North America. In the UK, our generation fleet has continued to support the power system with high levels of renewable power, although the availability of the biomass Renewable Obligation Certificate (ROC) units was lower than in 2020.

Crucially, we have progressed our option for BECCS in the UK by starting a planning consultation process, selecting a technology partner – Mitsubishi Heavy Industries (MHI) and in December 2021 we awarded a contract to Worley Europe Limited to commence a full Front End Engineering Design (FEED) study. This is based on our increasing confidence in UK Government support for the project, as demonstrated in the Net Zero Strategy. An investment decision could be taken in 2024, subject to the right investment framework.

We remain committed to promoting the UN Global Compact principles on respect for human rights, labour rights, the environment and anti-corruption.

Operational performance Pellet Production
In North America, our Pellet Production business reported Adjusted EBITDA of £86 million, up 65% (2020: £52 million). This reflects higher levels of production from existing operations, ongoing cost reduction plans and the acquisition of Pinnacle.

Pellet production was 3.1Mt, an increase of 109% (2020: 1.5Mt), which reflects the commissioning of additional capacity at Morehouse and LaSalle, in addition to Pinnacle from April 2021, for sale of biomass to third-parties in Asia and Europe, and own-use at Drax Power Station.

The Group is in the final stages of commissioning 360 thousand tonnes (Kt) of new production capacity at Demopolis, Alabama and a new 40Kt satellite plant in Leola, Arkansas. The Group is also currently constructing a new 40Kt satellite plant at Russellville, Arkansas, allowing greater utilisation of lower cost sawmill residues whilst leveraging our existing infrastructure in the US southeast.

Once complete, these developments, alongside incremental capacity expansions at existing sites, will increase nameplate production capacity to around 5Mt p.a., Over 2Mt p.a. are contracted to high-quality third-parties under long-term contracts, with the balance available to Drax to fulfil its own-use requirements.

The Free On Board (FOB) production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) across the portfolio was $143/t, a reduction of 7% (2020: $153/t), which reflects our ongoing programme of cost reduction and supply chain improvements, and the addition of lower cost Pinnacle production.

Operationally, there has been no material disruption to own-use or third-party volumes from the global supply chain delays experienced in some other sectors. However, as outlined at the Group’s 2021 Half Year Results, we experienced a small and contained fire at our Westview port facility in Prince Rupert, British Columbia. No one was injured but operations were temporarily suspended to allow for repairs. Separately, forest fires, heavy rainfall and flooding led to restrictions on rail lines and regional supply chains. As a result, pellet production and exports from Canada were restricted during the summer. Most recently, in December, extreme low temperatures in Canada led to some further reduction in output.

Through our enlarged and diversified supply chain we have been able to manage and limit the impact on our own operations and those of our customers and continue to monitor the potential for change that could have an impact on our business and customers.
Due to the Group’s active and long-term hedging of freight costs, there has been no material impact associated with higher market prices for ocean freight. The Group uses long-term contracts to hedge its freight exposure on biomass for its Generation business, and following the acquisition of Pinnacle, has taken steps to optimise freight requirements between production centres in North America and end markets in Asia and Europe.

On 31 December 2021, Drax completed the acquisition of the wood pellet business of Pacific BioEnergy Corporation, excluding its manufacturing facility, and most importantly, including its pellet sales contract book, adding 2.8Mt of contracts for sustainable biomass supply to high-quality counterparties in Japan and Europe. These contracts are for delivery between 2022 and the mid-2030s and the total incremental revenues over the contract period are around C$675 million.

The deal complements the Group’s existing supply contracts to Asian counterparties and European generators, increasing the Group’s long-term third-party sales book by 15%, to around 22Mt, with total revenues of over US$4.5 billion and contract durations to the 2030s.

**Generation**

The portfolio produced 5% of the UK’s electricity between October 2020 and October 2021 (the most recent period for which data is available) and 12% of the UK’s renewable electricity over the same period, making Drax the UK’s largest renewable generator by output.

Adjusted EBITDA of £372 million from continuing and discontinued operations, was a decrease of 17% versus 2020 (£446 million). The reduction principally reflects a major planned outage on the Group’s Contract for Difference (CfD) biomass unit at Drax Power Station (more details below). Additional costs included a higher cost of biomass, reflecting historic forward foreign exchange hedging and higher grid charges.

Biomass availability was 88% (2020: 87%), including a very strong performance from the CfD unit, with availability of 95% offsetting a higher forced outage rate on the ROC units. This was mainly associated with boiler tube leaks and mill availability and included a two-week forced outage on one unit in September.

We believe that this, in part, reflects the growing utilisation of flexible operation on the three ROC units in their role producing renewable power and providing system support to the power system. To help minimise outage rates, in the future we expect to optimise generation across all four biomass units (ROC and CfD). This will take into account market power prices to maximise value from the biomass stocks available at any given time.

Biomass availability was also affected by a small increase in the number of rail delivery cancellations in the UK. These were due to driver availability, because of Covid-19 restrictions, and transfer plant reliability issues. We managed this through the flexibility of our ROC units, reprofiling generation from the first to the second half of the year.

In November 2021, the Generation business successfully completed a major 98-day planned outage on its biomass CfD unit, which included the third in a series of high-pressure turbine upgrades. We now expect the unit to benefit from thermal efficiency improvements and lower maintenance costs, incrementally reducing the cost of biomass generation at Drax Power Station.

Our hydro operations – Cruachan Pumped Storage Power Station (Cruachan), and the Lanark and Galloway hydro schemes – have continued to perform well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA was £68 million (2020: £73 million).

The Group’s generation assets have continued to play an important role providing stability to the UK power system at a time when higher gas prices, European interconnector issues, and periods of low wind have placed the system under increased pressure.
In March 2021, the Group’s two legacy coal units ended commercial generation activities and will formally close in September 2022 following the fulfilment of their Capacity Market obligations. Reflecting the system challenges described above, the system operator called upon these units in the Balancing Mechanism for limited operations in September and November. These short-term measures helped to stabilise the power system and have not resulted in any material increase in the Group’s total carbon emissions.

Also in March 2021, Drax secured Capacity Market agreements for its hydro and pumped storage assets providing revenues of around £10 million in the delivery period October 2024 to September 2025. The Group also secured 15-year agreements for three new 299MW Open Cycle Gas Turbine (OCGT) projects in England and Wales for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

Customers
Our Customers business reported Adjusted EBITDA of £6 million (2020: £39 million loss). This is a significant improvement on 2020, which was impacted by Covid-19 – principally in the SME business. The SME business continued to be affected by Covid-19 in the first half of 2021. We are continuing to explore operational and strategic solutions to support the development of this business.

The Group’s Industrial & Commercial (I&C) supply business performed well with significant growth in the contracted sales position to high-quality customers. The implied customer demand for renewable power exceeds the generated volumes in the UK and we are well positioned with our own portfolio, as a premium for renewable power emerges.

We see an important role in supporting the decarbonisation of British I&C businesses through the supply of renewable energy, asset optimisation, Electric Vehicle services and carbon offset certificates, which we believe could evolve in the future to the provision of negative emissions. To facilitate these opportunities, we have restructured the Customers business – streamlining operations with the closure of offices in Oxford and Cardiff – and rebranded the Haven Power I&C business to Drax Energy Solutions.

Biomass strategy
In December 2021, the Group held a Capital Markets Day to provide an update on our strategy, which is designed to realise our purpose of enabling a zero carbon lower cost energy future and our ambition to be a carbon negative company by 2030.

The strategy includes three complementary strategic pillars, closely aligned with global energy policies and which increasingly recognise the unique role that biomass can play in the fight against climate change. These pillars are: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation.

To deliver that strategy, we also identified £3 billion of potential investment by 2030 in our biomass supply chain, BECCS and new pumped storage which we expect to undertake.

The development of these pillars remains underpinned by the Group’s continued focus on safety, sustainability and biomass cost reduction. In 2018, the Group’s FOB biomass production cost was $166/t. In 2021, through a combination of fibre sourcing, operational improvements and capacity expansion (including the acquisition of Pinnacle), the FOB cost had reduced to $143/t. Drax continues to target an FOB cost of $100/t by 2027.

We believe we can achieve this target through the continued optimisation of existing biomass operations, technical innovation and the greater utilisation of sawmill residues and other lower cost feedstocks. In this regard, during 2021 Drax Power Station completed trials using four different biomass materials. One of these materials represented 35% of the fuel mix on one biomass unit during test runs. This is a significant increase, although there remains much work to do.

A global leader in sustainable biomass pellets
We believe the global market for sustainable biomass will grow significantly, creating international opportunities for sales to third parties, BECCS, generation and other long-term uses of biomass.

Drax is targeting 8Mt of production capacity by 2030, which will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and current developments. To deliver this additional capacity we are developing a pipeline of organic projects, principally focused on North America, and expect to take a final investment decision in 2022 on 0.5-1Mt of new capacity, targeting returns significantly in excess of the Group’s cost of capital.
Through the acquisition of Pinnacle, Drax has immediate access to new markets, underpinned by long-term index-linked contracts for third-party supply and the expertise to develop new commercial relationships. Underpinned by the planned expansion of production capacity, we aim to double sales of biomass to third parties to 4Mt p.a. by 2030, and develop our market presence in Asia and Europe, facilitated by the creation of new business development teams in Tokyo and London.

Drax is differentiated as a major producer, supplier and user of biomass, active in all areas of the supply chain, with long-term relationships and almost 20 years of experience in biomass operations. The Group’s innovation in coal-to-biomass engineering, supply chain management, together with the development of a leading position in negative emissions, can be deployed alongside its large, reliable and sustainable supply chain to support customer decarbonisation journeys with long-term partnerships. We expect to sell all the biomass we produce at an appropriate market price (both for own use at Drax Power Station and to third-parties), typically with long-term index-linked contracts.

A global leader in negative emissions

The Intergovernmental Panel on Climate Change and the Coalition for Negative Emissions have both outlined a clear role for BECCS in delivering the negative emissions required to limit global warming to 1.5°C above pre-industrial levels and to achieve net zero by 2050. They have identified a requirement of between 2 billion and 7 billion tonnes of negative emissions globally from BECCS.

We plan to transform Drax Power Station into one of the world’s leading carbon capture projects, using BECCS to permanently remove 8Mt of CO₂ emissions from the atmosphere each year by 2030. The project is well developed, the technology is proven and an investment decision could be taken in 2024, subject to the right investment framework. This would mean that the first BECCS unit would be operational in 2027 and a second in 2030.

Drax Power Station is in the Humber region, an area with one of the highest absolute level of carbon emissions in the UK, due to the number of industrial sites in the area. This makes the region a natural location for large-scale carbon capture and storage infrastructure for energy and industry. In October, the UK Government selected the East Coast Cluster (the Humber and Teesside regions combined), as one of two regions to be taken forward for the development of Carbon Capture and Storage (CCS) infrastructure. This is an important milestone for the Drax BECCS project and we expect further developments in 2022 regarding a financial model for UK BECCS.

We believe that the development of CCS and BECCS in the region can bring new investment, new jobs and world-leading and exportable negative emissions technologies in the UK.

We expect deliverability to be an important part of the UK Government’s selection criteria – the technology to deliver post-combustion BECCS exists and is proven. In June 2021, Drax announced MHI as its technology partner for the development of the first two BECCS units at Drax Power Station, following trials of MHI’s technology that commenced in the second half of 2020. Most recently, we confirmed an investment of around £60 million in 2022 in a programme of works which, alongside early site preparation works, will provide the detailed design information and costings to support the investment decision.

In addition, we are progressing our work around innovative technology options for carbon capture, including C-Capture. Drax (alongside IP Group and BP as C-Capture shareholders), continues to support C-Capture’s work to develop an organic solvent that could be used for BECCS and other applications, which we believe could deliver significant long-term cost savings for future projects.

The Group aims to build on this innovation with a new ambition to deliver 4Mt of negative CO₂ emissions each year from new-build BECCS outside of the UK by 2030, and is currently developing models for North American and European markets.

A UK leader in dispatchable, renewable generation

The UK’s plans to achieve net zero by 2050 will require the electrification of heating and transport systems, resulting in a significant increase in demand for electricity. Drax believes that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could meet over 80% of this demand. However, this will only be possible if the remaining power sources can provide the dispatchable power and non-generation system support services required to ensure security and stability of supply and to limit the cost to the consumer.

Long-term biomass generation and pumped storage hydro can provide these increasingly important services. Drax Power Station is the UK’s largest source of renewable power by output and the largest dispatchable plant. The Group is continuing to develop a lower cost operating model for this asset, supported by a reduction in fixed costs associated with the end of coal operations.

We are also developing an option for new pumped storage – Cruachan II – to provide an additional 600MW of dispatchable long-duration storage to the power system. The location, flexibility and range of services it can provide makes Cruachan, in Scotland, strategically important to the UK power system and aligned with its future needs. A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory support.

Outlook

Drax has repositioned itself in the last decade from a single-site fossil fuel generator to the world’s leading sustainable biomass generation and supply business, with global growth opportunities aligned with the need for renewables, negative emissions and more flexible energy systems.

Our focus is on progressing our strategy: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation. Through these strategic objectives, we expect to create opportunities for long-term international growth underpinned by strong cash generation and attractive returns for shareholders, and to deliver value for our other stakeholders.

We are making good progress with the delivery of our strategy and will build on this as we continue to play an important role in our markets as well as realising our purpose of enabling a zero carbon, lower cost energy future and our ambition to become a carbon negative company by 2030, underpinned by the development of BECCS.

Will Gardiner
CEO
We are committed to sourcing sustainable biomass that achieves decarbonisation and positive forest outcomes.

Policy
Biomass – when sustainably sourced – is a renewable, low carbon source of energy, and an important part of both UK and international renewable energy policy.

The legal frameworks and scientific principles which underpin this assessment are clear. Carbon emitted in the generation of renewable electricity from biomass is absorbed by and accounted for in the growth of forest stock. This is based on well-established principles set out by the UN Intergovernmental Panel on Climate Change, which reaffirmed its long-standing position on sustainably sourced biomass in 2019. This interpretation is reflected in the European Union’s second Renewable Energy Directive (REDII) and Taxonomy rules, which mirror REDII.

In July 2021, the European Commission began the development of REDIII. As expected, we have seen increased ambition around renewable energy deployment – including the continued evolution of rules around sustainable biomass sourcing – in addition to proposals to accelerate the decarbonisation of sectors such as heavy industry, heating and aviation.

In the UK, the Government is currently reviewing and updating its Biomass Strategy which is due for publication in Q3 2022. As a user and supplier of sustainable biomass we welcome robust standards and look forward to contributing to the development of REDIII and the UK’s updated Biomass Strategy.

Sourcing
We are committed to sourcing sustainable biomass that achieves decarbonisation and positive forest outcomes. We meet the strict standards set by national legislation and our own policies. Our long-term biomass strategy will be delivered through producing and using only the right biomass across our supply chain.

The material we use to make biomass pellets includes sawmill and forest residuals, and low grade roundwood (see page 46). We form part of a wider forest product sector where forest management and felling is primarily for the purpose of producing material for construction and manufacturing markets.

Our Responsible Sourcing Policy for biomass sets out our forestry commitments for sourcing the right biomass – our commitment to only source biomass that makes a net positive contribution to climate change (i.e. more carbon is absorbed than released), protects and enhances biodiversity and has a positive social impact on local communities. Our policy goes beyond regulatory compliance and is based on the latest available science, for example from that of Forest Research, the UK’s principal organisation for forest science.

Further to our own policy, the biomass we use for generation at Drax Power Station must meet, and is fully compliant with, the UK’s mandatory regulatory standards set by Ofgem, as well as those of the EU, including REDII.

Assurance
We use a range of third-party certification systems across our supply base. These are externally audited on an annual basis, to ensure compliance with our policies and appropriate legislation. They include the Sustainable Forestry Initiative (SFI), Forest Stewardship Council® (FSC®)*, schemes endorsed under the Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Biomass Program (SBP).

100% of the woody biomass we produce and use is either certified by SBP, SFI, FSC or PEFC. Third-party supplier compliance is primarily evidenced by SBP certification and underlying Chain of Custody certifications. SBP certification is robust and suppliers are independently audited against the SBP standards annually.

Audit reports are publicly available. Chain of Custody certification provides a mechanism for tracking wood fibre from the forest to its final destination, verifying that certified fibre has been identified and separated from ineligible fibre at each stage of the supply chain.

Certifications form one part of our wider due diligence process to ensure that suppliers demonstrate all necessary sustainability and legal requirements are met for biomass used for generation. Our process includes supplier engagement, risk assessments, sustainability requirements, including greenhouse gas (GHG) supply chain limits, that are captured in supply contracts, and third-party supplier audits. All suppliers are audited annually by SBP, and these audits include field visits and checking of GHG data.

In addition, Drax conducts ongoing analysis to monitor forest outcomes. Sustainability is a contractual requirement and remedies for non-compliance include, among other measures, termination of the contract.

Peer review and evaluation
We utilise post-harvest evaluations to ensure that the biomass we source is creating positive outcomes. In addition, our Catchment Area Analyses provides data to demonstrate that net carbon stocks are increasing in the fibre baskets from which we source.

An Independent Advisory Board (IAB) of leading academics, chaired by the former UK Government Chief Scientific Adviser Sir John Beddington, provides guidance and independent oversight on the science we use to make our choices. The advice and scrutiny from the IAB is intended to assure stakeholders that we will keep our policies under review and that the biomass we use takes account of the latest scientific research and best practice.

Increasing carbon stocks and positive forest outcomes
Managed forests often absorb more carbon than forests that are left untouched. In the US southeast, which is the source for most of our biomass, increased demand for wood fibre has directly contributed to increased growth and protection of forests. Inventories have increased by over 90% since 1950 as a result of which more carbon is stored year after year, whilst harvests have also increased.
In 2018, the Group’s Free On Board (FOB) biomass production cost (the cost of producing biomass pellets and transferring them to a port in North America for onwards transit) was $166/t. In 2021, through a combination of fibre sourcing, operational improvements and capacity expansion (including the acquisition of Pinnacle), the FOB cost had reduced to $143/t. Drax continues to target an FOB cost of $100/t by 2027.

We believe we can achieve this target through continued supply chain expansion, optimisation of existing operations, design innovation and greater utilisation of sawmill residues and other lower cost renewable feedstocks.

Drax expects to sell all the biomass it produces (own-use and third-party sales), based on an appropriate market price, typically with long-term index-linked contracts.

**Expansion of existing sites and operational efficiencies**

Since 2018 we have expanded the LaSalle, Morehouse and Amite plants. This has provided economies of scale and enabled greater utilisation of lower cost residues, such as wood chips and sawmill residues.

Other projects include the co-location of a third-party sawmill at the LaSalle plant to provide access to sawmill residues, lower transport costs and improved efficiency; a new rail spur connecting LaSalle to the local rail network, improving economies of scale in transport while reducing road miles; and a new chambering yard at the Port of Baton Rouge enabling greater rail throughput.

These larger projects are accompanied by small projects to improve operational efficiency, such as in the loading of road haulage.
Greater utilisation of sawmill residues

In 2020, 21% of the pellets produced by Drax used sawmill residues. In 2021, largely through the acquisition of Pinnacle, sawmill residues increased to 57%.

The benefit of making wood pellets from sawmill residues is firstly lower cost – as a waste product of sawmill activity – and secondly, efficiency of production. Using semi-processed material like sawmill residues can, depending on moisture levels, remove several stages from the established pellet production process, resulting in more efficient, lower cost production of pellets and reduced carbon emissions through the production process.

Drax has developed a co-location model for satellite pellet plants in the US southeast, allowing greater utilisation of lower cost sawmill residues while leveraging our existing infrastructure in the region. By utilising only sawmill residues, these plants eliminate debarking, chipping and drying processes from the production process. This reduces the amount of capital required and improves process efficiency. The co-location of sawmills and pellet plants also reduces transportation, delivering additional savings while reducing cost and carbon emissions.

Acquisition of Pinnacle

The acquisition of Pinnacle, in April 2021, transformed the Group’s supply chain by increasing production capacity by 2.9Mt p.a., reducing cost and creating a platform for growth in sales to third parties. The location of Pinnacle’s production capacity on the west coast of Canada makes it well situated to supply growing demand in Asia, where we now have long-term contracts with customers in Japan and Korea.

Combining Pinnacle with our existing assets, we now have 17 operational and development sites in the US southeast, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and sited in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to markets in the UK, Asia and the rest of mainland Europe.

Further capacity expansion

Drax is targeting 8Mt p.a. of production capacity by 2030, which will require the development of over 3Mt p.a. of new biomass pellet production capacity to supplement existing capacity and current developments. To deliver this additional capacity Drax is developing a pipeline of organic projects, principally focused on North America, and expects to take a final investment decision on 0.5-1Mt of new capacity in 2022, targeting returns significantly in excess of the Group’s cost of capital.

Greater utilisation of other lower cost renewable feedstocks

Over the last decade, as part of our work on biomass innovation, we have screened hundreds of different types of materials. We are now using this knowledge of chemistries and operational characteristics to inform the exploration of alternative fuel types.

Examples of these materials include sugar cane residues (bagasse), nuts and agricultural residues. We believe that in time such materials could represent a significant volume of sustainable biomass material.

Trading and optimisation

An integral part of our strategy is to develop a biomass trading capability. This is an optimisation and risk management activity to support our aim to reduce biomass supply chain costs, and non-proprietary trading. Through this, we aim to optimise internal and external supply and develop opportunities in other markets.

The acquisition of Pinnacle has provided Drax with an enlarged portfolio with more fibre baskets, pellet plants, ports and ships available for supply optimisation. This is enabling the Group to focus on the delivery of biomass produced in western Canada to Asian markets, and biomass produced in the US southeast to European markets. Through this process, we can minimise ocean miles, delivery times, carbon emissions and the cost of ocean freight across the portfolio.

Downstream – Drax Power Station

Our biomass cost reduction targets are primarily based on activities in the North American supply chain. However, we have also invested to improve thermal efficiency at Drax Power Station in the UK. In 2021, we completed the third in a series of three turbine upgrades which has improved thermal efficiency and, alongside other improvements, resulted in a reduction in fuel cost in the region of £1/MWh.

During 2021 Drax Power Station also completed trials using four different low-cost biomass materials. One of these materials represented 35% of the fuel mix on one biomass unit during test runs in 2021. This is a significant increase, although there remains much work to do.

Drax biomass supply chain – supplying biomass for own use and third-party supply – cost of a delivered pellet

- Forest
- Harvesting
- Transport to pellet plant
- Processing
- Transport to port
- Port storage and handling
- Ocean freight
- Port storage and handling
- Transport to power station
- Generation

40% delivered fibre
40% processed pellets to port
20% shipping and logistics
## Key performance indicators

<table>
<thead>
<tr>
<th>Metric</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2019 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group Adjusted EBITDA from continuing and discontinued operations</strong></td>
<td>£398m</td>
<td>£412m</td>
<td>£410m</td>
<td></td>
</tr>
<tr>
<td>Why we measure this</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This is our principal financial performance metric, combining the earnings performance of each business to give a Group outcome</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average net debt</strong></td>
<td>£1,002m</td>
<td>£849m</td>
<td>£950m</td>
<td></td>
</tr>
<tr>
<td>Why we measure this</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This is a key measure of our liquidity (borrowings less cash) and our ability to manage our current obligations. Our long-term target is net debt to EBITDA of around 2x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted Earnings Per Share</strong></td>
<td>26.5p</td>
<td>29.6p</td>
<td>29.9p</td>
<td></td>
</tr>
<tr>
<td>Why we measure this</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This is an important measure of our profitability – showing our Adjusted earnings (Adjusted net profit from continuing and discontinued operations after tax) on a per-share basis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td>18.8p</td>
<td>17.1p</td>
<td>15.9p</td>
<td></td>
</tr>
<tr>
<td>Why we measure this</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This is a primary measure of our value creation for shareholders. We aim to pay a sustainable and growing dividend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group carbon emissions, scope 1 &amp; 2</strong> (ktCO₂e)</td>
<td>1,255 ktCO₂e</td>
<td>3,080 ktCO₂e</td>
<td>2,371 ktCO₂e</td>
<td></td>
</tr>
<tr>
<td>Why we measure this</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We are focused on reducing carbon emissions – as measured by scope 1 and 2 – which enables us to track progress towards our carbon negative ambition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Power generation mix (% total output)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Why we measure this</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>This is a measure of the different generation sources we use, allowing us to track our progress as we seek to enable a zero carbon energy future</td>
<td>2021: 3% Coal, 92% Gas, 1% Biomass, 1% Hydro</td>
<td>2020: 8% Coal, 15% Gas, 75% Biomass, 2% Hydro</td>
<td>2019: 6% Coal, 17% Gas, 77% Biomass, 2% Hydro</td>
<td></td>
</tr>
</tbody>
</table>

* The definition and calculation of Alternative Performance Measures (those that are defined by Drax and not IFRS) is set out on page 286.

(1) These measures are contained in the Group Scorecard and form the basis for the calculation of outcomes for annual bonus and 50% of the 2019 PSP award. TRIR was a measure in the 2019 and 2020 Group Scorecards and therefore has an impact on the calculation of the 2019 PSP. For more information see pages 150 to 153.

(2) EPS forms the basis for the calculation of outcomes for 50% of LTIP awards. For more information see page 139.
<table>
<thead>
<tr>
<th>Metric</th>
<th>Why we measure this</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Recordable Incident Rate (TRIR)</strong></td>
<td>Good safety management is a core principle and is critical to safe and efficient operations. TRIR is an industry standard measure of the number of incidents over hours worked</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.22</td>
<td>0.29</td>
<td>0.22</td>
</tr>
<tr>
<td><strong>Pellets produced (Mt)</strong></td>
<td>This measures a key part of our strategy – to increase our pellet production capacity and output</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.1</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Cost of production (S/tonne)</strong></td>
<td>This measures a key part of our strategy – to reduce the cost of biomass produced</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>143*</td>
<td>153</td>
<td>161</td>
</tr>
<tr>
<td></td>
<td>* Includes Pinnacle</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Biomass availability (%)</strong></td>
<td>This is an important measure of the amount of time our biomass assets are available to operate, either to generate electricity or provide system support services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>88%</td>
<td>87%</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Board composition and diversity</strong></td>
<td>Strong governance and having a supportive, diverse and inclusive working environment, enables us to deliver for stakeholders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>5</td>
<td>44.4% female directors</td>
<td></td>
</tr>
<tr>
<td><strong>Employee engagement score</strong></td>
<td>An engaged and motivated workforce is a critical component in delivering our strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>79</td>
<td>82</td>
<td>76</td>
</tr>
</tbody>
</table>
Financial review

We continue to generate strong operating cash flows, which we expect to use to invest in growth and support the payment of a sustainable and growing dividend, in line with our long-standing capital allocation policy.

I am pleased to report a strong set of results for the year ended 31 December 2021.

Adjusted EBITDA from continuing and discontinued operations of £398 million was delivered inclusive of a major planned outage on the CfD unit at Drax Power Station during the second half of the year. It includes discontinued operations relating to our CCfT generation business, sold to VPI Generation Limited on 31 January, and the results of Pinnacle Renewable Energy Inc. (Pinnacle) following the acquisition on 13 April. The discontinued CCfT operations contributed Adjusted EBITDA of £20 million (2020: Adjusted EBITDA of £46 million).

Total operating profit from continuing operations increased to £197 million in the year (2020: £156 million loss). The loss in 2020 included £261 million of exceptional costs related to the announced closure of our coal operations. Exceptional items in the current year totalled £22 million and included £12 million of fees related to the acquisition and integration of Pinnacle.

During 2021, we saw significant growth in our Pellet Production business, most notably due to the acquisition of Pinnacle in April 2021, but also reflecting higher levels of production and profitability from existing operations. Total pellet production more than doubled to 3.1Mt during the year and production cost per tonne reduced by 7%.

Overall availability of our Biomass units was 88% (2020: 87%), with strong performance of the CfD unit of 95% (2020: 91%) offsetting the impact of a small increase in ROC unit outages. Our forward hedging strategy means that 2021 has not seen a significant benefit from higher power prices, but we have secured increased forward hedged prices in respect of 2022 and 2023.

The total financial impact of Covid-19 in the year of approximately £17 million significantly reduced from approximately £60 million in 2020. Most of the impact, £16 million, was in our Customers business. During the year, our Customers business also saw the impact of mutualisation costs from other supplier failures. Despite these challenges, the Customers business returned to profitability, delivering £6 million of Adjusted EBITDA.

We continue to generate strong operating cash flows, which we expect to use to invest in growth and support the payment of a sustainable and growing dividend, in line with our long-standing capital allocation policy.

Cash generated from operations was £354 million (2020: £413 million).

Net debt to Adjusted EBITDA ended the year at 2.6 times (2020: 1.9 times), inclusive of acquisition of Pinnacle – expect Net debt to Adjusted EBITDA below 2.0 times by end of 2022.

10% increase in total dividend to 18.8 pence per share, a total cost of £75 million

Acquisition of Pinnacle for C$385 million (£222 million) develops our biomass strategy, expanding production capacity, reducing costs and adding long-term third-party contracts and income streams

Sale of Combined Cycle Gas Turbine (CCfT) generation operations concluded on 31 January 2021, giving rise to a small profit on disposal of £9 million
### Adjusted EBITDA from continuing and discontinued operations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>£398m</td>
<td>£398m</td>
<td>£412m</td>
</tr>
</tbody>
</table>

### Adjusted operating profit from continuing operations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>£170m</td>
<td>£170m</td>
<td>£189m</td>
</tr>
</tbody>
</table>

### Total operating profit/(loss) from continuing operations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>£197m</td>
<td>£197m</td>
<td>£156m</td>
</tr>
</tbody>
</table>

### Cash generated from operations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>£354m</td>
<td>£354m</td>
<td>£413m</td>
</tr>
</tbody>
</table>

### Adjusted earnings per share from continuing and discontinued operations

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.5 pence</td>
<td>26.5 pence</td>
<td>29.6 pence</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.0 pence</td>
<td>20.0 pence</td>
<td>(39.8) pence</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.6 times</td>
<td>2.6 times</td>
<td>1.9 times</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021</th>
<th>31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.8 pence</td>
<td>18.8 pence</td>
<td>17.1 pence</td>
</tr>
</tbody>
</table>

---

We calculate Adjusted financial performance measures, which are Drax specific and exclude income statement volatility from derivative financial instruments and the impact of exceptional items, to provide additional information about the Group’s performance. Adjusted financial performance measures are described more fully on page 181, with a reconciliation to their statutory equivalents in note 2.7 to the Consolidated financial statements on page 202. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). On 31 January 2021, the Group completed the sale of its portfolio of CCGT assets to VPI Generation Limited. Because of this transaction, the results of the CCGT portfolio for 2020 and 2021 have been classified as discontinued operations in the Consolidated financial statements. References to financial performance measures throughout this annual report refer to continuing operations, unless otherwise stated. Further details of discontinued financial performance is included in note 5.4 to the Consolidated financial statements. Tables in this financial review may not add down/across due to rounding.
During the year, we refinanced the debt acquired as part of the Pinnacle transaction, further reducing the Group’s all-in cost of debt and adding another ESG-related instrument into our debt portfolio, which adjusts the margin payable based on the Group’s carbon intensity, measured against an annual benchmark. The Group’s liquidity position remains strong and provides a solid platform from which to execute our strategy. At 31 December 2021 total cash and committed facilities totalled £549 million (2020: £682 million).

Capital expenditure during the year totalled £238 million (2020: £200 million), principally reflecting investment in our Generation and Pellet Production businesses in line with our strategy. The proposed final dividend of 11.3 pence per share is in line with that indicated when we announced our interim results and represents a 10% increase in the full year dividend compared to 2020.

**Financial performance**

**Continuing and discontinued operations**

The results of the CCGT assets, the sale of which completed on 31 January 2021, are presented as discontinued operations in both 2021 and prior year. Further detail is included in note 5.4 ‘Assets held for sale and discontinued operations’. A reconciliation of the amounts discussed in this financial review between continuing and discontinued operations is presented below.

**Pellet Production**

Our Pellet Production business continues to make good progress, with the integration of Pinnacle well advanced following the acquisition in April 2021. Production for the year more than doubled to 3.1Mt, with 3.2Mt of pellets shipped (2020: 1.5Mt produced and 1.5Mt shipped), generating Adjusted EBITDA of £86 million (2020: £52 million), an increase of 65%.

We also continued to make progress in reducing the cost of production. The overall cost of pellets produced during the year of £143/t represents a 7% reduction from £153/t in 2020. Cumulative savings compared to the 2018 cost of £166/t now total 14%. The reduction in 2021 reflects a lower cost of production in the Pinnacle business, but also improvements in our existing Pellet Production business with increased volumes, decreased fibre costs and procurement savings, partially offset by increased utilities and insurance costs. These initiatives to increase production volumes, reduce production costs and expand our sales to third-parties are critical to supporting the future strategy of the Group. In addition, sales to third-parties through the Pinnacle business totalled 1.2Mt during the year (2020: nil).

The improvements noted above were delivered against a backdrop of Hurricane Ida in the US in October, a fire at our Westview port facility and wildfires in Canada in July, and extreme low temperatures and flooding in Canada towards the end of the year. Whilst these events did result in some restrictions in pellet production and distribution, our diversified supply chain allowed us to limit this impact, demonstrating the resilience of both our operations and our people in North America. The work performed for the TCFD disclosures has aided us in considering the financial impact of climate change in more detail, and ensuring we build resilience into our business model.

**Generation**

Adjusted EBITDA from continuing and discontinued operations of £372 million represents a 17% reduction compared to £446 million in 2020. This principally reflects the major planned outage on the CfD biomass unit at Drax Power Station and, a higher cost of biomass in GBP terms due to historic hedged rates on foreign exchange contracts, which reflect prevailing conditions at the time the hedges were placed, and a reduction in the contribution of the discontinued CCGT operations. This was partially offset by increased balancing market activity.

Overall generation volumes reduced from 19.8TWh in 2020 to 16.1TWh in 2021, reflecting a reduction in generation from coal of 1.2TWh and gas of 2.1TWh.

The major planned CfD unit outage was completed on time and on budget in November, incorporating a high-pressure turbine upgrade, completing a three-year programme to upgrade the turbines across three biomass units. This was a significant logistical and technical achievement, with the overhaul being completed in 98 days. The units are expected to benefit from lower maintenance costs and thermal efficiency improvements.

High gas prices, periods of low wind speed and issues with the interconnectors into Europe all put pressure on the UK energy system during 2021, leading to price volatility. We did not benefit significantly from increased prices during 2021, because of the high proportion of our sales book being hedged out to around two years. We do however expect to see benefits in 2022 and 2023, as hedges have been secured for these periods at higher prices.

Commercial coal operations ended in March 2021 and total generation from coal was down significantly year on year (0.4TWh vs 1.6TWh in 2020). In line with our grid licence the system operator was able to call our coal units into the balancing market on limited occasions between April and December in response to the challenges the UK energy system was facing. We currently do not expect the coal units to generate significant volumes during 2022, but they remain available to the system operator should they be required to support the network. These units will formally close in September 2022 when they have fulfilled their Capacity Market obligations.

<table>
<thead>
<tr>
<th>Year ended 31 December 2021 (£m)</th>
<th>Year ended 31 December 2020 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Adjusted EBITDA</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Continuing operations</td>
<td>378</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>20</td>
</tr>
<tr>
<td>Continuing and discontinued operations</td>
<td>398</td>
</tr>
</tbody>
</table>
The CCGT operations made a strong contribution during the period of ownership until 31 January 2021, contributing £20 million of Adjusted EBITDA, compared to £46 million in the prior year. Total generation from the CCGT assets of 0.67TWh compared with 2.8TWh in 2020.

Our hydro operations have continued to perform well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. In the periods of high power price volatility experienced during the second half of the year, Cruachan performed well while providing vital support services to the energy system. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA of £68 million was slightly behind the £73 million in 2020.

We hold a large portfolio of forward and option contracts for various commodities and financial products, the nature, value and purpose of which is described in note 7.2 to the Consolidated financial statements. These contracts are held to de-risk the business, including protecting the sterling value of future cash flows in relation to the sale of power and purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies.

From time to time, for example where market conditions or our trading expectations change, action may be needed in accordance with these policies to rebalance our portfolio. During 2021, this included restructuring in-the-money inflation contracts, to balance short and long positions across the duration of the hedge. The value of such activity decreased in 2021, due to lower market volatility after the Covid-19 pandemic. The financial impact of these activities – which is driven by market prices at the point of execution – is included within the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA. This reflects the fact that the principal purpose of holding these contracts is to manage and de-risk the cost of purchasing fuel.

Customers
Performance of our Customers business improved significantly during the year, returning to profitability with Adjusted EBITDA of £6 million compared to £(39) million in 2020. Whilst the recovery from the initial impact of Covid-19 continued, this result still reflects an estimated £16 million impact from the pandemic (2020: £44 million).

In addition to the challenges of Covid-19, the volatility of power and gas prices during the second half of 2021 caused a number of supply businesses to exit the market. Certain renewable costs and system charges were subsequently redistributed to the remaining market participants through mutualisation, resulting in an estimated £10 million cost for our Customers business (2020: £1 million). As the system operator took more action to balance and manage the system in a period of increased volatility, we saw an increase in related charges of £8 million in the year, which were partially offset by an increase of £5 million from the value of renewable certificates sold in the period.

The volume of power sold in the year ended 31 December 2021 grew by 7% to 18.7TWh (2020: 17.5TWh) as the UK economy recovered from the impact of the pandemic. The continuing Covid-19 recovery, coupled with more stringent credit requirements for new customers and continued effort in credit control, also resulted in a reduced bad debt charge. The total charge for 2021 was £16 million, compared to £43 million in 2020. At 31 December 2021 the provision for expected credit losses on trade receivables was £47 million (2020: £56 million). This was calculated using the same underlying methodology, with the 2021 assumptions and modelling updated to reflect the experience of the Covid-19 pandemic.

As noted in our Half Year Report, we are continuing to explore operational and strategic options for our SME customer segment. During 2021 we commenced the restructuring to streamline our operations, with the closure of offices in Oxford and Cardiff, and the rebranding of the Haven Power I&C business to Drax Energy Solutions.

Capital expenditure during the year totalled £238 million (2020: £200 million), principally reflecting investment in our Generation and Pellet Production businesses in line with our strategy.

Central and Other costs
Central and Other costs of £65 million increased £18 million in the year, reflecting an increase in strategic spend and variable performance-based rewards. The increase in strategic spend primarily reflects expenditure in the first half of the year on BECCS that was not deemed to be capital in nature.

Total operating profit/(loss)
Total operating profit for the year from continuing operations was £197 million (2020: loss of £156 million). Exceptional items from continuing operations totalling £22 million (2020: £275 million) includes £12 million of acquisition and integration costs related to Pinnacle, £5 million related to the restructuring of the Customers business and £5 million of coal closure costs. In 2020, exceptional costs included £261 million in respect of the announced closure of our coal operations.

Certain remeasurements from continuing operations led to a net £49 million gain (2020: £70 million loss) to the income statement for the year ended 31 December 2021, reflecting the impact of changes in commodity prices on the valuation of our forward hedge position.

Depreciation, amortisation and losses on disposal of fixed assets for the year totalled £209 million (2020: £177 million). The acquisition of Pinnacle accounted for most of this increase. There was no depreciation or amortisation related to the discontinued operations during 2021, as they were classified as held for sale during the period.
Profit after tax and Earnings per share

Total profit after tax from continuing operations was £55 million (2020: £195 million loss).

Net interest costs for the year of £71 million reduced from the previous year (2020: £76 million). Prior year net interest costs included a £9 million write-off of deferred refinancing costs upon the refinancing of the 2022 sterling bond and the £125 million ESG term loan facility. 2020 also included £3 million of rebasing fees not incurred in 2021. This was partially offset by increased lease interest following the Pinnacle acquisition and an increase in levels of debt drawn.

The total tax charge of £66 million includes £12 million (12.0% effective tax rate) on continuing Adjusted results and £54 million on continuing exceptional items and certain remeasurements.

The 12.0% effective tax rate on Adjusted results is lower than the standard rate of corporation tax in the UK of 19.0% because of patent box credits, in relation to the biomass conversion, and the super-deduction for qualifying plant and machinery, announced in March 2021. This super-deduction also meant that no corporation tax payments were made by the Group during the year, and cash flows in relation to corporation tax were a £12 million refund in relation to overpayments from previous years.

The £54 million charge on continuing exceptional items and certain remeasurements includes a £49 million non-cash charge because of a revaluation of deferred tax balances following the enactment of the increase in UK corporation tax rates from 19% to 25% with effect from April 2023. As noted in the Group’s Half Year Report, this revaluation charge has been treated as an exceptional item due to its nature and size.

The Adjusted net profit from discontinued operations for 2021 was £17 million (2020: £21 million). The Total net result from discontinued operations for 2021 was £24 million (2020: £37 million).

The net impact of all of the above is that Adjusted basic earnings per share reduced by 10% to 26.5 pence per share (2020: 29.6 pence per share). Total basic earnings per share improved from a loss per share of 39.8 pence in 2020 to earnings per share of 20.0 pence in 2021.

---

**Net Debt Development (£m)**

<table>
<thead>
<tr>
<th>31 December 2020 net debt</th>
<th>31 December 2021 net debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>776</td>
<td>1,044</td>
</tr>
</tbody>
</table>

**Capital expenditure**

Capital expenditure during the year was £238 million (2020: £200 million). Significant investments included maintenance projects at Drax Power Station totalling £45 million, £19 million for the final of three turbine upgrades on our biomass units and £56 million for expansions in the Pellet Production business, encompassing commissioning of a new facility at Demopolis (acquired with Pinnacle), expansion of our facility at LaSalle and development of satellite plants in the US southeast.

During the year, the pre-front end engineering design study for BECCS at Drax Power Station was successfully completed. Additionally, the East Coast Cluster, of which Drax is a member, was named as a ‘track one’ cluster by the UK Government, with the aim of developing infrastructure to allow individual CCS projects, such as BECCS, to commence operations in the mid-2020s. These facts, along with other supporting information, provided sufficient confidence to begin capitalising certain costs in relation to this project during 2021. Following the announcement in December that we will commence the front-end engineering design and site preparation works, with an estimated cost of around £40 million, we expect to capitalise further costs in 2022.

The project in our Customers business associated with a new billing system was stopped in 2019 and the Group is engaged in active discussion with the supplier reflecting their failure to perform under this contract. Amounts totalling £19 million have previously been capitalised in respect of this project. No amounts have been provided against this value as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

**Cash and net debt**

The Group continued to generate significant cash from operations in 2021, with a total inflow of £354 million (2020: inflow of £413 million) before interest and tax payments. This reflects our continued...
focus on cash flow discipline and management of working capital. A net cash inflow from operating activities, an underlying decrease in inventories, and collateral receipts on in-the-money derivative contracts was offset by an increase in receivables and ROC assets during 2021.

Net cash released from working capital in 2021 was £27 million (2020: £37 million). We actively optimise our working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements.

Historically, cash from ROCs was realised several months after the ROC was earned, usually at the end of the ROC compliance period (on average around nine months); however, the Group is now able to limit the overall impact of ROCs on working capital by making separate sales and purchases during the compliance period, typically accomplished when the ROC is certified, which is usually around three months after generation. During 2021, such transactions generated a net cash outflow of £22 million due to more purchases than sales in the period (2020: £74 million outflow). The overall working capital outflow from ROCs of £162 million (2020: £23 million inflow) reflects an increase in ROC assets held on the balance sheet due to increased generation in the latter stages of 2021. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. Utilisation of these facilities at 31 December 2021 was Enil (31 December 2020: Enil).

As outlined above, there has been significant volatility in power and commodity markets during 2021. We actively manage the liquidity requirements associated with the hedging of power and other commodities and while our overall position at 31 December 2021 was a net posting of collateral, the design of our trading agreements and methods of posting collateral resulted in a cash inflow of £168 million for 2021 (2020: £12 million inflow).

Net cash generated from operating activities in the year was £307 million (2020: £306 million). Largely because of the super-deduction announced in March 2021, cashflow relating to corporation tax during 2021 was a net inflow of £12 million, compared to an outflow of £48 million in 2020. The 2020 outflow reflects the change in the requirements for tax payments for large companies. The Group expects to make no corporation tax payments during 2022 because of the continuing super-deduction for capital allowances in the UK, and utilisation of losses in the US and Canada.

**Net cash movements**

Net cash outflows in relation to capital expenditure were £209 million (2020: £171 million). This increase is attributable to the major projects outlined above.

The net cash outflow for the acquisition of Pinnacle of £204 million was offset by receipts from the disposal of the CCGT assets of £184 million. Cash outflows in respect of dividends paid in the year of £71 million (2020: £65 million) increased by 9%.

The net movements in relation to non-controlling interest of £15 million (2020: Enil) predominantly relate to the increased investment in Alabama Pellets LLC during 2021, as described in the ‘Other information’ section below.

In February 2021, the Group drew down the remaining £45 million and £95 million of the infrastructure term loan facility agreements entered into in 2020.

On 13 July 2021, the Group completed the refinancing of the Canadian dollar facilities acquired as part of the Pinnacle transaction, which had a cost of over 5.5%. The new facilities include a C$300 million term loan and C$10 million revolving credit facility (RCF). The facilities mature in 2024, diversify the Group’s sources of funds, further reduce the Group’s all-in cost of debt to below 3.5%, and include an embedded ESG component which adjusts the margin payable based on the Group's carbon intensity, measured against an annual benchmark. These new facilities, alongside existing cash reserves of around C$130 million, were used to refinance the acquired facilities.

**Net debt, net debt: Adjusted EBITDA and Liquidity**

<table>
<thead>
<tr>
<th></th>
<th>31 December 2021 £m</th>
<th>31 December 2020 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>(317)</td>
<td>(290)</td>
</tr>
<tr>
<td>Current borrowings</td>
<td>41</td>
<td>–</td>
</tr>
<tr>
<td>Non-current borrowings</td>
<td>1,320</td>
<td>1,066</td>
</tr>
<tr>
<td>Net debt</td>
<td>1,044</td>
<td>776</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>398</td>
<td>412</td>
</tr>
<tr>
<td>Net debt: Adjusted EBITDA</td>
<td>2.6</td>
<td>1.9</td>
</tr>
</tbody>
</table>

The overall impact of the net cash inflow in the year and the acquisition of Pinnacle is that net debt as at 31 December 2021 was £1,044 million (2020: £776 million). This gives rise to a net debt to Adjusted EBITDA ratio at 31 December 2021 of 2.6 times (2020: 1.9 times), before the impact of hedging. As previously outlined, this ratio is expected to return to below 2.0 times during 2022.
Liquidity
In addition to cash on hand and the Canadian RCF mentioned above, the Group has access to a £300 million ESG RCF, available to manage low points in the cash cycle, which expires in 2024, with a one-year extension clause. No cash has been drawn under this RCF for over three years but £74 million (2020: £68 million) has been drawn as letters of credit.

A significant proportion, almost 90%, of the Group’s debt now falls due in a period over three years from the Balance Sheet date.

Our liquidity position remains strong, reflected by all three of our ratings agencies evaluating our liquidity assessment as strong. Cash and committed facilities as at 31 December 2021 were £549 million (2020: £682 million), the reduction predominantly driven by utilising existing cash reserves within the Group to reduce Pinnacle’s debt upon refinancing. Available cash and committed facilities provide substantial headroom over our short-term liquidity requirements.

Derivatives and rebasing
We use derivatives, including cross-currency swaps, to hedge the sterling cost of the interest payments and future principal repayments in respect of our facilities denominated in foreign currencies. A reconciliation of net debt incorporating the impact of derivatives, in addition to net debt per the IFRS balance sheet, is set out in note 4.3 to the Consolidated financial statements. At 31 December 2021, this resulted in net debt adjusted for hedging of £1,108 million (2020: £819 million).

Rebasing is a process whereby the rates agreed in a contract previously entered into are modified to current market rates. This leads to an initial cash inflow, as the mark-to-market on the contract is settled at the time of rebasing, with a subsequent outflow in future years, compared to if no action had been taken. The Group rebased contracts during the first half of 2020 to realise working capital benefits in light of the developing Covid-19 pandemic.

The overall net outflow associated with rebasing activity in 2021 was £32 million (2020: net outflow of £27 million). This was in relation to rebased cross-currency swaps and foreign currency trades, where the rebasing occurred in 2020 or prior financial years. At the end of 2021 outstanding cash received from rebased cross-currency swap trades was £48 million (2020: £56 million) and from rebased foreign currency trades was £nil (2020: £24 million).

Distributions
In line with our long-standing capital allocation policy the Group is committed to paying a growing and sustainable dividend. At the forthcoming Annual General Meeting, on 27 April 2022, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2021 of 11.3 pence per share. This, coupled with the interim dividend of 7.5 pence per share paid in October 2021, gives a total dividend for the year ended 31 December 2021 of 18.8 pence per share (2020: 17.1 pence per share). This equates to a 10% increase in dividend per share in the year. If approved, the final dividend will be paid on 13 May 2022, with a record date of 29 April 2022.

Other information
Sale of CCGT assets
On 31 January 2021, we completed the sale of our CCGT assets to VPI Generation Limited for cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop the site at Damhead Creek. The sale price represents a return over the period of ownership significantly ahead of the Group’s weighted average cost of capital.

The Group received initial consideration of £188 million in February 2021, which included £24 million in respect of customary working capital adjustments. Working capital adjustments were subsequently finalised at £22 million, amending the initial consideration received to £166 million.

The Group recorded an overall gain on disposal of £9 million from this transaction. A gain of £15 million was recognised in the Consolidated income statement for the year ended 31 December 2021, with £3 million of transaction costs and £3 million of associated mark-to-market losses previously expensed to the income statement in 2020. The gain includes an assessment of the fair value of the contingent consideration noted above, which remains unpaid at the date of this report.

In the Consolidated income statement, the results of the CCGT portfolio for the period prior to disposal in 2021 have been presented as discontinued operations. The gain on disposal and derivative remeasurements associated with the portfolio have also been presented within discontinued operations as exceptional items.

See note 5.4 in the Consolidated financial statements for further information.

Acquisition of Pinnacle Renewable Energy Inc. and associated transactions
On 8 February 2021, the Group announced the proposed acquisition of 100% of the issued share capital of Pinnacle at a price of C$11.30 per share.

The acquisition subsequently completed on 13 April 2021. Total consideration amounted to C$385 million (£222 million). Transaction and integration costs of £12 million have been recognised as an exceptional item in the Consolidated income statement during 2021.

The acquisition supports the Group’s strategic objectives by increasing production capacity, reducing biomass production costs and creating a platform for growth in third-party supply. The transaction transforms the Group’s supply chain and positions the Group...
as the world’s leading sustainable biomass generation and supply business. The Group has 17 operational and development sites, with a total nameplate capacity of around 5Mt p.a. once all developments are commissioned.

Financial information in respect of the acquisition, including the fair value of assets and liabilities acquired and an initial calculation of goodwill, plus information regarding non-controlling interests, is included in note 5.1 to the Consolidated financial statements. As we are still within the twelve-month measurement period for the acquired assets and liabilities, the values in relation to this business are provisional, although no material adjustments are expected to be made in the remainder of the measurement period.

On 13 July 2021, the Group acquired a 20% minority interest in Alabama Pellets LLC (a non-wholly owned subsidiary of Pinnacle) from The Westervelt Company for $30 million cash consideration. The acquisition increased the Group’s interest in Alabama Pellets LLC to 90%. Alabama Pellets LLC owns the Aliceville and Demopolis pellet plants with a combined capacity of 660kt p.a..

On 31 December 2021, Drax completed the acquisition of the wood pellet business of Pacific BioEnergy Corporation, excluding its manufacturing facility, and most importantly, including its pellet sales contract book, adding 2.8Mt of contracts for sustainable biomass supply to high-quality counterparties in Japan and Europe. These contracts are for delivery between 2022 and the mid-2030s and the total incremental revenues over the contract period are around C$675 million. This forms part of the Group’s recently announced target to double biomass sales to third-parties to 4Mt by 2030.

**Going concern**

In addition to the routine scenario planning incorporated into our business planning process, we have modelled a series of scenarios based on our principal risks and a reasonable worst case. These scenarios have helped us to assess the Group’s financial resilience over both the next 12 months and a longer period for the purpose of viability reporting. The period assessed for viability reporting has been extended from three to five years in 2021, in line with the stage of the planning cycle and strategy development the Group has reached during the year. Further detail can be seen in the Viability Statement.

In particular, we have considered the impact of extended generation outages across our portfolio, taking into account risks associated with plant operations and supply chain, as well as commodity price exposure. While there would be a financial impact, none of the scenarios modelled would result in an impact to the Group’s liquidity, solvency or covenants that could not be remediated by taking mitigating action. In reaching this conclusion, no additional financing was contemplated beyond existing committed facilities. Climate change and potential impacts of Covid-19 have been considered as part of the scenarios tested.

Consequently, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due for at least the next 12 months, while operating within the means of its current capital structure. Accordingly, the Directors have approved the use of the going concern basis when preparing the consolidated financial statements. The Directors also have a reasonable expectation that the Group will be able to continue in operation over the five-year period of the viability assessment.
Remuneration at a glance
Linking remuneration with our strategy and purpose

The Remuneration Committee ensures that the remuneration of Directors and the wider workforce is aligned to Drax’s evolving strategic ambitions

Nicola Hodson, Chair

A key focus for the Committee is to ensure that Drax’s short and long-term variable pay programmes appropriately reward for the delivery of financial and strategic performance, and delivery of leading ESG practices and performance.

As Philip Cox explains on page 10, the strategy at Drax combines three aspects of the Group’s opportunity: to be a global leader in sustainable biomass pellets; a global leader in negative emissions; and a leader in UK dispatchable, renewable generation.

In conjunction with these objectives, Drax is committed to building a culture which respects and enables our colleagues, works collaboratively with our business partners and creates long-term relationships with stakeholders in developing performance which is underpinned by a recognition of our duty of care and responsibility to positively impact the places which the Group’s operations reach. The Board believes the Group must deliver the right combination of long-term value creation and a sustainable business, underpinned by the right culture and values, informed by, and responsive to, stakeholders.

A fundamental responsibility of the Committee is to ensure that the way in which Executive Directors and the wider workforce are rewarded is aligned to the realisation of appropriately balanced short- and longer-term strategic objectives.

The Committee gives thorough consideration each year to the metrics to include in the annual bonus plan for the forthcoming year. Delivering strong financial performance is of fundamental importance and this makes up the majority weighting of our annual bonus plan (60%), for which the majority of colleagues, including the Executive Directors, are eligible to participate.

In addition to the financial health of the organisation, delivery of critical milestones is essential to making progress on each of the strategic objectives. These metrics account for a 20% weighting and can vary each year in accordance with our business plan. The development and implementation of BECCS is key to our objective to be a global leader in negative emissions. As such, annual milestones reflecting the development and implementation of BECCS form one of the primary strategic metrics in the 2022 annual bonus plan. Our expectation is that we will include BECCS milestones as a metric in future bonus plans.

ESG performance is a key focus for Drax. You can read more about this in our section on Sustainable Development and TCFD disclosures on pages 44 to 71. ESG metrics have been a part of the annual bonus plan for a number of years. For the 2022 Scorecard, ESG metrics will have a 20% weighting. Based on input from PwC, the Committee’s advisers, and our corporate brokers, we have adapted the ESG metrics for 2022.

As a result we have a metric focused on improving diversity, equity, and inclusion (DE&I) across the Group in the 2022 annual bonus plan. This metric will focus on improving inclusion across Drax in 2022. We have chosen this in recognition of the priority given by the Board and senior management to influencing change across the Group that reflects wider society and our own intentions. We expect to assess the effectiveness of this in 2022 and adapt accordingly how we track and measure DE&I in subsequent years.
In addition, a new metric specifically focused on reducing the organisation’s carbon emissions is being adopted combining elements at both the Group strategic level and at each of our sites. The intention is that we recognise local priorities and requirements in tracking and improving performance. In combination these actions will directly link reward of our colleagues to the delivery of an annual carbon reduction in support of the organisation’s long-term plan to be net zero by 2030.

In 2022 the carbon reduction metric will be focused on developing a blueprint for a low carbon and low particulate emissions mill. A blueprint to which newly created mills will be expected to conform and which will inform how we adapt our current mills to improve efficiencies. We have also considered how this metric is likely to evolve in future years and our expectation is that it will be based on an annual reduction of Group carbon emissions, reflecting the importance of incremental milestones in the journey to achieving net zero by 2030.

The majority of colleagues are eligible to take part in the annual bonus programme, and all colleagues who participate are subject to the same performance metrics. This ensures full alignment across the business from Executive Directors through the wider workforce.

The Drax Long Term Incentive Plan (LTIP) rewards longer-term company performance. Vesting of LTIP awards is conditional on two metrics: total shareholder return relative to the FTSE 350 (TSR) (weighting of 50%) and cumulative adjusted earnings per share (EPS) (weighting of 50%). The TSR element ensures that a significant part of the reward is conditional on the shareholder experience over the same period. The EPS element rewards for consistent, year-on-year delivery of robust financial performance.

In 2022 the Remuneration Committee will review the existing Directors Remuneration Policy. As part of this review, we will consider how the evolution of Drax’s business model, our strategic priorities and the wider focus on sustainability and environmental issues should be reflected in the performance-related elements of executive, senior manager and wider colleague reward.

We expect to undertake engagement later in 2022, with proposed changes resulting from this review put to shareholders at the AGM in 2023 for approval.

Nicola Hodson
Chair of the Remuneration Committee
We listen carefully

We listen to our colleagues, communities, customers and other stakeholders, working with them to better understand their needs, and deliver the best possible outcomes.

“I adapted my work day to give my son the attention he needed, as well as getting my work done.”

Engagement score: “I am generally able to balance my personal and work life” 85%

Employee engagement score in 2021 79%
In response to colleague feedback, from the MyVoice “Future ways of working survey”, the business made several changes to allow colleagues to work more flexibly, to adapt their working day to their own personal circumstances.

Like many parents, single dad Tim Cole had to juggle home schooling and work during the early lockdown, and flexible working helped him manage. He said “I adapted my work day to give my son the attention he needed, as well as getting my work done. I’d have an early start and whilst my son had online lessons, I’d catch up on emails, have meetings and respond to queries. I’d take a break to go out for some exercise together and I always finished at 5.30pm so we could spend a couple of fun hours and eat together. Once he’d gone into bed I found I could get into the really heavy lifting work, the more strategic stuff that required my absolute attention.”

Tim Cole
Head of Customer Marketing

Engagement score: “I am generally able to balance my personal and work life”

85%

Employee engagement score in 2021

79%
Engaging our stakeholders

Engaging with our stakeholders is fundamental to our long-term success

Achieving our purpose – to enable a zero carbon, lower cost energy future – and supporting global efforts to reduce carbon emissions are long-term projects. Building sustainable relationships with a diverse range of interested parties is critical in helping us achieve our aims.

With multi-year time horizons for many of our strategic and investment decisions, we recognise that those decisions can have an impact far beyond our business and far into the future. This is why we proactively seek to understand the needs and perspectives of our stakeholders, and why we know that the quality of our decision making is richer when we actively consider those views.

Understanding the needs of our stakeholders is essential to our long-term success

Drax has a wide range of stakeholders and takes care to ensure that the Group, and the Board, has an effective strategy to identify and engage with them.

The Board receives regular reports on stakeholder engagement, including from the Corporate Affairs and Investor Relations functions. This ensures that the Board takes into account the views of our stakeholders when making strategic decisions, for example when considering the Pinnacle acquisition and the Group’s response to Covid-19, including working arrangements for our colleagues.

The methods of engagement we use vary according to the issue and the stakeholder concerned. Engagement takes place at many levels of the business and a judgement is made on a case-by-case basis on whether engagement is required by the Board, Executive Committee, senior management or at the operational level.

We maintain a detailed map of key stakeholders, both internal and external, the concerns they have raised and the date of the last meeting. Management also considers how these views should be accounted for in subsequent actions, and keeps under review the relevant stakeholders that may be affected by major decisions.

To ensure clear feedback, the Board receives regular reports from the CEO on key stakeholder relations activity, current issues and the relevant feedback received from stakeholder interaction. These reports are supported by management, the Corporate Affairs team and the relevant owners of direct stakeholder engagement. The Board has a duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006 (Section 172). Supporting this, Board and Executive Committee discussions – and accompanying papers – include information on the stakeholders likely to be affected by items under discussion and the possible impact. This helps to ensure that the interests of all relevant stakeholders, and the need to act fairly between members of the Company, are considered in decision-making.

In June 2021, the Board received papers providing an update on stakeholder engagement, and specifically an assessment of how management and the Board were responding to the requirements of Section 172. This included a more strategic assessment of the quality of engagement, which identified the range of stakeholders, key issues and how the Group was responding to these.

As Drax changes and grows, we expect the scope and breadth of our engagement with different stakeholders to also evolve.

Pages 37 to 41 set out the broad stakeholder groups we identified and engaged with in 2021, highlighting their key concerns, why and how we engaged, and how we responded.
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, and recognises that decisions taken today will shape both the longer-term performance of the business and its impact on our various stakeholders. This consideration enables Drax to have a positive impact on the environment, our communities and wider society, delivering sustainable value creation.

During the year the Board considered in its discussions and decision-making the matters contained within Section 172, acting in good faith to promote the sustainable long-term success of the Company. The following pages explain how during 2021 the Board had regard to those matters:

<table>
<thead>
<tr>
<th>Section 172 matter</th>
<th>How the Board had regard to those matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. the likely consequences of any decision in the long term</td>
<td>• Business model (page 6)</td>
</tr>
<tr>
<td></td>
<td>• Decision to acquire Pinnacle (page 106)</td>
</tr>
<tr>
<td></td>
<td>• Biomass cost reduction (page 18)</td>
</tr>
<tr>
<td></td>
<td>• Principal Risks (page 76)</td>
</tr>
<tr>
<td>b. the interests of the Company's employees</td>
<td>• Workforce engagement (pages 60 and 109)</td>
</tr>
<tr>
<td></td>
<td>• Diversity and inclusion (pages 60, 96 and 113)</td>
</tr>
<tr>
<td></td>
<td>• Safety, health and wellbeing (page 57)</td>
</tr>
<tr>
<td>c. the need to foster the Company's business relationships with suppliers, customers and others</td>
<td>• Engagement with customers (page 40)</td>
</tr>
<tr>
<td></td>
<td>• Engagement with suppliers and contractors (page 41)</td>
</tr>
<tr>
<td></td>
<td>• Supplier Code of Conduct (page 61)</td>
</tr>
<tr>
<td>d. the impact of the Company's operations on the community and the environment</td>
<td>• The right biomass (page 45)</td>
</tr>
<tr>
<td></td>
<td>• Climate positive (page 49)</td>
</tr>
<tr>
<td></td>
<td>• Nature positive (page 55)</td>
</tr>
<tr>
<td></td>
<td>• Positive social impact (page 56)</td>
</tr>
<tr>
<td></td>
<td>• TCFD (page 64)</td>
</tr>
<tr>
<td></td>
<td>• Climate change risk (page 88)</td>
</tr>
<tr>
<td></td>
<td>• Engagement with communities and local authorities (page 38)</td>
</tr>
<tr>
<td></td>
<td>• Engagement with schools and colleges (page 40)</td>
</tr>
<tr>
<td>e. the desirability of the Company maintaining a reputation for high standards of business conduct</td>
<td>• Ethics and integrity (page 61)</td>
</tr>
<tr>
<td></td>
<td>• Culture and values (page 105)</td>
</tr>
<tr>
<td></td>
<td>• Whistleblowing (page 62)</td>
</tr>
<tr>
<td></td>
<td>• Corporate Governance Code (page 100)</td>
</tr>
<tr>
<td>f. the need to act fairly as between members of the Company</td>
<td>• Shareholder engagement (page 38)</td>
</tr>
<tr>
<td></td>
<td>• Rights and obligations attaching to shares (page 161)</td>
</tr>
</tbody>
</table>
Engaging stakeholders in the expansion of Cruachan Power Station

In June 2021, we announced plans to pursue the expansion of our Cruachan Power Station (in Argyll, Scotland) which is one of the UK’s four pumped storage hydro power stations. Since the 1960s, it has been providing flexible and reliable power and supporting the UK electricity network. Cruachan acts as a giant water battery where excess energy is stored and then released when demand for power increases, helping support the UK network.

Drax has worked with bodies such as the Association for Renewable Energy and Clean Technology, British Hydropower Association and Scottish Renewables. This collaboration has helped to create industry consensus on the key contribution from pumped hydro (and other long duration energy storage technologies) on providing the critical services needed for a zero-carbon electricity grid.

Beyond the energy sector, we worked with industry leaders, environmental NGOs (ENGOs), think tanks and the Scottish Council for Development and Industry’s Clean Growth Leadership Group to raise awareness about several projects, including the expansion of Cruachan. These projects will enable the faster deployment of intermittent renewables like wind and solar. We published a joint article with Greenpeace, the Green Alliance, and other energy companies such as SSE Renewables and Highview Power on the need for the UK Government to facilitate the adoption of these technologies and enable companies like Drax to realise projects such as Cruachan’s expansion. The Scottish Council for Development and Industry’s Clean Growth Leadership Group also recommended pumped storage hydro as the only tried and tested technology that provides the energy storage and flexibility at scale required for a system to be powered by renewable energy.

It is very important that the local community is informed and supportive of Cruachan’s expansion. Over the summer and autumn of 2021, we put in place a rigorous engagement programme to ensure that the views of the local community were heard and taken into account. We held a virtual consultation event in July which was followed up by face-to-face meetings at public consultation events in November and December 2021, which we plan to repeat in the Spring of 2022. Given the long-term nature of the project and its construction, we are committed to ensuring that local authorities, stakeholders and the community continue to be consulted and regularly informed of progress and plans.

We have issued a dedicated newsletter, and we aim to set up a local liaison group, while additional information about the project is also displayed at the Cruachan Visitor Centre, which reopened in November 2021 and, in a normal year, attracts over 50,000 visitors.

We aim to minimise impacts for local residents during construction while ensuring that the development can provide additional job opportunities locally. We are also considering how Cruachan’s expansion can further support the local economy, for example by investigating whether the high-quality rock excavated from Ben Cruachan can be repurposed to support local infrastructure projects.

Given that Cruachan is located next to some of the UK’s most precious and protected natural habitats, we are working with environmental charities such as RSPB Scotland to consider how we can support local action for restoring nature. We will continue to engage with stakeholders as the project progresses in 2022.

Read more:
https://www.cruachanexpansion.com/
Workforce

Key concerns
Diversity and inclusion, response to Covid-19 (both ensuring we keep our colleagues safe, and ensure our ongoing operations to “keep the lights on”), colleague engagement, managing change in the way we carry out our work and relate to others, wellbeing, reward and recognition, culture and values, future strategy, trade union relations, learning and development, career progression, health & safety.

Why we engage
To enable colleagues to be better informed and able to contribute to the delivery of our purpose and strategy. To create a safe and engaging culture and environment where our colleagues feel valued, respected and heard.

We want all colleagues to feel they can grow, through being enabled to realise their goals, and make a meaningful contribution to our strategy, purpose and communities, while building resilience that equips them to respond to the change that is a feature of the Group’s activities.

How we engage
We maintain regular dialogue through our workforce engagement (MyVoice) forums (including direct engagement with the Chair and CEO), colleague briefings run by our executive and leaders, weekly updates and Q&A which are provided by our CEO, and our annual engagement and ‘pulse’ surveys.

Our colleague MyVoice Forums continue to be a key part of our listening strategy. The forums consistently provide us with a view of colleague sentiment and key topics that are on colleagues’ minds. We engage with our forums to review the results of our MyVoice surveys and to provide input on key topics such as recognition, diversity and inclusion. For more on the forums, see page 109.

How we respond
We continue to listen to and act on feedback from both the MyVoice forums and other colleague interactions more broadly. This was reflected in the results of our MyVoice Survey – see page 60. We updated colleagues on actions taken through our “You said, we did” campaign.

During 2021 we reviewed our UK family-friendly policies in line with our diversity and inclusion agenda; and successfully ran a pilot Mental Health First Aider programme which we are rolling out across the business (see page 58).

A key focus area was career and development opportunities, responding to a clear theme arising from our MyVoice survey in 2020. The People Development team spent time engaging with the MyVoice forums to better understand what colleagues wanted from our career and development offering. In response, we delivered a range of interactive e-learning sessions designed to support career development – including how to have career conversations and make a career plan, managing change, #IamRemarkable (empowering individuals to celebrate achievements in the workplace and beyond), the introduction of career and development hubs on our intranet, which offer easily navigable learning on key topics, guidance and information about career development.

We carefully consider the impact of decisions on colleagues and where transformation required consultation with colleagues about the closure of offices, or redundancy of their roles, we implemented robust engagement plans. These include the election of colleague representatives where appropriate, individual consultations, and defined communication plans with regular updates to keep colleagues informed.

Following key events, the senior leader from the business areas where the decision would be most significantly felt held “all hands” calls or briefing sessions with colleagues. This provided the opportunity for colleagues to ask questions, ahead of any relevant individual or team briefings. Examples during 2021 included the announcement of our financial results, the announcement of the proposed acquisition of Pinnacle (and thereafter on its completion); and changes made in the internal structure of the Group.

To ensure that the views and ideas of Pinnacle colleagues are reflected in how we work, we invited Pinnacle colleagues to join our MyVoice Forums from September 2021, and invited them to take part in our 2021 annual employee engagement survey.

Pinnacle employee engagement
Employee engagement for our Pinnacle acquisition was recognised as a critical aspect of a successful acquisition and integration.

To aid colleague engagement, from day one we set up joint workstreams for groups of Pinnacle and Drax colleagues to work on the integration aspects, ensuring the views, counsel and experience of colleagues in Pinnacle contributed to discussions and decision-making.

The challenges of Covid-19 meant that much of the engagement had to be virtual. Where we were able, leaders from our US business travelled to Pinnacle sites and held “all hands” sessions to meet with colleagues and answer questions. Where this wasn’t possible, and on an ongoing basis, we provided video blogs, newsletters, and a Pinnacle specific intranet site. Colleagues could use all these avenues to access information and learn more about Drax.

To ensure that the views and ideas of Pinnacle colleagues are reflected in how we work, we invited Pinnacle colleagues to join our MyVoice Forums from September 2021, and invited them to take part in our 2021 annual employee engagement survey.

You can read more about our activities on pages 56 to 60.
Engaging our stakeholders continued

Shareholders and investors

Key concerns
Drax biomass strategy, BECCS, third party sales, biomass generation, supply chain capacity, cost of production, financial and operational performance, capital allocation and dividend policy, share price, biomass sustainability, ESG, funding, energy policy and remuneration.

Why we engage
Engagement allows us to understand the concerns and priorities of current and prospective investors and lenders. We can then take these into account in our decision-making in areas such as ESG; executive pay; dividend and longer-term capital allocation policy; as well as strategy.

How we engage
We engage through a wide range of channels including statutory reporting – full-year and half-year results, trading updates, our AGM, Capital Markets Day and our website. We also have an ongoing programme of investor relations meetings led by the Investor Relations team, which includes one-to-one and small group meetings with shareholders and prospective investors, as well as participation in industry conferences. The CEO, CFO and Chief Innovation Officer also participate in the programme. The Chair and Senior Independent Director are available to speak with investors.

Reflecting the constraints on face-to-face meetings, most engagements were via calls and video calls with existing shareholders and new investors.

We also engage on ESG themes, which we have embedded into our ongoing IR programme. During 2021 our Head of IR, Head of Climate Change and Director of Internal Affairs continued a programme of ESG focused meetings with shareholders and investors, primarily concerned with biomass sustainability and carbon accounting.

How we respond
Reflecting feedback from investors, we continued to develop our programme of ESG reporting and engagement, which includes developing our data capture, analysis and disclosure in response to the requirements for TCFD, which we include in this year’s annual report on pages 64 to 71. Through our Capital Markets Day we have also set out our updated strategy for biomass, BECCS, and sustainability which investors see as key for our plans for future growth. See below for more details on the Capital Markets Day.

Capital Markets Day
In December 2021, we hosted a Capital Markets Day to update investors on our ambition to become a global leader in sustainable biomass pellets, a global leader in negative emissions, and a UK leader in dispatchable, renewable power. It also covered the role of bioenergy, our sustainability and responsible sourcing framework, BECCS, the importance of flexible generation, and our role in helping the UK to reach net zero. Participants joined both in person and remotely, reflecting a combination of existing shareholders, investors and lenders. The event included a presentation by Dr Alan Knight, Group Director of Sustainability, on our approach to the sustainable sourcing of biomass. (For more on this, see page 17).

The event was accompanied by a live webcast to allow for the inclusion of a broader audience. There was a formal question and answer session and, once the main presentations were over, the opportunity to meet more informally with members of senior management and the Board, including the Chair, CEO, CFO, and Senior Independent Director. Questions focused on BECCS, the long-term cost of biomass and biomass sustainability.

All materials from the Capital Markets Day, together with a video of the presentations and the Q&A session, are available on the website at www.drax.com/investors/announcements-events-reports/presentations/capital-markets-day-2021/

Communities and local authorities

Key concerns
Supporting and investing in regional development and future opportunities for employment, tackling climate change, our local environmental impact, community initiatives and sponsorship.

Why we engage
Drax is an active participant in the communities in which it operates. Strong community relationships and effective engagement strengthen our ability to operate effectively in these regions.

How we engage
We engage regularly with the communities around our businesses through supporting local initiatives, and holding quarterly meetings and formal drop-in sessions.

How we respond
Our Charity Committee has a dedicated fund and considers requests from the community, providing grants to support STEM education, skills and employability, as well as other causes that will have a positive impact local to our operations.

In July 2021, we donated C$50,000 to the Canadian Red Cross to support relief efforts for small communities affected by wildfires in British Columbia. Colleagues have undertaken a range of volunteering and charitable work. This has included outreach to partner schools in our communities, Group-wide fundraising days and colleagues’ personal fundraising efforts, for which Drax offers matched funding.

We engaged with local communities on the expansion of our Cruachan Power Station in Argyll, Scotland (see page 36).

As a board member and funding partner of the Galloway Glens Landscape Partnership Scheme, we support its work to create local opportunities for a sustainable future. This work includes the recovery of salmon fish stocks, which is a big issue locally and across Scotland, and working together to support STEM education.
Engaging stakeholders in the development of BECCS

Throughout 2021, our engagement around BECCS focused on three core themes:

**Negative emissions**: a key focus has been raising awareness amongst stakeholders, including the critical role of negative emissions technologies, such as BECCS, removing CO₂ from the atmosphere, mitigating emissions in hard to decarbonise sectors of the economy such as aviation and agriculture. In the UK, we’ve engaged with key advisory bodies to Government including the Climate Change Committee on its 6th Carbon Budget Advice to Government, and the National Infrastructure Commission on its report on Engineered Greenhouse Gas Removals. We have worked with several other partners to create the Coalition for Negative Emissions – a multi-stakeholder initiative committed to the sustainable scale-up of BECCS and other negative emissions technologies globally.

**The levelling-up agenda**: we have assessed the prospect of thousands of new jobs and career opportunities being derived from delivering BECCS, and have collaborated with key stakeholders across Yorkshire, including trade unions, business groups such as the Confederation of British Industry (CBI), the Hull and Humber Chamber of Commerce, the York and North Yorkshire and Hull and East Yorkshire Local Enterprise Partnerships, and local businesses. We consulted with local communities during the non-statutory and statutory phases of our Development Consent Order application.

**Supporting UK climate leadership abroad**: we have also engaged on the export potential of BECCS as a technology, engaging with representatives from national and regional governments across the world that are keen to learn more about how BECCS could be used in their countries, culminating in an extensive programme of activity around COP26 in Glasgow. In 2022, we will continue to meet with local and regional stakeholders around the planning and consenting aspects of the project as well as commercial opportunities for our supply chain. We will engage with policymakers around key future government publications such as the Bioenergy Strategy and the planned consultation on business models for BECCS power projects.

---

**Key concerns**

Energy costs, decarbonisation, carbon price support, Brexit, Capacity Market, climate change mitigation, biomass sustainability, Renewable Obligation Certificate (ROC) cap, development of policy to support BECCS, COP26, unabated coal closure, Covid-19, long duration energy storage technologies, industrial Cluster Sequencing for Carbon Capture Usage and Storage Deployment.

**Why we engage**

Constructive engagement with governments and political bodies is key to achieving Drax’s purpose.

**How we engage**

We engage with government bodies in the UK, EU, US and Canada on a range of topics including decarbonisation, BECCS, and the need for system stability and flexible generation. While Drax makes no political donations, it is important that we engage with politicians, political parties, policy makers and other stakeholders. For example, in the UK we engage with political stakeholders at party conferences and through all-party groups. You can read more about this on page 162.

Our political engagement policy, developed in direct response to shareholder feedback, is unchanged from 2019 and is available on our website: www.drax.com/about-us/drax-political-engagement-policy/

**How we respond**

In early 2021, Will Gardiner participated in regular industry-wide forums on the response to Covid-19 with the Secretary of State for Business Energy and Industrial Strategy and the Minister for Energy. Director of Corporate Affairs, Clare Harbord, was a member of the Scottish Government’s Green Recovery Taskforce, to support Scotland’s recovery from Covid-19. As our BECCS project reaches a critical phase in its development, we have increased engagement with Government and political stakeholders, including at the Conservative and Labour party conferences. We attended COP26 and participated in several events, panel discussions and workshops, discussing matters such as ways to reduce emissions in the UK energy system, our coal to biomass conversion and BECCS.

---

**Key concerns**

Biomass sustainability, negative emissions and bio-energy with carbon capture and storage, long duration energy storage, climate change.

**Why we engage**

Engagement with NGOs helps us to challenge and enhance our practices on behalf of the wider society. We warmly welcome engagement with NGOs and the advice and guidance they bring to our operations.

**How we engage**

We engage directly with NGOs on a wide range of topics from biomass sustainability and negative emissions through to pumped storage hydro and long duration energy storage. For example, in 2021, we held a series of roundtables and bilateral meetings with UK and US based ENGOs on the future of sustainable biomass with a view to enhancing our own practices. We also jointly supported (with Greenpeace and the Green Alliance) a call to the UK Government to support the deployment of long-duration energy storage technologies, such as pumped hydro. We directly support ENGO activities across and around our hydro sites at Lanark and Galloway.

**How we respond**

Following on from the engagement around our Responsible Sourcing Policy, Drax continued in 2021 to engage with ENGOs and other civil society organisations. We shared the innovative work undertaken to evidence the sustainability of our sourcing practices, in particular, the Catchment Area Analysis and Healthy Forest Landscapes projects. Drax has proactively sought to engage with organisations that have expressed concerns regarding the role of biomass to understand and address those concerns.

Looking ahead, Drax will reflect on the feedback received from the ENGO roundtable engagement and consider what additional steps we should take to address the points raised by ENGOs.
Engaging our stakeholders continued

Customers

Key concerns
Controlling energy costs, energy efficiency, managing their own emissions/carbon footprint, security of supply and changes in the energy market. How Drax has responded to Covid-19 and supported businesses, particularly smaller business that may have struggled. Customer service support. Third Party Intermediary (TPI) relationships, sales and product details, energy efficiency, managing their own carbon footprint, and new products and services such as smart meters and electric vehicles.

Why we engage
Engagement allows us to build strong relationships with our customers, so we have a better understanding of their needs to improve customer service, develop relevant products and keep them informed.

How we engage
Our Customers business engages with our customers through a variety of channels, including social media, our website, by phone, and through our complaints procedure. Large Industrial and Commercial customers and TPIs have dedicated account managers and service delivery managers.

How we respond
During the unprecedented rise in energy prices, we had regular communications with our customers and TPIs to ensure they were informed of what was happening and understood the likely impacts on their costs. We also communicated with all out-of-contract customers advising them how they should respond to switch from higher tariffs, and explaining how to contact us to avoid debt. We have a regular newsletter for our TPIs and large Industrial and Commercial customers, which we use to update them on initiatives, products, compliance and energy market changes. While rebranding Haven Power to Drax we ran a three-month engagement plan with our customers and TPIs, so they were well informed and aware of the changes, minimising impact.

Regulators and network operators

Key concerns
Regulatory and energy market reform, network charging reform, smart meter installation obligations, energy trading compliance, environmental compliance, Health & Safety compliance, compliance with biomass sustainability policy, ROC compliance, and business ethics compliance, including anti-bribery and corruption, human rights and data privacy.

Why we engage
Engagement with Ofgem, BEIS and the Electricity System Operator allows us to promote the delivery of a secure, reliable energy system offering best value for consumers. We support a level playing field for all technologies, enabling an efficient and investable market. In addition, engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with latest guidance.

How we engage
We engage directly with stakeholders and through industry associations. For example, we engage with relevant teams at Ofgem, BEIS and National Grid on the growing need for stable markets and appropriate investment mechanisms to provide sufficient flexible and dispatchable generation and system support services to the grid. We also engage with Energy UK and the Sustainable Biomass Programme to promote best practice and progressive reform in policy, licences, rulebooks and standards.

How we respond
We have engaged bilaterally with stakeholders and through industry associations. For example, we engage with relevant teams at Ofgem, BEIS and National Grid on the growing need for stable markets and appropriate investment mechanisms to provide sufficient flexible and dispatchable generation and system support services to the grid. We also work with regulators and the ICO to ensure compliance with latest guidance.

Schools and colleges

Key concerns
Skills to support future talent and employment needs, STEM and green jobs, “levelling up”, local environmental impact, community initiatives and sponsorship.

Why we engage
We aim to improve skills, education, employability, and opportunities, with a particular focus on supporting under-represented sections of society. Engagement with schools and colleges allows us to promote interest in science, engineering and the energy sector, and support educational institutions in developing the workforce of the future.

How we engage
We engage directly with schools and colleges, offering virtual learning opportunities and free access to our site tours for students. Our partnerships with organisations such as Teach First support the delivery of our activities with schools.

How we respond
We expanded our online educational offering in 2021, delivering virtual tours, university webinars, and our “Drax in the Classroom” interactive webinars for schools, and ran several virtual work experience placement weeks for students in Year 10 and above.

In 2021, we launched a STEM activity box, created with Doncaster College and University Centre, which provide learning materials and resources related to recycling. We also collaborated with Selby College to successfully bid to the Strategic Development Fund (SDF) to develop and deliver a short course on BECCS, aiming to equip a range of colleagues, supply chain workers and college students with knowledge of how BECCS works, and wider knowledge of carbon capture technology, alongside an ability to apply the learning practically. We fund PhD studentships on topics related to grid stability and storage, and bioenergy feedstocks.

You can read about our work supporting young people and teaching them the skills for a green economy on page 56.
adhering to the Prompt Payment Code, responses to our due diligence requests, conducting, compliance with laws, satisfactory Expected standards of ethical and business Key concerns our Business Ethics induction process for Global Compact members, and we enhanced diligence with peer companies including UN Canada. We continue to participate in the ethics clauses in our standard terms, service). We are strengthening our business on those obligations to their supply chains. We continue to roll out our Supplier Code and Responsible Sourcing issues. This is to ensure our ethics, values, engage directly with suppliers around key How we respond We continue to roll out our Supplier Code to suppliers, and encourage them to pass on those obligations to their supply chains (including the provision of a whistleblowing service). We are strengthening our business ethics clauses in our standard terms, including those for use in the US and Canada. We continue to participate in the UN Global Compact, including its Modern Slavery Working Group. We benchmarked our approach to third party ethical due diligence with peer companies including UN Global Compact members, and we enhanced our Business Ethics induction process for relevant non-permanent workers.

Key concerns Carbon accounting, carbon pricing, biomass sustainability, future energy policy, BECCS policy.

Why we engage This allows us to keep abreast of the latest thinking from outside the business, consider likely policy developments across a range of areas and anticipate new opportunities for innovation and collaboration.

How we engage We engage through direct participation in events, roundtables and workshops, and formally in writing. Our Independent Advisory Board (IAB) on sustainable biomass advises Drax on feedstock options, forest science and the role of sustainable biomass in our climate change mitigation activities. This allows us to follow the latest scientific research and best practice. We also engage with academics including recently on new ventures, such as domestic sourcing opportunities for energy crops. You can read more about the IAB on page 48.

How we respond In response to concerns raised by think tanks and academics regarding biomass carbon accounting criteria, we publish various data gathering tools, including forest catchment area analyses. We publish reports commissioned by our IAB in partnership with external providers such as Ecometrica. These reports summarise the key elements of carbon accounting for biomass, making recommendations to the sector on how the carbon benefits of bioenergy can be fully realised. In response to concerns raised on biomass feedstock sustainability and availability, we partnered with McKinsey and Company through the Coalition for Negative Emissions to identify feedstock availability globally for BECCS. We also partnered with WPI, NFU and Carter Jonas to commission research into the policy enablers for UK-grown energy crops for BECCS.

We sit on steering groups of several multi-university research projects and trade bodies providing industry input, for example the SuperGen Bioenergy consortia in the UK, Bioenergy Europe and the World Biomass Association.

Key concerns

Energy policy, reputation of energy sector, reputation of biomass sector, health & safety best practice, Brexit.

Why we engage

Active membership of a wide range of trade and industry associations allows us to keep track of best practice in our sector and other industries.

How we engage

We engage directly with trade bodies focusing on energy and sustainable forestry. For example, Drax is an active member of Energy UK, Biomass UK and the CBI.

How we respond

Our Director of Corporate Affairs sits on the Board of Energy UK which, in 2021, took a role in advising the UK Government on areas of focus ahead of the end of the EU transition period, and on matters relating to security of supply and affordability in response to global energy price rises. We also have representatives on each of Energy UK’s main Committees and Working Groups, which discuss shared industry challenges. We increased our engagement with the CBI, with our Director of Corporate Affairs sitting on the Energy and Climate Change Board, and we were pleased to welcome the CBI’s new Director General, Tony Danker, on his visit to Drax Power Station in 2021.

We actively engage on shared interests in the energy sector such as carbon pricing, skills and education. We work with businesses from all sectors on shared national and regional priorities. This includes being members of Scotland’s Economic and Social Forum and the Northern Powerhouse Partnership, where Andy Skelton, CFO, is a Board member. We also engage with emerging bodies including the Yorkshire and Humber Climate Commission.

As part of the development of our BECCS project, we have become patron members of the two nearest chambers of commerce to Drax Power Station, West and North Yorkshire, and Hull and Humber. We look forward to working with the chambers on a programme of supply chain engagement for BECCS, ensuring local businesses benefit from our proposed investments.
We care about what matters

We aim to be a sustainable business with profitable growth that has a positive economic, social and environmental impact. We are committed to enabling a zero carbon future, starting with our direct operations and our ambition to become carbon negative by 2030.

“We are focused on sustainable forest management and are working to have a forest landscape that’s healthy and biodiverse.”

Woody biomass sourced by Drax Power Station in 2021 that was SBP compliant: 98%

Apprentices started or in continued development at Drax in 2021: 56
Our North American business is part of the Morehouse Family Forests Initiative (MFFI) in north east Louisiana and south east Arkansas, to encourage sustainable forest management. The MFFI works with thousands of small landowners and connects them with natural-resource experts. There was a specific focus on restoring or expanding the open-pine habitat that supports many endemic species.

The scheme has helped quail return to land surrounding our Morehouse Bioenergy pellet plant in Arkansas after an absence of 40 years. This is a positive indicator of a forest landscape that’s healthy and biodiverse, and demonstrates the positive effect that actively managing the forests can have on an area in a relatively short period of time.

Kyla Cheynet
Sustainability Director

---

Woody biomass sourced by Drax Power Station in 2021 that was SBP compliant

98%

Apprentices started or in continued development at Drax in 2021

56
Sustainable Development

At Drax, we believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation. We are committed to creating a business model where financial performance, value creation and sustainability outcomes are aligned.

Drax sustainable development framework
As our global footprint grows, we recognise the need for an ambitious plan shaped around the global sustainability agenda, whilst recognising our responsibilities to the local areas and communities where we operate. During 2021, we appointed a Group Director of Sustainability to drive sustainability performance through a co-ordinated strategy across our expanded business. The Board and the Executive Committee were engaged in the formation of a new sustainable development framework, defining three sustainability outcomes for the business, and aligning our objectives to the UN Sustainable Development Goals (SDGs). In 2022, we will focus on defining actions and accountabilities, to deliver our sustainable development framework outcomes across the business.

Sustainability governance
The Board has ultimate responsibility for the Group’s sustainability performance and receives quarterly environment, social and governance updates from the CEO. The Executive Committee, chaired by the CEO, oversees performance.

The Group Director of Sustainability leads Drax’s sustainability programme and reports to the Director of Corporate Affairs, a member of the Executive Committee.

Sustainability priorities
We identify the sustainability priorities that are material to our business and important to our stakeholders.

Our stakeholders’ priorities evolve over time, and it is important that we regularly review and respond, to address expectations and effectively manage risks and opportunities. In 2021, we conducted a materiality assessment exercise. Our process included a desk-based review of internal and external sources, and we interviewed internal stakeholders to gather an initial understanding of the views of their external stakeholders, reflecting their experience and learning from engagement with external stakeholders (see page 34). From this, we produced an initial list of material priorities (not ranked), to inform the topics covered in our disclosure, and the actions we will deliver within our sustainable development framework.

- Carbon emissions
- Forests and biomass acceptability
- Biomass supply chain emissions
- Fair and responsible products
- Climate risk and opportunity
- Safety, health and wellbeing
- Skills and green jobs
- Environmental pollution and impact
- Biodiversity
- Diversity and inclusion
- Supply chain human and labour rights
- Energy consumption
- Employee turnover
- Communities local to our sites
- Responsible sourcing
- Business ethics and integrity
- Executive remuneration

During 2022 we will work with a third party to build on our internal exercise, to refine our priorities list, produce a materiality matrix, and externally scrutinise this tool. Regular review of our sustainability priorities will be fed back into the business, to ensure risks are managed and that we are responding effectively as a business.
Pinnacle: new global supply
The acquisition of Pinnacle in April 2021 strengthens Drax’s position today as a vertically integrated producer and consumer of biomass, and a supplier to customers internationally – with an enlarged and geographically diversified supply chain.

We use a range of third-party sustainable certification systems across our supply base, all of which implement independent annual audits. These include the Sustainable Forestry Initiative (SFI), Forest Stewardship Council® (FSC®), schemes endorsed under the Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Biomass Program (SBP). 100% of Drax-owned pellet plants hold SBP certification and underlying SFI, FSC® or PEFC Chain of Custody certification.

During 2021, we established actions for the integration of Pinnacle into our Pellet Production operations, focused on health and safety, operational efficiency, and sustainability, to standardise our Group-wide approach. Areas of focus during the year included an update to the mass balancing system for fibre traceability and exploring where reductions in carbon are possible within scope 1, 2 and 3 emissions.

Old Growth Forest and Indigenous Peoples
Our expansion into additional geographies brings specific sustainability considerations for the business. Our acquired pellet plants in British Columbia (BC) and Alberta, Canada, operate in regions that include old growth forests. Our approach continues to evolve as the provincial Government of BC embarks on a multi-year comprehensive review of old growth forests, including interim protections for some of these forests until the review is completed. We are supportive of the review process currently underway and we will follow the development of new policies related to old growth management closely, and ensure our procurement policies and procedures are aligned.

Forest management in BC is driven by other forest-related industries, particularly lumber. Residues left on-site are mandated by regulation in BC to be burned to help control fire and disease risk. It is estimated that each year in BC, circa 10 million m³ of harvest residuals are burned, rot, decay or become fuel for future wildfires, following harvests. Using this harvesting residue material for biomass production therefore makes good sense for both forests and the climate.

The SBP-endorsed regional risk assessment (RRA) for BC was approved during 2021. In response to the RRA findings, we have identified potential mitigation measures to minimise the specified risks identified by the RRA and to ensure feedstock used at our pellet plants does not negatively impact those risks. The RRA, paired with our mitigation measures, will strengthen our transparency of raw material sources and lead to a better understanding of the dynamics between the biomass sector and the wider forest management sector.

We also recognise the importance of Indigenous Peoples in Canada, including their history, traditional knowledge and culture. We respect the role of First Nations as decision makers and the principles of the United Nations Declaration on the Rights of Indigenous Peoples, which has formally been adopted in BC. In 2022, we look forward to building on our relationships with First Nations including those who are partners in our business, such as the Witset Nation in Houston, BC. We were also proud to support a number of important Indigenous-led initiatives and we plan to expand on these actions.

The right biomass
Our climate positive, nature positive, and people positive sustainability outcomes will only be delivered by sourcing, producing and using the right biomass
Development of alternative fuel sources for sustainable biomass

Wood biomass has formed the majority of the current feedstock used by Drax for biomass power generation. Over the last decade, as part of our work on biomass, we have screened hundreds of non-woody biomass materials, and we have been building on this knowledge to explore the wider use of these alternative fuels.

Alternative fuel sources may include materials such as agricultural residues – sugar cane residues (bagasse), peanut shells, sunflower or oat husks – all residues from existing production processes. These materials can provide the opportunity to utilise surplus or waste biomass for power generation, whilst providing options to reduce costs, diversify and strengthen security of supply. As such, alternative fuels form one strand of our response to achieve our strategic objective to be a global leader in sustainable biomass, underpinned by safety, sustainability and cost reduction.

Our work on alternative fuels has assessed in detail the viability of new products, considering new geographies, forms of contracting, chemistries and operational characteristics. During the year, we progressed our work to pursue some of these fuel options to a more advanced stage.

Innovating to utilise process residue (Lignin)

Lignin is a component of wood – and one source we have pursued is lignin as a by-product or ‘process residue’ of hydrolysis ethanol production, from a facility that ceased production in 2005. As a waste material with a higher calorific value than conventional white wood pellets, lignin presents an attractive and competitive addition for use as alternative fuel within our feedstock portfolio.

At Drax, we have a history of innovation and seeking new ways to deliver value. Advancing the exploration of this material has required extensive collaboration, including engagement with the Environment Agency on “End of Waste” status, and in our approach to ethical due diligence.

Partnering on UK energy crops

We are exploring opportunities to source a proportion of BECCS feedstock from UK grown energy crops. In September 2021, we announced a one-year partnership with the National Farmers Union of England and Wales, to explore opportunities to scale up domestic perennial energy crop production and help the UK meet its ambitious climate goals.

Research is underway to understand the opportunities and risks of domestic sourcing, with considerations including biodiversity, landscape, soil carbon and health, land use change, and land management systems. Subject to the investigatory work, we expect to develop a plan for the expansion of energy crops to support our UK BECCS investment, identifying where and how they can be best grown and used sustainably.
The right biomass
Our sustainability due diligence process is designed to ensure the biomass we use for generation at Drax Power Station is sustainable and compliant with relevant legislation. Woody biomass supplier compliance is evidenced by SBP, SFI, PEFC and FSC® external certification schemes, alongside our internal assurance system and third-party audits commissioned by Drax.

Our Group Sustainability Policy and Supplier Code of Conduct outline our requirements and are evidenced and included in biomass supplier contracts.

Our Responsible Sourcing Policy for Biomass outlines our forest biomass sustainability commitments. This is to provide further assurance that the sustainable biomass we source makes a net positive contribution to climate change, protects and enhances biodiversity and has a positive social impact on local communities.

As part of our sustainability due diligence process, raising concerns to our committees is one method we use to mitigate risk. This is dependent on the level of risk within the supply chain and geography, and outcomes from independent commodity and country risk assessment reports. In 2021, two matters regarding prospective alternative fuel supply country-level risks were escalated to the Group Ethics and Business Conduct Committee or the Executive Committee. This process ensures potential risks are appropriately scrutinised and that additional measures and requirements are implemented, as appropriate.

Further details of our due diligence process are available at www.drax.com/sustainability

Responsible Sourcing: A policy for biomass from sustainable forests is available at www.drax.com/sustainable-bioenergy/responsible-sourcing/

Our forest biomass sustainability commitments

1. We will reduce carbon dioxide emissions
We are committed to ensuring our use of biomass makes a positive contribution to tackling climate change and fulfilling the UK’s net zero by 2050 target.

2. We will protect the natural environment
We recognise our duty to keep forests thriving and to respect the many benefits they bring, including carbon storage, protection of soil and water quality, supporting biodiversity and provision of habitat.

3. We will support people and communities
From state-owned forests to smallholdings, and from Canada and the US southeast to the Baltic states, forest owners, forest workers and communities in our sourcing areas are bound by their common reliance on forests for employment, wellbeing and quality of life.

4. We will invest in research, outreach and intervention
The strength of our collaboration with others will improve the sourcing choices we make. We are committed to working with governments, non-governmental organisations, academia and other stakeholders to continually improve biomass sourcing and develop best practice.

* The UKTR applies from 01 January 2021 and the requirements remain the same as under the European Union Timber Regulation (EUTR)

ISAE 3000: In accordance with regulatory requirements of the Renewables Obligation (RO) and the Investment Contract for the CfD, sustainability data is audited annually in a limited assurance engagement as prescribed in ISAE 3000 (revised). Bureau Veritas conducted the audit for the 2020/21 compliance year and concluded that the data reported was complete and accurate and that Drax had designed and implemented effective internal controls for ensuring the completeness, accuracy and validity of reported data.
Catchment Area Analysis

We are committed to sourcing sustainable biomass that contributes to the long-term maintenance of growing forest carbon stock and productivity, and that helps to improve the health and quality of forests. That’s why, in addition to our due diligence processes, we engage expert third parties to conduct Catchment Area Analyses (CAA) for the regions from which we source.

The CAA reports, written by independent specialists, evaluate the trends occurring in the forestry sector around the pellet plants from which we source, to determine what impact pellet demand may have had in influencing those trends, positively or negatively. The key metrics examined include:

- Deforestation and degradation
- Changes in forest management practice
- Wood prices and other markets that use wood
- Amount of carbon stored on landscape (growing stock)
- Sequestration rate of carbon (productivity of forests)
- Harvesting levels vs productive capacity of the area

The main purpose of the CAAs is therefore to provide evidence that we are meeting the carbon components of our Responsible Sourcing Policy for Biomass commitments. This allows us to make informed sourcing decisions.

We began our CAA process in 2019. As at 2021, we have completed nine CAAs covering 13,000km² of woodland across the following geographies: Latvia, Estonia, part of central British Columbia (Canada), with a second in British Columbia underway, the Chesapeake region in Virginia and North Carolina (US), south east Georgia (US), northern Florida (US), and around Drax’s pellet plants in Mississippi and Louisiana (US). These catchment areas provided around two thirds of Drax’s biomass supply areas by 2023. However small areas or new entrants to our supply list on an annual basis may mean this cannot be entirely complete (i.e. not 100%).

During 2021, our Independent Advisory Board (IAB) discussed the robustness of our work to demonstrate the forest carbon aspects of our Responsible Sourcing Policy for Biomass through the CAAs. The IAB noted the breadth of data collected and made recommendations to further improve the analysis, including statistical approaches to data analysis, and further independent review of the reports.

Healthy Forest Landscapes

Drax is jointly pioneering the Healthy Forest Landscapes (HFL) approach with Earthworm Foundation. Earthworm is a non-profit organisation that focuses on responsible sourcing and is experienced in working with companies to develop landscape-scale approaches in commodity supply chains.

HFL aims to provide an evidence-based approach to measure and evaluate the ecological, social and economic impacts in our supply catchment areas. The HFL approach measures changes in the forest landscape using empirical evidence such as data from government statistics and input from remote sensing technologies, such as earth observation from satellites. HFL also uses an Earthworm-developed socio-economic evaluation methodology to assess community wellbeing.

HFL assesses four key metrics – forest cover, carbon stock, biodiversity and community wellbeing – which will be used across all our sourcing areas. The HFL approach is designed to enable Drax to actively identify opportunities to make appropriate interventions which support healthy forests, communities, or biodiversity.

HFL analysis has been completed for Amite, Morehouse and Chesapeake in the US, and was commenced for British Columbia in Canada in 2021. In 2021, our work has focused on identifying appropriate interventions and responding to the reports we have received.

Over the next four years, we aim to roll out the HFL approach across all our wood source catchment areas. Ultimately, this will allow Drax to track and report our specific and aggregate impact on the four key metrics of forest landscape health in a timely and transparent manner.

ArcGIS: exploring the use of map-based technology

Drax is committed to transparency and we are continually striving to find new and better ways to show our data. In September 2021, we invested in ArcGIS, an online geographic information system (GIS). This software will help us to display our data through map-based technology.

A GIS is a computer system for creating, managing, analysing and displaying data related to positions on Earth’s surface. Connecting data to a map enables us to better identify and understand patterns and relationships by displaying different types of spatial data – such as street, building and vegetation data – on one map.

Using ArcGIS, we aim to enhance how we manage and share data regarding our woody biomass sourcing, including improving the accessibility of our data by exploring new ways to communicate visually with our stakeholders.

Independent Advisory Board

Our IAB of scientists, academics and forestry experts is led by Professor Sir John Beddington, former Chief Scientific Adviser to the UK Government. The IAB provides independent advice on feedstock options, forest science, optimisation of carbon impacts, and the role of biomass in supporting the transition to a net zero energy system. The advice and scrutiny from the IAB is intended to assure stakeholders that Drax will keep our Sustainability and Responsible Sourcing policies under review and that the biomass we use follows the latest scientific research and best practice.

In 2021, the IAB had four meetings and discussed topics including: Drax’s new Healthy Forests Landscapes programme; the acquisition of Pinnacle with forestry experts from British Columbia, Canada, joining the conversation; an update on Drax’s biomass scrutiny work which involved in-depth discussions on our biodiversity work specifically; and, business updates including air quality work at Drax. We publish the IAB’s recommendations to Drax and the minutes from each meeting on our website.

For more information see www.drax.com/sustainability/sustainable-bioenergy/independent-advisory-board-on-sustainable-biomass/
Climate positive

Our ambition is to become carbon negative by 2030 through BECCS, whilst reducing our remaining indirect emissions by a further 42%.

Taskforce on Climate-related Financial Disclosures
We are committed to the management and disclosure of our climate change risks and opportunities, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our Climate Policy outlines our approach (www.drax.com/about-us/compliance-and-policies).

See our TCFD disclosure on page 64.

Carbon emissions
Tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas.

Climate positive by being carbon negative
Drax’s ambition is to become carbon negative by 2030, using technologies such as bioenergy with carbon capture and storage (BECCS) to remove more carbon from the atmosphere than we produce throughout our direct business operations (scope 1 and 2).

Our Group target is to achieve net zero across our scope 1, 2 and 3 emissions by 2030. We plan to achieve this by reducing emissions as far as possible while using removals delivered through BECCS to neutralise our remaining emissions.

We are committed to the Science Based Targets initiative (SBTi). In 2021, we submitted our targets to the SBTi for validation and these targets are outlined on page 71 (see metrics and targets).

To align with our SBTi targets, we intend to rebaseline our carbon emissions data, to ensure comparability to our 2020 base year going forward.

Innovating to decarbonise our business
One of our strategic objectives is to be a global leader in negative emissions. At Drax Power Station, we are developing options for BECCS, and targeting 8Mt p.a. of negative emissions by 2030. Our aim is to make Drax Power Station the world’s first carbon negative plant at scale.

A provider of dispatchable, renewable power
Our Generation business operates a portfolio of flexible, renewable energy assets to support the system’s growing use of intermittent renewable energy. In 2021, 93% of the power generated by Drax was renewable.

Our Customers business is a leading supplier of renewable sourced electricity to businesses across the UK and provides energy services and a route to market for 2,322 renewable generators. 100% of the electricity procured and supplied by Drax and Opus Energy during the 2020-2021 Ofgem reporting year was from renewable sources. Our Customers business also sold 2.4TWh of gas to customers in 2021.

Our Customers business fuel mix disclosures are available at: energy.drax.com/support/fuel-mix-disclosure/opusenergy.com/our-energy-sources/

Power generation mix in 2021(1) (% total output)

- Biomass: 92%
- Coal: 3%
- Gas: 4%
- Hydro: 1%

(1) Commercial generation output
Understanding our carbon emissions

<table>
<thead>
<tr>
<th>Upstream</th>
<th>Direct emissions</th>
<th>Indirect emissions from electricity</th>
<th>Downstream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel source supply chains (coal, biomass, natural gas)</td>
<td>Coal and natural gas power generation</td>
<td>Hydro electricity consumption</td>
<td>Recycling, processing and disposal of waste</td>
</tr>
<tr>
<td>Supply of sludge to Daldowie</td>
<td>Methane and nitrous oxide emissions from biomass generation</td>
<td>Cruachan electricity imports</td>
<td>Reuse and reprocessing of ash and by-products</td>
</tr>
<tr>
<td>Biomass transport from Drax pellet plants to Drax Power Station</td>
<td>Pellet plant operations</td>
<td>Generation electricity consumption</td>
<td>Transmission and distribution</td>
</tr>
<tr>
<td>Utilities as part of lease contracts</td>
<td>Pellet port operations</td>
<td>Pellet Production business electricity consumption</td>
<td>Emissions from use of sold electricity</td>
</tr>
<tr>
<td>Emissions from operational and capital purchases</td>
<td>Large plant vehicles</td>
<td>Office sites electricity consumption</td>
<td>Emissions from use of sold natural gas</td>
</tr>
<tr>
<td>Business travel</td>
<td>Five gas desulphurisation systems</td>
<td></td>
<td>Emissions from transport and use of sold pellets</td>
</tr>
<tr>
<td>Employee commuting</td>
<td>Company vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fluorinated gases from heating, ventilation and air conditioning systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hydro electricity consumption</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Direct carbon emissions (scope 1 and 2)
Since 2012, our absolute carbon emissions (scope 1 and 2) have fallen more than 94%, with four of the six generating units at Drax Power Station converted to biomass from coal.

In 2021, our Group scope 1 and 2 carbon emissions decreased by 59% compared with 2020. This reflects the sale of gas assets in January 2021, and a decrease in coal generation, as we progressed the full closure of commercial coal generation at Drax Power Station. Pinnacle, acquired in 2021, contributes around 9% of Group scope 1 and 2 emissions through its pellet manufacturing activities.

Value chain carbon emissions (scope 3)
We recognise the impact our carbon emissions have across the value chain. In 2021, we developed a scope 3 target that enables us to align to the SBTi (42% reduction in scope 3 emissions by 2030, against a 2020 baseline).

The primary contribution to our scope 3 emissions comes from our fuel and energy related activities. This includes fuel supply chains, such as biomass and coal. The second largest contribution is purchased goods and services, followed by use of sold products, which includes the end use of gas purchased and sold by our Customers business.

For breakdown of scope 3 emissions by category see ESG data supplement www.drax.com/sustainability

Carbon intensity
Between 2012 and 2021, our generation carbon intensity has fallen by over 95%. This reflects the conversion of four generating units at Drax Power Station from coal to biomass, the sale of gas assets in 2021, and the diversification of our generation portfolio that today includes hydro, biomass and pumped storage.

Energy and carbon reduction initiatives
In 2021, we completed the third in a series of three high-pressure turbine upgrades on biomass units 1-3 at Drax Power Station (see further information below). In 2020, at Cruachan Pumped Storage Power Station, work to replace four sulphur hexafluoride (SF6) circuit breakers was completed, reducing the total potential for emissions from this source by up to 500tCO2e per year.

High Pressure turbine upgrades at Drax Power Station
Between 2019 and 2021, we have completed a series of three High Pressure turbine upgrades and improvements on biomass units 1-3 at Drax Power Station. A total capital investment of around £40 million was made over three years for the upgrade programme. We expect the upgrades will improve unit 1-3 biomass generation thermal efficiency and reduce maintenance requirements, lowering the cost of operations.

Improved turbine efficiencies have been achieved by fitting new, modern pipework and valves, with high efficiency blading and long-life seals, within the turbines on the three units. Improved thermal efficiencies mean less fuel is needed to create the same output of electricity. This efficiency is designed to contribute to an incremental reduction in the cost of biomass generation and forms part of our approach to achieve our strategic objectives.

In 2021, the outage at unit 1 was completed with no ‘worse than first aid’ injuries – a significant achievement when more than 560,000 hours were worked.
Drax Power Station average biomass supply chain GHG emissions

<table>
<thead>
<tr>
<th>Average biomass supply chain GHG emissions</th>
<th>Unit</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>kgCO₂e/MWh</td>
<td></td>
<td>100*</td>
<td>109</td>
<td>124</td>
<td>131</td>
<td>130</td>
</tr>
</tbody>
</table>

Note: For the 2021 figure reported, December data has been calculated based on the weighted average carbon intensity of January to November 2021 actual data.

* Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000. For assurance statement see www.drax.com/sustainability.

Drax Power Station biomass supply chain GHG emissions in 2021 (%)

Drax is committed to taking a leading role in the accounting and reporting of lifecycle emissions for biomass. In 2020, we launched our Biomass Carbon Calculator, a GHG lifecycle emission tool designed to improve the accuracy and transparency of reporting emissions for wood pellet supply chains (available at www.drax.com/sustainability/sustainable-bioenergy/the-biomass-carbon-calculator/). The calculator has been externally verified against UK and EU regulations. It includes all material sources of GHG emissions, including categories absent from other UK reporting tools, such as methane and nitrous oxide emissions arising from fuel combustion.

We are further investigating decarbonisation pathways for our biomass supply chains to ensure emissions are reduced at a rate consistent with limiting global warming to 1.5°C above pre-industrial levels.
Environmental management

Approach and governance for environment
During 2021, we updated our Group-wide Environment Policy, mapped to our core values. Our policy reconfirms our commitment to manage, monitor and reduce the environmental impacts caused by our business through continual improvement of our operations; and to minimise adverse impacts of our operations on biodiversity. The Group policy, signed by the Chair of our Board and our CEO, sets out what we aim to achieve, and our businesses reflect how they will enact this in their implementation statements.

As part of our Group-wide governance, an HSE internal assessment was undertaken in 2021 by a third party, using a risk-based methodology designed to assess, improve, and demonstrate the adequacy of our HSE business processes. Reports were produced at a site level for local management’s ownership of the improvement areas, and the overall assessment was reported to the quarterly Group HSE Committee and to the Audit Committee in July and December 2021.

Each month, we report internally on environmental incidents and near misses, and the Board receives monthly reports as part of the CEO report. In 2021 we introduced leading and lagging indicators for environmental management into our HSE balanced scorecard. Leading indicators give us proactive measures to track prevention efforts prior to an incident, and lagging indicators enable us to track incidents once they have occurred.

We respond to, and track actions taken from, any environmental complaints made in relation to our operations, and we investigate environmental events to ensure that root causes are established, and lessons are learned and shared across the business. As we integrate Pinnacle into Drax, we have established a risk-based HSE improvement strategy for our Pellet Production business.


Environmental Management Systems
In the UK, our Generation assets are certified through their respective management systems to ISO 14001:2015 and are subject to regular external audits. In the US, our Pellet Production sites operate under an environmental management system that is aligned, but not certified, to the principles of ISO 14001:2015.

To establish a baseline of environmental performance at the Pinnacle sites, we commissioned a third-party specialist to undertake management system desktop and site-based environmental assessments of each operational site in Canada and the US, to inform our areas for improvement and associated investment. In Q2 2021 we established a risk-based HSE improvement strategy for our pellet operations, combining best practice across our US, Canada and UK operations into a new integrated management system for health, safety and the environment. In Q3 2021, we reorganised the HSE team across North America to support this improvement journey, establishing a lead director role for HSE, responsible for the wider geography, supported by environmental specialists in each country. We are underway with a programme to upskill our Pellet Production site-based safety teams to expand their competency to include a wider responsibility, covering all aspects of HSE.

Environmental compliance
Wherever we operate, we seek to establish an open and direct partnership with the local environment agencies. We provide further information on environmental aspects below.

At Daldowie, our newly installed regenerative thermal oxidiser has delivered 99% reliability, adding enhanced treatment to exhaust air before it is released to the atmosphere. Despite this, the Scottish Environment Protection Agency (SEPA) has substantiated six odour complaints in 2021 from local neighbours. During 2021 we undertook a review of the site to identify and mitigate other potential sources of odour, and we continue our dialogue with SEPA, keeping them informed on the actions we are taking. We have identified further works, some of which have already commenced to reduce the potential for odours from the site.

As reported in 2020, a US$2.5 million fine was imposed by the Mississippi Department for Environmental Quality in February 2021 in relation to historic breaches regarding levels of volatile organic compounds (VOCs) at the Amite plant. Work to install new equipment to reduce our VOC emissions was completed in July 2021. At our Morehouse and LaSalle sites, we have completed the installation of new regenerative catalytic oxidizers to reduce emissions.

At Morehouse, in October 2021, we completed improvements to our dry shavings ‘truck dump’ area with the addition of a baghouse to combat fugitive dust exceedance.

Two environmental non-compliance fines were issued at Aliceville, US, in 2021, which resulted in a total payment of US$13,685, which related to missing documentation.

For our Pinnacle operations we are establishing a comprehensive programme for environmental compliance and commenced proactive engagement of the relevant environmental regulator as we seek to improve standards at our sites. We also completed multiple equipment upgrades at US and Canadian sites to improve operational efficiencies amongst other objectives.
**Sustainable Development continued**

**Environmental performance**

<table>
<thead>
<tr>
<th>Emissions to air</th>
<th>Unit</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nitrogen oxides – power generation</td>
<td>t</td>
<td>7,556</td>
<td>9,498</td>
</tr>
<tr>
<td>Sulphur dioxide – power generation</td>
<td>t</td>
<td>1,087</td>
<td>3,015</td>
</tr>
<tr>
<td>Particulates – power generation</td>
<td>t</td>
<td>448</td>
<td>566</td>
</tr>
<tr>
<td>Nitrogen oxides – pellet production</td>
<td>t</td>
<td>386</td>
<td>427</td>
</tr>
<tr>
<td>VOCs – pellet production</td>
<td>t</td>
<td>1,202</td>
<td>2,983</td>
</tr>
<tr>
<td>Particulates – pellet production</td>
<td>t</td>
<td>193</td>
<td>489</td>
</tr>
</tbody>
</table>

**Water use**

<table>
<thead>
<tr>
<th>Water use</th>
<th>Unit</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total water abstracted – power generation</td>
<td>m³</td>
<td>64,140,878*</td>
<td>242,472,306</td>
</tr>
<tr>
<td>Total water returned – power generation</td>
<td>m³</td>
<td>97,616,803*</td>
<td>231,039,964</td>
</tr>
<tr>
<td>Total water abstracted and returned – hydro generation</td>
<td>m³</td>
<td>3,005,380,954*</td>
<td>4,289,825,847</td>
</tr>
<tr>
<td>Total water abstracted from reservoir – pumped storage</td>
<td>m³</td>
<td>261,791,757*</td>
<td>294,022,644</td>
</tr>
<tr>
<td>Total water abstracted from Loch Awe – pumped storage</td>
<td>m³</td>
<td>249,155,337*</td>
<td>241,452,288</td>
</tr>
</tbody>
</table>

Note: For Pellet Production other emissions to air 2020 and 2021 data reported for Drax Biomass plants only: La Salle, Morehouse and Amite.

Note: “Total water abstracted” covers water data reported to the Environment Agency (EA) and Scottish Environment Protection Agency (SEPA) as abstraction.

(1) Power generation covers Blackburn, Damhead Creek, Drax, Rye House and Shoreham Power Stations
(2) Hydro generation covers Galloway and Lanark Hydro Scheme
(3) Pumped storage covers Cruachan Power Station
(4) Excluding volume of water collected via the aqueduct system
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2021 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

**For additional environmental performance data see ESG data supplement www.drax.com/sustainability**

**Emissions to air**

During 2021, at Drax Power Station, we focused on compliance readiness for the new requirements of Annex V of the EU Industrial Emissions Directive with the new Best Available Techniques Reference Document (BREF) levels, which came into force on 16 August 2021. This new BREF level will become the reference point for setting permit conditions and includes tighter limits for emissions of nitrogen oxides (NOx), sulphur dioxide (SO2), mercury and particulate matter (PM). Since August 2021, our operations have operated within the BREF limits.

In 2021, emissions of nitrogen oxides, sulphur dioxide and particulates from power generation trended downward, compared with 2020. This can be partially attributed to decreased coal generation at Drax Power Station.

In 2021, work commissioned to review the regulatory landscape across our wood pellet operations in relation to VOCs was completed, setting out the key issues around sources of VOCs, their health and environmental effects and regulatory risks, covering the US, Canada, UK and EU. One of the key recommendations taken forward from this report is to undertake a programme of work to establish a baseline to understand emissions and impacts at our operational sites and work is currently underway to develop a pilot programme in this regard for 2022. Similarly, we commissioned a review on particulate matter across all our operational sites, which was completed by year end 2021, and the output is under consideration.

**Water use**

In 2021, we commissioned third-party specialists to establish the sensitivity of our Pellet Production and Generation operating assets to water stress, should existing rainfall, groundwater and water availability patterns be significantly disrupted as a consequence of climate change. The physical exposure of our assets to water stress was assessed using the WRI Aqueduct Water Risk Atlas, with exposure assessed for both the present day and up until 2040, considering the potential impacts of climate change. The vulnerability of our assets to water stress was assessed using a combination of qualitative information from strategic regulatory documents along with water usage and consumption data. This assessment has identified that no operational site was under an immediate water stress challenge, and this now gives us a basis from which to conduct further detailed studies, especially where we foresee changes in our operations, such as future BECCS at the Drax Power Station site.

Drax Power Station uses water for operational and cooling processes where losses occur through steam and ancillary processes, with the remainder discharged to the environment. In line with our permit requirements, procedures are in place to manage water system efficiency and usage and to ensure that all discharge consent limits are met. Compared to 2020, our total water abstracted for generation decreased which is largely due to the sale of our four Combined Cycle Gas Turbine power stations in January 2021.

In 2021, 3,005,380,954 m³ of water reported as abstracted was used for hydro generation at the Galloway and Lanark Hydro Scheme. This volume is not consumed and is returned to the natural environment.

At Cruachan Pumped Storage Power Station, when there is excess power on the grid and demand for electricity is low, the excess power is used to pump water from Loch Awe into the upper reservoir. Water is then released back into Loch Awe when electricity generation is required. We closely monitor the arrangements for the cycling of this water and report as required to SEPA.
Nature positive

Putting in place the systems to ensure that our operations and supply chain do no net harm to nature and, where possible, contribute to the enhancement of nature.

Nature-related financial disclosure
In 2021, Drax joined the Taskforce on Nature-related Financial Disclosures (TNFD) Forum. We are supportive of this global initiative to develop a new framework for organisations to report and act on evolving nature-related risks.

What is ‘nature positive’?
Nature loss is now seen as one of the biggest threats facing humanity today. To many it is, or will soon be, as serious as climate change. In addition, climate change and nature loss are intrinsically linked – negative impacts on the biosphere contribute to biodiversity loss and climate change, and vice versa.

Until now, nature has often been viewed as something we should protect. The narrative is shifting from minimising impact to our ecosystems and biodiversity to actively improving them, through baselining and then determining action for positive impacts. Instead of limiting damage we should also restore and enhance ecosystems. This idea is referred to as ‘nature positive’.

A nature positive outcome
Nature positive is one of the three sustainability outcomes within our Drax sustainable development framework.

A key part of our nature positive approach is linked to the biomass we source – how we ensure the biomass we buy has nature positive outcomes. However, we also recognise that nature positive is broader than the biomass we source. We will expand our approach to, for example, look at biodiversity around our UK generation assets.

Our focus for 2022 is to understand the metrics we should use to baseline our impact on nature and then build on. This requires consideration across a range of metrics, and decisions as to whether we focus on biodiversity, or embrace other metrics such as soil ecology and watershed quality. In addition, the metrics will vary across locations, since appropriate metrics for a hydro scheme may not be appropriate for sustainable biomass from forests.

Building a Group-wide approach to biodiversity
Our Group Environment Policy outlines our commitment to minimise adverse impacts of our operations on biodiversity, through the protection of fauna and flora.

As we build out our Group-wide approach to the management of operational impact and dependencies on biodiversity, we are exploring the use of the International Union for Conservation of Nature (IUCN) Guidelines for planning and monitoring corporate biodiversity performance. This will be a key workstream for the business in 2022.

For our hydro operations in Scotland, we are currently enhancing our core training for colleagues and contractors to have a better understanding on conservation and biodiversity issues and control measures.
Positive social impact

At Drax, our approach is organised around five global themes, which we implement in different local contexts:

1. STEM and green jobs: making a contribution to embedding STEM in the education system, from year one to degree level and lifelong learning.

2. A good neighbour: effective engagement between our sites and local communities.

3. A regional development partner: understanding and optimising our contribution to the economic prosperity of the regions in which we have operations.

4. Diversity, equity and inclusion: creating a welcoming and inclusive environment for all, irrespective of background, gender, family need, ethnicity, disability or sexuality.

5. Talent pipeline: ensuring we, as Drax, have a sufficient pipeline of talent to meet our current and future needs.

Levelling up and social mobility

In the UK, across our range of skills and educational outreach work, we focus on the number of individuals we have reached – from an apprentice hired to a student participating in an educational webinar, or our partnership with Teach First. We refer to this as ‘Mobilising a Million’, our ambition to improve skills, education, employability and opportunity for one million people by 2025.

Building the workforce of the future

We are a signatory to the UK cross-party Social Mobility Pledge, which is committed to accessing and progressing talent from all backgrounds. During this year we have supported 63 students with virtual work experience, helping to develop their business awareness, career aspirations and employability skills, as well as providing us with a talent pipeline.

We have also continued to focus on using apprenticeships to recruit new talent and develop our existing colleagues. We have recruited 11 new apprentices across the UK and supported five apprentices in other companies through the levy share scheme; where we have pledged £125,000 of our levy to develop talent in companies local to our sites. In addition to new apprentices, 42 colleagues have embarked on apprenticeship qualifications this year, with specific focus on developing our engineering capability, as well as other core skills to future focus the talent within our business.

In 2021 we recruited nine graduates, to take our graduate numbers back to pre-pandemic levels. We are continuing to secure permanent roles for graduates who have completed the programme and 100% of our 2019 graduate cohort secured a position within Drax.

Our internship programme also provides a pipeline of talent. We have taken on five ‘Year in Industry’ students during 2021 and offered three previous interns permanent positions.

Community and charity

We deliver charitable and employee volunteering initiatives in the communities where we operate. In 2021, Drax provided around £421,000 in donations, including through employee match funding, payroll giving, our community fund, community partnerships and fundraising days.

In 2021, our corporate charitable giving activity included a C$50,000 donation to Canada’s Red Cross to support relief efforts for communities affected by wildfires in British Columbia. We also extended our 2020 Laptops for Learners initiative in the UK, donating a total of 1,173 laptops with internet access to around 80 schools and colleges.
Safety, health and wellbeing

The safety, health and wellbeing of our employees and contractors is a priority for Drax and vital to our continued success.

Safety, health and wellbeing strategy

In 2021, we issued our first combined Group-wide Safety, Health and Wellbeing Policy, mapped to our core values, reconfirming our OneSafeDrax vision and our commitment to everyone finishing their day of work safe and well. Our people are at the heart of everything we do, and colleague wellbeing is fundamental to our overall success. The Group policy, signed by the Chair of our Board and our CEO, sets out what we aim to achieve, and each business unit will reflect how they will enact this in their safety, health and wellbeing implementation statements. Together, we all share responsibility for the safety, health and wellbeing of ourselves and our colleagues.

HSE performance is a standing item on the agenda of our Executive Committee, is reported at each Board meeting by the CEO, and reviewed regularly by each local management team. Group HSE performance is reviewed quarterly by our Group HSE Committee. Incidents and findings are shared across the Group via bulletins, focusing on preventative action to be taken to mitigate the risk of future occurrences. We are focused on continuous improvement and colleague engagement, incorporating colleague suggestions in our actions to improve safety. Examples during 2021 at Drax Power Station include Front Line Leadership Training, and reorganisation of our Health and Safety Committee to involve representatives from each station team.

We introduced a balanced scorecard for reviewing HSE performance across the Group in 2021, incorporating both leading and lagging indicators for health and wellbeing, occupational and process safety and environmental performance. We are focused on a balance of leading indicators which give us proactive measures that track prevention efforts prior to an incident, as well as lagging indicators which track incidents once they have occurred. We had found that our previous focus on recordable injuries was limited and gave restricted insight. The focus in 2021 was enhanced by tracking metrics against which the Remuneration Committee could assess performance, as part of measuring bonus payments to colleagues, thereby linking reward to an important area of business performance. For more information see page 150.

Of note for positive safety performance was the major outage at Drax Power Station on Unit 1 which was completed with no ‘worse than first aid’ injuries – a significant achievement when more than 560,000 hours were worked.

During 2021, we initiated the roll-out of a new HSEQ IT reporting platform, which will be implemented across all sites during 2022. This will allow for the first time, a single system and allow more data analysis of incidents, corrective actions, hazard management, risk management and behavioural observations.

As part of our integration of Pinnacle, we have established a risk-based HSE improvement strategy for our Pellet Production business. Since completion of the acquisition in April 2021, we have incorporated incidents and hours worked for employees within the Group-wide Total Recordable Incident Rate (TRIR). The HSE performance from the Pinnacle teams has continued to improve, with HSE maturity as ascertained during due diligence and integration. In Q3, the HSE team in North America was restructured to support delivery of our HSE improvement strategy. This has enabled us to better assess our performance, including reporting on incidents inclusive of both employees and contractors. We continue to develop mechanisms to capture contractor hours and incidents across Pinnacle and will report these data from January 2022. The support of Pinnacle colleagues in this work has been immensely helpful to the progress which has been made.

Safety Management Systems

We have safety management systems (SMS) in place to ensure safe workplaces for all our people. At our Generation sites, those systems are certified to ISO 45001. Work is underway to align all our Pellet Production sites to one HSE management system across the US and Canada. Our Customers and Corporate sites in the UK continue to implement a SMS, with a focus on continuous improvement in our health and safety culture and promoting wellbeing.

We established our HSE Centre of Excellence with participation from the heads for HSE across our businesses, and each month we review serious incidents, collaborate on developing corporate requirements and share best practice. During 2021, we developed minimum standards for confined space working, working at height and vehicles on site – these will be reflected in business unit operating procedures during 2022.

Following notification of legal action from the Health and Safety Executive in relation to wood dust at Drax Power Station, we have pleaded not guilty. In addition, following notification of charges relating to violation of occupational health and safety laws arising from an explosion at the Entwistle pellet plant in February 2019, we have pleaded not guilty. As these are ongoing legal issues we cannot provide any further information at this time.

Health and safety performance

<table>
<thead>
<tr>
<th>TRIR* – total(1)(2)</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRIR – employees</td>
<td>0.27</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>TRIR – contractors</td>
<td>0.11</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

(1) TRIR is the total fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. Total includes both employees and contractors.

(2) 2021 data excludes Pinnacle contractor incidents.

For additional health and safety performance data see ESG data supplement www.drax.com/sustainability

Each business unit reports monthly HSE performance, including TRIR. The Board receives monthly reports as part of the CEO report, which includes information on any incidents and tracks trends. We investigate all injury events, with particular focus on those with high potential, to ensure that root causes are established, and lessons are learned and shared across the organisation.

In 2021, our TRIR was 0.22 per 100,000 hours worked, against a target of 0.20 (2020: 0.29 per 100,000 hours worked, against a target of 0.21).

Drax Group plc Annual report and accounts 2021 57
Process safety
To strengthen our process safety management, we issued our first Group-wide Process Safety Policy in 2021, focused on ensuring we identify and manage process risk to protect our people, assets, the environment, and the communities in which we operate. It also reflects our commitment to reducing the potential for a major accident, through the application of improved controls of plant, process, and the training and awareness of our people. We commit to the achievement of good process safety performance by adhering to industry best practices where practicable, for example, the Generators Safety Integrity Programme informing our internal engineering and governance good practice guides. Our Group Process Safety Policy sets out what we aim to achieve, and each business unit will reflect how they will enact this in their process safety implementation statements. Together, all colleagues share responsibility for ensuring the principles are followed as we collectively strive to achieve an incident-free process safety performance.

In 2021, we established the key principles of process safety across the Generation fleet. The principles are in line with industry best practice and focused on controls of plant, process and people. An experienced team from the UK visited our North American colleagues in 2021, to share how these principles were identified, and to collaborate on how this could be rolled out to the Pellet Production business in 2022. A process safety handbook and awareness videos were rolled out to the Generation business in 2021, and will be rolled out to the Pellet Production business in 2022. Process safety performance is reported monthly to the Executive Committee. All process safety incidents with high potential are routinely investigated to establish root causes and enable corrective actions to be focused on preventing reoccurrence and lessons learned are shared across the Group.

One process safety incident, which we investigated and that impacted our operations during the year, was a fire at the Westview port (Pinnacle) in July 2021 – there were no injuries. A team formed of US colleagues supported the Canadian team in the investigation and safe repair of the bucket lift.

Wellbeing
We continue to build on our holistic wellbeing approach that is overseen by our Group HSE Committee. In 2021, we focused on four key areas: physical, mental, social and financial wellbeing, aiming to improve participation in our benefit and wellbeing programmes.

We launched our Living Well newsletters to our UK and US audiences, which offers ideas and raises awareness of the rewards and benefits available to employees through our healthcare providers. Using key moments through the year, such as mental health awareness week, Menopause day and Movember, we featured special events, webinars and competitions with something for everyone to take away, recognising that wellbeing priorities are individual.

In 2022 we will continue our focus on the four pillars, with additional attention to ‘breaking down taboos’ commonly associated with some health and wellbeing issues. Our objective is to create a safe and informed place to discuss issues such as menopause, fertility, men’s health and LGBTQ+, also recognising the direct correlation between inclusion and wellbeing. With HR now leading on wellbeing, we will be reviewing wellbeing issues that commonly impact colleague engagement, retention and attraction.

Four key areas of wellbeing

### Physical:
Our summer step challenge encouraged colleagues to move the equivalent of as many steps as possible over the summer months. Colleagues shared their stories of building fitness, often overcoming challenges to maintain their personal wellbeing. Our Pinnacle colleagues joined together in a virtual mission to cover the equivalent distance between the Westview Terminal in British Columbia, Canada, and the Port in Mobile, Alabama, US. They exceeded their target, covering 8,653km in total. Along the way, we raised awareness and helped employees make the most of the rewards and support on offer through our healthcare providers.

### Mental:
Our Covid-19 absence policies during 2021 ensured everyone continued on full pay during the pandemic, helping to reduce worry and stress for colleagues, and we introduced flexible and hybrid working policies to help colleagues manage their work-life balance. We encouraged colleagues to focus on their personal resilience through tailored e-learning, as well as mental health awareness training, to enable managers and colleagues to openly have conversations about mental wellbeing, and spot the signs when someone might need support. Responding to colleague feedback, we piloted the introduction of Mental Health First Aiders in our Generation business and refreshed training for mental health champions in our Customers business.

### Social:
With many colleagues still working remotely, we continued to monitor how connected employees felt through our MyVoice pulse surveys, as well as offering opportunities to take part in virtual social events. These included the summer step challenge, a summer quiz league and virtual fun run. Throughout 2021, many colleagues chose personal challenges to raise funds for charities and shared their stories through our Living Well newsletters.

### Financial:
We offered colleagues information sessions with pension providers, financial wellbeing webinars and access to the money advice service through our benefits portal. Through Living Well, we promoted the discounts and rewards available to colleagues through our benefit providers – including retail discounts and free health checks – to help them manage their money and look after their wellbeing.
People, culture and values
At Drax, our values are shaped by our culture, fundamental to which is acting with integrity and what we call "doing the right thing". These values are set by our Board, delivered by our people and permeate through all areas and levels of the organisation.

- We care about what matters
- We are a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we will do

We started our journey in 2020, asking our colleagues to articulate what for them represented important aspects of our culture and values, and what it was that they felt amounted to the Drax experience. We learned from this engagement and our culture has continued to evolve, for example we recognise reviewing the values statements as part of the Pinnacle acquisition is important to ensure they reflect our shared experiences and contribute to one global Drax. We commenced a review of the enlarged Group’s values in 2021, which should be completed in 2022.

See Corporate governance report, page 94

Our People

<table>
<thead>
<tr>
<th></th>
<th>Unit 2021</th>
<th>Unit 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of Group employees</td>
<td>n</td>
<td>3,053*</td>
</tr>
<tr>
<td>Employee engagement score</td>
<td>%</td>
<td>79</td>
</tr>
<tr>
<td>Total employee turnover rate</td>
<td>%</td>
<td>29.5</td>
</tr>
</tbody>
</table>

(1) Total number of Group employees as at 31 December for given year
* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2021 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

For additional people data see ESG data supplement www.drax.com/sustainability

Our people strategy
We work to maintain consistently high standards in our employment practices and all colleagues benefit from policies to support them in the workplace. Our three-year People Strategy focuses on five key areas.

1. Attracting, retaining and developing diverse talent pools, which reflect the demographics of the areas we operate in, to ensure diverse thinking in our innovations

2. Encourage an inclusive environment where innovation, flexibility and collaboration flourish and where people have the opportunity to reflect, adapt and to challenge the norm

3. Focus on Future Workforce Planning and organisational design to enable us to grow our business internationally and adapt to business changes swiftly and seamlessly

4. Create a high-performance and inclusive culture where our people are equitably incentivised, rewarded and recognised for their contribution

5. Create effective and efficient frameworks, policies, and working practices that ensure simplicity, autonomy and ownership of people matters across the business

The last year has seen significant change for all, and we are working with colleagues to positively enable growth in the culture, focus and passion of our organisation. In our response to the Covid-19 crisis, we demonstrated these changes through our ways of working, culture and values, to shape the way we all work in this ever-changing ‘post pandemic’ world.
Development and training
We invest in the development of our colleagues to help them make the most of their talents, meet their career aspirations and enhance business performance. Our Performance, Potential and Succession processes enable managers to identify colleagues’ development needs and those with the skills and capabilities for succession into critical roles. In 2021, we delivered over 11 hours of training per person, utilising a blended learning approach, and we launched My Development and Welcome to Drax learning resources.

We launched our high-potential programme, Future Creators, in 2019. It is designed to support the development, retention and growth of our future leadership pipeline. 42 colleagues have completed the programme. We have retained 91% of participants and 71% have either moved up a career level or moved into broader roles since completing the programme. Our Management Excellence programme is designed to support our line managers with key people skills.

During Covid-19 it was adapted for virtual delivery, and since 2020 over 230 managers have participated.

In September 2021 we launched our Inclusive Leadership Programme. Over 200 leaders, including the Executive Committee, have completed the programme, which gives senior leaders the tools and knowledge to role-model inclusive leadership across Drax. It is part of our strategy to educate and inspire colleagues, supporting our journey to make Drax an even more inclusive place to work.

Diversity, equity and inclusion (DEI)
We are committed to a supportive, diverse and inclusive working environment, where you can be yourself and your contribution matters. We aim to support everyone and to design ways of working that are inclusive and flexible, enabling equitable opportunities for all.

Our Diversity and Inclusion Steering Group meets monthly to consider and recommend plans to improve diversity and inclusion across Drax. The Steering Group is chaired and sponsored by the Director of Corporate Affairs and supported by the Chief People Officer, both of whom are members of the Executive Committee.

In 2021 we have focused on the delivery of our three pillar DEI plan to support our ambitions.

1. Collating colleague diversity data in the UK. With 78% of our UK workforce responding to date, this insight supports us in taking meaningful action based on real time data and has helped inform the development of our DEI strategy from 2022 onwards.

2. Educating and inspiring our colleagues on diversity and inclusion. Through our Inclusive Leadership Programme, a series of colleagues’ personal diversity stories on the intranet and live panels to recognise events such as International Women’s Day and Pride.

3. Making careers at Drax more attractive to talented people from all backgrounds and ensuring a fair and equitable recruitment process. This has resulted in increasing leadership hires in the UK – 42% were female – and growing our overall UK female headcount from 34% to 36% in 2021.

In October 2021, two additional Non-Executive Directors were appointed, bringing complementary skills that reflect also the growth and international presence of Drax following the acquisition of Pinnacle.

In 2021, our Executive Committee participated in a DEI review with an external consultant, to understand progress against our DEI ambitions and to support the formation of our DEI strategy from 2022 onwards. We added an Inclusion Index to our annual colleague survey, enabling us to externally benchmark how included colleagues feel working at Drax. We scored six points ahead of the Energy and Utilities norm group in 2021 and have considered opportunities to improve as part of our 2022 DEI strategy.

For UK colleagues, we introduced new flexible working policies, and we updated our family friendly policies. This included enhancing our shared parental leave offering to match the enhanced maternity leave across the Group; introducing a phased return to work when colleagues had taken six months’ or more family leave; and introducing a Parental Support Bonus. This resulted in the Company moving into the Top 40 companies in the Working Families Benchmark report, for our UK offering.

Further, we introduced a Dignity at Work Policy for UK colleagues, setting out our approach to how we expect our colleagues to behave to create a fair and inclusive environment for all.

See also Building the workforce of the future, page 56

Diversity, equity and inclusion (DEI) continued

Colleague representation and engagement
At Drax, 14% of our workforce is covered by collective bargaining and we have employee representative committees and information and arrangements in place for employees with individual employment contracts.

We communicate with our workforce through channels including our intranet, our quarterly magazine, newsletters, town hall meetings and our weekly online Q&A portal with the CEO. Each business unit has a MyVoice Forum made up of colleague representatives and supported by senior leadership sponsors. The Forums enable exchange of information and views between colleagues, the Executive Committee and the Board on key issues, such as strategic decisions affecting ways of working and the work environment.

Chair and CEO to discuss colleague sentiment and feedback on key topics, which during 2021 included the return to working in offices as Covid-19 restrictions eased; ongoing organisational transformation, linked in part to the acquisition of Pinnacle, sale of our CCGT gas assets, and “fit for the future” planning at our site in North Yorkshire; and diversity and inclusion. For more information, see Workforce Engagement on page 109.

Our annual engagement survey is a key part of our listening and engagement strategy. In 2021 it was completed by 70% of colleagues and our engagement score was 79%. These were slight declines compared to 2020, during which organisations saw increased engagement scores (on average +2%), due to the Covid-19 pandemic. Whilst our engagement score is 1% below the Energy and Utilities sector benchmark, it exceeds the benchmark for companies going through significant organisational transformation, by 6%.

Our 2021 survey results reflected ongoing transformation and trends seen across all industries in employee focus and sentiment. Career and development opportunities was a key action area from 2020 and this category improved by 1%. There was improvement in employees feeling that action was being taken as a result of their feedback, rising by 5% in 2021 and 15% compared to 2019.
**Ethics and integrity**

At Drax, 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, human rights abuse, or other unethical business conduct.

Our business ethics documentation framework consists of principles, policies, and guidance. The principles are set out in our Drax Code of Conduct (Drax Code), which identifies the behaviours expected from permanent and, as relevant, non-permanent workers on a broad range of topics. The importance of complying with policies and guidance forms part of our current terms of employment in the UK. The Drax Code, including a series of training videos, is a mandatory read for all UK and Drax Biomass new starters – both permanent colleagues and, as relevant, non-permanent workers.

The consequence of failing to comply with the Drax Code is clearly articulated in the Code itself.

Our business ethics policies and guidance documents provide further instruction. These include our policies relating to Anti-Bribery and Corruption (including conflicts of interest), Anti-Fraud, Anti-Money Laundering and Prevention of Proceeds of Crime and Terrorist Financing, Corporate Criminal Offences (Anti-Facilitation of Tax Evasion), Fair Competition, Financial and Trade Sanctions, Human Rights, Privacy and Speak Up (whistleblowing), and our guides, including topics such as Conflicts of Interest, Gifts and Hospitality, Ethical Due Diligence, Privacy and how to speak up.

In 2021, we deployed, to all UK and Drax Biomass colleagues, a:

- Business Ethics for Senior Leaders eLearning module;
- Data protection eLearning module for people managers;
- Customer data access authentication eLearning module for customer-facing colleagues (Customers’ business only);
- Refresher module on the Drax Code to all colleagues; and
- Communications plan, including an article in our internal colleague magazine.

At Pinnacle, we deployed our Speak Up programme, including our policy, a guide for those reporting concerns, and a guide for managers. We also extended our global, multi-language, external Speak Up telephone and web-portal service to our Pinnacle operations. Our remaining business ethics programmes and the Drax Code will be deployed to Pinnacle colleagues during 2022.

**Responsibility for ethics and business conduct**

Governance of our business ethics programmes is overseen by the Drax Ethics and Business Conduct Committee (EBCC), a sub-committee of the Executive Committee. The EBCC comprises senior leaders, meets quarterly, and was chaired by the CFO during 2021. A formal report on the activities and decisions of the EBCC is provided annually to the Audit Committee. Everybody at Drax is personally responsible for their ethics and business conduct. Drax managers are responsible for demonstrating leadership on ethical matters and supporting their teams to apply Drax’s ethical principles.

Our Business Ethics team manages our business ethics programmes. They take steps to understand our risk profile as well as developing, deploying, and maintaining where appropriate the associated policies, procedures, awareness raising communications and training materials. The team also monitors and evaluates compliance, and investigates any potential breaches of policy, supporting our internal and external Speak Up (whistleblowing) channels. Our Internal Audit function provides assurance on the robustness of our business ethics programmes and any recommendations for improvement are addressed.

The Business Ethics team conducts annual risk assessments of each of the business ethics programmes. This is to ensure policies and procedures remain fit for purpose and to recommend any further mitigation measures. Our annual review timetable includes a review of Drax gifts and hospitality records and a colleague business ethics declaration, which was completed by 100%* of colleagues in 2022 (covering 2021). In 2021, we updated our induction process for key non-permanent workers (applicable as appropriate, on a risk-based approach), including an associated declaration process.

Results of annual reviews, details of investigations conducted (including Speak Up (whistleblowing) reports), audit outcomes and completion of actions are reported to both the EBCC and the Audit Committee. The Board receives an update on Speak Up (whistleblowing) reports and relevant controls at each meeting.

**Working with others**

We are a signatory to the UN Global Compact (UNGC) and maintained our representation on their Modern Slavery Working Group in 2021. This enables us to benchmark our compliance programmes and exchange experience with peers, with a particular focus on our response to the UK Modern Slavery Act.

We seek to work with third parties whose standards are consistent with our own. Third parties are subject to proportionate, risk-based due diligence checks and, where required, are continually monitored throughout the term of the contract via our third-party due diligence system. In cases where concerns are raised, we follow an EBCC-approved escalation protocol. Depending on the nature of the concern raised, we may seek to collaborate on remedial action or on a conditional basis with a third party. However, where necessary, we may decide not to engage with a new third party, or to end an existing business relationship.

Our Supplier Code sets out the commitments and standards we expect of our third parties. During 2021, we continued to roll out our Supplier Code to our third-party suppliers, including encouraging our third parties to pass on the relevant obligations to their supply chains (including the provision of a whistleblowing service). We also strengthened our contractual clauses on the various business ethics topics.

**Anti-bribery and corruption**

Our internal processes ensure consistency with our zero-tolerance approach to bribery and corruption. Geographic risk is factored into our third-party ethical due diligence process and system. Conducting business in certain higher risk countries must receive prior approval from the EBCC.

Third parties in higher risk countries receive a higher level of initial due diligence and ongoing monitoring. We also screen the affiliates (directors and shareholders) of third parties identified as potentially higher risk and refresh their information on a more frequent basis compared to other suppliers. Ongoing monitoring is performed and new information is provided to the EBCC, as appropriate.

---

*Excludes employees on long-term absence from Drax during the declaration period, and does not include Pinnacle colleagues joining the business during 2021.*
Sustainable Development continued

People positive >

In 2021, we issued various awareness raising communications on anti-bribery and corruption to colleagues, including an ‘Anti-bribery and Corruption Q&A with the Business Ethics Manager’, in the Autumn edition of our internal colleague magazine.

Fair competition
We are committed to conducting our business in accordance with all applicable fair competition laws and we do not tolerate any anti-competitive and anti-trust behaviour or activity.

Our fair competition compliance programme includes a Fair Competition Policy and guide and covers both UK competition law and US anti-trust law. We provide eLearning for colleagues who, through their roles, need to know more and targeted learning for our ‘at higher risk’ teams. In 2021, following the Pinnacle acquisition, we have updated our policy, guidance and training materials to take account of Canadian laws and we prepared further dedicated guidance to different departments that may be at risk of encountering anti-competitive practices.

Data privacy and security
We take seriously the privacy and security of the personal data we control. We are committed to maintaining effective privacy and security programmes to ensure that our people, customers and the third parties with which we engage have confidence in our data handling practices.

Our privacy programme is managed by the Data Protection team and overseen by the EBCC. It is implemented through policies, work instructions, privacy notices, data protection impact assessments, third party due diligence questionnaires, contractual terms, awareness raising and training. During 2021, we issued eLearning training to UK colleagues who manage people and optimised our privacy designed compliance software to support our work in areas such as individual rights requests and personal data breaches. With the acquisition of Pinnacle, we updated our employee privacy notice and issued this to all new Pinnacle colleagues and incorporated Canadian privacy law requirements into all our relevant Privacy policies and guides. At the same time, the privacy notice was also issued to colleagues at Drax Biomass, as personal data processing of Drax Biomass colleagues takes place in Canada and the UK.

We have continued to mature our security framework throughout 2021, further embedding security risk management controls into our business change activities, improving cyber technical capabilities and expanding security controls and architecture into our operational technology systems. An independent maturity review in 2020 commented that Drax has a “well-structured and capable security function that has matured significantly” and we have continued to improve through our NIS Regulation (Regulation on security of Network and Information Systems), SEC (Smart Energy Code) and PCI-DSS (Payment Card Industry Data Security Standard) compliance programmes.

We maintain a risk-based security controls framework aligned to industry standards, to protect our business, colleague and customer data and to meet our regulatory requirements. In addition to traditional IT security measures, we use cyber technologies to detect, respond to and resolve cyber threats and attacks. We are conscious that such threats continue to develop quickly and our security programme seeks to evolve our controls and response to cyber threats accordingly.

Labour and human rights
Our commitment to the protection of human rights includes not tolerating the use of underaged workers or forced labour. This is set out in our Human Rights Policy, Drax Code and Supplier Code.

Our Supplier Code outlines the standard of ethical business conduct we expect from our suppliers. Businesses in our supply chain should offer a safe workplace for their employees that is free from harm, intimidation, harassment, and fear. The Supplier Code emphasises our requirement for our suppliers to challenge unethical behaviour and promote a “speak up” culture and provides the details of our available Speak Up channels for their use in multiple languages.

Our policies and codes are available at www.drax.com/about-us/corporate-governance/compliance-and-policies/

Supply chain human rights (modern slavery)
Our Modern Slavery Working Group, chaired by a member of the Business Ethics team, oversees a three-year rolling programme, and reports quarterly to the EBCC.

In 2021, we:
• Published our fifth Board-approved Modern Slavery Statement in accordance with the UK Modern Slavery Act (available at www.drax.com/modern-slavery-act/), which describes the steps we are taking to reduce the risk of modern slavery in our supply chain
• Provided financial support to the UK’s Modern Slavery and Exploitation (MS&E) Helpline, operated by Unseen UK, to help keep this invaluable service operational and available to victims of modern slavery
• Progressed a collaboration initiative with one of our logistics partners to promote awareness of the MS&E Helpline
• Benchmarked our supply chain due diligence approach against our peers, regulator guidance and law firm advice
• Strengthened the modern slavery content of our ethical due diligence questionnaire and explored other tools to enhance our supply chain due diligence process
• Engaged with the Social Responsibility Alliance on their Slavery & Trafficking Risk Template
• Engaged with the Humber Modern Slavery Partnership
• Integrated Pinnacle and its supply chain into our ethical due diligence policy, process and systems

We keep our programme and statement under review to ensure it reflects our activities, global presence, and wider evolving practice.

Speak Up (whistleblowing)
As part of our commitment to transparency, openness and continuous improvement, we actively encourage those working for and on behalf of Drax, or any of our third parties, to raise genuine concerns about practices which could breach laws, regulations or our own ethical standards. Drax has a zero tolerance of retaliation or victimisation and we have processes in place to apply appropriate consequences, should an individual retaliate against or victimise a reporting individual in any way.
In 2021, the Speak Up (whistleblowing) programme was subject to an internal audit, achieving a positive outcome, with four recommended actions relating to consistent awareness raising and role specific training – these actions are being progressed. In July 2021, the programme was also deployed to our Canadian colleagues at Pinnacle.

During 2021, 14 reports were raised across both our internal and external channels. This is an increase from nine in the previous year and reflects our continued efforts to promote an open and approachable culture of “speaking up” across Drax. No whistleblowing related matters raised in 2021 remained under investigation at the date of this report. See also page 106.

**Corporate Criminal Offences (CCO) (anti-facilitation of tax evasion)**
We have designed our ethical due diligence and payment procedures to make sure we conduct our business in accordance with all applicable tax laws. We commit to never knowingly being complicit in a third party evading taxes.

In 2020, our programme was subject to an internal audit with a positive outcome, and recommended actions were completed throughout 2021. For example, in 2021 we included our dedicated CCO Policy as a compulsory part of colleague new starter inductions as well as relevant UK non-permanent worker inductions.

We reviewed associated programme documentation for compliance with relevant Canadian laws, which will be updated and deployed in 2022.

**Financial and trade sanctions**
We are committed to conducting our business in accordance with relevant financial and trade sanction regimes. This is predominately reflected in our ethical due diligence and contracting processes. In 2021, a dedicated programme on this topic was initiated and our first programme risk assessment and register were presented to the EBCC for their review. Enhancing and maturing this programme will be a key focus for 2022.

**Non-financial information statement**
We have summarised our policies and disclosures in relation to non-financial matters, in line with the Non-Financial Reporting (NFR) requirements of the Companies Act 2006. Drax is a participant of the United Nations Global Compact (UNGC). This report forms our UN Global Compact (UNGC) Communication on Progress and we have mapped the NFR requirements to the four issue areas of the Ten Principles of the UNGC.

Except where indicated as an internal policy, all policies and codes are available at www.drax.com/about-us/corporate-governance/compliance-and-policies/

<table>
<thead>
<tr>
<th>UN Global Compact</th>
<th>Non-Financial Reporting requirement</th>
<th>Policies, due diligence processes and outcomes</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Environmental matters</td>
<td>Group Environment policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Group Climate policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sustainability policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Responsible Sourcing policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Carbon emissions</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Environmental management</td>
<td>53</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nature positive</td>
<td>55</td>
</tr>
<tr>
<td>Labour</td>
<td>Employees</td>
<td>Code of Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Supplier Code of Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Group Safety, Health and Wellbeing policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Human Rights policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Gender Pay Reporting</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Safety, health and wellbeing</td>
<td>57</td>
</tr>
<tr>
<td></td>
<td></td>
<td>People, culture and values</td>
<td>59</td>
</tr>
<tr>
<td>Social matters</td>
<td>Community and Charity policy (internal policy)</td>
<td>Positive social impact</td>
<td>56</td>
</tr>
<tr>
<td>Human rights</td>
<td>Respect for human rights</td>
<td>Supplier Code of Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Human Rights policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Modern Slavery Act statement</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ethics and integrity</td>
<td>61</td>
</tr>
<tr>
<td>Anti-corruption</td>
<td>Anti-corruption and anti bribery matters</td>
<td>Code of Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Anti-Bribery and Corruption policy (internal policy)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ethics and integrity</td>
<td>61</td>
</tr>
<tr>
<td>A description of the Company's business model</td>
<td>Business model</td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>A description of the principal risks</td>
<td>Climate-related financial disclosure</td>
<td></td>
<td>64</td>
</tr>
<tr>
<td>A description of the non financial key performance indicators</td>
<td>Principal risks and uncertainties</td>
<td></td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Remuneration committee report</td>
<td></td>
<td>130</td>
</tr>
<tr>
<td></td>
<td>ESG data supplement 2021</td>
<td></td>
<td>2021 <a href="http://www.drax.com/sustainability">www.drax.com/sustainability</a></td>
</tr>
</tbody>
</table>
Climate-related financial disclosure

CDP Climate
The CDP Climate questionnaire is aligned to the TCFD recommendations. In 2021, Drax was awarded a score of A-.

The recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) provide a framework for consistent disclosure of climate-related information. Drax is a TCFD supporter, and we provided our first dedicated disclosure in our Annual Report and Accounts 2020.

To progress along our TCFD journey, we have expanded our TCFD disclosure in this report. In compliance with FCA LR 9.8.6(R), our disclosure is consistent with the four recommendations and 11 recommended disclosures. We provide our most material disclosures in this report, and our ESG Data Supplement provides supplementary detail, including a TCFD Summary cross-reference table and scope 3 emissions breakdown (see www.drax.com/sustainability).

We recognise that climate-related financial disclosure is an evolving practice globally and a journey of continual improvement for Drax. The table below summarises our progress and areas to deliver further improvement in 2022.

<table>
<thead>
<tr>
<th>TCFD Pillar</th>
<th>Action for 2021</th>
<th>Progress in 2021</th>
<th>Actions planned for 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>Continue schedule of engagement throughout the year with the Executive Committee and the Board on climate-related matters.</td>
<td>The Board was engaged and considered papers on matters including a sustainable development framework, TCFD disclosure, ESG financing, and carbon targets. See page 65</td>
<td>Consult the Board and Executive Committee on internal carbon targets and carbon reduction plans, and agree KPIs against which the Board and external stakeholders can assess our progress.</td>
</tr>
<tr>
<td>Strategy</td>
<td>Undertake scenario analysis exercise.</td>
<td>We have undertaken a high-level qualitative analysis considering the impact to our business under different transition and physical climate risk scenarios. See page 68</td>
<td>Undertake in-depth analysis on the physical climate risks across our biomass pellet supply chain, and build on the climate scenario analysis completed in 2021.</td>
</tr>
<tr>
<td>Risk Management</td>
<td>Undertake targeted analysis of the risk areas identified for further assessment in 2021.</td>
<td>We developed and completed an asset-level physical risk assessment, to assess in greater detail the potential physical risks to our Generation and Pellet Production operations. See page 71</td>
<td>Build on the first phase of the asset-level physical risk assessment, considering additional climate scenarios over longer time horizons.</td>
</tr>
<tr>
<td>Metrics and Targets</td>
<td>Set and publish a scope 3 target.</td>
<td>We developed a scope 3 target that enables us to align to the Science Based Targets initiative (SBTi) and we submitted our targets to the SBTi for validation. See page 71</td>
<td>Develop internal carbon targets, underpinned by carbon reduction plans, outlining the financial and human capital we will deploy for implementation, for approval by the Board.</td>
</tr>
</tbody>
</table>

Our approach
Our Climate Policy, approved by the Board, outlines our approach to integrate effective management of climate-related risks and opportunities into everyday decision-making and delivery of our business strategy (available at: www.drax.com/about-us/compliance-and-policies).

Responding to climate change is a core component of our Group purpose, and this is reflected in our governance framework. The Board’s oversight and management’s role in assessing and managing climate-related matters are outlined on page 65.

During 2021, we strengthened our processes for climate risk identification and assessment, scenario-mapping, and management. This included establishing the Carbon Oversight Group to act as a Risk Management Committee, reviewing and challenging the climate change principal risk.

Philip Cox, CBE, Chair
Our 2021 Group Scorecard, which is used to determine bonus awards for Executive Directors and eligible colleagues, included a target remuneration to actions that support the delivery of our long-term target to be net zero by 2030. In 2022, a new Group Scorecard carbon reduction metric is being adopted, linking on Pinnacle sustainability standards and performance.

### Remuneration

Our 2021 Group Scorecard, which is used to determine bonus awards for Executive Directors and eligible colleagues, included a target on Pinnacle sustainability standards and performance. In 2022, a new Group Scorecard carbon reduction metric is being adopted, linking remuneration to actions that support the delivery of our long-term target to be net zero by 2030.

### Key activity in 2021:

- In October, the Board reviewed our strategy and progress, and established our new strategic objectives (see page 68), which are aligned to global renewable energy and decarbonisation agendas. The strategic objectives are underpinned by safety, sustainability and cost reduction, and support Drax’s commitment to our purpose, to enable a zero carbon, lower cost energy future. These were shared with investors and analysts at our Capital Markets Day held in December 2021.
- The Board considered and approved a new multi-million capital investment programme for 2022, to progress the development of BECCS at Drax Power Station.
- The Board was engaged to provide guidance and approval on a sustainable development framework, and considered a paper on the carbon target landscape, which led to the formal adoption of carbon targets for Science Based Targets initiative validation and follow up actions.
- The Board considered a paper on climate-related disclosure and received an update on management’s progress against plans for addressing the TCFD recommendations.
- Our 2021 CDP Climate submission was reviewed and signed off by the CEO.
- The Board considered and approved an ESG-linked term loan (see page 68).

See Corporate Governance Report page 94.

---

### Executive Committee

Focuses on the delivery of Drax’s strategy, financial structure, planning and performance, which includes our ambition to become carbon negative by 2030. The Executive Committee considers the political landscape and implications for future investments and execution of strategy. The climate change principal risk is owned by the Director of Corporate Affairs, a member of the Executive Committee, and the risk is subject to an annual deep dive review.

**Key activity in 2021:**

- In April 2021, the Executive Committee undertook a deep dive review of the climate change principal risk register, challenging the assumptions, mitigations and controls which had been identified.
- At the interim and full year, examined the climate change principal risk, considering key evolving challenges and potential mitigations for recommending to the Board.
- Provided guidance and approval on a developing sustainable development framework, and considered a paper on the carbon target landscape, which led to the formal adoption of carbon targets for Science Based Targets initiative validation and follow up actions.
- Supported the establishment of a Carbon Oversight Group.

---

### Group Business Functions

**Finance**

Responsible for consideration of the impact of climate-related matters on the financial statements, executing ESG financing, and managing ESG investor communications.

**Corporate Affairs**

Responsible for Drax’s sustainability programme, co-ordination of climate change principal risk register, ESG disclosure, data and assurance, and policy engagement.

**HSE**

Responsible for assessing and reporting on environmental compliance and performance.

---

### Carbon Oversight Group

The Carbon Oversight Group (COG) was established in 2021 to strengthen our governance of climate-related matters. It has representation from multiple business functions and meets twice a month.

COG is responsible for co-ordinating all aspects of carbon measurement, disclosure and policy, ensuring the Executive Committee is informed of key issues and involved in significant decisions. From 2022, COG acts as a Risk Management Committee for review and challenge of the climate change principal risk register.
Strategy

A purpose, strategy, and ambition that places climate change at the heart of what we do

Climate-related risks and opportunities

The tables below summarise the most material climate-related risks and opportunities which Drax has identified and the key activities we undertake to mitigate risks or to realise our key objectives.

Our processes for identifying, assessing and managing climate-related risks are described on page 71.

Taskforce on Climate-related Financial Disclosures

“Tackling climate change is at the heart of our purpose – to enable a zero carbon, lower cost energy future – and our ambition – to become carbon negative by 2030. Drax is committed to helping the UK and the wider world to achieve its climate targets.

Will Gardiner, CEO

<table>
<thead>
<tr>
<th>Climate-related risks</th>
<th>Risk Type and Description</th>
<th>Timeframe</th>
<th>Business Response (mitigation)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Physical Risks</strong></td>
<td>Physical risks to Pellet Production operations and supply chain in the US and Canada</td>
<td>Short, Medium and Long-term</td>
<td>There are existing resilience measures in the design and location of our assets – such as additional on-site storage capacity, wet weather timber tracts, and expansion of our self-supply locations across diversified geographies. Considered alongside our ability to source pellets from multiple locations and third parties, these are intended to mitigate risks of extreme weather impacting supply. We are also evaluating alternative fuels using different feedstock types and considering wider sourcing geographies. In 2021, we acquired Pinnacle, a major producer and supplier of bioenergy pellets. This geographically diversified asset base enhances Drax’s sourcing flexibility and security of supply, adding 2.9Mt of production capacity. We now have 17 operational pellet plants and developments across the US and Canada. We maintain an asset-level register for the assessment of local, physical climate change risks to each pellet plant. This detail enables us to track and review the appropriate mitigations by site. In 2022 we will undertake in-depth analysis on the physical climate risks across our biomass pellet supply chain, building on the initial climate scenario analysis completed with a third party in 2021.</td>
</tr>
<tr>
<td></td>
<td>Physical risks to Drax Power Station operations and rail transport routes in the UK</td>
<td>Short, Medium and Long-term</td>
<td>In the event of flooding impacting rail supply infrastructure to Drax Power Station, we have the immediate capability to revise the schedule of fuel deliveries by rail, based on one rather than two rail lines. Single line working enables the supply chain to continue functioning whilst emergency repairs take place, should this be required. Following the flooding event in 2020, the risk has been reduced with significant investment by Network Rail, in three phases of work to strengthen the resilience of the branch line, completed in 2021.</td>
</tr>
<tr>
<td><strong>Transition Risks</strong></td>
<td>Policy risks related to unabated gas generation in the UK</td>
<td>Medium and Long-term</td>
<td>Our three strategic objectives are focused on: sustainable biomass pellets, negative emissions, and UK dispatchable, renewable power. We are committed to the decarbonisation of our portfolio, in line with our ambition to become carbon negative by 2030. We believe there is a need for flexible, dispatchable generation, but this must support the UK’s target of net zero carbon emissions by 2050. In 2021 we sold our CCGT gas business, focusing strategically on development of a long-term future for sustainable biomass, development of options for negative emissions technology, and provision of system support services. Drax will evaluate options for all four OCGT projects, including their potential sale.</td>
</tr>
</tbody>
</table>

Will Gardiner, CEO
## Transition Risks continued

### Policy and legal risks related to biomass lifecycle GHG emission limits in the UK

The UK Government has set a limit on biomass supply chain GHG emissions, which must be met by generators to be eligible for support under the Renewables Obligation and Contract for Difference schemes. Changes to restrictions placed on imported feedstocks, either caps, or more stringent biomass lifecycle GHG emissions restrictions, could lead to the inability to source biomass in sufficient quantities or requirement to procure at a greater cost, which could affect our financial performance.

The current UK Government limit for GHG emissions is 200 kgCO₂e/MWh of electricity. In 2021, our average biomass supply chain GHG emissions amounted to 100 kgCO₂e/MWh of electricity, significantly below the required threshold.

We have developed a scope 3 target that enables us to align to the Science Based Targets initiative (SBTi) and we submitted our targets to the SBTi for validation.

We continue engagement with key policymakers and stakeholders around our biomass supply chains, highlighting the benefits of biomass from sustainably managed working forests.

---

### Climate-related opportunities

<table>
<thead>
<tr>
<th>Opportunity Type and Description</th>
<th>Timeframe</th>
<th>Business Response (strategy to achieve)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of new sustainable biomass pellet capacity and self-supply</td>
<td>Long-term</td>
<td>We are building on our existing capabilities to develop new-build opportunities for large pellet plants and satellite developments.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>In 2021, we completed the acquisition of Pinnacle, a major producer and supplier of bioenergy pellets. Combining Pinnacle with our existing assets, we now operate 17 operational pellet plants and developments, in the US southeast and Canada, with total nameplate production capacity of around 5Mt p.a. once commissioned. These plants are geographically diverse and located in three major fibre baskets (British Columbia and Alberta, Canada, and the US southeast) with access to four deep water ports providing routes to growing markets in Japan and Korea, where we already have long-term contracts, the UK and mainland Europe, which we can service out of the US southeast.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Our strategy is focused on continued reduction in pellet production costs. We have invested in pellet production operational efficiencies, improvements, expansion and acquisition. See page 18.</td>
</tr>
<tr>
<td>Development of Bioenergy with Carbon Capture and Storage (BECCS) at Drax Power Station</td>
<td>Long-term</td>
<td>At Drax Power Station, between 2018 and 2020, we completed two BECCS pilot projects. In 2021, we selected our technology partner, agreeing a long-term contract with Mitsubishi Heavy Industries Engineering for Drax to use its carbon capture technology, the Advanced KM CDR process™️.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We completed a pre-Front End Engineering Design (FEED) study and commenced the planning application, including formal public consultation on the project. Also, in 2021, the East Coast Cluster was selected as a priority cluster for deployment of Carbon Capture and Storage infrastructure.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We have announced a capital investment programme of £40 million to be made during 2022, to progress the development of BECCS at Drax Power Station – including site preparation works, decommissioning of coal infrastructure, and commencement of work on the FEED phase. As part of this investment, Drax has selected Worley Europe Limited to begin the FEED work in 2022.</td>
</tr>
</tbody>
</table>

---

(1) Time frames are defined as: short (1 year), medium (1-5 year), long (5+ year)
Impact of climate-related risks and opportunities on our strategy

In October 2021, the Board reviewed the Group’s strategy, the progress which has been made, and established revised strategic objectives, which are aligned to global renewable energy and decarbonisation agendas.

The strategic objectives are underpinned by safety, sustainability, cost reduction, and significant investment, and support Drax’s commitment to our purpose, to enable a zero carbon, lower cost energy future.

Climate scenario analysis

During 2021, we advanced our scenario analysis work by considering both transition and physical climate risks to our business under different climate scenarios. This work will continue to inform our risk processes, strategy and business planning.

We considered two transition scenarios and two physical climate change scenarios out to the year 2030. Over this time period our strategic objectives include implementing BECCS at Drax Power Station, developing the Cruachan 2 pumped storage scheme, expanding our pellet production capacity, reducing costs and carbon throughout our biomass supply chain, and growing our decarbonisation services through our Customers business.

The scenarios were defined based upon the external projections available, and suitability to ‘stress test’ the risks of both a rapid transition and of high physical warming.

Disclosing our impacts to 2030 aligns with our strategic planning and prioritises impacts that may be felt more significantly over this time period, while also being mindful of the action needed to respond to longer term climate impacts.

In the analysis, we first assessed the impacts of the scenarios without factoring in actions we might take to adapt to climate change (apart from actions which were already in progress), or actions to take opportunities related to the transition to a climate resilient net zero economy. Following this we considered some of the strategic options available to us to enhance our resilience under each scenario.

Key assumptions

Several factors affect our performance, many of which are not within our control. Therefore for the purposes of qualitative climate scenario analysis, we have made some key assumptions across all scenarios, which were developed in line with guidance from the TCFD. Our key assumptions include the following:

- The global economy and financial markets remain relatively stable.
- The regulatory framework for the electricity market in the UK remains broadly the same, except for changes to enable the transition to net zero.
- No significant change to societal behaviours around electricity use in the UK, except for overall increase in electricity demand due largely to the increase in electric vehicles and electrified heat.
- No significant change to our business due to employees, customers, and suppliers except for specific impacts we have identified under each scenario.
- No significant change in access to key assets such as biomass sources, ports, and transport links, except occasional disruption during extreme weather events.

ESG-linked term loan

In July 2021, we completed the refinancing of Canadian dollar facilities, acquired as part of the Pinnacle transaction, into a C$300 million ESG facility. The ESG-linked term loan agreement includes an embedded ESG component and adjusts the margin based on Drax’s carbon intensity (carbon emissions per GWh of electricity generated) measured against an annual benchmark. This is consistent with our continued strategic focus on reducing our carbon emissions.

ESG-linked multi-asset derivative solution

In April 2021, we announced an ESG-linked FX solution with two banks which incorporated the existing carbon intensity metric shared by the wider ESG financing agreements. In August 2021, we extended the solution to become multi-asset including both FX and inflation.
Transition risk scenario analysis

Transition risk scenarios
To further understand transition risks to our business, we have undertaken a high-level analysis by considering impacts under two transition scenarios which we have defined by making several simplifying assumptions:

- **Rapid transition ‘1.5 degree’ scenario:** Rapid and comprehensive changes are made to progress decarbonisation goals, beyond current global pledges, to limit warming to 1.5°C by 2100. Co-ordinated global action occurs, including changes to policy, regulation, technology, and markets to support decarbonisation and carbon removal by 2030, aligning with the ambitions of the Paris Agreement.

- **Slow transition ‘existing global policies’ scenario:** The existing global policies and pledges are maintained without further ambition and action to progress decarbonisation goals, resulting in potential warming above 3°C by 2100. Changes across the economy and society are less rapid and less comprehensive by 2030, and UK Government support for biomass generation ceases beyond 2027. Policy is fragmented and ad-hoc across our operating regions.

Transition scenario impacts
The main impacts to our business we have identified under the ‘1.5 degree’ transition scenario include:

- **Our Generation business benefits from increased demand and acceleration of net zero:** Government support for Drax enables us to develop BECCS and Cruachan 2 pumped storage, which would help the Grid to meet increased demand for renewable electricity and system stability services in the UK.

- **Our Pellet Production business benefits from increased global demand:** Our work collaborating with industry and contributing to the development of sustainable biomass standards helps to strengthen our long-term position in being a global biomass supplier.

- **Our costs could increase due to carbon pricing and specific requirements for biomass and shipping in the UK:** Our plans to reduce carbon intensity and costs throughout our supply chain help us to manage impacts, and our actions to explore alternative fuels and increase the use of forest residuals help us to continue to meet biomass requirements, reduce costs, and reduce reputational risks. To manage potential inconsistencies in shipping regulations in different territories, we continue to engage with international shipping regulators. Our ability to source biomass pellets from multiple locations, and our ability to sell biomass pellets to multiple customers, enhances our resilience.

- **Our Customers business benefits from increased demand for services:** Renewable electricity demand would increase and enhance the opportunity for our Customers business to support customers to decarbonise and optimise their energy consumption. Demand for the supply of gas would decrease, however this would not have a significant impact on our business.

The main impacts to our business we have identified under the ‘existing global policies’ transition scenario include:

- **Reduced support for BECCS or pumped storage from UK Government:** In this scenario we would either not receive any support or there could be delay and uncertainty in support from the UK Government, resulting in significantly reduced revenue and possible devaluation of our biomass generation assets, which could impact our financial performance. This could also have significant negative impacts not only for our business but for the UK, as we believe BECCS has a key role to play in achievement of net zero commitments.

- **Slower electrification in the UK:** Demand for renewable electricity and decarbonisation services would be lower than the ‘1.5 degree’ scenario, resulting in a loss of potential avenues for revenue growth for our Generation and Customers businesses. We have the option to operate biomass generation for the wholesale electricity market, and could obtain a Capacity Market contract. In this scenario our revenue is more exposed to electricity market prices and volatility.

- **Slower growth in biomass demand:** UK demand for pellets would potentially reduce, however we would continue to supply our broadening customer base in Asian and European markets under our long-term supply contracts.

Our strategic response under transition scenarios
Under the ‘1.5 degree’ transition scenario our strategic response could include the following:

- **Subject to UK Government support and progress with our partners, we believe we would have the potential to build BECCS as a growth platform, accelerating plans to provide expertise to other parts of the UK and internationally.**
Physical risk scenario analysis

Physical risk scenarios
To further understand physical climate risks to our business, we have undertaken a high-level analysis by considering impacts under two physical climate scenarios which we have defined based on the IPCC's Representative Concentration Pathways (RCPs) and by making several simplifying assumptions:

- **Current level** of physical impacts (approximated to RCP2.6): Very ambitious and effective global action to mitigate climate change results in less than 2°C warming by 2100. The physical impacts of climate change are limited by 2030, despite some impacts continuing to increase beyond this time due to the lag in climate systems and greenhouse gas emissions. Changes across the economy, society, and environment are limited in response to physical climate change. This scenario is generally considered to be optimistic.

- **High level** of physical impacts (approximated to RCP8.5): Low ambition or low effectiveness on global action to mitigate climate change results in more than 4°C warming by 2100 (despite the high ambition set by the UK). The physical impacts of climate change are more pronounced by 2030 and continue to increase significantly beyond this time. Changes across the economy, society, and environment are more pronounced in response to physical climate change. This scenario is generally considered to be pessimistic but remains plausible due to uncertainties in the global earth-climate system and commitments from countries to realising existing targets.

Physical scenario impacts
The main impacts to our business we have identified under the 'current level' of physical impacts scenario include:

- **Similar frequency of disruptions to our generation business compared to the past decade:** We would see similar levels of disruption to biomass sourcing, pellet production, transport and shipping due to wildfires, floods, pests, and extreme weather events infrequently disrupting our supply chain with relatively small financial impacts. Our ability to source biomass from multiple locations helps to reduce risks to our supply chain, and our storage of pellets onsite at Drax Power Station provides us a buffer to absorb short-term supply chain disruptions.

- **Greater frequency of disruptions to our biomass supply chain compared to the past decade:** Our Pellet Production and biomass supply chain would face greater disruption and damage to assets due to more frequent extreme climate events such as windstorms, floods, wildfires, and potential increases in pests. Transport of pellets is particularly exposed. While biomass growth may be enhanced due to higher temperatures, our ability to benefit from this will depend on market conditions for pellets. Existing resilience measures in the design and location of our assets would be expected to help limit financial impacts, coupled with our ability to source pellets from multiple locations. It is likely our costs would increase to manage and recover from disruption and damage, which would affect our financial performance and results.

- **Potential increased electricity demand from major customers during extreme events:** Some of our major customers may have short-term increased demand for electricity to manage specific impacts, such as heavy rainfall and flooding, and higher demand for cooling in summer. These increases in demand will be less significant to our business compared to more fundamental and long-term increases in electricity demand, driven by electric vehicles and electrified heat.

The main impacts to our business we have identified under the 'high level' of physical impacts scenario include:

- **Greater frequency of disruptions to our Generation business compared to the past decade:** More frequent high river water temperatures could impact our ability to discharge cooling water at Drax Power Station. Supply of cooling water may also be impacted if abstraction reductions are enforced. Our hydro generation could face increased risk from flooding. These events would reduce our revenue and increase expenditure to manage impacts, reducing our operating margins and potentially devaluing our generation assets which are exposed to physical risks.

- **Greater frequency of disruptions to our biomass supply chain compared to the past decade:** Our Pellet Production and biomass supply chain would face greater disruption and damage to assets due to more frequent extreme climate events such as windstorms, floods, wildfires, and potential increases in pests. Transport of pellets is particularly exposed. While biomass growth may be enhanced due to higher temperatures, our ability to benefit from this will depend on market conditions for pellets. Existing resilience measures in the design and location of our assets would be expected to help limit financial impacts, coupled with our ability to source pellets from multiple locations. It is likely our costs would increase to manage and recover from disruption and damage, which would affect our financial performance and results.

- **Potential increased electricity demand from major customers during extreme events:** Some of our major customers may have short-term increased demand for electricity to manage specific impacts, such as heavy rainfall and flooding, and higher demand for cooling in summer. These increases in demand will be less significant to our business compared to more

Our strategic response under physical climate scenarios
Under both of the physical climate scenarios, our strategic response to mitigate adverse events could include the following:

- We are collaborating with the regulating authority to manage our cooling water permitting conditions to reduce the risk of disrupting generation.
- We are exploring options to enhance climate resilience in key hotspots across our businesses to reduce operational and financial impacts from physical risks, including working in partnership with others.
- We regularly explore options to provide greater storage of pellets to increase our buffer to supply chain disruptions, including contracting storage where required.
- We seek to offset the near-term impact, for example through insurance cover where appropriate, and we could explore options to make up revenue through optimising the operation of our generation portfolio, such as selling dispatchable renewable electricity during high demand periods.

Assessment of resilience
While impacts on our business units and financial prospects and performance of the Group could be significant under particular climate scenarios (such as the slow transition scenario), the Board believes we have a range of strategic options and we expect to have the necessary capital to manage impacts, take opportunities and remain resilient under the wide range of scenarios considered.

We are continuing to explore options to enhance our resilience to climate risks. During 2022 we will undertake work to further enhance our assessment of physical climate risks to our biomass supply chain. This will allow us to consider and prioritise emerging and evolving risks, in addition to exploring further measures to mitigate and enhance our resilience to physical climate risks.
Risk Management

Climate-related risks integrated into our Group-wide risk management approach

Integration of climate-related risk management into Group approach
The identification, assessment and management of climate-related risks is integrated into our Group-wide approach to risk management, as defined by the Group Risk Management Policy. Climate change is a principal risk category assessed within this approach. The climate change principal risk is owned by a member of the Executive Committee and subject to an annual deep dive review by the Executive Committee. An analysis of all principal risk categories, including climate change, is made and presented to the Executive Committee and Board twice a year.

In April 2021, the Executive Committee undertook a deep dive review of the climate change principal risk register, challenging the assumptions, mitigations and controls which had been identified.

Processes for identifying, assessing and managing climate-related risks
The climate change principal risk register is administered by the sustainability function. Each risk has an owner (business unit management), accountable for monitoring the risk, providing updates, and ensuring mitigations are fit for purpose. During the year, a Carbon Oversight Group (COG) was established and from 2022 will act as the Risk Management Committee for review and challenge of the climate change principal risk register (see Governance page 65).

Following the acquisition of Pinnacle, we have integrated Pinnacle’s climate-related risks into our principal risk register and we included the new assets in the work described below.

During 2021, we focused on strengthening our processes for climate risk identification, assessment, and management. This included the development of an asset-level physical risk assessment, designed to assess in greater detail the potential physical risks to each of our Generation and Pellet Production assets. An assessment template was developed and completed in collaboration with HSE colleagues across the Group. It enables us to assess each operational asset’s potential exposure to a set of physical climate parameters most relevant to the respective geography (Canada, US, and UK). This provides a tool for consistent monitoring of local physical climate risks and a basis from which to further plan, implement and track mitigations for our sites. Asset-level risks are also escalated to the principal risk register according to their risk rating. In 2022 we will build on this first phase, considering climate scenarios over longer time horizons, to assess how the climate parameters and their impact may develop in the future.

We also worked with a third party to complete a scenario analysis exercise, considering two transition scenarios and two physical climate change scenarios out to the year 2030 (see climate scenario analysis page 68). Key operational, finance, and strategy colleagues were engaged in the analysis through a series of workshops, conversations, and review of documentation. The outputs of this work also informed an update to our principal risk register.

See Principal Risks and Uncertainties page 76

Metrics and Targets
Our ambition is to become carbon negative by 2030

Metrics
We disclose our scope 1, 2 and 3 greenhouse gas emissions, carbon intensity, and energy use in the carbon emissions section of this report (see page 50). In our ESG Data Supplement we provide additional climate-related metrics, including a breakdown of scope 3 emissions by category (see www.drax.com/sustainability). We measure scope 1, 2 and 3 greenhouse gas emissions to assess and manage each of the risks identified on pages 66 to 67, and we will explore whether there are additional relevant metrics to report on during 2022. We will keep our metrics under review to ensure the data we capture and disclose provide the information that Drax and our stakeholders require to track our performance and demonstrate progress.

Targets
Our ambition is to become carbon negative by 2030. This applies across our direct business operations globally (scope 1 and 2 emissions).

Our Group target is to achieve net zero across our scope 1, 2 and 3 emissions by 2030. We plan to achieve this by reducing emissions as far as possible while using removals delivered through BECCS to neutralise our remaining emissions.

We are committed to the Science Based Targets initiative (SBTi). In 2021, we developed a scope 3 target that enables us to align to the SBTi and we have submitted the following targets to the SBTi for validation:

- 75.7% reduction in scope 1 and 2 emissions from electricity generation by 2030, against a 2020 baseline;
- 42% reduction in non-generation scope 1 and 2 emissions by 2030, against a 2020 baseline; and
- 42% reduction in scope 3 emissions by 2030, against a 2020 baseline.

By 2050, our aim is to deliver removals far in excess of emissions. However, to ensure we remain aligned with science, we further intend to set a SBTi net zero target for 2050, requiring a minimum emissions reduction of 90-95% across all scopes.

In 2022, a new Group Scorecard carbon reduction metric is being adopted, linking remuneration to actions that support the delivery of our long-term target to be net zero by 2030. For information on the 2022 Scorecard see page 31.

To facilitate delivery of our Group targets, we will develop a set of internal sub-targets for all material sources of carbon emissions across the business, including Generation and Pellet Production. Each sub-target will be underpinned with a dedicated carbon reduction plan.

See Carbon Emissions page 49
We look at the world and see possibilities in how we can help to solve the climate crisis. We seek new ways of doing things. We re-purpose existing assets (such as the coal to biomass conversion), use our expertise and new technologies to innovate (such as BECCS or alternative fuels), and embrace opportunities to learn so we can become even better.

"We’re leading the world in tackling climate change."
At Drax Power Station we’re making significant progress on developing our pioneering, industrial scale, negative emissions technology (BECCS).

Through BECCS, we’re targeting 8Mt of negative CO₂ emissions each year at Drax Power Station by 2030. The role of this negative emissions technology will be vital in helping the UK reach its net zero targets, as well as creating and protecting thousands of jobs and kickstarting a new green economy.

With this innovative technology, we’re leading the world in tackling climate change.

Jeni Reeve
Project Engineer (BECCS)

Carbon negative company by 2030

Targeting 12Mt of negative emissions globally by 2030
Viability statement

In accordance with the UK Corporate Governance Code 2018, the Directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

The assessment of viability was led by the CEO and CFO, in conjunction with management teams, and presented to the Board as part of the annual planning process. In reviewing this assessment, the Board considered the principal risks faced by the Group, financial forecasts and sensitivities, availability of funding and the strength of the Group’s control environment. Detail is also provided on longer-term risks.

Assessment period
The Board conducted this assessment over a period of five years (2020: three years), extended as a result of the stage of the planning cycle and strategy development the Group has reached during the year, and considering:

- The Group’s Business Plan (the Plan) which is prepared annually, updated three times during the year and also used for strategic decision-making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a one-year period in detail, before extending into the medium term. Five years is considered to be an appropriate mid-point in this range, when considering length of forecast and expected accuracy over the forecast period.
- Within the forecast period, liquid commodity market curves and established contract positions are used. Liquid curves typically cover a one to two-year window and contracted fuel commitments with third parties extend out to five years. The Group’s foreign exchange exposure is actively hedged over a rolling five-year period. In particular, the Group benefits from the stable and material earnings stream available from the CfD and RO subsidies until 2027. Selecting a five-year period balances short-term market liquidity whilst including medium-term contractual positions.
- A significant proportion of the Group’s debt facilities mature in this period, with 61% maturing in the four to five-year window.
- There is limited certainty around the Group’s markets and regulatory regimes. However, the Board has assumed no material changes to the medium-term regulatory environment and associated support regimes beyond those already announced at the date of the report.

The business considers longer term forecasts for other purposes, including value in use analyses and estimates of useful economic lives, in line with the requirements of accounting standards and as set out in the notes to the financial statements.

Review of principal risks – viability
The Group’s principal risks and uncertainties, set out in detail on pages 76 to 91 have been considered over the period. The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise unmitigated. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process.

Relevant principal risks
The principal risks with the potential to exert significant influence on viability are considered to be: commodity price changes, political and regulatory changes and plant operating failures. A significant adverse change to the status of each risk has the potential to place material financial stress on the Group.

A summary of the scenarios modelled can be seen below. In addition to modelling the impacts on a standalone basis, reasonable scenarios that included a combination of unforeseen plant outages, adverse movements in commodity prices and reductions in subsidy income were also considered.

As part of its review of principal risks and uncertainties, the Group considered risks related to climate change. This review concluded that such matters remained low risk to the Group over the period that viability has been assessed. In particular, the work performed over climate related risks, as part of the TCFD process (see page 49), and in our impairment analysis, suggests that climate change does not currently present a significant threat to viability. The most likely way in which climate change risks could manifest is if they caused a failure in plant operations, either in the Pellet Production or Generation businesses. The impact of these scenarios are included in the analysis as noted in the table below.

The outcomes of this, which did not reflect the benefit of available mitigating actions, indicated that the Group would be able to absorb these scenarios without significant impact upon its ability to meet liabilities as they fall due.

Consideration of other risks to viability
Strategy
If the Group is not successful in fulfilment of its strategic aims, then this could pose a threat in the longer-term. However, analysis of this risk suggests that this would materialise beyond the assessment period, and therefore consideration has been presented in the longer-term risks section below.

Remaining principal risks
The remaining principal risks were considered and were not deemed to present a significant threat to viability over the assessment period.

Longer-term risks
On a time horizon extending beyond the viability period, the two principal risks which are believed to be most significant are climate change and strategy.

<table>
<thead>
<tr>
<th>Principal risk</th>
<th>Description of scenario modelled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading and commodity</td>
<td>Power price downturn</td>
</tr>
<tr>
<td>Political and regulatory</td>
<td>Zero ROC recycle value after CP21</td>
</tr>
<tr>
<td>Plant operations/Climate change</td>
<td>10% increase in biomass forced outage rate</td>
</tr>
<tr>
<td></td>
<td>90-day outage on CfD unit (in 2022)</td>
</tr>
<tr>
<td></td>
<td>90-day outage on ROC unit (in 2022)</td>
</tr>
<tr>
<td></td>
<td>Two-month outage of pellet production plants</td>
</tr>
<tr>
<td>Reasonable worst case</td>
<td>Combination of the scenarios above</td>
</tr>
<tr>
<td></td>
<td>Prolonged period of volatile power prices coupled with generation outages</td>
</tr>
</tbody>
</table>
Climate change could have a physical impact via an increase in the frequency of extreme weather events, leading to sustained reduced profitability for the Group as a result of supply chain disruptions. However, this also provides the Group with an opportunity, as we believe that we have a vital role to play in the ambitions to limit global warming being realised. In addition, as the speed of transition to lower-carbon/net-zero increases there is a risk that new policies and regulation impact the Group’s operations or plans.

Failure to deliver on our strategic objectives could also pose a threat to the Group’s viability. The achievement of these objectives is forecast in the period beyond the assessment period. If returns achieved from the initiatives were significantly below forecasts then, given the level of capital expenditure required to complete the plans, this could present a risk to the Group. However, a detailed analysis of the returns achievable, including reasonably possible downside scenarios and potential impacts on viability, would be performed ahead of any final commitment by the Board to progress strategic initiatives, in line with our long-standing disciplined approach to capital allocation.

In the case of both these risks, the Group has a proven record of rapidly adapting to changes in its environment, and deploying innovative solutions to protect its financial performance. Previous adverse events have arisen and provided challenges which tested the ability of the Group to deliver on its targets but, on each occasion, it has been able to respond positively. This provides the Board with confidence that risks can be sufficiently mitigated, and viability can be maintained during the assessment period.

Review of financial forecasts
The Plan considers the Group’s financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in December 2021. It is built by business and includes growth assumptions appropriate to the markets each business serves. Climate change is also factored into these forecasts, as, for example, forecast future energy prices are based on decarbonisation agendas committed to by the UK government.

The Plan includes assumptions, the most material of which relate to commodity market prices and levels of subsidy support available through the generation of biomass-fuelled renewable power. It is underpinned by the stable revenues available through the generation of CfD-backed electricity and contracted sales from the Customers business.

The Plan is subject to stress testing, which involves the construction of reasonably foreseeable scenarios, including those aligned to the principal risks (described above) which test the robustness of the Plan when key variables are flexed both individually and in unison. Where such a scenario suggests a risk to viability, the availability and quantum of mitigating actions is considered.

As part of stress-testing the Plan, a “reasonable worst case” scenario was constructed and assessed. Rather than a single event, the Board considers the most significant downside scenario that could reasonably arise in the assessment period, and materially impact viability, to be an aggregation of incidents either in a short timeframe or repeatedly during the period. For the purpose of creating the scenario, the severity of these incidents (for example, the duration of an unexpected outage) was based on experience of historical events where possible. Further detail is contained within the ‘Relevant principal risks’ section above.

The reasonable worst case considered the impact on earnings, cash flow and net leverage as a result of incidents including unexpected generation and pellet production outages, adverse movements in commodity prices and a loss of ROC income during the period. Whilst the outcomes from this scenario were severe, they indicated that the Group would continue to operate within the covenant restrictions of its financing arrangements and would have sufficient cash to meet its liabilities as they fall due. Potential mitigating actions were also considered. Such mitigating actions included potentially reducing levels of capital expenditure and dividend payments if required. The impact would also be partially mitigated through the earnings stability provided by the CFD, the Group’s ability to trade effectively in volatile markets, use of existing committed facilities and reductions in other expenditure. Based on its review, the Board is satisfied that viability would be preserved in a range of scenarios, with various mitigating actions available, sufficient to manage the risk, should they be required.

Availability of adequate funding
The sources of funding available to the Group are set out in note 4.2 (page 219). The Board expects these sources, along with cash flows generated, to provide adequate levels of funding to support the execution of the Group’s Plan.

During 2021, the Group refinanced the debt acquired as part of the Pinnacle transaction. The new facilities comprised a €5300 million term loan and C$10 million RCF. The facilities mature in 2024, with an option to extend by two years, subject to lender consent. These arrangements reduced the overall cost of debt to below 3.5%, strengthening the balance sheet.

Facilities of £364 million, €345 million, $500 million and C$300 million mature during the assessment period. The viability assessment assumes that these are renewed on similar terms. However, if the Group is unable to achieve refinancing within the viability period, the forecasts show that there would be adequate cash available to repay these facilities.

At 31 December 2021 the Group had total cash and committed facilities of £549 million, see note 2.7 on page 200. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the assessment period.

The Board is confident that the Group has access to a range of options to maintain a diverse and well-balanced capital structure.

Expectations
Taking all of the above into account, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.
Principal risks and uncertainties

The effective management of risk supports the delivery of our strategy

Identifying, assessing, and managing risks across the Group is an integral part of enabling an informed assessment on the potential challenges in delivery of our strategy. The Board is responsible for determining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The Group has a comprehensive system of governance controls to manage all key risks in accordance with policies and processes approved by the Board.

Group approach to risk management

The Group has a Risk Management Policy, approved by the Board, which defines its approach to risk management. The key elements of the policy are to:

- Identify risks that have the potential to threaten the achievement of our strategic objectives and assess the likelihood of the risk occurring using a risk scoring methodology, thereby ensuring a consistent approach for assessing all risks.
- Consider the possible impact to the business in the event of any risks arising and put in place appropriate mitigating controls intended to manage identified risks to the target risk level (reflective of the Group’s risk appetite).
- Assign responsibility and define accountabilities for the identification, assessment and management of risk and provide resources to enable appropriate measures to be taken.
- Provide a framework to enable the escalation and reporting on potential and emerging risks, and the effectiveness of the mitigations and controls to support management decision making.
- Regularly monitor changes in the internal and external environment of our business, review the Group’s principal risks against such changes to ensure our analysis remains accurate and relevant, and review the effectiveness of mitigation strategies and the application of the risk management framework.

To support the Group’s strategy and deliver sustainable financial growth accompanied by sound business practices across its operations that reflect the expectations of shareholders and the assessment of the views of wider stakeholders, the Board oversees a systematic analysis of risks and determination of the Group’s risk appetite. This analysis then informs our strategic priorities and investments on the one hand, and our policies and procedures to address risk mitigation, on the other: We consider a range of risk areas including environment, people, health and safety, political and regulatory, strategic, operational, financial, and climate change.

The risk appetite is the level of risk that the Group is prepared to tolerate, and which might arise in the day-to-day conduct of our business and in seeking to realise our strategic objectives. The Board determines the risk appetite of the Group in order to ensure that the potential impact of current and emerging risks is considered and appropriately managed so as to increase the likelihood that the Group’s business objectives can be achieved, whilst minimising the threat of adverse impact to the financial and operational performance and prospects of the Group.

Risk appetite therefore informs the expected behaviours from our Board, senior executives, all colleagues, contractors and business partners, and helps in determining the investment likely to be required to support risk management activities and an appropriate risk-balanced approach to carrying out our plans. Risk appetite can vary depending on the nature of the risk, the expected impact of that risk and anticipated benefits to the Group and our stakeholders in proceeding with an intended objective.

In setting the Group’s risk appetite, it is noted that parts of the Group’s operations reflect high inherent risk while also providing the opportunity for potential commercial gain, for example, trading in commodities. The Group has developed a commercial strategy that is designed to manage the Group’s exposure to volatility in commodity prices whilst also reflecting the Group’s risk appetite in this area. Commodity market hedging is a useful tool which provides a level of protection from what can be a volatile market. The Group’s commercial strategy utilises hedging as a tool to sufficiently limit the Group’s exposure to the uncertainty of future adverse swings in commodity prices, whilst also acknowledging that this same market volatility provides the opportunity for financial returns.

The risk management approach manages, rather than eliminates, the risk of failure to achieve strategic and business objectives, and provides reasonable, but not absolute, assurance against material misstatement or loss. For example, the business has become increasingly aware of marked changes in weather patterns which alongside other climate-related risks have become more impactful on our business. As a result, in recent years, we have developed a climate-related risk. Through our analysis of climate-related risks, we seek to identify material challenges to the business which might arise and consider how we should respond to both physical and transitional climate risks. In so doing we seek to better understand the emerging and potential future threats against the resilience of our business and operations to reduce the adverse impact which might arise for our people, our assets, our ability to operate day to day and our financial performance.

A supporting mitigation strategy has been established including investment to offset risks. For example, at our US plants tornado shelters have been installed at sites where that particular weather risk can occur. These shelters provide a refuge to our employees, contractors and site visitors in the event a storm occurs. This is one example of an appropriate and proportionate response to a recognised risk. Nonetheless, the weather-related events experienced in Canada with flooding impacting fibre rail movements and wildfires close to plants highlight broader challenges, not all of which can be wholly mitigated. Such extreme weather as was experienced in 2021 can disrupt our site operations, impact supply chains and damage infrastructure (for example make rail routes impassable) and demonstrate how the business operations and financial performance are subject to the risk of environmental factors occurring that are beyond the immediate control of the Group.
Risks are assessed on a gross and a net basis after mitigating controls have been considered and a target risk level reflective of the Group’s risk appetite is applied to each risk.

Risk management governance
The risk management governance structure includes the Executive Committee (from which owners are identified to be accountable for each principal risk) and our risk management committees whose shared responsibilities include:

- Regularly assessing and understanding the risks that may impact our business to ensure any identified new or current risks are managed within the defined risk appetite and limits of the business.
- Ensuring that changes in the internal business and external macro environment that affect the principal risks are kept under review and responded to appropriately.
- Driving completion of the actions required to improve risk mitigations and reduce risk exposures to target levels.
- Driving an appropriate risk management culture that promotes and creates balanced risk-taking behaviour and clear accountability.
- Demonstrating robust governance of risk management by reviewing and challenging risk management across the Group.

In line with good governance, the risk management committees at the business unit and group function level undertake regular reviews of operational and financial risks, receiving reports from business units and risk owners reflecting their specialist areas and technical knowledge. The Executive Committee also undertake deep-dive reviews of all the principal risks through the course of the year and receive reports from the risk management committees and principal risk owners. In addition, the Audit Committee review the suitability and effectiveness of risk management processes and controls. They also review and challenge the proposed disclosures prepared by management on risks to consider whether they are fair, balanced and understandable, providing adequate links to the Group’s strategy (and the ability to realise objectives over the near and longer term) and reflect adequately wider macro and emerging threats.

Drax Group’s Annual Risk Management Process

Identification
Senior leadership and risk owners are collectively responsible for the identification of risks with the potential to threaten the achievement of strategic objectives.

Assessment
Senior leadership and risk owners assess likelihood and possible impact of risks occurring using Group’s risk scoring methodology.

Also ensure appropriate mitigating controls are in place to manage identified risks to an acceptable level aligned to risk appetite and target risk.

Governance
Risk management committees undertake regular risk reviews and receive reports from business units and risk owners reflecting their specialist areas and technical knowledge.

Monitoring and Reporting
The Executive Committee undertake deep-dive reviews of each principal risk annually and receive reports from the risk management committees and principal risk owners.

The Audit Committee and Board review the suitability and effectiveness of risk management processes and controls. They also review and challenge the proposed disclosures prepared by management on risks to consider whether they are fair, balanced and understandable, providing adequate links to the Group’s strategy (and the ability to realise objectives over the near and longer term) and reflect adequately wider macro and emerging threats.

As part of these reviews, risk owners, Risk Management Committees, the Executive Committee and the Board, also undertake holistic reviews to identify emerging risks. These qualitative assessments seek to identify new potential risks resulting from macro-economic factors or other external sources. This involves judgement and is undertaken through gathering the views of key stakeholders including the Executive Committee and Board members who bring to bear significant levels of technical knowledge, industry experience and economic awareness.

As an example of such reviews, the Group is monitoring potential geopolitical emerging risks to understand their significance and likelihood.
Principal risks and uncertainties continued

**Internal control**

The Group has a well-defined system of internal control, supported by policies and procedures, documented levels of authority which support decision-making, and accountability for management across the Group.

The Board has adopted a schedule of matters which are required to be brought to it for a decision, below which authority is delegated through the Executive Committee to a combination of sub-committees and management enabling them to make decisions on behalf of the Group and its businesses on a day-to-day basis. The internal control system is designed to ensure that the Directors and executives maintain effective oversight and direction for all material strategic, operational, financial and organisational issues.

Under authority delegated by the Board, the Audit Committee approves and implements a programme of internal audits covering various aspects of the Group’s activities for the subsequent financial year. Refer to page 118 for further information. The programme evolves based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks, the core financial control framework and observations arising from management’s review, discussion and challenge by the Audit Committee, as well as feedback from the annual audit and reviews performed by external auditors (both financial and non-financial). This includes reviewing responses to findings from the work of the Internal Auditor and support of other specialist advisers. The programme is reviewed at each Audit Committee meeting and refreshed to reflect developments within the Group as well as changes in wider practices, informed by the experience of colleagues and external auditors.

Since their appointment in 2020, the majority of internal audits have been performed by KPMG who provide a fully outsourced internal audit function to the Group, reporting to the CFO. The findings and recommendations from each internal audit are documented in a report for internal distribution and action. A full copy of each report is distributed to the Executive Committee and the Audit Committee. Each report includes the status of management responses to the findings and recommendations, and details of the actions that management propose to take. Each meeting of the Executive Committee considers the status in responding to and closing recommended actions.

In addition, the Audit Committee receives an internal audit and quarterly internal controls update report at each meeting during the year. Internal audits are augmented by additional internal control checks which are performed by operational management and which through a system of self-reporting are considered by senior management and the Audit Committee.

Where weaknesses are identified as part of the normal course of governance of the system of internal control, these are investigated, and the impact on the business is identified with remediation actions established as part of a process of continuous improvement. Again, this is reported to the Audit Committee. None of the findings reported during 2021 were individually or collectively material to the financial performance, results, operations, or controls of the business.

Based on the assessments undertaken by each of the Executive Committee and the Audit Committee during 2021 and considered at the meeting of the Board held in finalising the Annual Report and Accounts, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control. For further information on the work of the Audit Committee see page 118.

**Overall risk assessment**

The Board continued to perform a robust assessment of principal and emerging risks including the ongoing management of these risks during the changing landscape of the Covid-19 pandemic. During 2021 additional consideration was given to the acquisition and integration risks associated with the Pinnacle transaction and more recently at its meeting in January 2022, the Board reviewed wider macro-economic (such as inflationary pressures) and geopolitical potential risks (for example the situation in Ukraine). The Board also reviewed more business-focussed risks and commented on the disclosures, for example suggesting improvement to the quality of disclosure on the context of principal risks such as “political and regulatory” and “biomass acceptability” to help the understanding of the reader.

In so doing the Board sought changes to the draft disclosures to take into account their assessment. These factors have been referred to within the nine principal risk categories disclosed on pages 80 to 91. The Board determined that these and other new and emerging risks have not materially affected the categorisation of the Group’s principal risks. As such, the nine principal risk categories remain unchanged from 2020.

**Risk impact of Covid-19**

The ongoing Covid-19 pandemic continues to have an impact on many aspects of society and the global economy, and the duration and depth of the impacts remain uncertain. The Group prioritises the health, safety and wellbeing of colleagues and contractors, with additional measures in place to safeguard all those attending the Group’s operational sites. This includes ensuring...
all our colleagues remain cognisant of changing guidelines issued by the UK Government, Canadian and US authorities. The actions implemented have enabled the Group to meet its obligations as part of the UK’s critical national infrastructure, generating power and supporting the UK’s energy market and our business customers while protecting our colleagues.

The Group has an incident crisis management process enabling timely response to events when they occur which comprises strategic (led by the Executive Committee), in addition to tactical and operational level teams (led by management). In response to Covid-19 these teams developed and implemented additional policies and procedures around health, safety, IT systems, remote working practices, wellbeing, communications and engagement. The Group also updated its working practices to be able to continue to accurately track its financial and non-financial business performance. The arrival of vaccines and the availability of rapid testing have been positive developments, but the emergence of new variants means that it is necessary to remain vigilant and continue to implement mitigations at our offices and sites, responding to changes in government guidance.

The market environment for our Customers business, which saw the most significant adverse impact from Covid-19 during 2020, improved during 2021 as the level of business failure amongst small and medium-size enterprises reduced and bad debt risk experienced by our Customers business began to recover to more normal levels. The pandemic did not have a material impact on the financial performance and results of the Group or the assessment of the principal risks for the Group during 2021. Any further change in UK Government policy, macro-economic policy and the behaviours of people and markets resulting from the pandemic will continue to be monitored as part of business-as-usual risk management activities of the Group.

**Acquisition of Pinnacle Renewable Energy Inc.**

As part of the Group’s strategy to build a long-term future for sustainable biomass, Drax completed the acquisition of Pinnacle on 13 April 2021. An Integration Management Office (IMO) was established pre-completion to plan activities required from pre-close through to post-acquisition for each functional area. The IMO set out the guiding principles of integration, including culture, approach to ways of working, and the roles and responsibilities within the enlarged Group. It led project management tracking of the key risks, issues, and actions that were updated and discussed on regular calls with colleagues across relevant aspects of the Group’s activities.

An integration governance structure was implemented including a Steering Committee attended by senior representatives from each functional area as well as the CEO and CFO. The Committee challenged how the integration risks were being mitigated whether through intermediate activities or implementing permanent processes. They also assessed requests for additional resources or investment to deliver the programme of work. The vast majority of integration activities have now been successfully completed with activities transitioned from the IMO to business-as-usual by the end of September, and subsequently the Steering Committee was disbanded.

The integration risks associated with the acquisition of Pinnacle were communicated in the Shareholder Circular which can be accessed on the investor relations page of the Group’s website. The Group’s exposure to environment, health and safety (HSE) risks has expanded due to the increase in the number of operational sites. To appraise this risk, a review of Pinnacle operations was conducted which included visits to all their sites in the US and Canada, supported by external consultants. Action plans were established at site level to address immediate priorities some of which have now been completed, for example the replacement of old transformers at the Aliceville site. A HSE project was implemented which remains in progress, with additional capital investment approved for 2022. As was explained in the Shareholder Circular, the Group’s status as UK critical national infrastructure may mean Pinnacle becomes the subject of new and potentially more sophisticated cyber security threats. To mitigate these threats, the controls that regulators would expect us to have in place are continually evolving. Additional measures have been adopted to strengthen Pinnacle networks and business resilience around areas including network infrastructure, with the business being migrated to the Drax environment for support and monitoring. It is recognised that Pinnacle operates in jurisdictions within which Drax has minimal experience, such as Japan, and as a result our understanding of operating in these territories is limited. Working with new customers, suppliers and joint venture partners, in unfamiliar jurisdictions only heightens the importance of strong working relationships to ensure that they collaborate with us on meeting the standards to which we aspire, whilst we also learn more about conducting business in these territories. To ensure Pinnacle meets Drax’s high standards of business ethics compliance, interim due diligence processes for both customers and suppliers was implemented, ahead of instigating enduring processes in 2022.

**Principal risk categories**

The Group has identified nine principal risk categories which have the potential to have a material adverse impact the operational and financial performance of the Group. These and other key risks are considered within an established programme by which management, executives and the Board consider how risk and our ability to respond should evolve.

The Board, as part of its year end processes, considered reports from management reviewing the principal risks and uncertainties and how these had evolved during the second half of 2021. This review took account of the ongoing Covid-19 pandemic, and the acquisition of Pinnacle and did not result in the identification of any additional Principal Risks.

---

Set out below are the nine principal risks reflecting that assessment:

- Safety, health and wellbeing, and environment
- Political and regulatory
- Biomass acceptability
- Trading and commodity
- People
- Strategic
- Climate change
- Plant operations
- Information systems and security
Principal risks and uncertainties continued

Risk level change from previous year

- Up/increasing
- Down/reducing
- No change

Safety, health and wellbeing, and environment

Context

The safety, health and wellbeing of our employees and contractors remains a priority for the Group and maintaining high operational and procedural safety standards is also an important contributor to the continued success of the business across all aspects of our activities. Observing proper standards in the way we work not only creates and maintains a safe workplace to which the Board and management are fully committed, it also enables a more operationally effective business. Our vision is reflected in “One Safe Drax” – ensuring zero harm to our colleagues and the public, and recognising our people are at the heart of everything we do. We believe that safe, compliant, and sustainable operations are integral to the delivery of our strategy and crucial for sustained long-term performance.

Safety and environmental management are foundational to our operational philosophy and we continue to work across the Group to identify, implement and then maintain high standards supported by a positive culture to safe working. Such culture also seeks to engender a combination of personal accountability whilst fostering a desire for continuous improvement where all colleagues can contribute to working together effectively. Compliance with environmental legislation and our environmental permits and consents is also a very important part of our day-to-day operations. We also consider and seek to respond proactively to emerging legislation and regulatory changes in both safety and environmental aspects. These are important for our people and our reputation and we recognise the value attributed to effective measures and good practices by our stakeholders.

Risk and impact

- Our operations involve a range of potential hazards which could affect colleagues, contractors, others attending our sites and the wider environment, that arise from the materials and equipment we use and the processes we perform. This includes heavy plant and machinery across our sites in the US, Canada and UK. We also consider and seek to mitigate the risk of fire or explosion. The biomass that we use to generate electricity and the particulates that can occur if the biomass pellets degrade are highly combustible. So the production, preparation, storage and transportation (whether within our sites, ports or in transit between sites) requires careful management to minimise the risk of fire or explosion.
- In the generation of electricity, supplied to the National Grid at up to 400kV, we operate various plant at high temperatures and pressures, as well as managing significant volumes of water (e.g. 57.6 billion gallons at Cruachan) used by our nine hydro plants in Scotland. These are inherent attributes of our operations which contribute to HSE risk.
- As part of the acquisition of Pinnacle, the Group has added 10 operating plants which produce and store biomass, increasing the potential exposure to environment and health and safety risks, though actions are being taken to mitigate them. Additionally, some of these sites we operate in Canada are in remote locations, which are subject to the impact of extreme weather, such as heavy snowfall in winter, which can affect accessibility. As a result, the timely delivery of emergency response to incidents could be hindered.
- We continue to operate in a world with Covid-19 and the risks posed to the business remain, as new variants of the virus become prevalent in our local communities. However, the Covid-19 vaccination roll out and a good level of uptake in the communities in which we operate has reduced the likelihood of serious impact on our operations. Government guidelines also change rapidly to respond to developments in the pandemic, and can require significant changes in working practices.

Key mitigations

- Continued investment in safety equipment, environmental mitigation and plant equipment and its regular maintenance.
- Regular reporting to the Board on HSE matters as part of the CEO report. Outlining trends, incidents and initiatives to enable the Board to understand culture, behaviours and status of key HSE matters.
- Maintaining robust management systems which are subject to periodic review and refresh as appropriate.
- Effective governance framework including an executive level Group HSE Committee chaired by the CEO to review and challenge the management of safety, health and wellbeing and environment across the Group.
- A site-by-site assessment of HSE conditions as well as a desktop review of existing management systems and compliance for all Pinnacle sites has been undertaken. £27 million of committed spend has been allocated to the improvement and continued mitigation of HSE risks at Pinnacle sites.
Safety, health and wellbeing, and environment continued

- Where the remote location of Pinnacle sites may impede an emergency response to incidents, plants have partnered with local fire brigade stations in addition to performing weekly emergency drills.
- Development of plans for 2021/22 that align all business units to the key focus areas to drive improvement in our HSE performance, whilst building upon the 2019 “One Safe Drax” vision.
- Tracking and reporting events and near misses, prompt investigations and timely implementation of corrective actions to support attention and continuous improvement.
- Training colleagues to an appropriate level of competence enabling them to contribute to the effective management of environment, health, and safety risks.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites.
- Timely communication to our colleagues on how arrangements in response to Covid-19 are evolving, with due regard for their wellbeing through a combination of training and increasing awareness of tools to support personal resilience.

Changes in factors impacting risk in 2021

- Occupational safety performance for the year with TRIR and LTIR showing continued performance in line with industry benchmarks.
- The acquisition of Pinnacle has increased the number of operational sites by 10. A structured programme is underway to introduce a new integrated management system across our Pellet Operations.
- A review of projects to improve operational safety and occupational safety has enabled us to prioritise capital investments.
- Notification of legal action from the Health and Safety Executive in relation to wood dust at Drax Power Station has been received. Please refer to Page 57 for further information.
- The Group established a HSE Centre of Excellence with participation from the leads for HSE across our businesses, and each month we review serious incidents, collaborate on developing corporate requirements and share best practice.
- Introduction of a Group-wide reporting definitions standard to define our HSE incidents, and the commencement of roll out of a new HSEQ (“Health, Safety, Environment and Quality”) IT System.

Political and regulatory

Context

Through the course of 2021, UK Government and wider political support strengthened on both the use of biomass and delivery of BECCS. These are two key elements of Drax’s strategy (see Strategic risk on page 86), and includes recognition of the role BECCS is able to play in delivering negative emissions in the UK and abroad (for more information see page 49). However, the Group remains conscious of the ongoing discussion associated with biomass (refer to Biomass Acceptability principal risk on page 83) and the need for further commitment and financial support from UK Government and other critical partners in order to deliver the decarbonisation of UK power generation and enable the Group to realise its strategy. Looking ahead, we recognise that wider macro-economic challenges which are affecting many countries emerging from the Covid-19 pandemic may impact the scale of financial support and pace of such commitments, which could adversely impact realisation of the Group’s objectives.

The energy sector is subject to detailed legislation and regulation that is frequently changing as the economic and industrial trends towards decarbonising and decentralising become more exacting. In addition, the level of regulatory and compliance requirements applicable to businesses continues to increase with an emphasis on transparency and accountability. As we work to bring new supply chains online, either through acquisition or new sourcing, the level of regulation applicable to Drax (in the UK, US, Canada and global sourcing/target markets) is likely to increase and has the potential to pose new challenges. Furthermore, we remain alert to the changing geopolitical landscape which could impact the global energy sector.

Risk and impact

- Public and political pressure to respond to the threat to our planet from climate change has intensified. During 2021, positive steps were made towards enabling Carbon Capture investment frameworks and affirming the case for biomass. However, whilst support has grown for BECCS and sustainable alternative fuels as part of the Government’s decarbonisation strategies, the political agenda has also been impacted globally by the ongoing effects of Covid-19 on social and economic policy. For example in the UK, Government fiscal priorities have changed resulting in delays to the introduction of new legislation to deliver investment frameworks that support reducing carbon emissions and addressing climate change. Such delays could adversely impact decisions on the required scale of investment needed to support BECCS, which may result in material delays in the ability to realise Drax’s strategy. The longer-term potential impact from Covid-19, including reduced fiscal revenues for many national governments, inflationary pressure as the availability of key resources fail to keep pace with demand, coupled with addressing the social impact of the pandemic, may impact economic growth in the other countries in which Drax operates. This means investment in new technologies to address climate change may be delayed, adversely impacting Drax’s ability to maintain progress towards delivering BECCS.
- Changes to government policy at a regional and national level in the countries in which we operate may increase the cost to operate our businesses, reduce operational efficiency and affect our ability to realise our strategy. Examples include reform of the UK legal framework following Brexit; data privacy regulation; network access and electric charging arrangements; environmental regulation; wholesale market arrangements including impacts on liquidity; and consumer service and affordability requirements.
- The global regulatory environment is evolving, which may result in additional costs and complexity. Post-Brexit reviews of regulation could lead to a divergence...
Principal risks and uncertainties continued

Risk level change from previous year

- Up/Increasing
- Down/reducing
- No change

**Political and regulatory continued**

- Between UK and EU regulation and reporting requirements, further increasing our cost to operate. Our involvement in new international supply chains and pellet markets, for example Japan, introduces additional challenges in terms of compliance, regulatory change and misalignment of standards between markets. Such complexity may increase the risk of non-compliance, regulatory investigation and enforcement action against Drax, potentially resulting in penalties/sanctions that impact anticipated returns and/or our licence to operate.
- Biomass represented 92% of our generation in 2021 (75% in 2020) and, longer term, we are aiming to increase our biomass self-supply to 8Mt p.a. Should the UK continue to follow the EU’s requirements on biomass acceptability and sustainability, then our inability to influence EU policy following Brexit could be a disadvantage.
- Following the UK’s transition to the EU/UK Free Trade Agreement, the UK Government has established its own Emissions Trading Scheme (ETS). The aim is to link the new UK ETS to the EU ETS to ensure continued alignment on decarbonisation via a market-based pricing regime. This will take time to introduce and progress has been slow to date. The price of carbon under the UK ETS remains misaligned with the EU ETS and there are signs of weakened market liquidity in the UK’s new, smaller market.

**Key mitigations**

- Engaging with politicians and government officials, to listen to and inform understanding and perception of Drax’s business, including our commitments on sustainability and the creation of socio-economic value (including jobs, training and investment in communities), plus the critical role that Drax’s strategy will play in supporting the UK’s ambition to achieve net zero by 2050.
- Engaging with regulators and industry bodies to understand their priorities, influence the strategic direction and ensure compliance. Working with wider stakeholders and industry associations to maintain Drax as a thought leader on priority UK and global policy and regulatory issues.
- Exploring opportunities for the delivery of investment in BECCS in other territories, such as the US and the wider Asia region. Working with leaders and key stakeholders in those regions, to identify areas of common purpose and share ideas for creating jobs, investment and new growth opportunities. An International Affairs team is being developed at Drax to broaden our stakeholder interaction and engagement in regions where we source and supply biomass.
- Maintaining regulatory and compliance control frameworks to mitigate the risk of non-compliance, covering: risk assessment; policy and guidance development; robust process; awareness raising; training; audit and continual improvement.
- Ensuring our practices and processes meet regulatory compliance and are “fit for the future”, for example updating our approach to supplier assurance in new markets.
- Investment in knowledge and experience that is recruited into the Group to best support the business across our global operations.

**Changes in factors impacting risk in 2021**

- COP26 and the role of the UK Government in acting as Chair positively impacted global commitments to delivering on decarbonisation and recognition of the role that BECCS will play in this.
- CCS is also actively being assessed by other nations in response to delivering their obligations for reducing global climate risks. Progress in 2022, including fiscal policy commitments remain important to maintaining momentum.
- The financial impact on government funding caused by Covid-19 over the immediate and longer term will result in a reassessment of investment priorities for this and future administrations both in the UK and elsewhere, which could affect the Drax business model and financial prospects.
- Power price volatility means that there has been a substantial increase in energy supplier failures, which results in greater cost mutualisation (recovery) across the industry.
- In the UK, Ofgem is reviewing the fundamental design of the power market, in particular system balancing costs as a result of the change in demand-levels during the Covid-19 pandemic (which offers an insight to future UK supply/demand balance) and general efficiency and effectiveness of the market with an increasing proportion of zero marginal cost generation.
- The smart meter roll out continues, with fixed annual targets being introduced from 2022. An increase in regulatory “Requests For Information” is expected during 2022 to support the regulator’s data gathering and monitoring processes.
- Entering into new markets, through acquisition or organic growth increases compliance risk due to additional compliance risks, e.g. Asian pellet supply markets, and additional regulatory change risk, e.g. old growth forests in Canada or sustainability standards in Japan.
Biomass acceptability

Context
Biomass is a significant element of Drax’s existing business and is important in the realisation of longer-term strategic objectives enabling both the Group and the UK to realise their net zero targets. During 2021, Drax sourced and shipped to the UK 7.8M tonnes of biomass for use in the operational activity of generating electricity at Drax Power Station. Furthermore, through the acquisition of Pinnacle, the Group has become party to commercial contracts to supply biomass to third parties. The supply of biomass to third parties represented 3.2% of revenue during 2021.

Whilst the legal framework and scientific principles for the use of biomass have been thoroughly assessed (see page 17), and the UK Government’s interim Biomass Policy Statement (issued November 2021) demonstrated continued support, the case for the use of biomass remains subject to scrutiny from various stakeholders. We continue to engage with organisations and governments in order to explain the benefits of sustainably and responsibly sourced biomass. Please refer to page 17 for further information.

The market for biomass as a commodity remains relatively immature. The regulatory framework associated with the sourcing of biomass materials is also under development, including in some regions in which we currently conduct business and others where we may in the future develop our business. It is possible that new regulatory frameworks may not align with our strategy and investment case. This could result in reduced support for certain types of biomass as a renewable energy source, increased costs of doing business or introduction of barriers to entry which may adversely impact our growth plans and financial returns versus expectations.

Risk and Impact
• Some parties including certain environmental non-governmental organisations (eNGOs) continue to iterate against the use of biomass. These groups seek to influence and challenge policy and law makers against the use of biomass, which may result in reduced political, business, public and financial support for the benefits of biomass.
• Biomass remains immature as a commodity market. This includes some of the regions from which biomass is sourced, processed and shipped. In order to achieve our strategic goals, we require ready access to an increasingly diverse supply of biomass. The business therefore continues to explore new markets from which to source viable alternative fuels.
• As we seek to expand our global sourcing strategy, we recognise we will be operating in markets with differing degrees of regulatory maturity. This brings additional complexity and challenges in managing the different requirements. Future changes in policy or regulation could increase costs, make it difficult to source or sell biomass, or reduce current support for the benefits of biomass.
• New legislation, regulation or guidance could mean voluntary certification schemes are no longer recognised as demonstrating compliance with our regulatory requirements. For example, the potential impact of the second EU Renewable Energy Directive (REDII) on the automatic recognition of standards regimes, such as the Forest Stewardship Council® (FSC®) and the Programme for the Endorsement of Forest Certification (PEFC). This could impact the operation of the Sustainable Biomass Program (SBP) certification scheme, which would add complexity and cost to the way in which we demonstrate the sustainability credentials of our biomass to regulatory authorities.
• The EU has been an influential authority on the regulatory framework for biomass. Being outside the EU reduces the UK’s influence on future EU biomass policy and potentially other territories which develop their own biomass acceptability regimes.
• Accepted views on the economic utilisation of forestry (for example in British Columbia) may change as traditional sectors such as lumber and paper mills evolve. Such changes may in the future impact the availability of by-product and otherwise waste materials which are used in the manufacture of biomass leading to a shortage in the market.
• The sectors in which Drax is already operating are evolving and we expect the number of market participants assessing and adopting alternative fuels in power generation to increase. The actions of new entrants in our sector (e.g. their approach to sustainable sourcing and evidencing thereof) may negatively impact government, regulatory, customer or eNGO views of the biomass industry as a whole. This could lead to increased scrutiny and/or regulatory intervention.

Key mitigations
• Working with agencies in all regions in which we operate to establish appropriate sustainability standards and robust oversight of compliance, which is applicable to all market participants. For more information on our views and approach, see page 45.
• Developing and maintaining strong relationships with policymakers in the UK, EU, Canada and Japan via targeted engagement across institutions.
• Working across regions with academics, think tanks, trade bodies and specialist consultants to improve understanding amongst our key stakeholders and analysis of the benefits of biomass.
• Respecting the views of eNGOs and seeking regular engagement to discuss issues of contention and solutions where possible. For example, in 2021 our CEO met with Greenpeace, E3G and UK Wildlife Trust to discuss concerns and ways in which we might collaborate and share views that can constructively influence change. We have taken insights from these engagements and created a new sustainability strategy which explicitly includes nature, climate and people-positive actions, led by our new Director of Sustainability.
• The Independent Advisory Board (IAB) of scientists and leaders in the field of sustainability provided impartial advice and guidance throughout 2021, which will continue in 2022.

Drax Group plc Annual report and accounts 2021 83
Principal risks and uncertainties continued

Risk level change from previous year

▲ Up/Increasing ▼ Down/reducing ➞ No change

Biomass acceptability continued

- Forging closer relationships with suppliers on sustainability through the supplier relationship programme.
- Continued engagement within our supply chain to ensure compliance with prevailing regulations and standards, plus identifying opportunities to enhance actions which support sustainable and responsible sourcing strategies and biodiversity, which is integral to our philosophy.
- Maintaining strong processes to ensure compliance with regulation in addition to evidencing of our forest biomass sourcing commitments. Increased transparency of our sustainability credentials (for more information see page 64 of the annual report).
- Continued engagement with voluntary certification, notably Sustainable Biomass Program (SBP) at Board and technical levels.
- Supporting SBP to achieve REDII approval, affording divergent policies in UK and EU to be met through the same scheme.

Changes in factors impacting risk in 2021
- BEIS has announced it will update its Bioenergy Strategy, due for publication in Q3 2022. In November 2021, the UK Government published its interim Biomass Policy Statement (the pre-cursor to the Bioenergy Strategy), which was highly supportive of biomass and BECCS, but posed reforms to the sustainability criteria and signalled the introduction of a hierarchy of end use of biomass.
- The UK Government discussions on policy changes have continued, reflecting the experience of Covid-19. Indications are that as part of the wider economic recovery plans, UK Government will bring forward and have a greater focus on its sustainability policies.
- The EU published its “Fit for 55” package in July 2021 which proposed reforms to key legislative packages including RED, EU-ETS and LULUCF. The proposals in the updated Renewable Energy Directive (REDIII) package are particularly challenging for the biomass sector and pose some divergence to UK policy. Therefore, we are engaging and suggesting alternative approaches to the proposals.
- The Japanese Ministry of Economy, Trade and Industry (METI) is in the process of setting biomass sustainability criteria. Their starting point is replicating the EU’s model, but increasing pressure from eNGOS and other producers could add restrictions that limit imports from Canada.
- The policy changes in British Columbia, Canada could adversely impact the Group. It aims to cut back tenures from major holders, double tenure allocation to First Nations and includes the harvesting deferral of 196,000 hectares of old growth in nine separate areas.

Trading and commodity

Context
Drax produces biomass and power with renewable certificates (Renewable Obligation Certificates (ROC), Renewable Energy Guarantees of Origin – REGO’s) and captures the market value of these commodities in the wholesale traded markets and through selling directly to end-users in various markets across the world.

Sales of electricity, pellets, gas and Renewable Obligation Certificates (ROCs) represented £4,845 million (2020: £3,818 million) of our revenue from continuing operations in 2021.

A considerable proportion of Drax’s revenue is exposed to spot and forward commodity prices and foreign exchange rates, and the liquidity of these markets. We must also manage our Carbon costs in the UK and EU Emission Trading Schemes.

To manage the volatility and liquidity risks of these markets requires careful risk management and through our portfolio strategy, we optimise our assets within our risk management framework to maximise value. We deploy forward hedging strategies to manage the volatility of commodity prices and have multiple routes to market to manage the liquidity constraints of the market. Non-commodity costs are also volatile and inherently difficult to hedge. Through our commodity hedging and our foreign exchange strategies we mitigate and manage these risks to give high visibility and certainty over our earnings.

Risk and impact
- Power prices can be subject to significant volatility, driven by a combination of generation capacity, demand from consumers and business as well as the ability of the Grid to respond. Short-term elevated power prices in excess of hedged rates may result in losses, should an unplanned outage on one or more units at Drax Power Station occur. This is because the Group could be required to buy back at “spot” (or the then prevailing market) rates – which could be a price materially different to the rate Drax had originally traded in creating the hedged position.
- Energy and commodity markets are subject to significant regulation. Failure to comply with regulatory requirements could lead to material adverse effects such as reputational damage and financial implications.
- Liquidity and volatility in trading conditions and unexpected changes in commodity prices could result in lower margins and a reduction in cash flow in our Generation business.
- Delivery of commercial value from the flexibility of our portfolio and leveraging a complex supply chain with uncertain running regimes, requires effective execution of our trading strategy and opportunities to trade being available in a liquid market.
  - The Generation business may fail to secure future system support services contracts or the value in providing those services may reduce.
  - The value of ROCs generated may be lower than forecast, for example if the recycle value outturns are below our projections due to higher than anticipated renewable generation (wind and solar) satisfying actual demand.
  - In 2021, instances of UK energy supplier failures continued to lead to supplier mutualisation processes being invoked by Ofgem (whereby the costs and commitments of the failed businesses are enforceably shared among other suppliers), notably for ROCs, resulting in increased costs. Whilst the level assumed is capped, the Group is exposed to the impact of disruption to its prevailing business model, additional costs and the assumption of additional contracts on terms which the Group might not consider appropriate or favourable.
  - Inability to fulfil Drax’s pellet sales contracts may result in an exposure to the difference between the contracted and market price of the pellets. This could result in loss of margin and profits for the Group, in particular when wider supply of pellets is restricted.
### Trading and commodity continued

- Increased freight prices may impact Drax’s revenue through having to pay the current market freight price on any uncovered freight.
- Across the international markets we trade in, we assume foreign exchange risk.
- Insufficient supply of fibre may lead to reduced production.

### Key mitigations
- Consolidated Group-wide biomass position to ensure oversight of complete portfolio, allowing production to meet our forecast sales/generation requirements, noting the requirement to satisfy Drax’s third party biomass supply obligations.
- Drax’s diversified portfolio of biomass production assets provides flexibility and allows us to manage production performance risks.
- We aim to maintain substantial levels of forward power hedges (sales) for 2022 to 2024 and the Contract for Difference for the one biomass generation unit reduces our exposure to volatility.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for greater flexibility of generation and to add additional value.
- Under our hedging strategy, our exposure to having to buy back power at higher prices in the short term following an unplanned outage of a Drax unit is mitigated, as we do not hedge all of our peak period power generation in the forward market.
- Additional value is provided through the increased flexibility and optimisation capabilities of Drax’s hydro assets.
- Our UK portfolio of Industrial and Commercial electricity customers provides liquidity for forward power and renewable certificate sales. We maintain high hedge levels of customer sales through our power trading capability.
- The value of the Group’s ROC production is hedged by selling ROCs to the Customers supply business and other counterparties. This is supplemented by assessing opportunities to mitigate Recycle Fund volatility and analysing possible outcomes.
- We hedge fluctuations in ROC generation from wind farms through weather derivatives.
- The acquisition in 2021 of Pinnacle provides increased flexibility for our portfolio, allowing us to manage a more diversified source of pellets, more efficient hedging of freight positions across the Pacific and Atlantic freight markets and management of sales and supply of pellets into third party end-users (e.g. in Asia) in addition to our own demand in the UK.
- We actively engage with wood pellet suppliers to ensure delivery schedules are met and any shortfalls addressed to limit the impact on power generation.
- Drax has long-term fibre contracts to supply our pellet production sites.
- Significant hedging of forward foreign exchange (see pages 248 and 256).

### Changes in factors impacting risk in 2021
- Drax’s acquisition of Pinnacle, one of the world’s leading biomass producers, significantly increased the amount of biomass Drax can produce. This acquisition increased both self-supply for the Group’s own pellet requirements and established the Group’s portfolio of contracted sales to third parties.
- Power prices in 2021 were highly volatile and reached unprecedented levels, creating increased market uncertainty as well as constraints on supply. The uncertainty had an impact on market access to the longer-term power market (year-ahead and beyond) for a number of participants. This had a limited impact on Drax due to our high hedge levels and alternative means to hedge our position.
- In Q1 2021, Drax sold its combined cycle gas turbine power stations. This allowed Drax to focus on its core renewable generation strategy.
- In May 2021, the UK introduced the UK Emissions Trading Scheme (ETS), following Brexit. This removed the UK’s requirement to participate in the EU ETS.
- Sterling exchange rates against the US Dollar, Canadian Dollar and Euro have seen more stability, however volatility remains linked to the global economic recovery associated with Covid-19.

### People

#### Context
2021 saw Covid-19 measures remaining in place, and employees in all industries looking for more flexible ways of working. People have more choice about the industry, company and location in which they want to work. In some areas this has led to a scarcity of skills in the market (e.g. IT and data analysts). Employees want more from their employment, including blended working approaches, having more of a voice in the organisation, and being able to define their ways of working individually. Alongside these market pressures, Drax also prioritises keeping our colleagues safe as paramount in our planning and decision making.

All of the above create the imperative that we future proof and retain our workforce. It has become even more important that we build an environment that is diverse in all ways, and we also support our colleagues in achieving their professional and personal goals in a blended way that has not been experienced before.

As the Group’s business model evolves, we require a broader range of skill sets. With people responding to change and complexity, as well as contributing to the delivery of important objectives. There’s a growing need that the workforce capability allows for colleagues to both deliver on day-to-day operational demands, and are also able to plan and execute milestones associated with longer-term objectives and organisational goals.

As the Group expands its presence, we also need people with these talents in new territories. Retaining those with knowledge and experience in newly established locations such as Canada, as well as building new capability in other emerging operating territories. This comes with challenges, such as colleague retention, involvement and empowerment which we aim to mitigate.

#### Risk and Impact
- Our performance and the delivery of our strategy is dependent upon having high-quality, suitably experienced and engaged colleagues at all levels of the organisation reflecting the diversity in the wider societies in which we operate.
- Our changing ways of working afford colleagues more choice about where and how they work. This means we have to be competitive on all fronts with our employer value proposition to colleagues. Colleagues are increasingly looking for employment that offers them opportunities where work and personal goals are blended. The failure to adequately respond to this could result in the loss of existing colleagues or not attracting people with the skills the Group needs.
Principal risks and uncertainties continued

Risk level change from previous year

| ▲ Up/Increasing | ▼ Down/reducing | = No change |

People continued

• The changing nature and growth plans of the organisation will require different skills and capabilities to those needed in the past. Whilst still ensuring that we retain the core skills that will always be required to run our business. Furthermore, the demand for people with particular experience and capabilities in sustainability, climate-related initiatives and renewable energy has increased in many developed countries.

• The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. This requires different levels of focus and attention and can have an impact on employee engagement and retention with subsequent impacts on labour turnover and productivity.

• Through the mid to latter part of 2021, the wider labour market has become increasingly competitive and market forces have contributed to increased employment costs including across base pay and other rewards. In addition specialist talent across a range of disciplines is scarce. This is leading to us needing to find points of differentiation to stand out in the market and attract and retain great candidates and colleagues. The risk of scarcity of specific skills may also impact the Group’s supply chain, for example availability of train drivers.

• With our international expansion and growth in new territories comes an increased need for cultural, legal and diversity understanding and awareness. Our people strategy is highly focused on addressing these risks.

Key mitigations

• Building an “early careers” talent pool through entry level (graduate and apprenticeship) roles, to support our future talent needs.

• Introduction of an Inclusive Leadership Programme, aligning to the organisation strategy to educate and inspire colleagues to make Drax a more inclusive place to work.

• Conducting colleague surveys to monitor engagement levels and alignment of people with Group values (you can read more about this on page 60).

• Continued investment in employees’ personal and career development to enhance business performance and provide the Group with a relevant pipeline of talent in critical roles.

• Enhancing the “Career Development” intranet site to provide colleagues with a one stop shop for all their career development needs.

• Building on our listening strategy to ensure regular colleague communications, and exchange of information between colleagues and the Board through our “Ask Will” opportunities, MyVoice Survey action planning and our MyVoice Forums (more information on the work in these areas in 2021 can be found on pages 37 and 60).

• A diversity and inclusion strategy that is responsive to stakeholder views, provides equality of opportunity and aligns to our organisational vision and goals (you can read more about our work in this area on pages 60 and 96).

• Introduction of hybrid working guidance and ways of working. This provides managers and colleagues with greater certainty about how they will be working going forward.

• Using programmatic advertising for our recruitment, supporting our levelling up and diversity agendas, and identifying talents from broader communities.

• Introduction of a wide range of family friendly policies to support the retention and attraction of talent.

Changes in factors impacting risk in 2021

• Increasing competitiveness in the market, pay and benefits inflation which has been most acute in particular disciplines (e.g. IT), has increased the risk of attrition, and the loss of talent from the organisation.

• An ongoing focus on attraction, engagement and retention strategies, has helped to lessen the impact that leavers may otherwise have had.

• Increased focus on achieving a diverse workforce, and supporting our “levelling-up” agenda, is supporting our talent pipeline growth and retention.

• The increasing need for the workforce to be seen as and treated as individuals, is focusing our key People Plan activities around the sense of “individual” in the organisation.

• Whilst we have retained a focus on keeping our people safe in the face of Covid-19, the core of this has transitioned through 2021 towards more enduring working practices, policies and support mechanisms. This continues to support our workforce to have more freedom and flexibility, and to take more responsibility for how they work and what they achieve, making us an attractive place to work.

Strategic

Context

The Group’s purpose is to enable a zero carbon lower cost energy future, with an ambition to become a carbon negative company by 2030. In 2021 the Group published three revised strategic aims that underpin its purpose and ambition (see business model on page 6). Through this strategy the Group aims to deliver long-term growth opportunities, including investment to support growth in sustainable biomass pellet production, bioenergy carbon capture and storage (BECCS) technologies and long-term electricity storage.

Together we believe these investments have the potential to build a position of earnings growth beyond 2027, when the subsidies we receive for generating electricity from biomass are curtailed. The Group aims to deliver higher quality, diversified and sustainable earnings, in combination with delivering climate positive, nature positive and people positive outcomes. Strategic risks are defined as those that could materially undermine any of the Group’s strategic aims, and thereby prevent the Group from delivering its stated outcomes and fulfilling its purpose.

Risk and impact

Sustainable biomass pellets

• The realisation of this strategic aim depends on the broad adoption of sustainable biomass as an accepted renewable fuel in the energy transition. A leading position requires a sustainable economic cost, volume of self-supply and a clarity on sustainability of sourcing. The primary objectives are to continue to reduce the cost of biomass generation to £50 per MWh by 2027 and increase biomass self-supply to 8Mt p.a.
Strategic continued

- There is a risk to the availability of feasible expansion opportunities, the successful identification and delivery of initiatives to reduce the current cost of biomass, and the availability of sustainable biomass in the regions required.
- There is the risk that biomass does not have the stakeholder support (e.g. government, investors – economic and social) leading to a lower rate of adoption than our strategic plan assumes.

Negative emissions
- In order to limit global warming to a 1.5°C temperature change, it is widely acknowledged that removal of CO₂ from the atmosphere will be required. To be a leader in the emerging negative emissions market, Drax is working to deliver the BECCS project at Drax Power Station and deliver new growth internationally. This requires the development of an economically attractive business model within its target jurisdictions.
- There is a risk that an economic business model for BECCS cannot be developed, including the risk that regulatory and voluntary frameworks do not develop in such a way as to enable Drax to fully participate in these markets.
- There is a risk that Drax cannot build the right asset portfolio at scale.

UK dispatchable, renewable power
- The UK power market continues to evolve and, with it, the requirements for technologies to balance the system and keep it stable, together with the market mechanisms to support and procure them. To be a leading provider of UK dispatchable, renewable power requires the right portfolio of assets and associated business models. These must operate within a system that values the dispatchable characteristics of those assets at the right economic levels.
- There is a risk that the market does not appropriately value the flexibility that renewable dispatchable assets provide or procures those services through mechanisms that we are not able to participate in effectively.
- There is a risk that unexpected changes to electricity supply and demand could reduce both demand and volatility, and therefore limit the market for dispatchable renewable assets.

Key mitigations

Sustainable biomass pellets
- Adoption of an integrated plan to expand biomass self-supply capability, reduce the cost of sustainable biomass to an economically sustainable level and develop innovative approaches to fuels. Significant capital ready to deploy, with rigorous tracking and reporting on cost reduction achieved.
- Drax is a pro-active advocate for sustainable biomass. An Independent Advisory Board is tasked to challenge our science-based approach and assumptions on sustainable biomass and publish their recommendations.

Negative emissions
- Drax progresses its BECCS project at Drax Power Station as a priority, and engages closely with stakeholders to find the right commercial model to support it.
- Drax is developing new build BECCS projects in other jurisdictions, which supports the development of a scalable negative emissions business and reduces the reliance on a single market and commercial model.

UK dispatchable, renewable power
- We maintain and invest in our market modelling capability and embed it into planning, option assessment and test/cross check against third party scenarios.
- We continually evaluate the current and projected performance of our own portfolio of assets, and the value gained from changing the composition of the asset portfolio in line with the Group’s view of the market outlook.

Capital
- Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required while maintaining a corporate credit rating in the BB range.
- There is a risk that investor sentiment moves away from Drax and its strategic direction. This could happen if for example sustainable biomass becomes unattractive, or Drax allocates capital poorly and underperforms.

Key mitigations

Sustainable biomass pellets
- Adoption of an integrated plan to expand biomass self-supply capability, reduce the cost of sustainable biomass to an economically sustainable level and develop innovative approaches to fuels. Significant capital ready to deploy, with rigorous tracking and reporting on cost reduction achieved.
- Drax is a pro-active advocate for sustainable biomass. An Independent Advisory Board is tasked to challenge our science-based approach and assumptions on sustainable biomass and publish their recommendations.

Negative emissions
- Drax progresses its BECCS project at Drax Power Station as a priority, and engages closely with stakeholders to find the right commercial model to support it.
- Drax is developing new build BECCS projects in other jurisdictions, which supports the development of a scalable negative emissions business and reduces the reliance on a single market and commercial model.

UK dispatchable, renewable power
- We maintain and invest in our market modelling capability and embed it into planning, option assessment and test/cross check against third party scenarios.
- We continually evaluate the current and projected performance of our own portfolio of assets, and the value gained from changing the composition of the asset portfolio in line with the Group’s view of the market outlook.

Capital
- We continue to run a full investor relations programme, covering equity and debt markets.
- The Group has further evolved its approach to capital allocation. This provides rigour and consistency in assessing the technical, financial, and strategic justification and performance of new projects across the Group, in particular for investments in new and emerging technologies.

Changes in factors impacting risk in 2021
- The acquisition of Pinnacle brings greater capacity in pellet production and a strong third party sales capability into the Group. Raising the self-supply target from 5Mt p.a. to 8Mt p.a. balances the net risk.
- The delivery of Group strategic aims is less exposed to new markets for system stability and more focused on the delivery of dispatchable renewable assets such as the expansion at Cruachan, Scotland.
- Experience from the Group’s public and private debt issuances indicated that there is strong demand for investment in sustainable biomass, and with a view that the strategic risk for access to capital is not currently high.
- 2021 has seen increasing signs of commitment to negative emissions from the UK Government through their net zero strategy (with a consultation on preferred business models to incentivise early investment in green house gas removals in 2022). This reduces the risk to our negative emissions strategy. Likewise other governments’ increasing acceptance of biomass decreases the risk to our pellet strategy.
Principal risks and uncertainties continued

Risk level change from previous year

- Up/Increasing
- Down/reducing
- No change

<table>
<thead>
<tr>
<th>Climate change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Context</strong></td>
</tr>
</tbody>
</table>
The resilience of our business strategy and operations to both physical and transitional climate risks is important to the functioning and long-term value creation of the Group. We have identified climate risks in two main categories – physical and transitional. Physical impacts of climate change include event-driven, acute impacts, such as flooding, and chronic impacts, such as sea-level and temperature rise. Transitional impacts of climate change include policy, regulatory, technology and market-related changes associated with the transition to a low carbon economy. Within the physical impact of climate change may pose challenges to our operations (which even where we seek to mitigate could still have material impact on our business), the transitional impacts include a number of aspects – such as the impetus to reduce carbon emissions and the introduction of better carbon neutral ways to generate power), which directly align with the Group’s strategy (see page 6). In the analysis of the risk we therefore are assessing differing factors: Those where the Group need to mitigate against adverse events which could impact our ability to conduct our business. Those where, through effective and constructive engagement with third parties, Drax is able to contribute to positive steps that business and countries can take to reduce the risk of climate change, such as BECCS and CCS which align with our strategy and can deliver a combination of economic, financial and sustainability benefits.

We provide further detail on these developments in our TCFD disclosure on page 64.

| **Risk and impact** |
- Physical risks to our Pellet Production operations and supply chain in the US and Canada include increased frequency, variability and severity of extreme weather events, as experienced in the second half of 2021, such as hurricanes, flooding and wildfires with potential to cause damage to assets and impact on supply of raw material and finished goods.
- Physical risks to our Generation operations and supply chain include increased frequency and severity of extreme weather events, such as heavy rainfall, flooding and high winds, with potential to cause damage to assets and impact on transport infrastructure that could restrict or reduce access to sites.
- Policy risks related to the transition to a low carbon economy include Government changes in climate policy that may impact generation as well as Drax’s global pellet supply business. For example, changes to biomass supply chain GHG emissions limits. Future revisions to GHG accounting methodologies have the potential to impact biomass generation and supply.
- Technology risks related to the transition to a low carbon economy include technology and innovation not developing as expected, impacting delivery of the Group’s carbon negative ambition and business strategy.
- Reputation and market risks related to the transition to a low carbon economy include increased activity by NGOs, the potential for reduced investor and customer confidence, delays to our strategy (for example more stringent qualifying regimes or approval processes linked to developing existing or new facilities) and challenges with employee recruitment and retention.

| **Key mitigations** |
- Robust business strategy informed by net zero 2050 scenario. Three strategic objectives aligned to global renewable energy and decarbonisation agendas. (see page 6).
- Carbon negative ambition and Climate Policy, underpinning a business strategy consistent with UK Government and international climate change policy.
- Acquisition of Pinnacle, enhancing geographic diversity of pellet plant asset locations across US and Canada.
- Sourcing from a wide geographical range of third party pellet mills; and continued evaluation of alternative fuels, using different feedstock types and considering wider sourcing geographies.
- Pellet Production business has developed stockpiles to alleviate incidences of extreme weather-related production interruption.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events.
- Engagement with stakeholders, including with NGOs on biomass, and close liaison with UK Government on future policies.
- Innovation team tracking technology advances and progressing development of new technologies, such as BECCS.

| **Changes in factors impacting risk in 2021** |
- A Carbon Oversight Group was established and acts as Risk Management Committee for review and challenge of the climate change principal risk. Provides oversight and engagement on ongoing carbon developments, including review of external GHG corporate accounting and reporting guidance, frameworks, and standards.
- Canadian wildfires experienced in 2021, temporarily disrupting rail logistics routes for several of our pellet plants.
- Public awareness of the impacts of climate change has increased, highlighting the global imperative to invest in technology which will support the achievement of carbon targets.
- The economic recovery plans resulting from Covid-19 indicate the UK Government will use the opportunity to bring forward policy and actions that help drive corporate focus on sustainability and climate change action.
- Submission of Drax scope 1, 2 and 3 carbon targets to the Science Based Targets initiative for external validation.
- Development of a new asset-level physical risk assessment template to assess potential local physical risks and track appropriate mitigations per site for our Generation and Pellet Production assets.
- Completion of an initial, third party climate change scenario analysis out to 2030, considering both physical and transitional scenarios.
Plant operations

Context
The reliability and safe operation of our facilities in the UK and the continent of North America is critical to our ability to create value for the Group.

The Plant Operational risk profile can be affected by several risk factors but of particular importance to the Group currently are, the safe management of ageing assets, building in inherent reliability and safety by design for new installations, management of change, and operating equipment within intended design limits and parameters.

The Group’s production facilities are highly complex and require careful management and identification, control, and mitigation of risk to operate safely throughout the full life-cycle (design through to decommissioning).

Some of the Group’s facilities and equipment are classed as ageing assets. For example, Drax Power Station, located at Selby in Yorkshire, was built approximately fifty years ago and some of our hydro plants, located in Scotland, nearly one hundred years ago.

By contrast other facilities and equipment including some of the sites in our expanding Pellets business based on the North American continent, have only recently been commissioned.

In the UK, the generating assets are required to run flexibly and promptly to respond to the demands of the electricity system. For Drax Power Station specifically, the plant was originally constructed to generate electricity from coal. Subsequently four of the six generating units have been converted to use biomass. Two of the four units are still operated using coal but only run on demand from National Grid to fulfil existing capacity market obligations which expire in September 2022, whereupon they will be decommissioned.

These factors mean that the risk profile of our operations is varied, and continually changing, and must be analysed and mitigated.

Risk and impact
- As plant ages, the operational reliability and integrity is expected to reduce. Single or multi point failures of plant across our portfolio, and incidents arising from the handling and combustion of biomass, could result in forced or unforeseen outages in our generation or pellet production plants.
- We rely on external contractors to provide some of the capabilities and experience which support the Group’s maintenance programmes. Were such resources to be unavailable or a supplier to be unable or unwilling to devote the required resources to support us, our operational integrity may be adversely affected which could impact plant optimisation and even the safe and reliable operation of plant. This could result in interruption to our operations whether planned or unplanned and cause us to incur financial loss and reputational damage.
- Successful generation using biomass requires stringent quality to be maintained throughout our pellet production plants and the supply chain, which continues to evolve and mature. Our suppliers may experience operational or financial difficulties which impair their ability to sustain continued compliance or result in inadequate standards being met. Poor quality in the pellets used in the generating units could result in additional costs (as we may be required to source material from other suppliers) or inadequate volume of materials, leading to loss of generation.
- When installing new facilities and equipment across the Group if inadequately conceived, there is a risk that they may not be compliant with legislation and best practices which could lead to future plant operational risks, delays in commissioning, plant not being capable of operating or the need for corrective actions which could mean the costs to operate increase.
- Acquisition of Pinnacle added 10 operating pellet plants and two port facilities to the Group which will require expenditure to address actions identified from Hazard and Operability studies (HAZOP) performed.
- As a result of the acquisition of Pinnacle, the Group now supplies pellets to third parties under long-term contracts. In the event of unforeseen disruption to our operations (for example the result of an incident at our plants or severe adverse weather) our ability to deliver pellets may be compromised. In the event such disruption does not qualify as force majeure, we may be in breach of obligations under contract which could result in financial loss in addition to adverse impact on the Group’s reputation.
- Brexit and Covid-19 have resulted in longer lead times for the delivery of materials, goods, and services. This can impact the day-to-day operation of plants or cause delay in the development and commissioning of new assets or the refurbishment of existing assets. In addition, we may experience increased costs associated with the supply of raw materials, installation of plant or equipment and operation of our sites.
- Covid-19 has required increased safety measures and protocols at our operating sites in order to ensure that our employees and contractors remain safe whilst working on our sites.

Key mitigations
- A comprehensive plant investment and maintenance programme, that is risk-based and reflects the challenges of operating complex equipment, supported by an experienced engineering team.
- Ensuring plant is designed to recognised standards and ensures legislative compliance to prevent and control major hazards.
- Maintaining robust management systems, designed to identify and mitigate risk and manage process safety across operating assets.
- Maintaining the stringent safety procedures in place for handling biomass and dust management.
- Full testing of all biomass supplies prior to acceptance, and the use of contractual rights to reject out of specification cargoes.
Principal risks and uncertainties continued

Risk level change from previous year

| ▲ | Up/Increasing | ▼ | Down/reducing | ● | No change |

### Plant operations continued

- Sampling and analysis through the supply chain, to increase understanding of causes of fuel quality issues.
- Maintaining insurance in place to cover losses from plant failure where possible.
- Employing advanced condition monitoring systems to alert any possible plant failures before they occur where practicable.
- Sustaining good working relationships with external contractors and building partnerships which support the operation of our sites as they evolve.
- Providing the required training and development to equip our employees in conjunction with recruiting people with the right skills and experience.
- Process safety work on hazard and operability studies has been carried out on a rolling programme at Pinnacle sites. Actions from these studies are being prioritised and implemented to address issues.
- A team from the UK visited US and Canadian pellet plants to agree methodology and apply consistent practices across all operational assets.
- We have measures in place to manage the on-going risks of Covid-19 such as thermal screening, mass testing, social distancing, and enhanced hygiene protocols as appropriate and as required by prevailing local government guidance.

### Changes in factors impacting risk in 2021

- Completion of a significant planned maintenance outage on Unit 1 has reduced risk at Drax Power Station with the installation of a new high-pressure turbine unit, replacement hot reheat pipework, extensive boiler tubing replacement and a generator stator major overhaul.
- Major refurbishment of our Glenlochar barrage in the Galloway Hydro Scheme has further reduced the risk of operational failure.
- Acquisition of the Pinnacle business added 10 operating pellet plants and two port facilities to the Group. The resulting increase in operating risk is being mitigated through planned capital investment and alignment of practices with the rest of the Group.
- The limited operation of coal running assets in addition to the sale of the Group’s CCOT assets in 2021 has reduced the levels of exposure of the Group to generation plant operating risk.
- Continued progress on the development of the Demopolis pellet plant in the US which will increase capacity and should enhance reliability of operating assets given it will be newly commissioned.
- Implementation of a new Health, Safety, Environment & Quality platform which will enable us to gather information identifying signs that our process safety barriers are weakened or inadequate. This will further enable operational improvements and risk reduction.

### Information systems and security

**Context**

Our Cyber systems and the integrity of the data we use are essential to supporting the delivery of the day-to-day business operations of the Group and making sure our financial, legal, regulatory and compliance obligations are met. As part of the UK’s critical national infrastructure, the Group has significant obligations in the continuity of supply of power and is reliant on the security and integrity of its systems which support the generation and supply of power to the National Grid. Our systems must adapt to evolving external threats to security in the form of cyber attacks, in addition to delivering on business requirements in order to contribute to the delivery of our strategy. The systems need to be fit for purpose and the confidentiality, availability and integrity of the systems and data needs to be ensured.

Well maintained business systems which support the development of our Group, enable our people to effectively perform their roles, support our customers and effectively monitor and track business performance that can be used by our managers, executive and Board are critical to our day-to-day operations (for example in the logistics for the supply of pellets from our sites in the US to our Power Station in the UK or commodity trading undertaken by our trading teams) and future success. We continue to invest in appropriate systems which are capable of meeting current and projected future requirements that captures, analyses and reports robust data.

**Risk and impact**

- Security compromise of our systems and data (including personal data) is an evolving and constant threat. Hacking or cyber attacks could significantly disrupt the conduct of our operations, restricting access to our own systems, or result in the extraction and withholding for ransom, or destruction or compromise of data which may cause operational and financial impact and regulatory non-compliance. Geopolitical tensions have in the past been known to result in increased cyber-related incidents. Accordingly, such tensions, for example, the situation in Ukraine, could increase the Group’s risk exposure to attacks on our systems and those of suppliers on whom we rely for integrity of service.
- Loss or interruption of power supply could disrupt our systems and affect the operations at our sites, for example the ability to generate electricity at our sites in the UK, or to conduct time critical trading in commodities. Such events could have a material adverse impact on our financial performance, result in breach of our obligations to third parties, adverse reputational impact and in material penalties.
- As we grow we require new systems that support our business. The planning and delivery of such systems is complex. Significant delays in the implementation of IT programmes could affect our ability to deliver our strategy and result in additional unforeseen costs.
- We work with a range of third parties who support us in our IT systems and cyber security. In the event these businesses were themselves to suffer systems failure, cyber attack or financial difficulties, this could in turn impact our business, operations and performance.
- Expansion of environments (technically and geographically) with the acquisition of Pinnacle increases the Group’s exposure to additional security threats and vulnerabilities, which could cause operational and financial impact and regulatory non-compliance.
- Aspects of the Group’s operations rely on sophisticated automated systems to support the day-to-day business activities, which include oversight of the safe and effective operation of our...
Information systems and security continued

• Periodic external assessment of the integrity and adequacy of our IT and cyber security arrangements which are assessed and challenged by subject matter experts, as well as the Board and Audit Committee.
• Scenario events in which we assess our capability to respond to potential circumstances or threats.
• Maintaining and refreshing business continuity, disaster recovery and crisis management plans.
• As UK critical national infrastructure we receive additional support and services from the UK Government if a security or continuity incident were to be encountered.
• Drax is externally audited by the designated Competent Authority (Ofgem) to ensure compliance with the Security of Network and Information Security Directive.
• We have robust onboarding policy and processes to ensure major service providers and vendors are appropriately risk assessed and reviewed periodically.
• Implementing a Group IT Strategy and identifying key projects to deliver Group-wide services, improving security, resilience and performance. The IT Board, a sub-committee of the Executive Committee, provides oversight and governance.
• Pinnacle integration running under a controlled programme of work.
• Following a deep-dive security risk assessment across Operational Technology and Information Technology in Pinnacle environments, IT and Security continue to integrate and implement Group security standards and controls to mitigate identified high risks as per the Group Information Risk Register.

Changes in factors impacting risk in 2021

• Ongoing programme of improvement to security, monitoring of key IT controls and IT and security risk management.
• The enforcement of key compliance regulations such as the NIS Regulation, which is ongoing, has increased the financial cost to the business and increased workload.
• Further work embedding the IT operating model has been undertaken to better support strategic objectives of the Group and improve efficiency of technology processes.
• A formalised and approved new Target Architecture which enables us to deliver the IT systems and capabilities flexibly and in support of business needs.
• The Group’s status as UK critical national infrastructure may mean Pinnacle becomes the subject of new and potentially more sophisticated cyber threats. Additional measures are being implemented through IT and Security integration and compliance workstreams to strengthen Pinnacle networks and business robustness around Disaster Recovery and Network Infrastructure.
• There continued to be a manageable impact on the delivery timelines of several planned IT activities due to Covid-19, driven by the availability of resources and other priorities to ensure the business remained operational. The adoption of new technology and changes in existing IT systems was necessary to facilitate the safe home working for many of the Group’s colleagues and has helped to improve the IT environment.

The strategic report is set out on pages 1 to 91 and was approved by the Board of Directors on 23 February 2022.

Will Gardiner
CEO
We have a diverse, inclusive culture where the continual exchange of ideas and perspectives leads to great things. The conversion of our coal-fired power plant to biomass and the development of our Electric Vehicles service was due to the ingenuity of our people.

“The culture at Drax allows me to feel seen, heard and believe that my point of view matters.”
We are a can-do kind of place and the culture at Drax allows me to feel seen, heard and believe that my point of view matters. It’s impressive to know that your company places so many resources and so much emphasis into deeply understanding inclusion within their organization.

I’ve participated in a workshop for the business to learn more about my perspective on inclusion within Drax – my comments, along with those from other leaders, helped develop an inclusion training program for the leadership team.

Our MyVoice Forums give our Board and Executive Committee an opportunity to hear about our inclusion experiences “on the ground” and, alongside the MyVoice Surveys, provide an opportunity to capture colleague thoughts, ideas and experiences of inclusion to help develop plans to make Drax a more inclusive place to work.

Melisha Gardner
Regional Reliability Engineer, Aliceville, Alabama

The culture at Drax allows me to feel seen, heard and believe that my point of view matters.

Meet our two new Non-Executive Directors

Kim Keating  Erika Peterman

Read more about Kim and Erika on page 99

In this section

Corporate Governance Report

“As Drax continues to evolve, our purpose, culture and strong governance framework supports the Board in continuing to deliver for our stakeholders.”

Phillip Cox CBE
Chair

Find out more on pages 94 to 111

Nomination Committee Report

“Having the right mix of skills, experience and diversity on the Board and throughout the business is key to achieving our purpose.”

Phillip Cox CBE
Chair Nomination Committee

Find out more on pages 112 to 117

Audit Committee Report

“We are focused on ensuring fair and balanced performance reporting is in place, underpinned by a robust system of internal control.”

Vanessa Simms
Chair Audit Committee

Find out more on pages 118 to 129

Remuneration Committee Report

“We ensure that remuneration outcomes for Executive Directors, and senior management, appropriately reflect the performance of the Group.”

Nicola Hodson
Chair Remuneration Committee

Find out more on pages 130 to 159