

Drax Power Limited

Governance arrangements

Good governance is a key factor in securing the long-term success of our business. During 2021, the Company applied its own corporate governance arrangements. As a minimum, the Company has arrangements in place that largely mirror the Wates Principles, however, some of the arrangements take into account the need to comply with the UK Corporate Governance Code which is applied throughout the Drax Group.

Our purpose

Our purpose is to enable a zero carbon, lower cost energy future. Our strategic objectives are to be a global leader in negative emissions and to be a leader in UK dispatchable power. These objectives are closely aligned with global energy policies and our continued focus on delivering Bioenergy Carbon Capture and Storage is well placed to support decarbonisation and help ensure security of supply.

Responding to climate change is a core component of our governance framework. The CEO reports quarterly to the Drax Group plc Board on Environment, Social and Governance performance, including climate-related matters. Climate change factors are considered in decisions taken by the Board.

Culture and values

Our values are driven by our culture, fundamental to which is acting with integrity – what we call “doing the right thing”. The Board seeks to set a clear and positive tone from the top to promote these values, which in turn drive standards and practices in all aspects of our work. Setting the right standards helps to protect the business and the interests of stakeholders.

Of primary importance is the safety and wellbeing of our people. 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 Company. For more information see pages 57 and 58 of the Drax Group plc 2021 Annual Report and Accounts. 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. For more information see page 60 and 96 of the Drax Group plc 2021 Annual Report and Accounts.

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 compliance framework identifies the behaviours expected from colleagues on a broad range of topics. In 2021, we deployed new annual refresher eLearning on data protection and ethics. For more

SECTION 172 STATEMENT

details on how the business ethics programme is managed across the Drax Group, see pages 61 to 63 of the Drax Group plc 2021 Annual Report and Accounts.

Leadership and Succession

Investing in the development of our people is essential to the delivery of our business strategy. Our Potential and Succession processes enable senior leaders to identify individuals with the skills and capability needed for critical roles. Individuals identified can be nominated for our Future Creators programme. Launched in 2019, the Future Creators programme is designed to develop and retain high-potential individuals and grow our leadership pipeline. Each individual has a personal development plan and a Drax Group plc Executive Committee sponsor.

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.

Further information on leadership, succession and diversity can be found on page 60 of the Drax Group plc 2021 Annual Report and Accounts.

Effectiveness and accountability

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

Risk management

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

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

SECTION 172 STATEMENT

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

Remuneration

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

A key priority for Drax is to ensure fair and appropriate remuneration decisions for directors and the wider workforce. Details of the Drax Remuneration Policy can be found on pages 134 to 147 in the Drax Group plc 2021 Annual Report and Accounts.

In 2021, all colleagues in the Company participated in the company bonus programme, as did all other colleagues in the Drax Group, except those who work in pellet mills in Canada. The bonus metrics include a combination of annual financial, strategic and ESG-related objectives for Drax. The metrics and targets for those metrics were aligned with the Company's and Drax Group's strategy and 2021 business plan, and metrics apply to all participants.

The directors, the executive committee members and all others in senior management roles also participated in a Long-Term Incentive Share Plan. In line with the current Directors Remuneration Policy, an award from the Long-Term Incentive Share Plan is subject to the achievement of Total Shareholder Return relative to the FTSE 350 and Cumulative Adjusted Earnings Per Share; both are measured over a three-year performance period. These performances align with the long-term interests of the Company, Drax Group and shareholders.

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

SECTION 172 STATEMENT

Working with our stakeholders

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

Companies Act, Section 172 statement

The Directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board is responsible for ensuring effective engagement with stakeholders 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 the Company to have a positive impact on the environment, our communities and wider society, delivering sustainable value creation.

Examples of how the Board have had regard to the matters set out in Section 172 are set out below.

Comprehensive details in respect of stakeholders identified across the Group and how we engage with them and have regard to their interests, can be found from page 34 to 41 in the Drax Group plc 2021 Annual Report and Accounts.

The likely consequences of any decision in the long term

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

The interests of the Company's workforce

Engaging with the workforce enables colleagues to be better informed and able to contribute to the delivery of our purpose and strategy, whilst creating a safe and engaging culture and environment where they can 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, whilst building resilience that equips them to respond to the change that is a feature of the Group's activities.

We maintain regular dialogue with our workforce through our Generation employee engagement ("My Voice") forum, colleague briefings, weekly updates and Q&A from our CEO and our "pulse" and annual engagement surveys.

Our colleague My Voice 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. Following feedback from both the My Voice forums and other colleague interactions more broadly, 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. Another key focus

SECTION 172 STATEMENT

area that was highlighted was career and development opportunities. 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.

Our dialogue with colleagues also includes communication about the Group’s strategy, plans and performance. During 2021, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to financial, strategic, safety and sustainability performance. Annual bonuses for colleagues are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned. We actively encourage participation in the Group-wide all-employee Sharesave scheme, offering the maximum discount of 20% and waiving any length of service requirements.

The need to foster the Company’s business relationships

Suppliers

Our Procurement, Business Ethics, and Sustainability functions engage directly with suppliers around key issues. This is to ensure our ethics, values, Supplier Code and Responsible Sourcing policy are effectively incorporated into and upheld throughout our supply chains. We seek the views of suppliers and contractors to collaborate on improvements in standards and meeting our (and their) obligations under law and regulations in keeping with our values.

Regulators and network operators

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. Engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with latest guidance.

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

Tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas. Our Group 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 Bioenergy Carbon Capture and Storage (“BECCS”) to neutralise our remaining emissions. For more information see pages 49 to 55 in the Drax Group plc 2021 Annual Report and Accounts.

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 those regions. We engage regularly with communities through supporting local initiatives and holding drop-in sessions. To read more about our positive social impact across the Group, see pages 38, 40 and 56 in the Drax Group plc 2021 Annual Report and Accounts.

SECTION 172 STATEMENT

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

At Drax, we are committed to conducting business ethically, with honesty and integrity, 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 compliance framework identifies the behaviours expected from colleagues on a broad range of topics. In 2021, we deployed new annual refresher eLearning across the Group which included data protection and ethics. For more details on how the business ethics programme is managed, see pages 61 to 63 of the Drax Group plc 2021 Annual Report and Accounts.

The need to act fairly as between members of the Company

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

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

This statement was approved by the Board on 22 September 2022 as part of the Company's 2021 Annual Report and Accounts.