

Drax Power Limited

Governance arrangements

Good governance is a key factor in securing the long-term success of our business. During 2022, 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 plc Group (“Group”).

Our purpose

Our purpose is to enable a zero carbon, lower cost energy future. Our three strategic objectives – to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable renewable power – are aligned with a number of global energy policies. These objectives are closely aligned with our ambition to be a carbon negative company and we continue to develop options for bioenergy with carbon capture and storage (BECCS) which we believe could become a UK-led solution for large-scale carbon removals.

Responding to climate change is a core component of our governance framework. The Group 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 Drax Group plc 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.” This belief underpins our People Positive strategy which encompasses all aspects of a colleague’s experience and aims to create a workplace where all colleagues are able to feel supported and achieve their best.

The safety and health of our people remains a key priority for the Group and the Board. Safety is a long-held and central commitment of our operational philosophy. We believe that safe and compliant operations are integral to the delivery of our strategy, and we continue to work across the Group to identify, implement and maintain high standards supported by a positive safety culture. For more information see pages 67 and 68 of the Drax Group plc 2022 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 pages 69, 70 and 96 of the Drax Group plc 2022 Annual report and accounts

We are committed to conducting business ethically, with honesty and integrity, and in compliance with 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 2022, we continued our annual eLearning refreshers and provided additional training to certain ‘at higher risk’ teams throughout the year on business ethics related topics. For more details on how the business ethics programme is managed across the Drax Group, see pages 71 to 73 of the Drax Group plc 2022 Annual report and accounts.

CORPORATE GOVERNANCE AND SECTION 172 STATEMENT

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.

We are committed to developing new talent and providing our colleagues with the skills and capabilities to support them in fulfilling their career aspirations. In 2022, we launched our Senior Leadership development offering with 88 Senior Leaders participating. Additionally, our senior leaders continue to participate in our Inclusive Leadership Programme, which supports managers in helping to improve diversity outcomes across the Group.

Further information on leadership, succession and diversity can be found on page 70 of the Drax Group plc 2022 Annual Report and Accounts.

Effectiveness and accountability

Management meets regularly to discuss strategic and operational matters. Management regularly 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 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 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.

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 plc 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.

CORPORATE GOVERNANCE AND SECTION 172 STATEMENT

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, which was approved at the 2023 AGM, can be found on pages 136 to 146 in the Drax Group plc 2022 Annual Report and Accounts.

In 2022, the Group decided to bring forward the 2023 pay review from 1 April 2023 to 1 January 2023. The aim was to support colleagues by allowing them to benefit from changes to pay earlier in the year – specifically, during the winter period when energy bills are higher. In addition, the 2023 pay review budget was significantly higher than prior years with average pay rises of 8% in the UK. Additionally, as in previous years, all colleagues were eligible to take part in the annual bonus programme, unless precluded by alternative arrangements with their respective trade union group. The bonus award is designed to reward the delivery of targets and objectives aligned with the financial and strategic performance of the Group.

The directors, the Group 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 performance measures are linked to the Group's strategy and aligned with long-term creation of value for the Group's shareholders.

The Drax Diversity and Inclusion Steering Group monitors diversity and inclusion across the 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.

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.

CORPORATE GOVERNANCE AND 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 it recognises that decisions taken today will have an impact upon stakeholders, as well as shape the longer-term performance of the business. Appropriate consideration is important in enabling Drax to deliver positive outcomes for the climate, nature and people, and to deliver 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 27 to 33 in the Drax Group plc 2022 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 and investment decisions, we recognise that these decisions can have an impact far beyond our business and well 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 carbon removals; and to be a UK leader in dispatchable, renewable power.

The interests of the Company's workforce

Engaging with our colleagues is a priority and starts with listening to, and better understanding, their views. Established in 2019, our workforce engagement forums ("MyVoice Forums") are a valuable way for the Board and senior management to undertake such engagement. The MyVoice Forums are made up of colleague members from each part of our business, to ensure representation for every function. They provide us with a view of colleague sentiment and key topics that are on colleagues' minds. In respect of our annual employee engagement survey, our engagement and inclusion scores have improved since 2021. The 2021 engagement survey highlighted that leading change, our social and environmental commitment, and providing opportunities for careers and development are what matter most to our colleagues. In 2022, our survey results showed that good progress has been made on leading change on and careers and development. However, there is more work to do to help build colleague understanding around our social and environmental commitments.

A member of the Group Executive Committee and an HR representative support these forums and attend each meeting. The MyVoice Forum chairs meet quarterly with the Chair and CEO of the Group to discuss colleague sentiment and to provide feedback on key topics.

We also maintain regular dialogue with our workforce through our colleague briefings, weekly updates from the Group CEO with a question-and-answer section responding to colleague questions, our pulse and annual engagement surveys, and communication about the Group's strategy, plans and performance. During 2022, 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.

CORPORATE GOVERNANCE AND SECTION 172 STATEMENT

The need to foster the Company's business relationships

Suppliers

Our relationships with suppliers are governed by contracts that include our minimum standards including compliance with relevant regulatory and legal requirements, anti-bribery and corruption, modern slavery and supplier code of conduct. These minimum standards are regularly reviewed by our Procurement, Legal, and Business Ethics functions. The Group has also signed up to the Prompt Payment Code, and monitors performance to both continue to improve payment performance and maintain positive supplier relationships.

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 ambition is to become carbon negative 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 47 to 65 in the Drax Group plc 2022 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 28 and 31 to 33 in the Drax Group plc 2022 Annual report and accounts.

Drax is committed to being a global force for good. In 2022, the Group approved a proposal to set up a global corporate giving model to support this vision. In 2023, the Group launched the Drax Foundation, which will manage and distribute a fund for community investment and giving across the Group's core territories. Covering the UK, US and Canada, the Foundation will be under the governance of a new sub-committee of the Drax Group plc Board. The Foundation will enable Drax to invest in larger-scale and longer-term projects in each of our territories, and to provide financial support and sponsorship to local community projects and charities. The Foundation will provide a tangible link to the Group's sustainability strategy. All projects will require an assessment to ensure they have the potential to deliver at least one of the following outcomes:

- Climate positive: Contributing to tackling the climate crisis
- Nature positive: Contributing to creating and maintaining thriving, sustainable natural environments
- People positive: Helping those most at risk in the transition to net zero to find sustainable, meaningful work and to support education.

CORPORATE GOVERNANCE AND 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 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 2022, we delivered our annual eLearning refreshers and provided additional training to certain 'at higher risk' teams throughout the year on business ethics related topics. For more details on how the business ethics programme is managed, see pages 71 to 73 of the Drax Group plc 2022 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 climate change; sustainability; 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 30 June 2023 as part of the Company's 2022 Annual Report and Accounts.