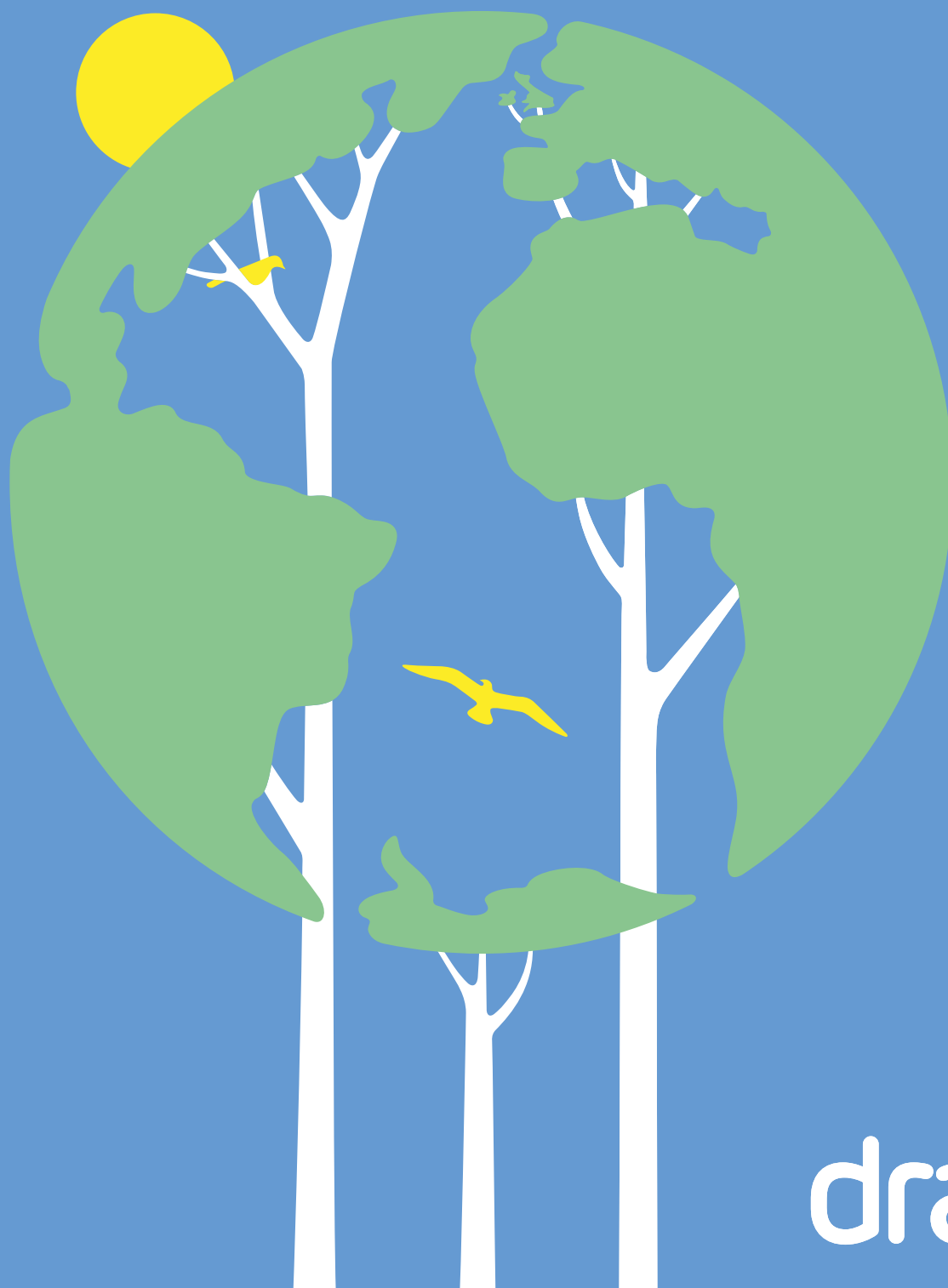


# Innovating for a positive future

Drax Group plc Annual report and accounts 2021



drax

# Welcome to Drax

## Our purpose

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Our purpose  
is to enable  
a zero carbon,  
lower cost  
energy future

## Our ambition

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**Our ambition** is to become carbon negative by 2030.

Being carbon negative means that we will be removing more carbon dioxide from the atmosphere than we produce throughout our direct business operations globally – creating a carbon negative company.



Read more in our business model on page 6



See more online  
at [www.drax.com](http://www.drax.com)

## 2021 highlights

Adjusted revenue<sup>(1)</sup>

**£5,174m**

(2020: £4,235m)

Total revenue

**£5,088m**

(2020: £4,245m)

Adjusted gross profit<sup>(1)</sup>

**£843m**

(2020: £800m)

Total gross profit

**£891m**

(2020: £726m)

Percentage of total UK renewable electricity generated

**12%**

(2020: 11%)

Total recordable incident rate

**0.22**

(2020: 0.29)

Employee engagement score

**79%**

(2020: 82%)

Group carbon intensity (tCO<sub>2</sub>e/GWh)

**78 tCO<sub>2</sub>e/GWh**

(2020: 164 tCO<sub>2</sub>e/GWh)

Gender diversity (Total workforce – female)

**30%**

(2020: 31.5%)

Gender diversity (Board – female)

**44.4%**

(2020: 28.6%)

(1) 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 202, with a reconciliation to their statutory equivalents in note 2.7 to the consolidated financial statements on page 203. 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

Adjusted EBITDA from continuing and discontinued operations<sup>(1)</sup>

**£398m**

(2020: £412m)

Total operating (loss)/profit<sup>(1)</sup>

**£197m**

(2020: £(156)m)

Net debt<sup>(2)</sup>

**£1,044m**

(2020: £776m)

Dividend per share

**18.8p**

(2020: 17.1p)

Wood pellets produced

**3.1Mt**

(2020: 1.5Mt)

Renewable generation (%)

UK's largest source of renewable electricity

**93.8%**

(2020: 77%)

Group carbon emissions, scope 1 & 2 (ktCO<sub>2</sub>e)

**1,255 ktCO<sub>2</sub>e**

(2020: 3,080 ktCO<sub>2</sub>e)

Group carbon emissions, scope 3 (ktCO<sub>2</sub>e)

**3,121 ktCO<sub>2</sub>e**

(2020: 3,135 ktCO<sub>2</sub>e)

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 on page 235.

(2) We define net debt as borrowings less cash and cash equivalents. A reconciliation of net debt is provided on page 223. Borrowings is defined as per the Group's balance sheet on page 185 and does not include lease liabilities, pension obligations or other financial liabilities.

## Our strategic objectives

### Pellet Production

#### To be a global leader in sustainable biomass pellets

Pellet sales, self-supply, cost reduction, fibre sourcing and technology



### Negative Emissions

#### To be a global leader in negative emissions

Development of projects in UK and internationally. Carbon negative by 2030



### Flexible, Renewable Power

#### To be a leader in UK dispatchable, renewable power

Flexible renewable power – biomass, hydro, pumped storage. Renewable power and energy services to strategic customers



All underpinned by safety, sustainability and cost reduction

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.

### Strategic report

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## 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.

#### Net zero



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 CO<sub>2</sub> transportation and storage infrastructure will be in place to safely take and store the CO<sub>2</sub> 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 CO<sub>2</sub> 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 CO<sub>2</sub> emissions p.a. from new-build BECCS outside of the UK by 2030, and are currently developing models for North American and European markets.

## Energy market



UK and international power prices increased significantly in 2021, reflecting higher wholesale gas prices driven by increased Asian demand and uncertainty in supplies from Russia, as well as rising carbon prices. Added to this was the growing cost of managing increased levels of intermittent renewables (such as wind and solar) on the system, and interconnector reliability issues – whereby the UK imports its power from continental Europe.

With a return to economic growth following the impact in 2020 of the Covid-19 pandemic, 2021 saw a significant increase in demand for ocean freight, adding pressure to supply chains and a significant rise in market prices. In contrast, biomass delivered to Drax Power Station is typically procured under long-term contracts offering more price stability.

### Drax impact

Despite global supply chain problems, our own global supply chain for pellets remained resilient. 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 is taking steps to optimise freight requirements between production centres, in the US southeast and Western Canada, and markets in Asia and Europe.

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.

## Biomass



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

616

#### Adjusted EBITDA

£86m

(2020: £52m)

#### Pellets produced

3.1Mt

(2020: 1.5Mt)

#### Production cost

\$143/t

(2020: \$153/t)

#### 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

692

#### Adjusted EBITDA<sup>(1)</sup>

(including discontinued operations)

£372m

(2020: £446m)

(1) Includes £20m from discontinued operations

#### % renewable

93.8%

(2020: 77%)

#### Percentage of total UK renewable electricity generated

12%

(2020: 11%)

#### Customers

Our Customers business is principally focused on renewable electricity sales to industrial and corporate customers.

The business also offers non-generation system support and energy management services, in addition to providing a route to market for many smaller embedded renewable generators.

#### Employees

835

#### Adjusted EBITDA

£6m

(2020: £(39)m)

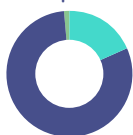
### Business unit breakdown

#### Revenue



Pellet Production	£450m
Generation	£2,651m
Customers	£2,360m

#### Group EBITDA



Pellet Production	£86m
Generation	£372m
Customers	£6m



Where we operate

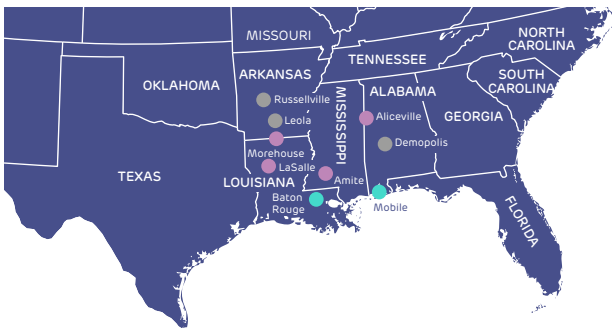
Canada



UK



USA



- Ports
- Developments
- Operational Plants

- Pumped storage generation
- Biomass generation
- Hydro generation
- Biomass from waste
- B2B renewables supply and services
- Corporate offices

17 operational and development sites, with nameplate capacity of around 5Mt once expansions are complete.

Four deep water ports, accessing Asian and European markets.  
Best practice sustainability standards for pellet production.

Flexible, renewable power generation – biomass, hydro and pumped storage – and supply to British industry.

Development of negative emissions technology – BECCS.

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 strategic pillars

- To be a global leader in sustainable biomass pellets
- To be a global leader in negative emissions
- To be a leader in UK dispatchable, renewable generation

## 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

**c.5Mt**

(2020: 1.5Mt)

Production cost

**\$143/t**

(2020: \$151/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 CO<sub>2</sub> from the atmosphere<sup>(1)</sup>.

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 CO<sub>2</sub> 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 CO<sub>2</sub> 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

**2.6GW biomass**

**0.6GW 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

(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.

### 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





We do what we say we'll do

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.

“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**

## In this section

### Chair's statement



Philip Cox  
Chair

 Find out more  
on pages 10 to 11

### CEO Review



Will Gardiner  
CEO

 Find out more  
on pages 12 to 16

### KPIs

 Find out more  
on pages 20 to 21

### CFO Review



Andy Skelton  
Chief Financial Officer

 Find out more  
on pages 22 to 29

## Chair's statement



Philip Cox CBE, Chair

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.

With the right policy support in place in the UK and internationally, we believe this proven carbon removal technology could be used globally to deliver negative emissions. Through these activities, we expect to play a major role in delivering the UK's legally binding objective to achieve net zero carbon emissions by 2050 and support global efforts to reduce carbon emissions.

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 (7.5 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, 17.1 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

## CEO's review

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.



Will Gardiner, CEO

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.

The world must act now to address the climate crisis and limit global warming to 1.5° C. We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, greenhouse gas removal technologies to remove carbon from the atmosphere.

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

### 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

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.



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



Through our strategy, we are creating exciting opportunities for growth aligned to global decarbonisation efforts. These include biomass supply chain expansion, UK BECCS, new pumped storage and the development of BECCS in North America.

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.



The acquisition of Pinnacle transformed the Group's supply chain, making Drax the world's leading sustainable biomass generation and supply business

**Will Gardiner**  
CEO

 Meet some of our Canadian colleagues on [page 167](#)

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



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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 renewable feedstocks. In this regard, during 2021 Drax Power Station 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. 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 CO<sub>2</sub> 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 £40 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 CO<sub>2</sub> 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

## Biomass Sustainability

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.

\* License code: C119787

The development of the Group's strategy – to be a global leader in sustainable biomass; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation – is underpinned by the Group's continued focus on safety, sustainability and biomass cost reduction.

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.

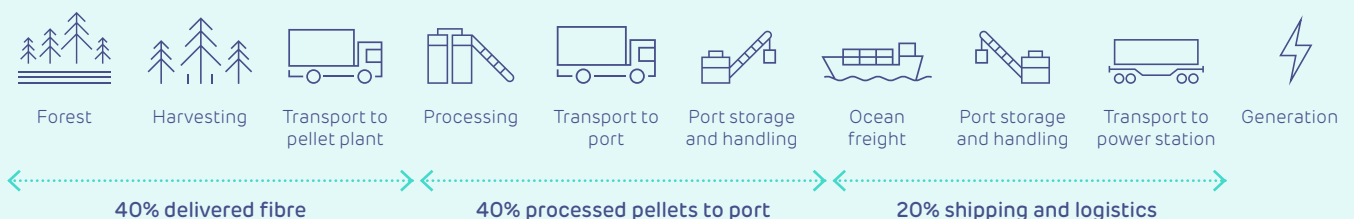
The acquisition of Pinnacle has provided Drax with an enlarged portfolio with more fibre baskets, pellet plants, ports and ships available for supply optimisation. This is enabling the Group to focus on the delivery of biomass produced in western Canada to Asian markets, and biomass produced in the US 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





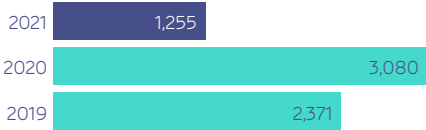

Our biomass cost reduction targets are primarily based on activities in the North American supply chain. However, we have also invested to improve thermal efficiency at Drax Power Station in the UK. In 2021, we completed the third in a series of three turbine upgrades which has improved thermal efficiency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



## Key performance indicators


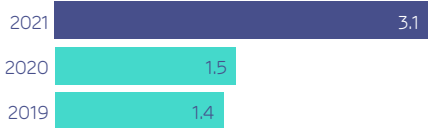


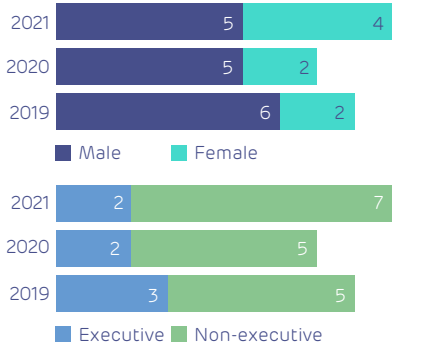

<p><b>Group Adjusted EBITDA from continuing and discontinued operations<sup>(1)</sup> (£m)*</b></p> <p><b>Why we measure this</b> This is our principal financial performance metric, combining the earnings performance of each business to give a Group outcome</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value (£m)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>398</td> </tr> <tr> <td>2020</td> <td>412</td> </tr> <tr> <td>2019</td> <td>410</td> </tr> </tbody> </table>	Year	Value (£m)	2021	398	2020	412	2019	410	<p><b>£398m</b></p>												
Year	Value (£m)																					
2021	398																					
2020	412																					
2019	410																					
<p><b>Average net debt<sup>(1)</sup> (£m)*</b></p> <p><b>Why we measure this</b> 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</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value (£m)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>1,002</td> </tr> <tr> <td>2020</td> <td>849</td> </tr> <tr> <td>2019</td> <td>950</td> </tr> </tbody> </table>	Year	Value (£m)	2021	1,002	2020	849	2019	950	<p><b>£1,002m</b></p>												
Year	Value (£m)																					
2021	1,002																					
2020	849																					
2019	950																					
<p><b>Adjusted Earnings Per Share<sup>(2)</sup> (EPS)*</b></p> <p><b>Why we measure this</b> 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</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value (p)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>26.5</td> </tr> <tr> <td>2020</td> <td>29.6</td> </tr> <tr> <td>2019</td> <td>29.9</td> </tr> </tbody> </table>	Year	Value (p)	2021	26.5	2020	29.6	2019	29.9	<p><b>26.5p</b></p>												
Year	Value (p)																					
2021	26.5																					
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2019	29.9																					
<p><b>Dividend</b></p> <p><b>Why we measure this</b> This is a primary measure of our value creation for shareholders. We aim to pay a sustainable and growing dividend</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value (p)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>18.8</td> </tr> <tr> <td>2020</td> <td>17.1</td> </tr> <tr> <td>2019</td> <td>15.9</td> </tr> </tbody> </table>	Year	Value (p)	2021	18.8	2020	17.1	2019	15.9	<p><b>18.8p</b></p>												
Year	Value (p)																					
2021	18.8																					
2020	17.1																					
2019	15.9																					
<p><b>Group carbon emissions, scope 1 &amp; 2 (ktCO<sub>2</sub>e)</b></p> <p><b>Why we measure this</b> 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</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Value (ktCO<sub>2</sub>e)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>1,255</td> </tr> <tr> <td>2020</td> <td>3,080</td> </tr> <tr> <td>2019</td> <td>2,371</td> </tr> </tbody> </table>	Year	Value (ktCO <sub>2</sub> e)	2021	1,255	2020	3,080	2019	2,371	<p><b>1,255</b> ktCO<sub>2</sub>e</p>												
Year	Value (ktCO <sub>2</sub> e)																					
2021	1,255																					
2020	3,080																					
2019	2,371																					
<p><b>Power generation mix (% total output)</b></p> <p><b>Why we measure this</b> 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</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Coal (%)</th> <th>Gas (%)</th> <th>Biomass (%)</th> <th>Hydro (%)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>3</td> <td>4</td> <td>92</td> <td>1</td> </tr> <tr> <td>2020</td> <td>8</td> <td>15</td> <td>75</td> <td>2</td> </tr> <tr> <td>2019</td> <td>4</td> <td>17</td> <td>77</td> <td>2</td> </tr> </tbody> </table>	Year	Coal (%)	Gas (%)	Biomass (%)	Hydro (%)	2021	3	4	92	1	2020	8	15	75	2	2019	4	17	77	2	
Year	Coal (%)	Gas (%)	Biomass (%)	Hydro (%)																		
2021	3	4	92	1																		
2020	8	15	75	2																		
2019	4	17	77	2																		

\* 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.



<p><b>Total Recordable Incident Rate<sup>(1)</sup> (TRIR)</b>  <b>Why we measure this</b>            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</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>TRIR</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>0.22</td> </tr> <tr> <td>2020</td> <td>0.29</td> </tr> <tr> <td>2019</td> <td>0.22</td> </tr> </tbody> </table>	Year	TRIR	2021	0.22	2020	0.29	2019	0.22	<p><b>0.22</b></p>																
Year	TRIR																									
2021	0.22																									
2020	0.29																									
2019	0.22																									
<p><b>Pellets produced (Mt)</b>  <b>Why we measure this</b>            This measures a key part of our strategy – to increase our pellet production capacity and output</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Pellets produced (Mt)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>3.1</td> </tr> <tr> <td>2020</td> <td>1.5</td> </tr> <tr> <td>2019</td> <td>1.4</td> </tr> </tbody> </table>	Year	Pellets produced (Mt)	2021	3.1	2020	1.5	2019	1.4	<p><b>3.1Mt</b></p>																
Year	Pellets produced (Mt)																									
2021	3.1																									
2020	1.5																									
2019	1.4																									
<p><b>Cost of production<sup>(1)</sup> (\$/tonne)</b>  <b>Why we measure this</b>            This measures a key part of our strategy – to reduce the cost of biomass produced</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Cost of production (\$/tonne)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>143*</td> </tr> <tr> <td>2020</td> <td>153</td> </tr> <tr> <td>2019</td> <td>161</td> </tr> </tbody> </table> <p>* Includes Pinnacle</p>	Year	Cost of production (\$/tonne)	2021	143*	2020	153	2019	161	<p><b>\$143 \$/tonne</b></p>																
Year	Cost of production (\$/tonne)																									
2021	143*																									
2020	153																									
2019	161																									
<p><b>Biomass availability (%)</b>  <b>Why we measure this</b>            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</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Biomass availability (%)</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>88%</td> </tr> <tr> <td>2020</td> <td>87%</td> </tr> <tr> <td>2019</td> <td>85%</td> </tr> </tbody> </table>	Year	Biomass availability (%)	2021	88%	2020	87%	2019	85%	<p><b>88%</b></p>																
Year	Biomass availability (%)																									
2021	88%																									
2020	87%																									
2019	85%																									
<p><b>Board composition and diversity</b>  <b>Why we measure this</b>            Strong governance and having a supportive, diverse and inclusive working environment, enables us to deliver for stakeholders</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>5</td> <td>4</td> </tr> <tr> <td>2020</td> <td>5</td> <td>2</td> </tr> <tr> <td>2019</td> <td>6</td> <td>2</td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th>Year</th> <th>Executive</th> <th>Non-executive</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>2</td> <td>7</td> </tr> <tr> <td>2020</td> <td>2</td> <td>5</td> </tr> <tr> <td>2019</td> <td>3</td> <td>5</td> </tr> </tbody> </table>	Year	Male	Female	2021	5	4	2020	5	2	2019	6	2	Year	Executive	Non-executive	2021	2	7	2020	2	5	2019	3	5	<p><b>44.4% female directors</b></p>
Year	Male	Female																								
2021	5	4																								
2020	5	2																								
2019	6	2																								
Year	Executive	Non-executive																								
2021	2	7																								
2020	2	5																								
2019	3	5																								
<p><b>Employee engagement score</b>  <b>Why we measure this</b>            An engaged and motivated workforce is a critical component in delivering our strategy</p>	 <table border="1"> <thead> <tr> <th>Year</th> <th>Employee engagement score</th> </tr> </thead> <tbody> <tr> <td>2021</td> <td>79</td> </tr> <tr> <td>2020</td> <td>82</td> </tr> <tr> <td>2019</td> <td>76</td> </tr> </tbody> </table>	Year	Employee engagement score	2021	79	2020	82	2019	76	<p><b>79%</b></p>																
Year	Employee engagement score																									
2021	79																									
2020	82																									
2019	76																									

## 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.



Andy Skelton, Chief Financial Officer

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 CCGT 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 CCGT 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 in the year was £354 million (2020: £413 million).

Net debt to Adjusted EBITDA ended the year at 2.6 times (2020: 1.9 times). Consistent with our fully funded plans for investment in growth through to 2030, we continue to target long-term net debt to Adjusted EBITDA of around 2 times, but expect to be below this level by the end of 2022.

### 2021 financial highlights

- Strong financial performance – Adjusted EBITDA from continuing and discontinued operations of £398 million (2020: £412 million)
- Total operating profit from continuing operations of £197 million (2020: £156 million loss). 2020 included exceptional costs totalling £261 million in respect of the announced closure of our coal operations
- Cash generated from operations of £354 million (2020: £413 million)
- Strong liquidity – cash and committed facilities of £549 million (2020: £682 million)
- Net debt to Adjusted EBITDA of 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 (CCGT) 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

**£398m**

(2020: £412m)

Adjusted earnings per share  
from continuing and  
discontinued operations

**26.5 pence**

(2020: 29.6 pence)

Adjusted operating profit  
from continuing operations

**£170m**

(2020: £189m)

Total basic earnings/(loss)  
per share from continuing  
and discontinued operations

**20.0 pence**

(2020: (39.8) pence)

Total operating profit/(loss)  
from continuing operations

**£197m**

(2020: £(156)m)

Net debt to Adjusted  
EBITDA ratio

**2.6 times**

(2020: 1.9 times)

Cash generated from  
operations

**£354m**

(2020: £413m)

Total dividend  
per share

**18.8 pence**

(2020: 17.1 pence)

		Year ended	
		31 December 2021	31 December 2020
Financial performance (£m)	<b>Total operating profit</b>	<b>197</b>	(156)
	Exceptional costs and certain remeasurements	(27)	106
	Asset obsolescence charges	-	239
	<b>Adjusted operating profit</b>	<b>170</b>	189
	Depreciation, amortisation and losses on disposal of fixed assets	<b>208</b>	177
	<b>Adjusted EBITDA from continuing operations</b>	<b>378</b>	366
	Adjusted EBITDA from discontinued CCGT operations	<b>20</b>	46
	<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>398</b>	412
Adjusted EBITDA (£m)	Pellet Production	<b>86</b>	52
	Generation	<b>352</b>	400
	Customers	<b>6</b>	(39)
	Central and Other costs	<b>(65)</b>	(47)
	Discontinued CCGT operations	<b>20</b>	46
	<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>398</b>	412
Capital expenditure (£m)	Capital expenditure for the year	<b>238</b>	200
Cash and net debt (£m unless otherwise stated)	Cash generated from operations	<b>354</b>	413
	Net debt	<b>1,044</b>	776
	Net debt to Adjusted EBITDA (times)	<b>2.6</b>	1.9
Earnings / (loss) (pence per share)	Adjusted basic	<b>26.5</b>	29.6
	Total basic	<b>20.0</b>	(39.8)
Distributions (pence per share)	Interim dividend	<b>7.5</b>	6.8
	Proposed final dividend	<b>11.3</b>	10.3
	<b>Total dividend</b>	<b>18.8</b>	17.1

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 18.8TWh 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.

	Year ended 31 December 2021 (£m)				Year ended 31 December 2020 (£m)			
	Adjusted EBITDA	Total operating profit	Adjusted profit after tax	Total profit after tax	Adjusted EBITDA	Total operating (loss)/profit	Adjusted profit after tax	Total (loss)/profit after tax
Continuing operations	378	197	88	55	366	(156)	96	(195)
Discontinued operations	20	26	17	24	46	46	21	37
<b>Continuing and discontinued operations</b>	<b>398</b>	<b>222</b>	<b>105</b>	<b>79</b>	<b>412</b>	<b>(110)</b>	<b>118</b>	<b>(158)</b>

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 0.6TWh 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 relating 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.

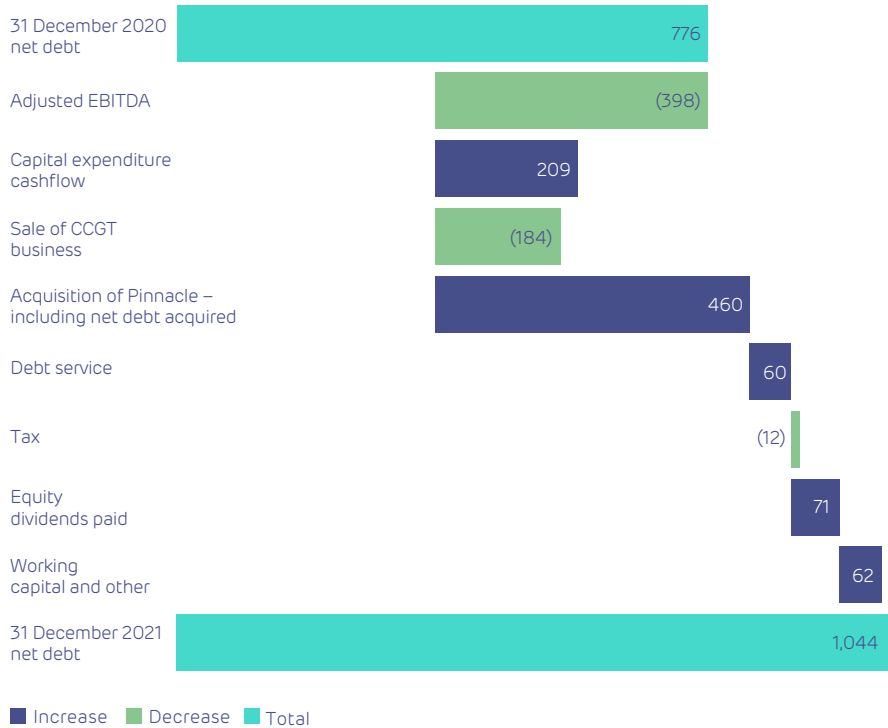
The 12.0% effective tax rate on Adjusted results is lower than the standard rate of corporation tax in the UK of 19.0% because of patent box credits, in relation to the biomass conversion, and the super-deduction for qualifying plant and machinery, announced in March 2021. This super-deduction also meant 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)**



**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.

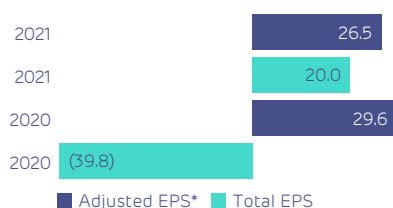
The project in our Customers business associated with a new billing system was stopped in 2019 and the Group is engaged in active discussion with the supplier reflecting their failure to perform under this contract. Amounts totalling £19 million have previously been capitalised in respect of this project. 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**

**Cash generated from operations**

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

### Earnings per Share (pence)



\* EPS based on profit/(loss) for the year including continuing and discontinued operations

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 £nil (31 December 2020: £nil).

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: £nil) 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

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

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.

	31 December 2021 £m	31 December 2020 £m
Cash and cash equivalents	317	290
RCF available but not utilised	231	232
Customers trade receivable factoring facility available but not utilised	–	30
2020 Private placement facility available but not utilised	–	130
<b>Total cash and committed facilities</b>	<b>549</b>	<b>682</b>

### 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.

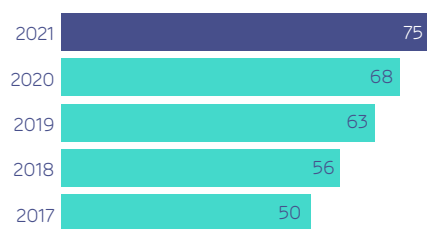
### Derivatives and rebasing

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).

### Total Dividends (£m)



### 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 £186 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



Nicola Hodson, Chair

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

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.



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 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.

Metric	Weighting	Workforce Alignment
Financial	60%	All eligible colleagues, including Executive Directors, are subject to the same performance metrics, ensuring alignment.
Strategic	20%	
ESG	20%	
Safety acts as a bonus modifier		

In 2020 we took the decision to remove our safety performance (in the form of total recordable incident rate) as a metric in the bonus plan. Instead, reflecting that safety is a critical part of our day-to-day operations, safety is a modifier underpinning the overall bonus award. We felt this change would give safety more potential impact in the bonus plan as it can now affect the total bonus award, rather than limiting it to a specific metric.

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.

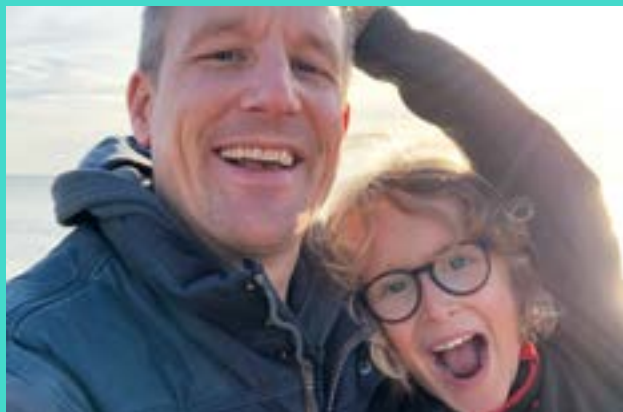
**“I adapted my work day to give my son the attention he needed, as well as getting my work done.”**



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%**

## In this section

### Section 172 statement

 Find out more on page 35

### Engaging our stakeholders

-  Workforce
-  Shareholders and investors
-  Communities and local authorities
-  Government and political bodies
-  Non-governmental organisations (NGOs)
-  Customers
-  Regulators and network operators
-  Schools and colleges
-  Suppliers and contractors
-  Think tanks and academics
-  Trade and industry associations

 Find out more on pages 34 to 41

# 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.

### Who are our stakeholders?



Workforce



Shareholders and investors



Communities and local authorities



Government and political bodies



Non-governmental organisations (NGOs)



Customers



Regulators and network operators



Schools and colleges



Suppliers and contractors



Think tanks and academics



Trade and industry associations

## 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:

### Section 172 matter

### How the Board had regard to those matters

a. the likely consequences of any decision in the long term

- Business model (page 6)
- Decision to acquire Pinnacle (page 106)
- Biomass cost reduction (page 18)
- Principal Risks (page 76)

b. the interests of the Company's employees

- Workforce engagement (pages 60 and 109)
- Diversity and inclusion (pages 60, 96 and 113)
- Safety, health and wellbeing (page 57)

c. the need to foster the Company's business relationships with suppliers, customers and others

- Engagement with customers (page 40)
- Engagement with suppliers and contractors (page 41)
- Supplier Code of Conduct (page 61)

d. the impact of the Company's operations on the community and the environment

- The right biomass (page 45)
- Climate positive (page 49)
- Nature positive (page 55)
- Positive social impact (page 56)
- TCFD (page 64)
- Climate change risk (page 88)
- Engagement with communities and local authorities (page 38)
- Engagement with schools and colleges (page 40)

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

- Ethics and integrity (page 61)
- Culture and values (page 105)
- Whistleblowing (page 62)
- Corporate Governance Code (page 100)

f. the need to act fairly as between members of the Company

- Shareholder engagement (page 38)
- Rights and obligations attaching to shares (page 161)

### 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/>

<https://www.drax.com/about-us/our-projects/cruachan-2/>







## 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 undertaken in the autumn.

 You can read more about our activities on [pages 56 to 60](#).

### 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.





## 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/](http://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 those 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.



## Government and political bodies



### 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/](http://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.



## Non-governmental organisations (NGOs)



### 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 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 CO<sub>2</sub> 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.



## 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 responded to public consultations, for example, consultations from Ofgem and BEIS on the need for large-scale long-duration storage, reform of the Capacity Market, reform of the Renewables Obligation payment arrangements, and the strategic review of the microbusiness sector. We've also continued to work with regulators and UK Government in response to Covid-19 to protect our customers and colleagues, and options to mitigate the impact of rising wholesale energy costs and supplier failures on consumer bills.



## 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.



## Suppliers and contractors



### Key concerns

Expected standards of ethical and business conduct, compliance with laws, satisfactory responses to our due diligence requests, operating consistently across the globe, adhering to the Prompt Payment Code, provision of guidance regarding statutory obligations (such as Modern Slavery Act and whistleblowing laws) and passing on relevant obligations to supply chains.

### Why we engage

We're committed to conducting business with honesty and integrity and in accordance with applicable laws and regulations. Strong relationships with our suppliers and contractors allow us to work together to ensure we identify and properly manage any health and safety, sustainability, ethical or supply chain risks. These relationships help us to promote high standards and ensure realistic, and shared, expectations on project delivery and ethical, sustainable business.

### How we engage

Where relevant, the Procurement, Business Ethics, and Sustainability functions at Drax 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.

### 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.



## Think tanks and academics



### 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.



## Trade and industry associations



### 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.”



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**

## In this section

### Sustainable Development



Achieving a positive economic, social and environmental impact is key to delivering long-term, sustainable, value creation.



Find out more  
on pages 44 to 63

### Taskforce on Climate-related Financial Disclosures (TCFD)

Tackling climate change is at the heart of our purpose and Drax is committed to helping the UK and the wider world to achieve its climate targets.



Find out more  
on pages 64 to 71

# 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.



ESG Data Supplement  
Our ESG Data Supplement provides further environment, social and governance performance data. See [www.drax.com/sustainability](http://www.drax.com/sustainability)



## 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



### 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

### Pathway of fibre produced and used by Drax



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 m<sup>3</sup> 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 &gt;

## Drax Group biomass feedstock sources in 2021

In 2021 our biomass was sourced from established, responsibly managed working forests in the US south, Canada, Europe, Brazil, and Russia.

## Drax Group sources of fibre

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Country total (t)
USA	1,795,400	358,018	1,171,304	1,738,747	–	73,602	5,137,071
Canada	1,459,514	153,986	18,131	181,579	–	–	1,813,209
Latvia	121,618	–	108	597,391	–	–	719,117
Estonia	86,594	–	26,615	96,273	–	–	209,482
Brazil	–	–	–	170,562	–	22,368	192,930
Portugal	19,144	61,045	40,045	66,685	290	–	187,209
Belarus	107,828	–	–	2,401	–	–	110,229
UK	–	–	–	–	–	57,023	57,023
Russia	508	–	–	–	–	33,321	33,829
Other European	5,090	–	–	181	–	5,320	10,591
<b>Total</b>	<b>3,595,695</b>	<b>573,048</b>	<b>1,256,204</b>	<b>2,853,819</b>	<b>290</b>	<b>191,634</b>	<b>8,470,690</b>

Note: For 2021 feedstock figures reported, December data has been calculated based on weighted average sources of fibre for January to November 2021 actual data

 For additional breakdown of feedstock sources for Drax Pellet Production and Drax Power Station respectively, see [ESG data supplement www.drax.com/sustainability](http://www.drax.com/sustainability)

Biomass supply chain transparency is a key element of our approach. We provide additional supply chain information at Drax ForestScope ([www.forestscope.info](http://www.forestscope.info)). We respond annually to the CDP Forests questionnaire and achieved a rating of B in 2021 (2020: B).

## Development of alternative fuel sources for sustainable biomass

Woody 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

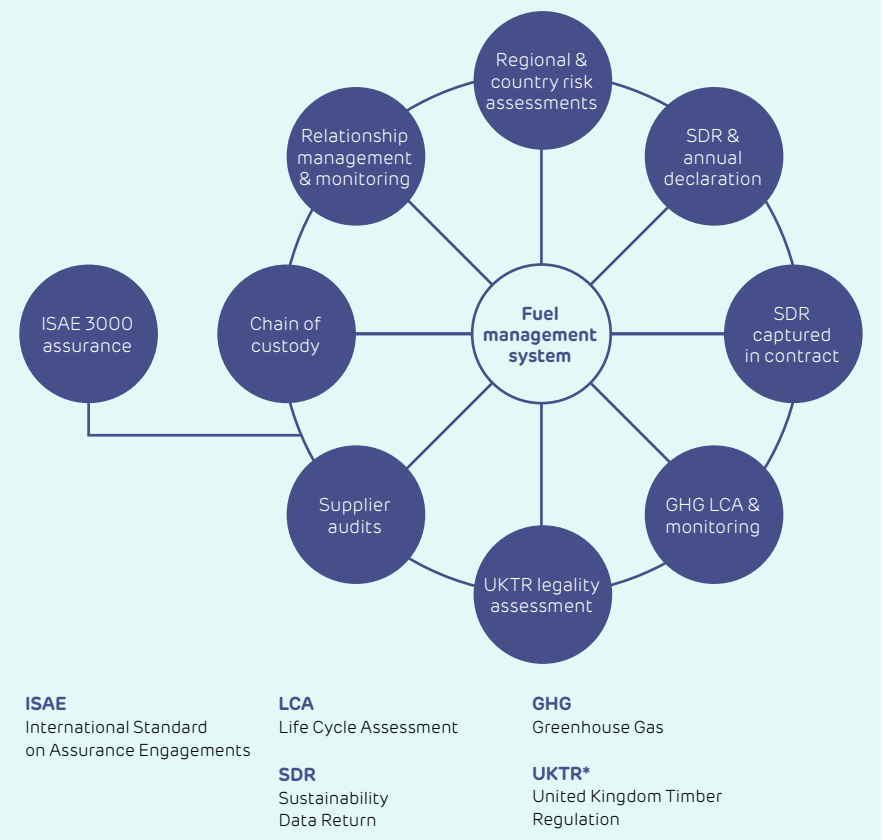
Our sustainability due diligence process is designed to ensure the biomass we use for generation at Drax Power Station is sustainable and compliant with relevant legislation. Woody biomass supplier compliance is evidenced by SBP, SFI, PEFC and FSC® external certification schemes, alongside our internal 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.

### Drax sustainability due diligence process



\* 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.

Further details of our due diligence process are available at [www.drax.com/sustainability](http://www.drax.com/sustainability)

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

### Our forest biomass sustainability commitments

1. We will reduce carbon dioxide emissions	2. We will protect the natural environment	3. We will support people and communities	4. We will invest in research, outreach and intervention
<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>

The right biomass >

### 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 pellet plants in 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 supply volume in 2021.

In the geographies examined so far, data collected through our CAAs provides robust evidence that we are meeting the carbon components of our Responsible Sourcing Policy for Biomass commitments. The CAA reports and summaries are publicly available at [www.drax.com/sustainability/sustainable-bioenergy/catchment-area-analyses/](http://www.drax.com/sustainability/sustainable-bioenergy/catchment-area-analyses/). Our intention is to complete CAAs for the remaining 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/](http://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](http://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 rebase 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.

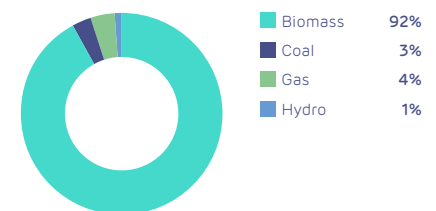
### A provider of dispatchable, renewable power

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/](http://energy.drax.com/support/fuel-mix-disclosure/) [opusenergy.com/our-energy-sources/](http://opusenergy.com/our-energy-sources/)

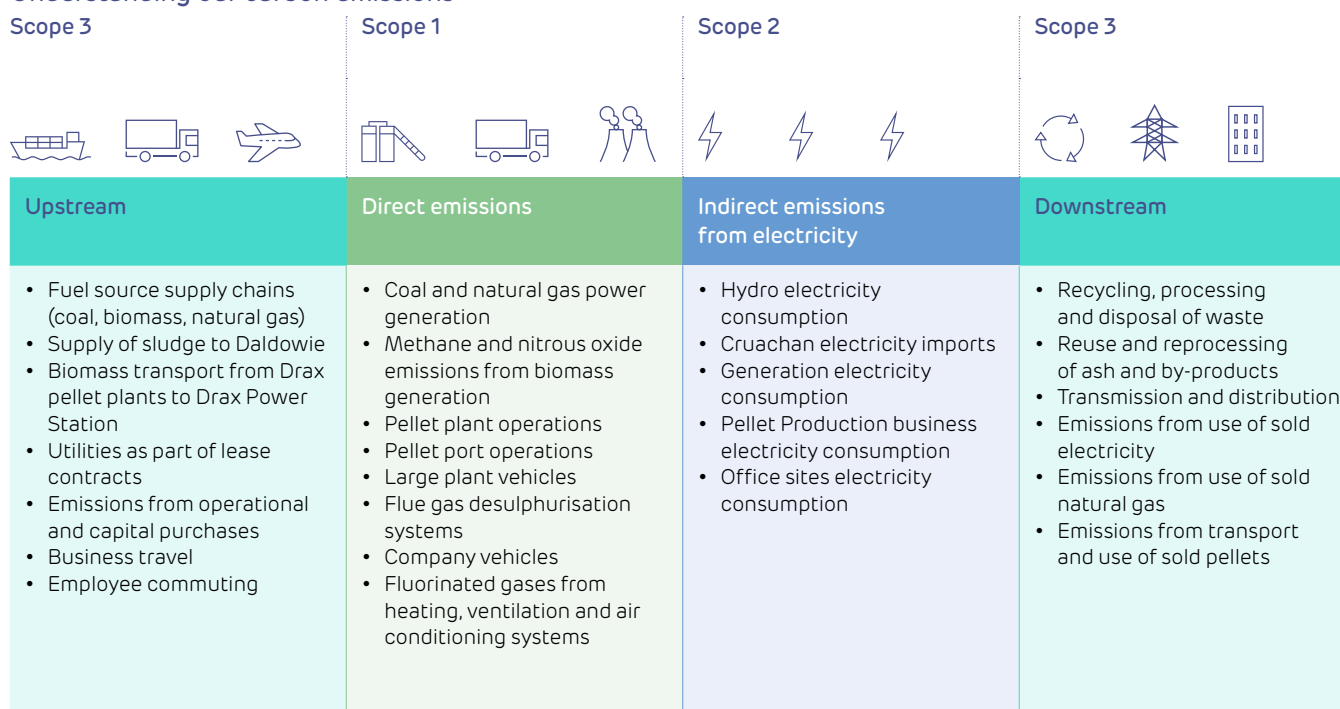
#### Power generation mix in 2021<sup>(1)</sup> (% total output)



(1) Commercial generation output

## Climate positive &gt;

## Understanding our carbon emissions



## Carbon and energy performance

	Unit	2021	2020	2019
<b>Carbon emissions</b>				
Generation CO <sub>2</sub> emissions <sup>(1)</sup>	ktCO <sub>2</sub>	525	2,682	1,958
Group total scope 1 <sup>(2)</sup>	ktCO <sub>2</sub> e	932*	2,762	2,049
Group total scope 2 (location-based) <sup>(3)</sup>	ktCO <sub>2</sub> e	323*	318	322
Group total scope 1 and 2	ktCO <sub>2</sub> e	1,255*	3,080	2,371
Proportion of Group emissions within the UK	%	78*	95.3	93.2
Group total scope 3 <sup>(4)</sup>	ktCO <sub>2</sub> e	3,121*	3,135	–
Biologically sequestered carbon <sup>(5)</sup>	ktCO <sub>2</sub> e	13,415	13,273	12,795
<b>Carbon intensity</b>				
Generation emissions per GWh of electricity generation	tCO <sub>2</sub> /GWh	33*	143	113
Group emissions per GWh of electricity generation <sup>(6)</sup>	tCO <sub>2</sub> e/GWh	78*	164	137
<b>Total energy consumption</b>				
Group total energy consumption	kWh	44,112,891,484*	48,253,807,865	46,025,306,198
Group total energy consumption within the UK	kWh	40,112,110,277	47,090,524,296	43,852,816,521

Note: Carbon emissions are reported against a criterion of operational control. Carbon emissions are reported in units of carbon dioxide equivalent (CO<sub>2</sub>e) and include all greenhouse gases as required by the GHG Protocol. For the basis of reporting see [www.drax.com/sustainability](http://www.drax.com/sustainability)

(1) Generation emissions covers all direct emissions from our own business operations that fall under the scope of the UK Emissions Trading Scheme (UK ETS) and formerly the European Union Emissions Trading System (EU ETS)

(2) Group total scope 1 covers all direct emissions from our own business operations, across all sites

(3) Group total scope 2 covers all indirect emissions associated with our electricity and heat consumption, across all sites

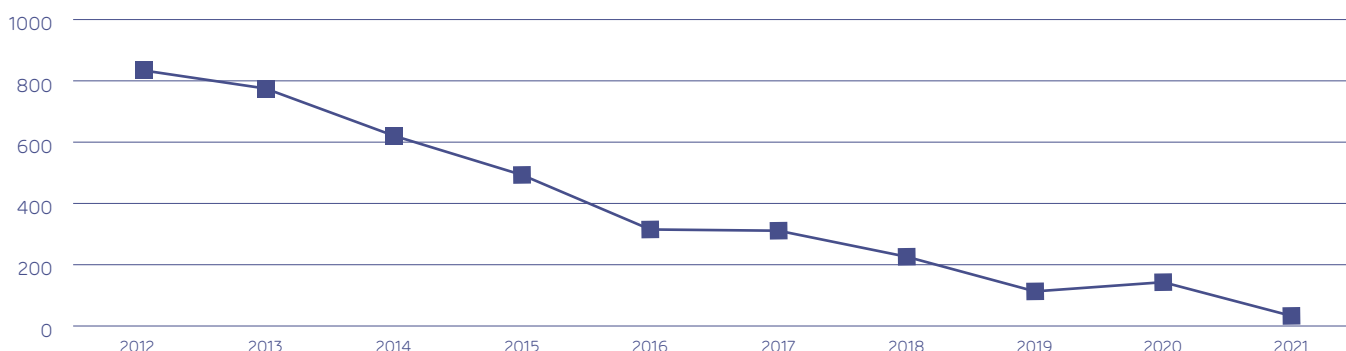
(4) Group total scope 3 excludes 'downstream leased assets'; and categories 'end of life treatment of sold products', 'franchises' and 'investments' are not applicable

(5) The biogenic carbon emissions resulting from generation are counted as zero in official reporting to both UK authorities and under the UK Emissions Trading Scheme as the use of sustainable biomass is considered to be CO<sub>2</sub> neutral at the point of combustion. This methodology originates from the United Nations Framework Convention on Climate Change

(6) Group emissions are total scope 1 and 2 emissions as reported

\* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 and based on Drax using the Corporate Greenhouse Gas Protocol, for 2021 data as indicated. For assurance statement and basis of reporting see [www.drax.com/sustainability](http://www.drax.com/sustainability)

### Generation<sup>(1)</sup> carbon intensity (tCO<sub>2</sub>/GWh)



(1) Generation emissions covers all direct emissions from our own business operations that fall under the scope of the UK Emissions Trading Scheme (UK ETS) and formerly the European Union Emissions Trading System (EU ETS)

### 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](https://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 (SF<sub>6</sub>) circuit breakers was completed, reducing the total potential for emissions from this source by up to 500tCO<sub>2</sub>e 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.

Climate positive >

**Biomass supply chain emissions**

Biomass can only be considered a low carbon, renewable energy solution when it can be evidenced that greenhouse gas (GHG) emissions savings are delivered on a lifecycle basis, compared to alternatives such as fossil fuel generation. We therefore collect fuel and energy data for each step in the supply chain, enabling us to calculate lifecycle GHG emissions for our biomass and to demonstrate compliance with our regulatory requirements.

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. The current limit is 200 kgCO<sub>2</sub>e/MWh of electricity. In 2021, our average biomass supply chain GHG emissions amounted to 100 kgCO<sub>2</sub>e/MWh of electricity.

**100 kgCO<sub>2</sub>e/MWh**  
 Drax Power Station average biomass supply chain GHG emissions, 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/](http://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.

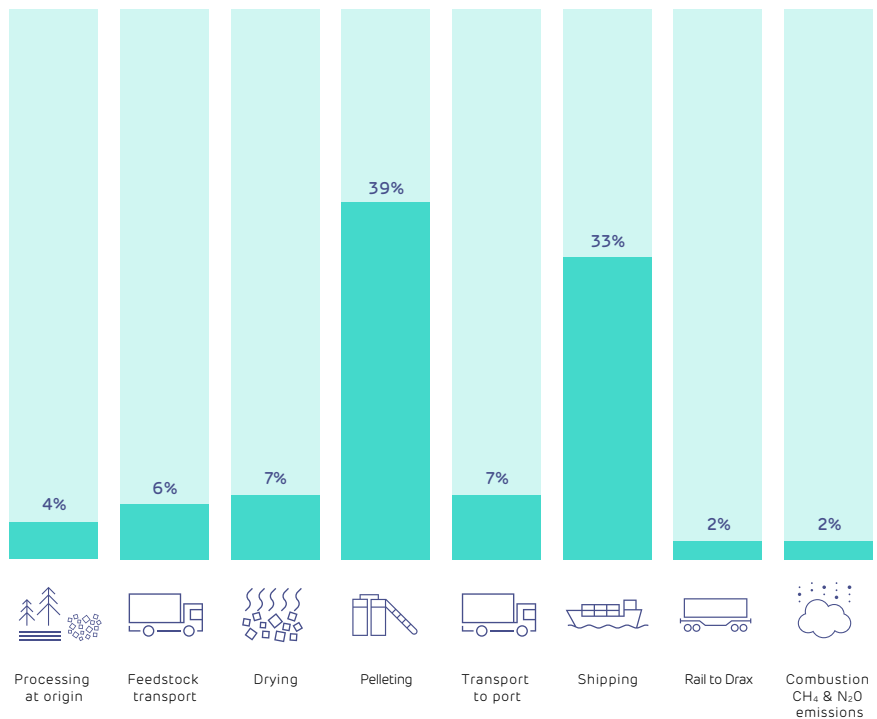
**Drax Power Station average biomass supply chain GHG emissions**

	Unit	2021	2020	2019	2018	2017
Average biomass supply chain GHG emissions	kgCO <sub>2</sub> e/MWh	100*	109	124	131	130

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](http://www.drax.com/sustainability).

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



Note: includes the biomass supply chain emissions associated with both Drax's direct operations (Pellet Production business) and third parties. This is an estimate based on the average carbon footprint of pellets received at Drax Power Station for each stage in the biomass supply chain.



## 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.



See Drax Group Environment Policy [www.drax.com/about-us/corporate-governance/compliance-and-policies/](http://www.drax.com/about-us/corporate-governance/compliance-and-policies/)

### 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.

## Climate positive &gt;

## Environmental performance

	Unit	2021	2020
<b>Emissions to air</b>			
Nitrogen oxides – power generation	t	7,556	9,498
Sulphur dioxide – power generation	t	1,087	3,015
Particulates – power generation	t	448	566
Nitrogen oxides – pellet production	t	386	427
VOCs – pellet production	t	1,202	2,983
Particulates – pellet production	t	193	489
<b>Water use</b>			
Total water abstracted – power generation <sup>(1)</sup>	m <sup>3</sup>	64,140,878*	242,472,306
Total water returned – power generation	m <sup>3</sup>	57,616,803*	231,039,964
Total water abstracted and returned – hydro generation <sup>(2)</sup>	m <sup>3</sup>	3,005,380,954*	4,289,825,847
Total water abstracted from reservoir – pumped storage <sup>(3)</sup>	m <sup>3</sup>	261,791,757*	294,022,644
Total water abstracted from Loch Awe – pumped storage <sup>(4)</sup>	m <sup>3</sup>	249,155,337*	241,452,288

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](http://www.drax.com/sustainability)

 For additional environmental performance data see ESG data supplement [www.drax.com/sustainability](http://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 (SO<sub>2</sub>), 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 m<sup>3</sup> 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.

## People positive



Ensuring we benefit the people in our network, including our colleagues, neighbours, and supply chain



### 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



#### Virtual work experience

We delivered two virtual work experience placement weeks in 2021. Open to students in Year 10 and above in England and Scotland, our programme covers IT, Business Support, Finance and Engineering. Participating students undertake projects specific to their expertise area, and complete career and employability skills sessions.

Our virtual format reduces barriers to participation, creating opportunities to further education and improve employability.

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 provide, for the first time, a single system and allow more data analysis of incidents, corrective actions, hazard management, risk management and behavioural observations.



See Drax Group Safety Health and Wellbeing Policy [www.drax.com/about-us/corporate-governance/compliance-and-policies/](http://www.drax.com/about-us/corporate-governance/compliance-and-policies/)

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 confirmed our assessment of 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 better clarity on 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 leads 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

	2021	2020	2019
<b>TRIR* – total<sup>(1) (2)</sup></b>	<b>0.22</b>	0.29	0.22
<b>TRIR – employees</b>	<b>0.27</b>	–	–
<b>TRIR – contractors<sup>(2)</sup></b>	<b>0.11</b>	–	–

(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.

\* 2021 data subject to final assurance



For additional health and safety performance data see ESG data supplement [www.drax.com/sustainability](http://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).

People positive >

**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**

<p><b>Physical:</b></p> <p>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.</p>	<p><b>Mental:</b></p> <p>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.</p>
<p><b>Social:</b></p> <p>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.</p>	<p><b>Financial:</b></p> <p>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.</p>

## 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 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

## Our People

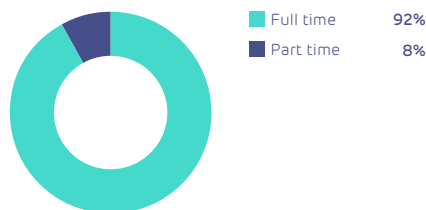
	Unit	2021	2020
<b>Total number of Group employees<sup>(1)</sup></b>	n	<b>3,053*</b>	3,022
<b>Employee engagement score</b>	%	<b>79</b>	82
<b>Total employee turnover rate</b>	%	<b>29.5</b>	11

(1) Total number of Group employees as at 31 December for given year

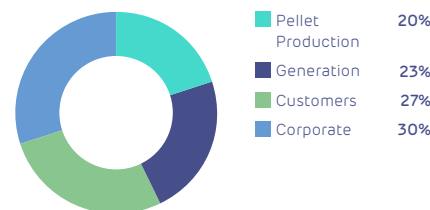
\* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2021 data as indicated. For assurance statement and basis of reporting see [www.drax.com/sustainability](http://www.drax.com/sustainability)

 For additional people data see ESG data supplement [www.drax.com/sustainability](http://www.drax.com/sustainability)

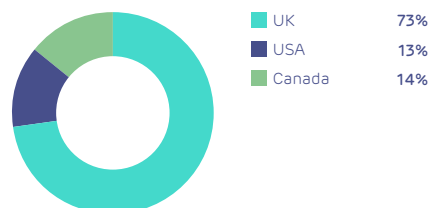
### Employment contracts\*



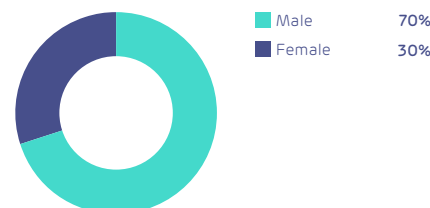
### Employees per business unit\*



### Employees per country\*



### Employment gender\*



Note: headcount as at 31 December 2021

\* 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](http://www.drax.com/sustainability)

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.

People positive >

**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.

 See also [Building the workforce of the future, page 56](#)

**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.

 Further information on diversity is available in the Corporate Governance Report, [page 96](#)

**Colleague representation and engagement**

At Drax, 14% of our workforce is covered by collective bargaining and we have employee representative consultation and information 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. Forum Chairs meet quarterly with the 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.

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 underage 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/](http://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/](http://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/](http://www.drax.com/about-us/corporate-governance/compliance-and-policies/)

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

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Climate-related financial disclosure

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(8), 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](http://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.

TCFD Pillar	Action for 2021	Progress in 2021	Actions planned for 2022
<b>Governance</b>	Continue schedule of engagement throughout the year with the Executive Committee and the Board on climate-related matters.	The Board was engaged and considered papers on matters including a sustainable development framework, TCFD disclosure, ESG financing, and carbon targets. See page 65	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.
<b>Strategy</b>	Undertake scenario analysis exercise.	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	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.
<b>Risk Management</b>	Undertake targeted analysis of the risk areas identified for further assessment in 2021.	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	Build on the first phase of the asset-level physical risk assessment, considering additional climate scenarios over longer time horizons.
<b>Metrics and Targets</b>	Set and publish a scope 3 target.	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	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.

Governance

Strong governance that embeds climate change in decision-making at all levels of the business

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](http://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

### Drax Group plc Board

Climate change factors are considered in decisions taken by the Board, reflecting the Board's duty to consider all stakeholders. The CEO reports quarterly to the Board on Environment, Social and Governance (ESG) performance, including climate-related matters. At the Group's interim and full year, the Board examines the climate change principal risk, considering key evolving challenges and potential mitigations.

#### 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 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](#)

### Audit Committee

Responsible for reviewing and approving the annual report, including climate-related financial disclosures. Reviews systems of internal control and risk management.

### Remuneration Committee

Oversees the Group's approach to remuneration, including the provision within our bonus plan of strategic and sustainability targets. For more information see [page 130](#).

### 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.

### 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.

 [Corporate Governance Report page 94](#)

 [See Remuneration Report page 130](#)

 For information on the 2022 Scorecard see [page 30](#)

## 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.



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

### Climate-related risks

Risk Type and Description	Timeframe <sup>1</sup>	Business Response (mitigation)
<b>Physical Risks</b>		
<b>Physical risks to Pellet Production operations and supply chain in the US and Canada</b> Increased frequency and severity of event driven (acute) physical risks from climate change – such as extreme weather events, including hurricanes, flooding and wildfires. By way of example, the fires experienced in Canada, which occurred through the late summer of 2021, disrupted supply lines including rail. Flooding can also impact the ability of ships to load cargo safely which can cause delays in delivery schedules. Extreme weather events have potential to cause damage to assets, and impact on raw material supply to, and pellet transport from, our pellet production facilities in the US and Canada, with potential impact to end users including Drax Power Station and third-party customers.	Short, Medium and Long-term	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.
<b>Physical risks to Drax Power Station operations and rail transport routes in the UK</b> Increased frequency and severity of event driven (acute) physical risks from climate change – such as extreme weather events, including heavy rainfall, flooding and high winds. Extreme weather events have potential to cause damage to assets, and to impact on rail supply infrastructure, that could restrict or reduce deliveries of fuel to site. For example, flooding in February 2020 interrupted rail deliveries to Drax Power Station.	Short, Medium and Long-term	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.
<b>Transition Risks</b>		
<b>Policy risks related to unabated gas generation in the UK</b> Policy risks related to the transition to a low carbon economy include UK Government changes in climate policy that may impact power generation, such as unabated gas generation. Policy changes may impact decisions regarding the continued development, construction and operation of our four Open Cycle Gas Turbine (OCGT) development options.	Medium and Long-term	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.

### 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.

Medium and Long-term

The current UK Government limit for GHG emissions is 200 kgCO<sub>2</sub>e/ MWh of electricity. In 2021, our average biomass supply chain GHG emissions amounted to 100 kgCO<sub>2</sub>e/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.

(1) Time frames are defined as: short (1 year), medium (1-5 year), long (5+ year)



See also Principal Risks and Uncertainties page 76

### Climate-related opportunities

#### Opportunity Type and Description

#### Timeframe<sup>1</sup>

#### Business Response (strategy to achieve)

##### Opportunity

#### Development of new sustainable biomass pellet capacity and self-supply

Long-term

We are building on our existing capabilities to develop new-build opportunities for large pellet plants and satellite developments.

In the UN Intergovernmental Panel on Climate Change (IPCC) special report on limiting global warming to 1.5°C above pre-industrial levels, bioenergy use is substantial in 1.5°C pathways with or without CCS, due to its multiple roles in decarbonising both electricity generation and other industries that depend on fossil fuels.

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.

One of our strategic objectives is to be a global leader in sustainable biomass pellets. Drax is targeting 8Mt p.a. of production capacity by 2030, for third-party sales, UK BECCS and generation, and balance of supply from other lower cost biomass sources and third parties. Increasing our self-supply capacity will strengthen our ability to build a long-term future for sustainable biomass and support decarbonisation aims.

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.

#### Development of Bioenergy with Carbon Capture and Storage (BECCS) at Drax Power Station

Long-term

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™.

Negative emissions are a critical part of multiple climate pathways limiting warming to 1.5°C. The UN IPCC identifies BECCS as a key technology, with a clear role to play in the achievement of decarbonisation pathways.

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.

One of our strategic objectives is to be a global leader in negative emissions. At Drax Power Station, we are developing options to retrofit BECCS, and targeting 8Mt p.a. of negative emissions by 2030. Achieving this could make Drax Power Station the world's first carbon negative plant at scale and would develop a model for further BECCS retrofit.

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.

(1) Time frames are defined as: short (1 year), medium (1-5 year), long (5+ year)

Taskforce on Climate-related Financial Disclosures >

**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.

**Objective 1:**  
to be a global leader in sustainable biomass pellets



**Objective 2:**  
to be a global leader in negative emissions



**Objective 3:**  
to be a leader in UK dispatchable, renewable power



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.

**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.

**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.



## 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.

- Our Pellet Production business could be expanded further and more rapidly, to take advantage of increased global demand, though we recognise the threat of increased competition which could affect such prospects.
- We would have further potential to grow our Customers business' offering related to carbon offsets, renewable energy certificates, and Power Purchase Agreements (PPAs).
- We could explore options to convert unused coal generators at Drax Power Station to revenue generating options.

Under the 'existing global policies' transition scenario our strategic response could include the following:

- Given that biomass generation will play an important role to help meet increased demand for renewable electricity, we could explore options with the UK Government to support biomass generation. We could also explore options for developing BECCS internationally, where supportive infrastructure can be put in place.
- We could consider options to optimise our generation portfolio to take advantage of market conditions, which could include investing in additional generation and system stability and support assets, and matching generation to higher demand periods to take advantage of price volatility. We could also explore options to convert unused coal generators at Drax Power Station to revenue generating options. Such investments will also be dependent on adequate future returns, national and regional approval from regulators and the available financial resources for the upfront investment.
- Depending on market conditions for biomass pellets, we may choose to decelerate expansion of our Pellet Production business, or continue expansion and explore options to expand our customer base.
- Our Customers business has the option to become further specialised and target decarbonisation and optimisation services.

## 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 experience infrequent disruption to our generation business, such as high river water temperatures impacting our ability to discharge cooling water for a short period of time. This could result in us exceeding our discharge permit and receiving a penalty. The risk from flooding, which disrupted transport of pellets to Drax Power Station in 2020, would be reduced, due to recent investments being made by Network Rail.
- **Similar frequency of disruptions to our Pellet Production 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.

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

fundamental and long-term increases in electricity demand, driven by electric vehicles and electrified heat.

- **Potential for greater electricity price volatility:** The physical impacts of climate change on electricity generators, the grid, and distributors could lead to higher electricity price volatility. Our portfolio of dispatchable renewable electricity generation assets positions us well to respond to this volatility.

### 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](http://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 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 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 CO<sub>2</sub> 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

## In this section

### Viability Statement

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.



Find out more  
on pages 74 to 75

### Principal Risks

Identifying, assessing and managing risks across the business is an integral part of supporting the Group's strategy and delivering sustainable performance and growth.



Find out more  
on pages 76 to 91

# 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 this 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.

Principal risk	Description of scenario modelled
Trading and commodity	Power price downturn
Political and regulatory	Zero ROC recycle value after CP21
Plant operations/Climate change	10% increase in biomass forced outage rate
	90-day outage on CfD unit (in 2022)
	90-day outage on ROC unit (in 2022)
Reasonable worst case	Two-month outage of pellet production plants
	Combination of the scenarios above Prolonged period of volatile power prices coupled with generation outages

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 C\$300 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 on behalf of the Board and receive updates from management at each meeting. The Board also receives updates on the risk management framework.



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.

**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

Drax Group plc Board		Audit Committee	
Group Executive Committee			
1st line of defence	2nd line of defence	3rd line of defence	
Management of Risk Controls	Develop a Risk Management Framework	Internal Audit	
Internal Control	Provide Independent Oversight of Risk	Independent Assurance of Risk Management Framework	
Management Controls	Compliance		

External audit

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

## 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 in the manufacture, storage and transportation of biomass pellets and the generation of electricity through operation of a combination of methods including biomass and hydro (pumped water) stations. Please refer to Page 89 for more information.
- 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. C\$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 to 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

## 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.

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing ≡ No change

Biomass acceptability continued		≡
<ul style="list-style-type: none"> <li>Forging closer relationships with suppliers on sustainability through the supplier relationship programme.</li> <li>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.</li> <li>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).</li> <li>Continued engagement with voluntary certification, notably Sustainable Biomass Program (SBP) at Board and technical levels.</li> <li>Supporting SBP to achieve REDII approval, affording divergent policies in UK and EU to be met through the same scheme.</li> </ul>	<p><b>Changes in factors impacting risk in 2021</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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</li> </ul>	<p>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.</p> <ul style="list-style-type: none"> <li>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.</li> <li>Forest policy changes in British Columbia, Canada could adversely impact the Group. It aims to cut back tenure 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.</li> </ul>

Trading and commodity		≡
<p><b>Context</b> Drax produces biomass and power with renewable certificates (Renewable Obligation Certificates – ROCs, and 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.</p> <p>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.</p> <p>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 European Emission Trading Schemes.</p> <p>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</p>	<p>strategies we mitigate and manage these risks to give high visibility and certainty over our earnings.</p> <p><b>Risk and impact</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>Delivery of commercial value from the flexibility of our portfolio and leveraging a complex supply chain with uncertain running regimes, requires effective</li> </ul>	<p>execution of our trading strategy and opportunities to trade being available in a liquid market.</p> <ul style="list-style-type: none"> <li>The Generation business may fail to secure future system support services contracts or the value in providing those services may reduce.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ul>



## 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 outturns.
- 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 and looking forward, may be impacted by geopolitical uncertainties such as in Ukraine..

## 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.

## 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 CO<sub>2</sub> 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.

**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.

## Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change

## Climate change



## Context

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.

Whilst 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 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.

## 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 Glenlocharr 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 CCGT 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



generation assets, commodity trading undertaken by our trading teams and data associated with the supply of power to retail customers. If any one or more of these systems were to be interrupted or fail, we may experience significant disruption in our ability to maintain these activities resulting in operational challenges and potential financial loss.

- There is a risk from relying on so-called technology giants and on the availability and resilience of their systems, the failure of which could lead to significant disruption to our own businesses.
- Ageing systems can be affected by reduced performance or the support provided by third parties to their maintenance can be downgraded. This in turn may impact the availability of IT systems, data and facilities affecting our operations adversely due, for example, to uncorrected weaknesses.

### Key mitigations

- Maintaining effective and up-to-date cyber security measures, including a protect, detect, respond and recover strategy, which evolves to address known and emerging threats.
- The Group Security Director briefs the Board and the Audit Committee on all security matters, including information security.
- We remain alert to the changing landscape of such threats, monitoring geopolitical activism including state sponsored cyber events, particularly as Drax is designated as UK critical national infrastructure. Security training is mandated for new joiners, and refresher training is required on an annual basis for all employees. We also run regular phishing tests and deliver on the spot and specific education on this threat.

- 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 are 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.

**“The culture at Drax allows me to feel seen, heard and believe that my point of view matters.”**





The impact inclusion has on my workday is profound, 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



#### 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**

# Corporate Governance Report: Letter from the Chair



As Drax continues to evolve, our purpose, culture, and a strong governance framework supports the Board in continuing to deliver for our stakeholders

Philip Cox CBE, Chair

## Our purpose, strategic objectives and values

### Purpose and ambition

Our purpose is to enable a zero carbon, lower cost energy future.

Our ambition is to become carbon negative by 2030. Being carbon negative means that we will be removing more carbon dioxide from the atmosphere than we produce throughout our direct business operations globally – creating a carbon negative company.

## Our Strategic Objectives

### To be a global leader in sustainable biomass pellets

Pellet sales, self-supply, cost reduction, fibre sourcing and technology

### To be a global leader in negative emissions

Development of projects in UK and internationally

Carbon negative by 2030

### To be a leader in UK dispatchable, renewable power

Flexible renewable power – biomass, hydro, pumped storage

Renewable power and energy services to strategic customers

### All underpinned by safety, sustainability and cost reduction

### Our Values

- We care about what matters
- We're a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we'll do

I am pleased to present our Corporate Governance Report.

2021 was a transformational year for the Group – a transformation driven and guided by our purpose (to enable a zero carbon, lower cost energy future) and our ambition (to be a carbon negative company by 2030). In addition to taking significant steps in delivering our strategy, we strengthened and diversified our Board and senior management. We have given further impetus to key aspects central to our organisational culture, such as diversity and inclusion. And we have remained attentive to sound controls and governance in such operational areas as health, safety and sustainability and those material to the financial management of the business. In these, and other aspects explained in this section of the report, the Board and its Committees have been important contributors. We believe the business has made good progress but there remain

areas requiring further attention, which we will explore in more detail throughout this report.

In April 2021, we completed the acquisition of Pinnacle Renewable Energy, Inc. (Pinnacle). This was approved by shareholders at a general meeting held on 31 March 2021. Throughout the period in which management were conducting due diligence and assessing the transaction, the Board received detailed reports and met to evaluate the findings. In addition to the financial and business case, the Directors considered detailed assessments of the stakeholders likely to be affected by the transaction, which include colleagues and local communities. The Directors considered evidenced-based sustainability due diligence, not only of the sites to be acquired but also the end-to-end supply chain. This supported a better understanding of the new territories

in which the enlarged Group would be conducting business. The Board contributed to the assessment, challenging findings, offering views on additional areas to be considered and providing guidance on how to reflect on such matters as the rationale for the transaction provided to shareholders as part of the Class 1 Circular, and the explanation of business and transaction-related risks.

The Board also discussed with management the plans to support the integration of the Pinnacle business, new colleagues, customers and suppliers into the enlarged Group. The implementation of those plans reflects the contribution of colleagues from across the Group in the UK, the US and Canada. The progress made is a testament to the dedication of so many of our colleagues, working collaboratively in the realisation of those plans. You can read more about the Board's considerations on page 106.

The acquisition of Pinnacle is one aspect of the Group's transition away from the use of fossil fuels to the generation of power using sustainable fuels. In support of this, the Group continues to reshape the portfolio. Consistent with that strategy, in January 2021 we completed the sale of the Group's CCGT assets to VPI Generation Limited.

Execution of such programmes requires considerable attention from management and colleagues, while also maintaining focus on day-to-day operations, effective internal controls and robust governance. During the year, the Board and its Committees continued to receive reports and evaluate performance associated with the business and progress in areas for potential growth, such as BECCS. The Board also assessed proposals for how the Group operates as we emerge from the Covid-19 pandemic.

### Engaging with our stakeholders

The BECCS programme is a good example of the way in which Drax is at the forefront of innovation. We are assessing alternative ways to deliver our own negative emissions ambition and the net zero ambitions of the UK Government, while also meeting the UK's electricity needs.

As our plans to use BECCS at Drax Power Station have become more central to our strategy, so too has the breadth of our engagement with external stakeholders on this topic. Over the past year our engagement around BECCS has focused on three core themes: negative emissions, the "levelling up" agenda and supporting UK climate leadership abroad. You can read more about this on page 39.

BECCS requires significant investment – not solely from Drax but also from other critical stakeholders, including the UK Government and other commercial partners. As we explain on page 16, we made important progress during 2021, but need to do more if we are to realise the opportunities from BECCS. Engagement with stakeholders, to help us understand their views and assess their impacts, is therefore a fundamental aspect of that work. During 2021 the Board received regular reports from our CEO, Will Gardiner, on engagement with stakeholders, including the UK Government, political parties, commercial partners and NGO's. We also held more in-depth discussions, for example in June, when the Board received a detailed paper from the External Affairs team on stakeholder engagement. The structure of their paper allowed the Board to

assess and challenge the quality of engagement in satisfying s.172 of the Companies Act. This meant we not only considered the issues pertinent to the Group – we also had a better understanding of what matters most to our stakeholders and how management are seeking to address them. The Board is intent on continuing to further develop actions in this area.

During times of change and significant transition, engagement with stakeholders is an important part of decision-making. It also supports an understanding, through an appropriate feedback process, of how those decisions have affected or may affect others.

Our colleagues are key to delivering our business success and, following the acquisition of Pinnacle, we recognised that the process of integrating our teams would be an important phase for the enlarged Group. The integration plans were therefore one aspect of welcoming new colleagues, enabling them to contribute to and inform key actions. Teams from across Canada, the US and the UK created detailed integration programmes supporting co-ordination of the enlarged Groups' activities after completion.

Led by a member of the Executive Committee, and reporting regularly to the Executive Committee, the integration teams identified and tracked key deliverables. These were reported to the Board and included assurance around internal controls and governance. Examples included incorporating Pinnacle into our existing financial reporting processes; ensuring the financial control environment of the enlarged Group remained robust; incorporating risks into the existing risk governance structure of the Group, centred around our Principal Risks; conducting a detailed assessment of health, safety and environmental (HSE) policies and processes; implementing a risk-based approach to HSE improvement in support of our OneSafeDrax vision; and ensuring the resilience of IT systems and controls and cyber security.

We appointed PwC to support the work of the integration teams, and also facilitated a "lessons learned" review once the integration activities had migrated into business as usual. In addition, we included our new Pinnacle colleagues in our annual engagement survey. The Board considered the results from the survey at the Board meeting in December, finding that 70% of all

colleagues responded, providing feedback on areas such as company engagement, inclusion and safety. The results for Pinnacle mirrored the themes and the engagement score for Drax overall. The findings from the survey showed a need for improvement in supporting retention, career opportunities and development, and enhanced communication about our commitment to environmental and social responsibility. These findings are informing both near-term actions and our planning for 2022. More information on the engagement survey can be found on page 60.

In December we hosted a Capital Markets Day, engaging directly with investors on various aspects of the business. We explained our ambition, the role of bioenergy, our sustainability and responsible sourcing framework, BECCS, and the importance of flexible generation. The event was an important opportunity for us to speak directly with, and hear directly from, current and prospective investors, both through a formal question and answer session, and then an opportunity to discuss informally after the event. This helped attendees, both in person and online, to better understand our business and for us to learn more about their viewpoints.

During the year Will Gardiner and I continued to meet quarterly with the chairs of the MyVoice workforce engagement forums. These allow us to hear directly from colleagues and speak openly in a safe forum, holding discussions on key issues which are important for our colleagues. Will and I then feed back to the whole Board to ensure all Directors gain an appreciation of employee interests and concerns and, in turn, offer guidance and reflections on how we might respond, taking account of the views of colleagues. You can read about this on page 109.

Recognising the greater global reach of the Group, we have taken steps during the year to enhance our intranet. A key medium for keeping our dispersed workforce connected and engaged, it provides resources for colleagues and information on the activities and initiatives of the enlarged Group. These included diversity and inclusion events, with both internal and external contributors, the promotion of health and wellbeing, and in-depth articles on COP26. We also provided online access for our colleagues to the Sustainable Innovation Forum.

In April 2021 we held our first Annual General Meeting (AGM) using resources that allowed shareholders to attend online. At the AGM in 2022 the Board will review again how the online facility can optimise shareholder engagement and participation.

### Diversity and Inclusion

In last year's annual report, we outlined our actions regarding diversity and inclusion, including the development of our Diversity & Inclusion Policy, and recognised there was more work to do. The Policy's purpose is to build an inclusive culture, enabling equitable opportunities for all, and covers recruitment, people development, reward, monitoring, and support. We have made progress during 2021, reflecting the actions taken following the acquisition of Pinnacle, our engagement with stakeholders (including some of our shareholders) and the restructuring of the organisation implemented in the autumn.

By 31 December 2021, we had improved our female representation to 44% at Board level (2020: 28.6%), to 40% at the Executive Committee (2020: 22.2%), and our overall female representation across the Group was 30% (2020: 31.5%) (see table on page 107). The Board also met the Parker Review recommendation of having at least one director from an ethnic minority background (see more on this in the Nomination Committee Report on page 113).

In considering the proposed acquisition of Pinnacle, the Board assessed how best to evolve its balance of capabilities and knowledge. We agreed to undertake a search for at least one additional Non-Executive Director and wrote to our largest institutional shareholders, explaining the steps we were taking. Several of our shareholders provided feedback on our plans, which were considered by the Board.

In undertaking the search, one important aspect, alongside the proven competence and background of the candidates, was the desire to further enhance the Board's diversity. The search concluded with the appointments in October of Erika Peterman and Kim Keating as Non-Executive Directors, and I am delighted they have joined the Board.

Erika and Kim bring significant experience in complex businesses and proven capabilities in delivering growth within challenging sectors (respectively, industrial chemicals and major

infrastructure projects in the energy sector). In addition, with Erika a US citizen based in New Jersey and Kim a Canadian citizen based in Newfoundland, the Board has further enhanced its first-hand knowledge of operating in geographies in which Drax has a growing presence, together with a better appreciation of local and national stakeholder considerations.

In other sections of this annual report, we explain the additional measures we have taken in 2021 to support positive change for diversity and inclusion. These include leadership development, celebratory events, introducing family friendly policies, and evolving recruitment strategies to attract candidates from under-represented groups. The Board considered and fully supported all these steps. For example, we are working to support action across the wider organisation through an inclusive leadership programme for over 200 senior leaders. Led by a behavioural change consultancy – Steps Drama – this programme focuses on supporting and challenging leaders to create an inclusive working environment. This is part of enabling change through engagement with our wider workforce.

### Culture and governance

We are proud of our culture at Drax, and it is this culture that drives our values. A fundamental element is acting with integrity – what we call, “doing the right thing”. The Board and I seek 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. In the final quarter of 2021, we commenced a review of the enlarged Group's values, looking at those associated with both Drax and Pinnacle. We asked colleagues for their views and feedback to ensure the values represent the enlarged Group and support the strategy. The Board will oversee the process during 2022 and will review any proposals for evolution.

The Board and management promote openness and a collaborative culture across the Group. Our people are valued irrespective of their background, are enabled to realise their potential, and contribute to delivering our purpose and strategy. We have always placed, and will continue to place, particular emphasis on the safety and wellbeing of our people. The Group's response to Covid-19 highlighted the deep-rooted sense of caring at all levels, as the business sought to support colleagues and wider

stakeholders. From discussions in the Boardroom, to conversations with the MyVoice forums, to local initiatives, we have worked to understand and respond to the challenges and needs of others. You can read more about our culture and values on pages 59 to 63.

During 2021, as restrictions on face-to-face meetings eased, the Board was able to resume the practice of meeting at different locations. This facilitates face-to-face engagement with local colleagues and management and helps Board members to better understand the characteristics of each part of our business.

In June, the Board visited Drax Power Station, which provided the Directors an opportunity to meet operational colleagues and visit key projects. We visited the BECCS trial and spoke with the project team, and saw the control room, turbine halls and biomass storage facilities. We gained valuable insight into the operations and culture of the business, including a presentation from members of the “Fit for the Future” programme. In December I was very pleased to be able to visit our sites in Scotland, along with David Nussbaum (Senior Independent Director), Penny Small (Group Generation Director and Executive Committee member) and Brett Gladden (Group Company Secretary) where we spent valuable time with our Scottish colleagues face-to-face. We are planning further site visits for 2022.

Drax has experienced many changes during the year and the Board recognises the significant work by all colleagues as enablers to that change. We very much appreciate their positive contribution in delivering both our day-to-day operations and progressing our strategy. It is only by working together, informed by our values and our continuing commitment to realising our ambitions responsibly, that we can deliver our strategy.

**Philip Cox CBE**  
Chair

## Corporate Governance Report: Board of Directors

The Board shapes our purpose, strategy, culture and values, to generate long-term sustainable value and provide strong stewardship of the Group.

### Key to Committees

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- Chair of Committee



**Philip Cox CBE**  
Chair



**Will Gardiner**  
CEO



**Andy Skelton**  
CFO

### Contribution and Experience

Philip is an experienced leader of large businesses, having held both executive and non-executive roles, including in the energy sector. As Chair, Philip cultivates a culture of openness, transparency and honesty in which constructive debate and challenge occurs and in which all directors contribute fully. His responsibilities at Drax include Board composition and succession, Board governance and stakeholder engagement.

He was previously CEO of International Power plc, having formerly been CFO. Prior to this he held a senior operational position at Invensys plc and was CFO at Siebe plc. As a non-executive he was previously Chair of Kier Group plc, the Senior Independent Director at Wm Morrison Supermarkets plc, Chair of Global Power Generation and a member of the boards of Talen Energy Corporation, PPL, Meggitt plc and Wincanton plc. Philip is a Fellow of the Institute of Chartered Accountants and has an MA from Cambridge University.

**Appointment to the Board:**  
January 2015

**Appointment as Chair:**  
April 2015.

### Contribution and Experience

Will has a strong track record of building and leading well-managed companies and creating value. He has been a key architect of our purpose and strategy, driving the sustainability agenda from the top, including Drax's response to the climate change crisis, and ensuring that we are delivering for our stakeholders.

He provides leadership of the executive team and takes responsibility for important external relationships and stakeholder management. Will is also a non-executive board member of the Sustainable Biomass Program.

Will joined Drax in 2015 as CFO and was appointed as CEO in January 2018. He has a wealth of experience in finance and technology, having held CFO and divisional Finance Director roles at a number of major companies, including CSR plc (acquired by Qualcomm, Inc in 2015) and Sky. He has dual US-UK citizenship and has lived and worked in the UK since 1998.

**Appointment to the Board:**  
November 2015

### Contribution and Experience

Andy has over 20 years of strong finance and commercial skills, alongside substantial experience in the technology sector. Since joining Drax three years ago he has driven efficiency and operational excellence across the Group to provide a sound framework from which we can deliver our purpose and strategy.

Andy is responsible for financial control and planning, corporate finance, investor relations, tax, IT, procurement, strategy, mergers and acquisitions, risk, and internal audit. He also represents Drax as a board member of the Northern Powerhouse Partnership.

Andy was previously CFO at Fidessa Group plc and has held a number of senior finance positions at CSR plc, Ericsson and Marconi, including two years as CFO of Ericsson Nikola Tesla. Andy has a BA in accounting and finance and qualified as a chartered accountant in 1994.

**Appointment to the Board:**  
January 2019

**Key to Committees**

- A** Audit Committee
- N** Nomination Committee
- R** Remuneration Committee
- Chair of Committee



**David Nussbaum**  
Senior Independent Non-Executive Director

**A N**

**Contribution and Experience**

David's extensive experience in international development and environmental matters, in addition to his prior experience as Finance Director of a UK listed industrial company, is of significant value to Drax and contributes to the Board's discussions and understanding in the perspectives of and engagement undertaken with stakeholders.

David holds a portfolio of other Board appointments, including at the Value Reporting Foundation and the International Budget Partnership, is a member of the Ethical Investment Advisory Group of the Church of England, and is Chair of the Advisory Council of Transparency International UK.

His executive career has included being the Chief Executive of The Elders, of WWF-UK and of Transparency International. He was previously Finance Director and Deputy CEO of Oxfam, and Finance Director of Field Group plc. In a non-executive capacity, David has been Deputy Chair of the International Integrated Reporting Council, Vice-Chair of Shared Interest Society, Chair of Traidcraft plc and a Non-Executive Director of Low Carbon Accelerator Limited.

David is a chartered accountant, and has Masters in Theology from both Cambridge and Edinburgh universities and a Masters in Finance from the London Business School

**Appointment to the Board:**  
August 2017



**Vanessa Simms**  
Independent Non-Executive Director

**A N R**

**Contribution and Experience**

Vanessa has extensive experience in senior finance roles across several different, and capital intensive, industries, including real estate, medical devices and telecommunications.

Her broad and varied experience in strategic capital allocation, finance, risk and internal control is invaluable in her role as Chair of the Audit Committee.

Vanessa is CFO of Land Securities Group plc, and has worked in finance for over 20 years. Prior to her role at Land Securities Group plc, Vanessa was CFO of Grainger plc, held a number of senior positions within Unite Group plc, including Deputy Chief Financial Officer, and was UK finance director at SEGRO plc.

Vanessa is a Fellow of the Association of Chartered Certified Accountants and has an Executive MBA from Ashridge.

**Appointment to the Board:**  
June 2018



**Nicola Hodson**  
Independent Non-Executive Director

**A N R**

**Contribution and Experience**

Nicola brings valuable technology expertise, as well as having extensive experience in business and digital transformation, sales and IT in leading global companies.

As Chair of the Remuneration Committee Nicola brings to the role a wide range of experience of international business, government organisations, and dealing with a variety of stakeholders.

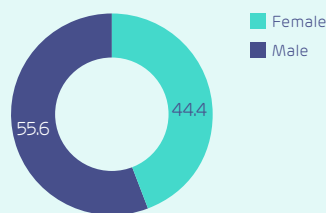
She is currently Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, and was Chief Operating Officer of Microsoft UK. Previously she had P&L and sales roles at Siemens, CSC (now DXC) and EY.

Nicola is a Non-Executive Director of Beazley plc.

**Appointment to the Board:**  
January 2018

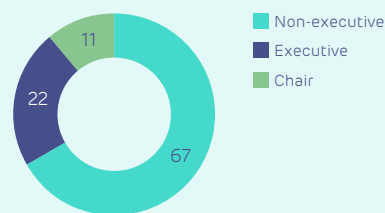
### Gender diversity (%)

(As at 31 December 2021)



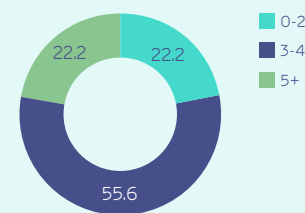
### Composition (%)

(As at 31 December 2021)



### Tenure in years (%)

(As at 31 December 2021)



**John Baxter**  
Independent Non-Executive Director



**Kim Keating**  
Independent Non-Executive Director



**Erika Peterman**  
Independent Non-Executive Director



#### Contribution and Experience

John brings to Drax highly valuable engineering, health and safety, and energy generation experience, with over 45 years working across the nuclear, electricity, oil and gas sectors.

John was previously at BP plc, most recently as Group Head of Engineering & Process Safety, prior to which he worked at the UK utility Powergen plc as Group Engineering Director, as well as roles as a UKAEA Board member and also as a nuclear submarine engineer officer.

He is a Non-Executive Director of Sellafield Ltd and chairs the Sellafield Board Committee on Environment, Health, Safety & Security.

He is a Chartered Engineer, and Fellow of both the Royal Academy of Engineering and the Royal Society of Edinburgh. John has served as President of both the Institution of Mechanical Engineers and The Welding Institute.

**Appointment to the Board:**  
April 2019

#### Contribution and Experience

Kim is a Professional Engineer with 25 years of broad international experience in the oil and gas, nuclear, hydropower, and mining sectors. Most recently, Kim was the Chief Operating Officer of the Cahill Group, one of Canada's largest multi-disciplinary construction companies with operations across the country.

Prior to joining the Cahill Group in 2013, Kim held a variety of progressive leadership roles from engineering design through to construction, commissioning, production operations and offshore field development with Petro-Canada (now Suncor Energy Inc.).

Kim is currently a Non-Executive Director of Yamana Gold Inc. and Major Drilling International Inc. She has led a range of innovative growth initiatives including climate change and renewable energy strategies. Kim is a Fellow of the Canadian Academy of Engineering, holds a Bachelor of Civil Engineering degree and an MBA. She also holds the Canadian Registered Safety Professional (CRSP) designation.

Kim is also a founding member of Makwa-Cahill Limited Partnership, a nuclear qualified indigenous fabrication company. She graduated from the Rotman-Institute of Corporate Directors Education Program and was awarded her ICD.D designation.

**Appointment to the Board:**  
October 2021

#### Contribution and Experience

Erika brings extensive experience gained from more than 25 years working in global organisations, enabling the delivery of change and growth in complex, world-leading businesses. She brings broad knowledge serving various parts of the chemicals industry, across a range of sectors from plastics, petrochemicals, agriculture and pharma.

Erika is currently Senior Vice President at BASF Corporation where she leads the North American Chemical Intermediates business. Erika has held a number of management and senior executive roles with BASF, covering manufacturing and production, engineering, strategy, and commercial business management roles. She actively supports BASF's talent and workforce development programs as well as a range of their diversity and inclusion initiatives.

Erika serves on the University of Houston's Engineering Leadership Advisory Board and chairs the Planning Committee as Board Trustee at Chatfield College in Cincinnati, Ohio. She is a member of the Executive Leadership Council, a non-profit whose mission is to globally accelerate the development of successful black executives across the lifecycle of their careers. Erika holds a BSc in chemical engineering from the Georgia Institute of Technology and an MBA from the University of Houston.

**Appointment to the Board:**  
October 2021

# Corporate Governance Report: Compliance with the UK Corporate Governance Code 2018 (Code)

Reports on how Drax, the Board and its Committees satisfied the Principles and Provisions of the Code were considered formally at two meetings during 2021. The meetings included discussions about the steps being taken and how they might evolve in 2021, the effectiveness of stakeholder and colleague engagement, and how the Board assesses, monitors and constructively influences culture. Also discussed were the actions taken

<p><b>Board Leadership and Company Purpose</b></p> <p><b>Principles</b></p> <p>A. Promoting the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.</p> <p>B. Purpose, values and culture</p> <p>C. Resources and effective controls</p> <p>D. Engagement with stakeholders</p> <p>E. Workforce engagement and whistleblowing</p>	<p>The Board has clearly articulated the Group's purpose (to enable a zero carbon, lower cost energy future), ambition (to become carbon negative by 2030) and business model. The Board promotes a culture of openness and collaboration, setting a clear and positive tone to promote our values.</p> <p>This underpins the Group's strategy – 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 – whilst also supporting the UK's ambition to achieve net zero by 2050.</p> <p>Items such as health, safety and wellbeing, ethics and employee engagement are standing agenda items at Executive Committee and Board meetings. This provides oversight, identifies areas for improvement and practices which enable positive engagement, underpinning the culture of respect.</p>	<p>The workforce engagement forums meet quarterly. Key issues discussed in 2021 included the ongoing support for colleagues working from home, our new hybrid way of working, actions to support mental health and wellbeing, how Drax supports diversity and inclusion, and company strategy (particularly in light of climate change and the Pinnacle acquisition). Chair, Philip Cox, and CEO, Will Gardiner, meet quarterly with the chairs of the workforce forums, supported by Hillary Berger, Group General Counsel and an Executive Committee member. A report on these meetings is included in the subsequent CEO report to the Board.</p> <p>Employee engagement surveys are typically undertaken annually. Action from the 2020 survey included changes to flexible working patterns to reflect colleague feedback. (You can read more about how the Board monitors and assesses culture on page 105).</p>
<p><b>Division of Responsibilities</b></p> <p><b>Principles</b></p> <p>F. The role of the Chair</p> <p>G. Board composition</p> <p>H. Non-Executive Directors</p> <p>I. The company secretary and Board resources</p>	<p>The Board comprises the Chair of the Board, two Executive Directors and six independent Non-Executive Directors (all of whom were considered independent on appointment and one of whom, David Nussbaum, acts as Senior Independent Director).</p> <p>The Non-Executive Directors, led by the Senior Independent Director, conducted a review of the Chair's performance. The Chair was not present at this meeting. The Senior</p>	<p>Independent Director then provided feedback to the Chair.</p> <p>Non-Executive Directors routinely scrutinise performance against business objectives (including financial, strategic and other measures captured in the Group Scorecard). They hold management to account and provide challenge and guidance in an open and constructive environment. Examples of such challenge in 2021 include better tracking and reporting on programme</p>
<p><b>Composition, Succession and Evaluation</b></p> <p><b>Principles</b></p> <p>J. Appointments to the Board and succession planning</p> <p>K. The skills, experience and knowledge of the Board and Committees</p> <p>L. Board evaluation</p>	<p>The Nomination Committee comprises the Chair of the Board (who also chairs the Committee) and six independent Non-Executive Directors.</p> <p>All appointments to the Board are subject to a formal, rigorous and transparent process. During 2021, two new Non-Executive Directors were appointed to the Board, supported by external search consultants Audeliss. You can read more about this on</p>	<p>page 113. All new Directors undergo a thorough induction programme.</p> <p>Each year the Nomination Committee reviews the Group's succession plan, identifying colleagues who have the potential to progress to more senior roles across a time frame of one to five years. The review is based on merit and objective criteria and focuses on various aspects such as technical skills, experience, behaviours,</p>
<p><b>Audit, Risk and Internal Control</b></p> <p><b>Principles</b></p> <p>M. The effectiveness of internal and external audit functions</p> <p>N. Fair, balanced and understandable assessment</p> <p>O. Risk management and internal control</p>	<p>The Audit Committee comprises four independent Non-Executive Directors. The Committee chair was considered independent on appointment as chair, and has recent and relevant financial experience.</p>	<p>The Audit Committee provides oversight and challenge of the Group's financial statements to ensure they provide a fair, balanced and understandable assessment of the Group's position and performance.</p>
<p><b>Remuneration</b></p> <p><b>Principles</b></p> <p>P. Remuneration policies and practices and alignment to long-term strategy</p> <p>Q. Executive remuneration</p> <p>R. Independent judgement and discretion and remuneration outcomes</p>	<p>The Remuneration Committee comprises five independent Non-Executive Directors and the Chair. The Committee chair was considered independent on appointment as chair and has relevant committee experience.</p> <p>The current Directors' Remuneration Policy ("Policy") was approved by shareholders at the 2020 AGM. The Policy seeks to align</p>	<p>rewards with the Group's purpose and strategy, promote long-term sustainable success and reflect the priorities of stakeholders. Annual bonus metrics are the same for all participating colleagues, including Executive Directors, ensuring alignment. In 2020, the Committee determined and communicated that pension arrangements for any new Executive</p>

You can find the Code on the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk)



in addressing recommendations from the most recently completed externally led Board and Committee performance evaluations. It is the Board's view that, other than in respect of the alignment of executive pension contributions (previously disclosed and also on page 140) the Company applied the principles and complied with the provisions of the Code during 2021.

In June 2021, the Board attended a site visit at Drax Power Station. This gave Directors the opportunity to visit key projects, meet operational colleagues, and gain invaluable insight into the local culture of the business. The visit included learning about the experiences of apprentices working on the BECCS programme and meeting project leaders working on the 'Fit for the Future' initiative for the Drax Power Station. In December, the Chair and Senior Independent Director David Nussbaum, visited our Hydro sites in Scotland. Following the easing of Covid-19 restrictions, we are planning further site visits for 2022.

The Board understands that culture is a key factor in the success of any acquisition. During 2021 the Board paid particular attention to understanding the culture of the Pinnacle business as a means of supporting the integration planning process.

The Board ensures that both it, and the business, actively engages with a wide range of stakeholders to encourage meaningful two-way participation and ensure the Group makes a positive contribution to wider society. Board papers submitted for material decisions, and the assessment undertaken at Board meetings, consider the impact on wider stakeholders, and the Board routinely receives updates on stakeholder engagement. You can read more about this on pages 34 to 41 and on page 107. The Chair, Senior Independent Director and Chairs of the Audit and Remuneration Committees are all available for engagement with shareholders.

Diversity, Equality and Inclusion are an important aspect of the work of the Board, which is keen to set the right tone. The Board assesses actions being taken in the three core areas of the strategy: Data (understanding and tracking changes being

made to the socio-economic and cultural balance of colleagues working across the Group); Educate (positive steps to inform behaviours as part of driving change); and Inspire and Recruit (encourage people throughout the organisation to participate and recognise the importance of their involvement in realising shared objectives). Progress in each pillar is reviewed monthly at a Diversity and Inclusion steering committee, with the CEO providing regular updates provided to the Board. You can read more about this work on pages 96 and 113.

The Group has a confidential whistleblowing telephone hotline and web-portal available to enable colleagues and third parties to raise matters of concern. The Board oversees whistleblowing, and receives regular updates and discusses findings from investigations.

execution to aid understanding of project milestone delivery, and the tracking and reporting of emissions at each operating plant in North America as part of realising targeted reductions.

Before regular Board meetings, the Chair and Non-Executive Directors meet without the Executive Directors being present, giving them the opportunity to consider and discuss matters. The Audit Committee, which the Board Chair, Philip Cox, attends

by invitation, also provides routine agenda time to discuss matters in the absence of management. These agenda items typically include meetings with the external and internal auditors.

The Board approves additional appointments in advance, taking into account the additional demands on directors' time. No Executive Director has a non-executive position in a FTSE company.

All Directors have full access to the services of the Company Secretary. The Board as a whole approves the appointment or removal of the Company Secretary. The Company Secretary, working closely with the Chair, ensures that the Board has the policies, processes, information, time and resources it needs to function effectively and efficiently.

attitudes and diversity. This ensures the business has the right leaders in place to deliver our purpose and strategy. The most recent review was conducted in December 2021, which also assessed the capabilities required to support progress in delivering the breadth of projects across key functions of the Group.

All Directors seek annual re-election (or election at their first AGM following

appointment). For the 2022 AGM, each of Kim Keating and Erika Peterman will be seeking election, as they were appointed during the 2021 financial year.

An externally facilitated evaluation of the Board was undertaken in 2019. As the Chairs of the Audit and Remuneration Committees were new in post at that time, it was agreed that the 2019 review should focus just on the Board. In 2020, Board

Alchemy performed an externally facilitated evaluation of the Committees, with actions considered during 2021. An internal evaluation of the Board and Committees took place in 2021. You can read more about this on page 115.

*The composition and activities of the Nomination Committee can be found in the Nomination Committee Report on page 112.*

The Board has in place procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the Group is willing to take to achieve its long-term strategic objectives. Details of the approach

to risk management, the process controls and principal risks, together with mitigation strategies, appear on pages 76 to 91. In 2021 the Committee undertook a formal tender in preparation for the end of tenure of the present external auditor Deloitte LLP, which

concluded with a recommendation that PwC be appointed for the financial year commencing 1 January 2024.

*The composition and activities of the Audit Committee can be found in the Audit Committee Report on page 118.*

Directors would immediately be aligned with the wider workforce and, from 1 January 2023, the contribution rates for existing Executive Directors will be aligned with the wider workforce.

During 2022, the Remuneration Committee will review the Policy and consult with shareholders as part of a consideration of possible changes.

The Remuneration Committee scrutinises performance related pay at the point of completing a measurement period and has discretion to ensure that remuneration outcomes are adjusted where it considers that such adjustment more appropriately aligns reward outcomes to Group performance.

No directors are involved on decisions regarding their own remuneration.

*The Policy, the composition and activities of the Remuneration Committee, and remuneration outcomes can be found in the Remuneration Committee Report on page 130.*

# Corporate Governance Report: Executive Committee

## Role of the Executive Committee

The Executive Committee focuses on the delivery of the Group's strategy, assessing the adequacy of the Group's financial structure, operational and financial performance, innovation, organisational development, and change. This is enabled by engagement with the workforce and other external stakeholders, including the UK Government and NGOs. The Committee considers stakeholder engagement, with a focus on the political landscape that could impact the Group's ability to execute its strategy. There are more details about such engagement on pages 34 to 41.

The Executive Committee develops and considers policies and procedures that provide an effective framework for operating in line with required standards, laws and regulations. These policies and procedures include our Code of Conduct, Supplier Code of Conduct and Diversity and Inclusion Policy.

Following the acquisition of Pinnacle in April 2021, the Committee considered our integration plans and gained a better understanding of the opportunities our global sustainable biomass generation and supply business provides. Decisions were taken on how best to change our management structure to achieve these opportunities as the business grows its biomass, bioenergy and BECCS business – in North America, Europe and Asia.

The Committee appointed three new members in 2021, all internal promotions – Hillary Berger, Group General Counsel; Matt White, EVP Pellet Operations; and Karen McKeever, Chief HR Officer. Penny Small took over from Mike Maudsley as Group Generation Director. Mike left the business at the end of 2021.

The Executive Committee considers business performance against the annual plan, and reviews progress in realising longer-term objectives. Reports are provided on each of the business units covering financial and non-financial metrics. The latter include matters affecting the safety and wellbeing of our workforce which is the opening agenda item for each meeting. Ethics and values are also a standing agenda item.

In 2021, the Executive Committee completed an in-depth review of all nine principal risks. Each principal risk is owned by a member of the Executive Committee. Following the acquisition of Pinnacle, the Pinnacle Risk Register was restructured to align with the Drax principal risk categories and risk scoring methodology. The resulting document was then circulated to each principal risk owner for review and feedback, to help establish Group-level governance of Pinnacle-specific risks. You can read more about our principal risk processes on pages 76 to 91.

The Executive Committee meets informally each week, in addition to 11 monthly meetings. Where relevant to the matters under discussion, Committee members receive the relevant briefing papers ahead of the meetings. Members also receive presentations on various business issues from senior managers within the business units.

The Committee also meets with management teams each quarter for a deep dive into operational and financial performance, to review key programmes and initiatives and assess delivery against the Group's strategy.

Biographies of the Executive Committee members can be found on the website [drax.com/about-us/corporate-governance/](https://www.drax.com/about-us/corporate-governance/).

A sound governance framework underpins our purpose and supports effective decision making and the delivery of our strategy

## Drax Group plc Board

Responsible for setting the Group's purpose and values, for assessing and monitoring culture, and for setting and overseeing the Group's strategy and risk appetite. It also monitors performance, making sure that the necessary controls and resources are in place to deliver the Group's plans and that the Group meets its responsibilities to its various stakeholders

### Audit Committee

Oversees financial reporting, key accounting judgements, internal controls and risk management systems, internal and external audit effectiveness

Page  
118

### Nomination Committee

Makes recommendations on the size, diversity and composition of the Board and succession planning for the Directors and senior executives

Page  
112

### Remuneration Committee

Oversees the Group's approach to remuneration, ensures remuneration policies support the purpose and strategy, and sets pay for the Executive Directors and members of the Executive Committee. Also considers the alignment of reward across the wider business

Page  
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## Executive Committee

Focuses on the Group's strategy, financial structure, planning, operational and financial performance, governance framework, culture and diversity, succession planning and organisational development below Board level

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### Ethics and Business Conduct Committee

Monitors ethical behaviour and practices across the business

### Capital Allocation Process Committee

Provides oversight, co-ordination and approval for capital deployment proposals

### Financial Risk Management Committee

Provides oversight and challenges the effective management of all financial risks, including trading, commodity, treasury and currency

### IT Board

Provides oversight and co-ordination of IT activities and strategy, information systems and security risk

### Operating Review Committees (Pellet Production, Generation and Customers)

Reviews the operational and financial performance of the business units

### Group HSE Committee

Reviews and challenges the management of process and people safety, health, environment and wellbeing risks

## Role of the Board

The Board determines: the Group's purpose, strategy and business model for long-term value creation; appetite for risk and risk management policies; annual plan and budget, ensuring the Group has the necessary resources to deliver the strategy; setting key performance indicators to measure performance against strategic objectives, for example, tracking cost reduction targets in the self-supply of pellets (see page 20); reviewing and advising on stakeholder engagement, including shareholder engagement and engagement with the workforce, as well as Government and NGOs, such as participation in COP26 (see page 34); considering proposals from management for acquisitions, disposals, and other transactions outside ordinary delegated limits, such as the Pinnacle acquisition and disposal of the CCGT assets; material changes to accounting policies or practices; significant financial decisions, including investment in large scale projects (such as BECCS); capital structure and dividend policy; the effectiveness of the Group's governance structure, commenting on how these should be revised to reflect the evolution of the business, including business conduct, ethics and whistleblowing; prosecution, defence or settlement of material litigation; Directors' Remuneration Policy; the terms of reference of Board committees; and the Board structure, composition and succession, including the two new appointments to the Board completed in October 2021 (see page 113).

## Terms of reference

The Board has a schedule of matters reserved for its decisions and formal terms of reference for its Committees. These are reviewed periodically and the terms of reference of the committees of the Board are available to view on the Group's website at [www.drax.com](http://www.drax.com).

Matters not specifically reserved to the Board and its Committees under their terms of reference, or for shareholders in General Meeting, are delegated to the Executive Committee or otherwise delegated in accordance with a schedule of delegated authorities approved by the Board. The most recent review of the Matters Reserved for the Board occurred in December 2020. This review informed a detailed assessment of the Group's wider delegations of authority, which was completed in 2021.

## How the Board functions

Routinely, before the formal meeting of the Board, the Chair and the Non-Executive Directors meet in private without management being present. This allows the Chair and Non-Executive Directors to exchange views and share any concerns before the meeting starts. At each Board meeting, the CEO gives a report on key business, operational and safety matters and reports on the Group's financial performance. The Board also receives regular reports on performance against the business plan, operational and financial performance, regular business reports from senior management across the Group, and updates on investor relations and wider stakeholder engagement.

During 2021, there was a focus on understanding the principal risks associated with the acquisition and integration of Pinnacle. Following acquisition, the Pinnacle Risk Register was restructured to align with the Drax principal risk categories and risk scoring methodology, to establish Group-level governance of Pinnacle specific risks. Throughout the integration process, the Board continuously monitored the risks related to the Pinnacle acquisition (as disclosed in the Shareholder Circular),

with appropriate mitigations being implemented to limit the potential risk exposure. You can read more about this in Principal Risks and Uncertainties on pages 76 to 91.

In 2021, the Board considered climate-related disclosures. It received an update on management's progress against agreed plans for addressing the Taskforce on Climate-related Financial Disclosure (TCFD) recommendations. The Board members provided feedback on the selection of climate scenarios for our scenario analysis exercise. You can read more about TCFD on pages 64 to 71. The Board was engaged to provide guidance and approval on a developing Group Sustainability Framework and reviewed a paper on the carbon target landscape and key considerations for the Drax response.

The Board receives regular industry, regulatory and topical updates from internal specialists and from external experts and advisers. Examples in 2021 included internal briefings such as a deep-dive on Treasury and Foreign Currency portfolio optimisation; detailed half-yearly updates on security matters, including cyber security, information security and the effectiveness of controls; an in-depth review of the Group's trading and optimisation strategy; and an external briefing from KPMG on changes expected on internal controls, audit and external reporting.

The core activities of the Board and its Committees are planned on a forward agenda. This is considered by the Chairs of each Committee and reviewed at least annually. A list of matters arising from each meeting is maintained and followed up at subsequent meetings. The Group Company Secretary advises the Board on governance matters, ensuring good information flows within the Board, its committees, the Executive Committee and senior management. The Group Company Secretary is responsible for ensuring the Board complies with all relevant processes and for assessing compliance with the Listing, Prospectus, Disclosure Guidance and Transparency Rules, the Corporate Governance Code and the Companies Act. An important part of this is effective collaboration with other parties across all Group functions. Good training, regular discussions on key issues, and support from those in areas of critical operational risk in evaluating areas for change are also imperative.

All Board Committees are authorised to obtain legal or other professional advice as necessary to perform their duties. This includes securing the attendance of external advisers at meetings and seeking required information from any member of the Group's workforce.

The Company's Articles of Association (the Articles) give the Directors power to authorise conflicts of interest when they are presented with such matters for their review. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. In 2021, no conflicts of interest were identified. The Articles also allow the Board to exercise voting rights in Group companies without restriction (for example, to appoint a director to a Group company). At the Annual General Meeting in April 2021, shareholders approved the adoption of new Articles, which were updated taking into account evolving regulation and best practice. For example, the Articles include provisions to enable the use of technology to support the conduct of general meetings, with shareholders attending remotely. The Articles are available on the Group's website at <https://www.drax.com/wp-content/uploads/2021/04/2021-Articles-of-Association.pdf>.

## Culture

### How does the Board monitor and assess culture?

<b>The Board</b>	<ul style="list-style-type: none"> <li>• Regularly considers updates on workforce engagement and feedback from meetings between the Chair of the Board, CEO and the chairs of the MyVoice engagement forums. (You can read more about engagement with the MyVoice forums on page 109.)</li> <li>• Considered culture and how this might evolve as part of the Pinnacle integration planning and monitoring.</li> <li>• Reviews and challenges management on the results from the annual workforce engagement survey and management's action plans. This was most recently undertaken in December 2021.</li> <li>• Reviews the health and safety performance of the business at every meeting, including consideration of culture and how colleagues at sites are enabled to engage with and contribute to safety practices.</li> <li>• Board members visit site locations to meet colleagues to better understand both the business operations and the local culture. Exercising caution in relation to social distancing throughout 2021, Board members visited sites at Northampton, Selby, Cruachan and the run-of-river hydro locations at Galloway and Lanark.</li> <li>• Oversees Principal Risks, including strategy, people, health and safety, and climate.</li> <li>• Oversees and regularly considers updates on whistleblowing.</li> <li>• Reviews and approves the Drax Code of Conduct, which covers ethics and broader topics including health, safety and the environment.</li> <li>• Reviews and approves the Supplier Code of Conduct. This is the framework for best practice and compliance with appropriate standards to which we expect our suppliers to operate, to the benefit of the communities in which Drax and they operate.</li> <li>• Considered progress on harmonising policies and procedures across the Group in respect of the material areas of the activities, including health, safety and environment; people (including diversity and inclusion, and flexible working); business ethics; market abuse; risk management; and political engagement.</li> </ul>
<b>The Audit Committee</b>	<ul style="list-style-type: none"> <li>• The Committee reviews annually the Group Ethics and Business Conduct Committee (EBCC) activities for the year, including Speak Up reports and investigations.</li> <li>• The Business Ethics team also reports regularly to the Audit Committee on investigations and key matters, which includes Speak Up (whistleblowing) to understand how the matters arising might contribute to understanding colleague behaviours in fulfilling the Group's internal controls.</li> </ul>
<b>The Remuneration Committee</b>	<ul style="list-style-type: none"> <li>• Sets the targets for incentive plans, ensuring they are aligned with the Group's purpose, values and strategy.</li> <li>• Conducts a review of the effectiveness and appropriateness of the Remuneration Policy to determine potential areas for change in subsequent periods.</li> <li>• Considers and reviews the effectiveness of KPI's and how they link to delivery of strategy and delivering positive change (including cultural and behavioural). For more information see pages 20 and 21.</li> <li>• Annually reviews the Gender Pay Gap disclosures.</li> </ul>
<b>The Nomination Committee</b>	<ul style="list-style-type: none"> <li>• Oversees how the Group promotes diversity and inclusion in the talent pipeline and succession planning.</li> </ul>
<b>The Executive Committee</b>	<ul style="list-style-type: none"> <li>• The subject of ethics and values is a standing agenda item for the Executive Committee. The Group CFO, who was Chair of the EBCC and Committee sponsor during 2021, supports the CEO's regular updates to the Board.</li> <li>• Develops plans for Board consideration on matters such as responding to workforce engagement feedback, promoting diversity and inclusion and dignity at work.</li> <li>• Weekly Group-wide CEO "Ask Will" email and Q&amp;A.</li> </ul>
<b>The Group Ethics and Business Conduct Committee (EBCC)</b>	<ul style="list-style-type: none"> <li>• A sub-committee of the Executive Committee, the EBCC meets quarterly and monitors and supports initiatives to enhance and assess ethical behaviour and business conduct across Drax.</li> <li>• Members of the EBCC include an Executive Director (the CFO and Chair of the EBCC during 2021) and five Executive Committee members (the Director of Corporate Affairs, Chief Commercial Officer, Group Generation Director, EVP Pellet Production and the Group General Counsel). This supports an understanding of business culture and attitudes and informs Board and Executive Committee discussions.</li> <li>• Supports the Group's commitment to doing the right thing in its business practices by making sure there are appropriate communications to raise awareness and provide appropriate training that informs behaviours in accordance with our Code of Conduct. For more information see pages 61 to 63.</li> <li>• Conducts an annual review and risk assessment of each compliance programme, covering anti-bribery and corruption (including conflicts of interest), fair competition, financial crime, privacy, Speak Up (whistleblowing), and supply chain human rights.</li> </ul>

The Business Ethics team is responsible for our Speak Up (whistleblowing) programme and the external, anonymous and confidential Speak Up service available within Drax, which is available in multiple languages and is promoted in our Supplier Code of Conduct. This also extends to third parties, such as suppliers and visitors to our sites. The team responds to any reports from within Drax, as well as those referred to the Company via the external service. The Group Company Secretary is the Whistleblowing Officer and has oversight of all Speak Up investigations, which are managed by the Business Ethics team.

In May 2021, an internal audit of our Speak Up arrangements was undertaken, and its findings reported to the Audit Committee in July 2021. The report noted the significant evolution of the programme since late 2019. Recommendations for action included adding scenarios to training; benchmarking the Speak Up management system; and some processes for

case management. These had all been progressed during the second half of 2021, with most actions being completed and a few being carried over into 2022.

Whistleblowing was the main topic of our annual Code of Conduct eLearning refresher in November 2021. In the 2021 My Voice engagement survey, 86% of colleagues responded positively when asked whether they “*feel comfortable to speak up or report any concerns*”. For more information on Speak Up, see pages 62 to 63.

In July 2021, the Speak Up programme was adapted and rolled out to new colleagues in Canada, which included awareness raising communications and discussions at business meetings. With advice from Canadian experts, the adaptations took account of Canadian laws and practices.

### Board decision-making and stakeholder considerations – Pinnacle acquisition

In late summer 2020, a process of engagement with the Board of Directors was initiated proposing that management undertake due diligence for the possible acquisition of Pinnacle. The Board was involved in each phase of the review and negotiations, assessing the rationale for acquiring Pinnacle in conjunction with a detailed financial, business and strategic case. Management continued to update these as discussions progressed. Given the acquisition was a Class 1 transaction under the UK Listing Rules, the process of engagement and the assessment of the acquisition was supported by work in conjunction with the Group’s advisers. These included Slaughter & May (UK) and Osler, Hoskin & Harcourt (Canada) (legal aspects), Deloitte and PwC (financial matters), and Royal Bank of Canada (corporate banking).

There were clear parallels in the respective businesses of Drax and Pinnacle. Even so, the Board appreciated the acquisition would take Drax into new activities, including operating plants in Canada and the supply of pellets under contract to customers in Asia and Europe. The opportunities also required the Board and management to develop a more detailed understanding of key stakeholders. These included parties directly connected with the conduct of the Group’s enlarged business, such as colleagues, joint venture partners and suppliers. The Board and management also considered stakeholders with indirect and vested interest in Pinnacle’s activities, including local communities, NGO’s, regulators and regional and national governments.

The Board rigorously considered the sustainability and environmental aspects of the enlarged Group’s activities. This involved reviewing the characteristics of the regions in Canada from which Pinnacle obtains its fibre, including an in-depth assessment of the commercial, heritage and natural characteristics of forests and Pinnacle’s sourcing strategy. These factors were considered with reference to the sustainability criteria and policy of Drax. Consideration was also given to the broader safety and environmental policies and practices, to identify areas where action might be

required to align with Drax. There was also consideration of the differing regulations in Canada, the US and UK, and the work required to comply and report on such matters. In conjunction with such work, Will Gardiner asked the Independent Advisory Board to participate in both understanding the issues and assessing the adequacy of measures being taken by Drax. These measures were designed to ensure Drax continued to implement robust and sustainable sourcing practices across its potentially enlarged business.

The Board reviewed in detail the views of stakeholders in Canada on the impact such sourcing could have upon the region’s forests. The impacts under consideration included the sustainability, both commercially and ecologically, of historic forests, in addition to biodiversity, with due regard to the impacts on local communities. The Board challenged management to establish and undertake effective programmes for engagement and considered the resulting plans. The planning has included, and will continue to include, local communities, First Nations groups, and others, such as joint venture partners, with vested interests in the heritage and proper stewardship of the forests from which sustainable biomass is sourced. Through such engagement we expect to be informed on the future development of our strategy, for example extending the aspects of our sustainability strategy to also be more nature positive.

Strong community relationships are critical to our long-term success in Canada, where forests are a public resource. Recognising the importance of First Nations in Canada, and with consideration of the communities where we operate, we have been bringing together a dedicated team from key business units since the acquisition. This team will explore ways we can enhance relationships and develop mutually beneficial agreements and partnerships with First Nations. In addition, we will seek ways to support First Nations’ goals while creating opportunities within our workforce to better understand the history and culture of indigenous peoples.

Drax seeks to ensure that colleagues and relevant "associated persons", such as certain types of contractors, receive appropriate communications and training on key matters underpinning ethical behaviours. These include Anti-Bribery and Corruption (including Conflicts of Interest), Fair Competition, Financial Crime, Privacy, Supply Chain, Human Rights and Speak Up (whistleblowing).

Drax also regularly reviews its suite of policies to ensure continuous improvement. Annual refresher eLearning of the Code of Conduct was deployed to all UK and US colleagues in November, and the Code of Conduct will be deployed to Pinnacle colleagues during 2022. There is more information on our approach to the management of ethics and integrity on pages 61 to 63.

### Diversity

We explain our work promoting diversity on pages 59 and 60. The table below shows the gender diversity split on the Board and in the wider workforce at 31 December 2021.

Gender	Male		Female		Total	
	No.	%	No.	%	No.	%
Board members	5	55.6	4	44.4	9	100
Senior managers <sup>(1)</sup>	44	62.9	26	37.1	70	100
All employees <sup>(2)</sup>	2,090	70.2	886	29.8	2,969	100
<b>Total</b>	<b>2,137<sup>(3)</sup></b>	<b>70.0</b>	<b>916</b>	<b>30.0</b>	<b>3,053</b>	<b>100</b>

(1) Direct reports of the Board (i.e. Executive Committee) and their direct reports.

(2) Excluding Board members and senior managers.

(3) Two Executive Directors are also members of the Executive Committee ("Senior Management"). They are included in both sets of figures to ensure the correct diversity is reflected, but have been removed from the total to ensure the correct headcount is reflected.

### Board leadership of stakeholder engagement

The Board is responsible for engagement with stakeholders. It ensures that appropriate time is given to discussing the views and feedback from stakeholders and that sufficient resources are available for the Group to effectively engage. The Corporate Affairs team maintains a detailed map of our key stakeholders, and the concerns they have raised, and the date of each meeting with them.

Members of executive management, including Executive Directors, provide regular updates to the Board, to ensure awareness and inform discussions. The Board takes these opportunities to assess and challenge management's approach relating to engagement.

During 2021, the Board heard reports on the engagement strategy with a range of stakeholders. The topics included BECCS, the Humber Industrial Decarbonisation Deployment Project, the potential expansion of the Cruachan pumped storage power station (see page 36), biomass acceptability, biomass strategy, and participation at COP26. The CEO's report to the Board regularly includes a section detailing activity around key stakeholder relations and the relevant feedback received from stakeholder interactions.

Supporting the Board's duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006, Board discussions, and supporting papers, for material decisions consider the likely impact on those stakeholders affected by the decision. You can find our Section 172 Statement on page 35. The article on page 106 provides an example of this in action in respect of the decision in 2021 to acquire the Pinnacle business.

For more detailed information on our stakeholders and how we engage with them please refer to our "Stakeholder" section on pages 34 to 41.

### Directors' development and induction

To assist the Board in undertaking its responsibilities, a programme of training and development is available to all Directors, with training needs assessed as part of the Board evaluation procedure.

The Board's programme includes regular presentations from management, and informal meetings, that build an understanding of the business and sector, or in areas recognised as being technically complex. Such training is intended to support a deeper understanding as well as equipping the Non-Executive Directors with insight into how the Drax approach compares with the practices of its peers.

Throughout 2021, the Directors also had access to the advice and services of the Group Company Secretary. Directors may take independent advice at the Company's expense, when it is judged necessary to discharge their responsibilities effectively. No such independent advice was sought in 2021.

All new Directors receive a comprehensive and tailored induction programme, including meetings with key managers, site visits, and briefings on key operational matters, Board procedures and governance matters. The table below summarises the key elements of the induction programmes for Kim Keating and Erika Peterman. Some took place during the final quarter of 2021, with others planned for the first half of 2022:

Focus of the induction	Key stakeholders engaged
Strategic and operational review	A series of one-to-one meetings with each member of the Executive Committee
Financial and internal controls review	A series of meetings with finance and senior leadership
Investors, stakeholders and sustainability	A series of one-to-one meetings with the Head of Investor Relations, Group Director of Sustainability and Group Director of Corporate Affairs
Visits to key business sites	The scheduling of visits to operational sites in Canada, the US and the UK, to facilitate in-person meetings with local management and colleagues
Directors' duties and responsibilities, the Group's governance structure, legal and regulatory matters	Meetings with the Group Company Secretary and Group General Counsel, meetings with external counsel and external advisers
Additional specific training with subject-matter specialists	External training on the Market Abuse Regulations, teach-ins on the key issues associated with carbon pricing for our present and future business models, and any training requirements identified as appropriate during the induction programme

### Number of meetings held

The Board and its Committees have regular scheduled meetings and hold additional meetings as required. The Board has eight scheduled meetings each year, with the Board meeting at least annually to specifically consider strategy. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the Annual General Meeting (AGM) and any other General Meetings.

### Board roles

The key responsibilities of members of the Board are as follows:

Position	Role
Chair	Responsible for leading and managing the Board, its effectiveness, and governance. Makes sure Board members are aware of, and understand, the views and objectives of major shareholders and other key stakeholders. Helps to set the tone from the top in terms of the purpose, goal, vision and values for the whole organisation.
CEO	Responsible for the day-to-day management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy.
CFO	Supports the CEO in developing and implementing strategy, in relation to the financial and operational performance of the Group.
Senior Independent Non-Executive Director	Acts as a sounding board for the Chair and a trusted intermediary for other Directors. Available to discuss any concerns with shareholders that cannot be resolved through the normal channels of communication with the Chair or the Executive Directors.
Independent Non-Executive Directors	Responsible for bringing sound judgement and objectivity to the Board's deliberations and decision-making process. Constructively challenge and support the Executive Directors. Monitor the delivery of the strategy within the risk and control framework set by the Board.



## Time commitment

Directors' commitments outside of Drax are kept under review to make sure they have sufficient time to dedicate to the business and effectively perform their role. Under the terms of the Chair's letter of appointment, the Chair is expected to commit between 50 and 70 full days a year to this role. Under the Non-Executive Directors' letters of appointment, each is expected to commit 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy off-site event and at least one site visit each year.

In addition, Non-Executive Directors are expected to devote appropriate preparation time ahead of each meeting. The time commitment expected in respect of their membership of the Audit, Nomination and Remuneration Committees is an additional three to four full days a year in each case. However, in practice, considerably more time is devoted, particularly by the Chairs of the Committees.

Executive Directors may, with the prior approval of the Chair, take on one additional role in an external listed company. Neither of the Executive Directors have taken on such a role. Non-Executive Directors may, with the prior approval of the Board, take on additional roles provided the individual can continue to devote sufficient time to meet the expectations of their role.

Non-Executive Directors are encouraged to undertake visits to Drax operations and spend time with management and the workforce. This is designed to build and then maintain their knowledge of the developing business and to understand the operational challenges. Visits undertaken in 2021 enabled the Board to assess the effectiveness of actions being taken and to scrutinise both the financial and non-financial impacts of the pandemic.

## Board composition and independence

The Board has reviewed the independence of each Non-Executive Director. None of the Non-Executive Directors who served during the year had any material business or other relationship with the Group, and there were no other matters that were likely to affect their independence of character and judgement. The Board recognises that in view of the characteristics of independence set out in the Code, length of service is an important factor when considering the independence of Non-Executive Directors and that directors who have served more than nine years may not be considered independent.

The Board considers all the Non-Executive Directors to be independent.

## Workforce engagement

The MyVoice Forums (MVFs) were established in 2019. These had been selected by the Board as the most appropriate means to facilitate workforce engagement – this decision had been informed by the workforce forums already in place in parts of the business, which had demonstrated a sound basis on which to build a Group-wide framework of effective and direct engagement between the Board and the workforce.

Each business unit has a MVF, comprising approximately 10 colleague representatives, and across the Group we have approximately 50 representatives. They are drawn from across our career levels, jobs roles and represent a range of diversity and experience. Collectively, the MVFs form a structured network of members across the Group, to ensure all colleagues' voices and views are heard.

A member of the senior leadership team and an HR representative support these forums and attend each meeting. The MVF chairs meet quarterly with the Chair and CEO to discuss colleague sentiment and to provide feedback on key topics. Each of these meetings features a discussion about the feedback on previously agreed topics of importance to the Board and to the workforce. Following each meeting, the Group Chair and CEO provide updates to the Board to make sure all Directors understand the views of colleagues. Engagement with the MVF chairs has been valuable in helping the Board gain ongoing feedback as the business continues to evolve and grow.

Topics discussed in 2021 included our Covid-19 response, and plans for returning to the offices. In response to feedback, management introduced a new, hybrid, way of working with flexible working policies to support colleagues. How Drax is working to promote Diversity and Inclusion continues to be

a key topic. We have celebrated events such as Pride, Black History Month, and International Women's Day, and used these occasions as an opportunity to educate and share ideas with colleagues. Organisational transformation has also featured regularly on the agenda, providing an opportunity for the Directors to understand how changes were being received and the sentiment of the workforce. The forums offer a safe space in which to answer direct questions raised by the chairs, and to discuss important issues.

The MVFs continue to be a key part of Drax's listening strategy and work in tandem with the My Voice engagement survey. They provide valuable, deeper, insight to the survey themes and deliver further input to the resulting action plans. A key action area following the 2020 survey was career and development opportunities. With MVF input, this resulted in an action plan delivered by the Drax HR team and led to improved scores in the 2021 survey.

Following the 2021 survey, our MVFs again will provide valuable insight into the key themes: career and growth opportunities; our charity and community policy; our role in tackling climate change, and acting as a responsible business. The engagement and feedback from the forums will be important in driving our action plans for 2022.

Each week, the CEO writes to the entire workforce, providing an update both on what he and the business have been doing, and answering questions submitted by colleagues. During 2021 the CEO answered over 1,600 questions on topics including Covid-safe working arrangements, COP26, electric vehicle charging for colleagues at our sites, and our move to more flexible, hybrid working patterns.

## Board attendance 2021

The table below shows the number of meetings held and the directors' attendance during 2021.

Director	Date appointed as a director and member of the Board	Scheduled meetings <sup>(1)</sup>	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	8	8	100%
Philip Cox	1 January 2015	8	8	100%
Will Gardiner	16 November 2015	8	8	100%
Nicola Hodson	12 January 2018	8	8	100%
Kim Keating	21 October 2021	2	2	100%
David Nussbaum	1 August 2017	8	8	100%
Erika Peterman	21 October 2021	2	2	100%
Andy Skelton	2 January 2019	8	8	100%
Vanessa Simms	19 June 2018	8	8	100%

Notes:

(1) The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.

## Summary of the Board's activities in 2021

### Board strategy event

- Over three days in October 2021, the Board conducted a detailed review of the strategy, which included a series of presentations from management to the Board and Executive Committee
- Discussions covered progress made during the year in delivering on strategic imperatives, investment opportunities and objectives over a five- to ten-year horizon (including investment in the current business and emerging technologies, such as BECCS) and how Drax is contributing to addressing climate change
- Discussions also considered emerging and projected trends, the developing environmental landscape, risks to the strategy and stakeholder considerations

### Pinnacle acquisition

- During the latter part of 2020, and the first quarter of 2021, the Board considered the proposed acquisition of Pinnacle. The work included due diligence and associated with that the financial case for the acquisition, stakeholder engagement and the impact upon them of proceeding with the transaction. Also considered were the associated communications and feedback, potential challenges to realising the transaction, including conditions precedent to the transaction being approved by key stakeholders, the target operating model, working capital, procedures and controls, integration planning, investor presentations, and the shareholder circular. The Board considered and approved judgements about the Company's financial position and prospects under Financial Position and Prospects Procedures (FPPP) in support of the Class 1 circular
- Following shareholder approval, the Board was kept apprised on the conclusion of the relevant conditions precedent to completion, including approvals from relevant regulatory agencies. The Board considered the progress of the integration project streams, with updates at each Board meeting

### Health, safety and wellbeing

- Considered regular updates from business units, including on process and behavioural safety and culture
- Monitored the implementation of the new Group-wide incident management reporting system
- Used input from the MyVoice forums to implement plans to address wellbeing across the Group
- Reviewed the Group Wellbeing, Diversity and Inclusion, Dignity at Work and Flexible Working policies

### Governance

- Monitored progress and challenged management on the integration of Pinnacle.
- Considered the appropriate Board composition in light of the Pinnacle acquisition
- Appointed two new Non-Executive Directors following an externally-supported search
- Considered the outcomes of the Board and Committee evaluation and planned actions
- Approved the Modern Slavery Act statement
- Considered and approved a new group Sustainability Framework
- Completed a full review of the Company's compliance with the Code of Conduct

### Stakeholders

- Considered the Group's key stakeholders and approved a framework for ensuring due consideration in decision-making
- Received updates on key engagement activities (see pages 34 to 41 for further information)
- The CEO attended COP26, speaking at several forums and, along with other colleagues, engaged with key stakeholders on a range of matters relevant to the strategy
- Engaged with the workforce through MyVoice Forums and considered colleagues' feedback including reports and updates from the meeting between the Chair and CEO and the chairs of the workforce forums
- Considered the outcomes of the workforce engagement survey and agreed follow up actions
- Board site visit to Drax Power Station, meeting with management and operational colleagues
- Received regular updates on Investor Relations programmes, including an Investor Relations audit report presented in the autumn
- Reviewed and approved the Climate Policy

### Operations

- Considered and approved the development of, and investment in, BECCS
- Considered and approved the planning process to build a new underground pumped hydro storage power station at Cruachan – more than doubling the electricity generating capacity
- Approved the Group's trading strategy
- Monitored business performance against the business plan
- Considered the IT, data and cyber security strategy of the Group

### Finance and strategy

- Approved the Strategic Plan to 2025
- Approved the Annual Plan for 2021
- Approved the new C\$300m facility to reduce the Group's cost of debt to below 3.5% and include an ESG component which adjusts the margin payable based on Drax's carbon intensity
- Reviewed the dividend policy, and approved the final and interim dividends with due consideration of distributable reserves
- Approved the 2020 Annual Report and Accounts and the 2021 half-year results
- Completion of the CCGT disposal

### Risk

- Considered the Group's risk appetite and approach to risk management
- Reviewed the Group's principal risks, including an assessment of risks associated with Pinnacle and the integration of those risks into the Group Risk Map
- Considered the finance and risk update

# Nomination Committee report



We are committed to building a supportive, diverse and inclusive working environment where everyone can be themselves. This starts at the top of the organisation.

Philip Cox CBE, Chair

## Committee members

Philip Cox (Chair)  
 John Baxter  
 Nicola Hodson  
 Kim Keating (joined October 2021)  
 David Nussbaum  
 Erika Peterman (joined October 2021)  
 Vanessa Simms

## Attending by invitation

CEO

## Number of meetings held in 2021: Four

The Group Company Secretary is Secretary to the Committee.

## Attendance in 2021

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	4	4	100%
Philip Cox	22 April 2015	4	4	100%
Nicola Hodson	12 January 2018	4	3	75%
Kim Keating	21 October 2021	1	0 <sup>(1)</sup>	0%
David Nussbaum	1 August 2017	4	4	100%
Erika Peterman	21 October 2021	1	1	100%
Vanessa Simms	19 June 2018	4	4	100%

(1) Kim Keating joined the Board on 21 October 2021 and was unable to attend the meeting in December 2021 due to a pre-existing commitment.

## Role of the Committee

The Committee's principal responsibilities are to:

- Keep under review the Board's structure, size and composition (including requisite skills, diversity, knowledge and experience)
- Ensure there is a succession planning process for the directors and other senior managers, including the identification of candidates (from both within and outside Drax) who align with the objectives of the business and Group
- Conduct the search and selection process for new directors, taking advice from independent search consultants as appropriate
- Monitor and challenge initiatives and progress in addressing diversity and inclusion
- Report on Board evaluation

## Nomination Committee activities since the last report

- Considered appointment of additional new Non-Executive Directors in the context of the size and composition of the Board following the Pinnacle acquisition
- Reviewed the skills of the Board as part of the Non-Executive Directors selection process
- Considered the re-appointment of Vanessa Simms
- Considered a report on succession planning at executive and senior management levels
- Assessed and commented on diversity planning and how the organisation shifted from planning to execution

## Introduction

I am pleased to present the Nomination Committee Report for the year ended 31 December 2021.

As Chair of the Nomination Committee, I have overall responsibility for ensuring there is a formal process for regularly reviewing the balance of skills, experience and diversity at Board and senior management levels. This is particularly important in an organisation such as Drax which is undergoing transformative change. The work of the Committee includes challenging the executive on whether the capabilities within the organisation are sufficient to deliver the Group's purpose and strategy, and to fully address the requirements of all Drax stakeholders.

## Terms of reference

The Committee, and then the Board, review the Committee's terms of reference annually, most recently in February 2022. The terms of reference are available on the Group's website at [www.drax.com/governance](http://www.drax.com/governance)

Given the pace of change in Drax, the Board and the Executive Committee have, in 2021, addressed these points in detail. Examples include the planning and execution of the Pinnacle acquisition and integration, the expansion of our biomass production plants, and the development of our BECCS project.

As an important part of that work, the Committee assesses how these developments in the business align with the Group's imperative of broadening diversity in the enlarged Group, taking into account the local communities in which we operate, wider society trends and the capabilities of the Group – and its people – to adapt. We recognise that such work is not without its challenges, and the Board is committed to playing a role in shaping that activity and ensuring diversity, equity and inclusion are a fundamental element in recruitment, retention, career progression and personal development. We recognise that such activity is central to enabling the right culture and values of the Group, and to long-term success.

The Committee considers management's actions in attracting new talent and developing the careers of people, enabling them to realise their potential. A key aspect of this involves executive management supporting colleagues in balancing their work responsibilities, maintaining a quality of life outside of Drax, supporting training and personal development, and embracing and embodying our values. You can find out more about this on pages 56 to 60.

### Succession planning and diversity

In preparation for the acquisition of Pinnacle, we considered the Board's size and structure, and how to evolve its balance of capabilities, skills, knowledge and diversity. Driving these considerations was the need to provide the appropriate leadership in reflecting the needs of the enlarged Group, operating in new geographies. The Board is fully committed to addressing diversity in the evaluation and selection of suitable candidates, who would also have the skills and background to make a full contribution to the performance of the Board.

As mentioned on page 96 the Board's intention was to conduct a search that took account of these requirements. Following a review of suitable advisers with whom we could work, which included assessing their respective strengths and market presence relevant to our search criteria, Audeliss Executive Search were appointed. Audeliss are independent of the Group and have no established relationship with the Company or our Executive Directors.

A key aspect of engaging Audeliss was its philosophy on diversity. We also sought a firm that could support an international search, responding to the needs of the enlarged Group, with the ability to tap into various sectors. This meant the candidates needed to be experienced in supporting the realisation of challenging programmes across multiple territories, in sectors used to managing change. This reflects Drax's expansion in business activities across the US, Canada, Asia and Europe, which we anticipate will continue to develop both through organic and inorganic growth. Such changes also bring complexity, so the search considered candidates with experience in working in larger multi-national companies.

The Board conducted a rigorous selection process with the candidates identified by Audeliss. This process included a cross section of the Board attending meetings with potential candidates via Teams. We were very pleased with the quality and breadth of the candidates. The feedback of Board members was considered at a meeting of the Committee held in September. As a result, two candidates – Kim Keating and Erika Peterman – were selected for more in-depth discussions, which resulted in their appointment in October. You can read their biographies on page 99.

Following their appointments, out of a total of nine Board members at 31 December 2021, four (44.4%) are female, and one is from an ethnic minority background.

The timing of the appointments also allowed Kim and Erika to attend, as their first meeting with the Board, the annual review of the Group's strategy. These sessions also included meetings with the executive team and members of our senior management. Erika and Kim are being supported in their new roles through a detailed induction programme, which will include site visits, and both in-person meetings and meetings via Teams with senior colleagues and advisers.

Each year the Committee reviews the Group's succession plan, identifying those colleagues with the potential to progress into more senior roles across a timeframe of one to five years. The review focuses on factors including technical skills, experience, behaviours and attitudes. This is to ensure the business has the right people in place to deliver our strategy, working collaboratively and transparently and in ways that are consistent with our purpose and culture. The most recent meeting considering these matters in depth was held in December 2021.

The acquisition of Pinnacle in April provided an opportunity to assess not only our capabilities in the wider talent pool across our sustainable biomass business, but also the most appropriate management structure across the enlarged Group. In September, we updated our management structure to reflect the first successful phase of the integration work. The new structure supports our strategy in biomass, bioenergy BECCS and the delivery of renewable energy to our customers.

Complementary to these changes, three new members of the Executive Committee were appointed, all internal promotions. Hillary Berger, Group General Counsel; Matt White, EVP Pellet Operations; and Karen McKeever, Chief HR Officer, were each promoted. Each of them bring experience in working for multinational companies and have each joined Drax within the past two and a half years. Penny Small took over as Group Generation Director, having joined Drax in 2018 as Chief Transformation Officer. Penny previously worked at Engie where she held senior executive roles leading complex programmes within business development, integration and operations. As a result of these changes, out of a total of ten Executive Committee members at 31 December 2021, four (40%) are female. You can see more details about our Executive Committee members here [www.drax.com/about-us/corporate-governance/board-and-committees/](http://www.drax.com/about-us/corporate-governance/board-and-committees/).

At its meeting in December 2021, the Committee received a report assessing succession planning looking at the Executive Directors, the Executive Committee level and senior management in the level below the Executive Committee. The Committee considered the present capabilities in the organisation, in addition to the development programmes intended to support people in addressing identified skills, knowledge or capability gaps.

The review included an assessment of the time required for identified candidates to be ready to assume more senior roles. During the discussions, the Committee offered views on the importance of continuing the proposed internal development alongside maintaining engagement with individuals outside the organisation that might also provide succession options. The Committee highlighted the importance of a robust assessment of both internal and external candidates to ensure the best possible talent is accessed for key roles within Drax. The Committee also recognised that there are aspects of what Drax does which are market-leading and highly innovative. That brings its own challenges which requires people with alternative and wider skills. In this respect Drax is evolving from a traditional engineering company to one which requires people with different capabilities. For example, a capability in innovative thinking, project management skills, an ability to work with a wide range of internal and external stakeholders, and an appreciation of engineering, scientific, and commercial challenges, and assessing and implementing new technologies. Members of the Committee also expressed their willingness to undertake mentoring for specific people, to augment the present scheme under which members of the Executive Committee mentor those in the Group's talent development programme.

Management outlined plans to advance succession planning further through the organisation and discussed steps being taken to work with external stakeholders, including schools and colleges, to attract talent. During my visit in December to meet with management at our hydro assets in Scotland, we discussed the opportunities for attracting and developing people, drawing on our presence in the local communities. I was impressed by how members of the local management collaborated across various community groups, including schools and via our learning centre at Cruachan, to teach young people about what we do and the wide variety of roles we have within Drax. This is a long-term exercise, and supporting an interest in science, technology, engineering and maths (STEM) in young people is an important part of building a more diverse workforce, which is also active at locations near to our generating plant at Selby in Yorkshire.

In my opening remarks to the Corporate Governance Report, I mentioned that more needs to be done on diversity. The Committee appreciated the considerable progress which has been made in the assessment of the Group's succession planning options, which has included how we combine the understanding of available talent with realising our plans to grow diversity at senior levels. The last year has seen progress on the gender balance at senior levels but the Committee recognises that broader aspects of diversity has to improve. We have challenged management to evolve from the assessment of how to influence and drive change in thinking and behaviours which has been the hallmark of the past 12 to 18 months, to delivering on the objectives and holding leaders to account in realising the goals. On page 30 you will see that the scorecard (used to assess the bonus opportunity) will for the first time, in 2022, include a diversity component. The Committee is fully supportive of this action in helping to deliver change.

The Board and senior management continue to recognise that Drax needs to do more, at all levels of the business, to support people from diverse backgrounds. In December 2020 we launched our three pillar Diversity and Inclusion ("D&I") plan, following on from the updated D&I Policy (see page 60 for more information). The 2021 plan goes beyond gender, with a clear commitment to a supportive, diverse and inclusive working environment, where you can be yourself and your contribution matters.

Our work in this important area continues to evolve and reflects contributions from stakeholders within Drax, including feedback from a cross section of colleagues across our business, and external advice and engagement. During 2021 we implemented our revised D&I plan that supports our commitment to an inclusive culture for all. We recognise that to realise our commitment requires a better understanding of the present balance in our organisation, and, more importantly, the views and perceptions of our people on diversity. We also need to reach out beyond Drax into local communities, with a knowledge-based engagement that allows us to work with people from diverse backgrounds, beliefs and cultures. Our multi-faceted plan therefore includes changing our approach to data collection and assessment; educating and inspiring our colleagues on diversity and inclusion; and ensuring we pay attention to attracting the broadest talent available to Drax. We have invested in additional resource to lead this plan and created our first dedicated role (Diversity and Inclusion Manager) in January 2021 to lead and drive the plan across the organisation. The members of our Executive Committee participated in a dedicated inclusive leadership workshop supported by Steps Drama during which they were challenged to enable an inclusive working environment for individuals and their teams.

## 2021 D&I highlights

- Data – Collating colleague diversity data in the UK, with 78% of our workforce volunteering to respond to date. This insight supports meaningful action based on real time data and has helped inform the development of our Diversity, Equity & Inclusion (“DEI”) strategy from 2022 onwards. We plan on extending this collection of colleague data to the US and Canada through 2022.
- Educating and inspiring our colleagues on diversity and inclusion through an inclusive leadership programme for over 200 leaders, a series of colleagues’ personal diversity stories on the intranet and live panels to recognise events such as International Women’s Day and Pride.
- Making careers at Drax more attractive to talented people from all backgrounds and ensuring a fair and equitable recruitment process. This has resulted in leadership hires increasing – 42% of UK leadership hires were female – and growing our overall UK female headcount from 34% to 36% in 2021.
- Our Executive Committee participated in a diversity and inclusion review with an external consultant (Dan Robertson, Director Vercida Consulting) to understand progress against our D&I ambitions and to support the formation of our DEI strategy from 2022.

We continue to operate programmes that encourage a diverse workforce to pursue careers and qualifications that fit with the opportunities that Drax offers. These include apprenticeship schemes, training programmes, and experience days where young people can learn more about what we do and the roles available. All these activities are an important part of our role in the industry. This engagement is two-way as we listen to people from diverse backgrounds to better understand what barriers exist and what support would be required to encourage them to join a business such as Drax. Our five year programme with Selby College which we started in 2020 continues. In 2021 we 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 about how BECCS works, as well as wider knowledge of carbon capture technology, alongside an ability to apply the learning in a practical setting. We also launched a STEM activity box, created with Doncaster College and University Centre, to provide learning materials and resources for school students to complete activities related to recycling. Our action with organisations such as Selby College and Doncaster College is deliberately focussed on building sustained, long-term engagement through which we are able to understand how best to support young people from different backgrounds to realise their potential. The Non-Executive Directors have challenged management to implement measures that drive change in the near term, including the colleague education programme mentioned above, as well as planning for the longer term. We appreciate that establishing partnerships and realising tangible benefits will take more time. Key to realising benefits from these activities will be tracking the plans and assessing their progress, which is another aspect where our Board believes improvements must be made.

## Non-Executive Directors: terms of appointment

Under the Board’s policy, Non-Executive Directors are appointed for an initial term of three years. The term can be renewed by mutual agreement if the Board is satisfied with the director’s performance and commitment and a resolution to re-elect at the appropriate AGM is successful. The Board will not normally extend the aggregate period of service of any independent Non-Executive Director beyond nine years and will rigorously review any proposal to extend a Non-Executive Director’s aggregate period of office beyond six years.

In 2021, the Board considered the re-appointment of Vanessa Simms, Chair of the Audit Committee, for a second term of three years. The Board considered Vanessa’s skills and contribution, together with the feedback from the most recent externally supported evaluations of the Board and our Committees. Following this, and on recommendation from the Committee, the Board approved the extension of her appointment for a further three years, taking effect from 19 June 2021.

## Board and Committee evaluation

The Board conducts an annual performance evaluation, ensures there are ongoing Board development activities, and provides a comprehensive induction for new Board members. In 2019, an externally facilitated evaluation of the Board was conducted by Board Alchemy. As the Chairs of the Audit Committee and Remuneration Committee were relatively new in post, the Board was the primary focus of the 2019 evaluation, which assessed the effectiveness of both the Board collectively and individual Directors, with recommended actions for development. In 2020, Board Alchemy also conducted a formal, externally led, evaluation of the Board Committees. Board Alchemy has no other connection with the Group or individual Directors.

The evaluations concluded that the Board and Committees were well led by effective, inclusive chairs and the Board and Committee members had the requisite skills and experience to provide valuable contributions and effective challenge. At its meeting in July, the Board assessed progress in responding to the recommendations. The table on page 116 summarises the recommendations from the most recent evaluations and how we responded to them in 2021.

In 2021, the Board members participated in an internal review of performance, which was a combination of a questionnaire and meetings. A report on the evaluation was presented to the September Board meeting. The evaluation focused on matters including diversity and inclusion, particularly around measuring progress; sustainability; and succession planning. The Board considered the findings and agreed key recommendations. These included having more direct engagement with subject-matter experts; tracking and reporting on the progress of material projects using a common set of key metrics and controls; allowing more agenda time to understand the talent pipeline and succession plans for the Executive Committee and the levels below, including having direct access to such colleagues, and ongoing training in specialised areas such as trading, treasury and sustainability. Further details, including progress made during 2022, will be provided in the 2022 Committee Report.

## Nomination Committee Report continued

A summary of the key recommendations from the Board and Committee evaluations, and progress made, is provided below:

Recommendations from external evaluations	Progress during 2021	
<p><b>Regularly review Board composition, including non-executive and executive succession, also considering diversity at both the Board and Executive Committee.</b></p>	<p>The balance of skills and experience on the Board was discussed early in 2021 and it was agreed that the potential acquisition of Pinnacle should inform next steps. During the lead up to the AGM in April 2021, the views of shareholders were considered on addressing Board balance and diversity. Following completion of the acquisition of Pinnacle, an</p>	<p>external agency (Audeliss) was appointed to assist in a search. A specific aspect of the brief was to identify potential candidates who address the required combination of skills, experience and diversity. In October the Board approved the appointment of two new Non-Executive Directors. You can read more about this on page 113 above.</p>
<p><b>Make best use of the Board's time and enable non-executives to make the fullest contribution, including induction, obtaining external viewpoints in "teach-in" sessions, improvements in the quality of Board papers; better presentations by management at Board meetings.</b></p>	<p>A detailed and comprehensive induction programme was designed for the two new Non-Executive Directors who joined in October 2021. "Deep-dive" sessions on defence and preparation for UK style Sarbanes-Oxley regulations, were delivered by external experts during 2021.</p> <p>The quality of Board papers, including findings, recommendations and measures associated with major projects, have been addressed. Feedback from the most recent internal evaluation was that</p>	<p>some progress has been made. Presentations from management and business functions had also strengthened. For example, the presentations and discussions during the Board visit to Drax Power Station (including engagement with wider teams) and the presentations supporting the three-day strategy meetings in October 2021 received positive feedback on their quality.</p>
<p><b>Develop a dashboard to enable regular reporting on project progress and status to the Board, including "lessons learned" reviews at the conclusion of major projects.</b></p>	<p>Data collection and reporting to management has evolved and been shared with the Executive Committee as a pilot for roll out to the Board.</p> <p>We are using the experience gained from setting milestones and tracking progress in areas such as health, safety, and the environment to apply to projects across the business that have technical, engineering, construction, commercial and regulatory challenges.</p> <p>Proposals have been shared with the Board for developing a similar approach in aspects of the Group's sustainability strategy, and these are expected to advance in 2022.</p>	<p>At the Board meeting in June, the Board received a presentation from the Generation leadership on key projects, and progress in delivering the project associated with cessation of coal generation and the implementation of the "Fit for the Future" programme. The presentation used data collected from the dashboards routinely used in the Generation business.</p> <p>The Board welcomed the steps taken. In feedback arising from the most recent internally led evaluation, directors challenged management to strengthen the tracking and reporting on projects, as part of further improvement.</p>
<p><b>Continue work on values and behaviour and consider how the Board should get assurance that the culture it is looking for is in place.</b></p>	<p>The approach to colleague engagement – both how we communicate with and listen to our people – continued to be areas of attention. This was particularly important as we integrated new colleagues from Pinnacle into the Drax Group. In September 2021, colleagues across our operations in Canada and the US participated in our annual engagement survey and the results were discussed at the December Board meeting. Areas for improvement included developing online content and workshops to improve career development opportunities; building a suite of flexible working, and family friendly, policies to enable colleagues to work in ways that allows them to perform and support the strategy whilst reflecting their personal circumstances; providing support for both mental and physical wellbeing, including a Mental Health</p>	<p>First Aid pilot scheme. All this resulted in a 5% increase in colleagues reporting they felt that significant action has been taken since the last survey.</p> <p>The Chair and CEO regularly report on the engagement with colleagues, including updates on the meetings with the workforce engagement forums. See page 109 for more information.</p> <p>The bedrock of values and behaviours is having the right policies and procedures that provide a frame of reference for our people, and this was reviewed during the year, including initiatives to integrate Pinnacle policies with Drax. See pages 61 to 63 for more information.</p>
<p><b>Complete the development of an assurance map to help the Audit Committee and the Board understand the nature of assurances being received and the sources of assurance.</b></p>	<p>An assurance map for the Group was created in 2021, covering the key sources of assurance for each of the principal risks. During the second half of the year, the map was updated with Pinnacle data and re-presented to the Audit Committee and Board.</p>	



**Continue to give more focus to the external landscape and to listen to stakeholder perspectives and viewpoints.**

The acquisition of Pinnacle was a key consideration for the Board concerning stakeholder engagement. You can read more about this on page 106.

The Board considers a detailed review of stakeholder engagement twice a year, which for 2021 includes a detailed assessment of stakeholder views on critical areas including BECCS, biomass acceptability and the development of Cruachan (see pages 34 to 41 for more information).

The CEO, the Group Director of Corporate Affairs and senior members of the Corporate Affairs Team attended COP26. They took part in a series of events and roundtable discussions, to speak about Drax and to hear views from a range of participants and stakeholders.

In June, the Board considered a separate paper addressing section 172 of the Companies Act, assessing stakeholders and how their concerns inform management thinking and areas of focus (see page 34 for more information).

**The Committee Chairs should consider holding pre-meetings in advance of meetings of their committees.**

The Chairs routinely met with the Company Secretary and others to discuss progress in actions and priorities. Both the Audit Committee and

Remuneration Committee routinely held meetings with members only, before the formal business commenced.

**Commence planning for the next audit tender during the course of 2021 to ensure that Drax has sufficient choice when it becomes time for the tender and that potential auditors are free from conflicts of interest.**

In July, the Audit Committee approved a proposal to conduct an external audit tender. You can read more about the tender process on page 128.

## Skills and knowledge of the Board

A key responsibility of the Committee is to ensure the Board maintains a balance of skills, knowledge and experience appropriate to the long-term operation of the business and delivery of the strategy. As in previous years, the Nomination Committee has reviewed the Board's composition and considered whether the:

- Board contains the right mix of skills, experience and diversity
- Board has an appropriate balance of Executive Directors and Non-Executive Directors
- Non-Executive Directors are able to commit sufficient time to the Company to discharge their responsibilities effectively

Following the review, the Committee was satisfied that the Board continued to have an appropriate mix of skills and experience, now and for the future, to operate effectively. All the Directors have many years of experience, gained from a broad range of businesses. Collectively, they bring a range of expertise and sector knowledge to Board deliberations, which encourages constructive, challenging and insightful discussions.

## Renewal and re-election

Any newly appointed Director may hold office until the first AGM following their appointment, at which meeting they are required to submit themselves for election by shareholders. Accordingly, Kim Keating and Erika Peterman will offer themselves for election at the forthcoming AGM.

In accordance with the Company's articles of association, and in line with the recommendations of the Code, each of the Directors will retire annually and offer themselves for

re-election by shareholders at the AGM. Accordingly, John Baxter, Philip Cox, Will Gardiner, Nicola Hodson, David Nussbaum, Andy Skelton and Vanessa Simms will all retire at the forthcoming AGM and being eligible, will offer themselves for re-election. The evaluation and review of the Board and its Committees, described above, concluded that each of the Directors offering themselves for re-election continued to demonstrate commitment, management and business expertise in their particular role and continue to perform effectively. Further information of the service contracts for the Executive Directors and letters of appointment for the Non-Executive Directors are set out in a table on page 154. The Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection (by prior arrangement) during normal business hours at the Company's registered office. They will also be available for inspection at the venue of the AGM, before that meeting, details of which are contained in the Notice of Meeting.

During the year, I met regularly with the Non-Executive Directors in the absence of the Executive Directors. Separately, the Senior Independent Director held a meeting with the Non-Executive Directors without me being present, as required by Provision 12 of the Code.

This report was reviewed and approved by the Nomination Committee.

**Philip Cox CBE**  
Chair of the Nomination Committee  
23 February 2022

# Audit Committee report



Vanessa Simms, Chair

We are focused on ensuring fair, balanced and understandable performance reporting is in place, underpinned by a robust system of internal control.

## Committee members

Vanessa Simms (Chair)  
Nicola Hodson  
David Nussbaum  
Erika Peterman

The Board is satisfied that the Committee's membership has the appropriate level of independence, skills, and recent and relevant financial experience. Vanessa Simms, a chartered certified accountant, is CFO of Land Securities Group plc. David Nussbaum is a chartered accountant who has served in several senior financial roles. Details of the skills and experience of the Committee members can be found on pages 97 to 99.

## Attending by invitation

Chair of the Board, CEO, CFO, Group Financial Controller, Internal auditor (KPMG), External auditor (Deloitte).

## Number of meetings held in 2021: Four

In addition to the meetings mentioned in the table below, Vanessa attended several planning meetings in advance to discuss key agenda items, plan for papers and ensure that her expectations were satisfactorily reflected in the matters discussed and explained. Vanessa also held meetings with the External Audit Partner at intervals throughout the course of the year to discuss planning for work and specific areas such as engagement with the Financial Reporting Council (see page 121).

## Attendance in 2021

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter <sup>(1)</sup>	17 April 2019	3	3	100%
Nicola Hodson	12 January 2018	4	4	100%
David Nussbaum	1 August 2017	4	4	100%
Vanessa Simms	19 June 2018	4	4	100%
Erika Peterman <sup>(2)</sup>	21 October 2021	1	1	100%

(1) John Baxter stepped down as a member of the Committee on 1 November 2021.

(2) Erika Peterman joined the Committee on 21 October 2021.

## Terms of reference

The Committee's terms of reference are reviewed annually by the Committee and then by the Board. The terms of reference are available on the Group's website at [www.drax.com](http://www.drax.com).

## Introduction

As we explain elsewhere in the Annual Report and Accounts, 2021 was a year of significant change for the Group. This included completion of the sale of our CCGT assets in January 2021 and the acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) in April 2021. In addition, the Group needed to consider the potential impact of wider macro-economic conditions on the business and how we should respond. This included understanding how the business should adapt to evolving challenges from the Covid-19 pandemic and the volatility in commodity markets that have affected consumers and some businesses.

The Audit Committee contributed to the consideration of these and other matters within our terms of reference by challenging management on areas of judgement and proposed actions. We also supported the Board in making sure it provided appropriate consideration of the required engagement with, and reporting to, stakeholders that is fair, balanced and understandable.

## Maintaining effective controls

While the particular challenges associated with the immediate impact of the Covid-19 pandemic have subsided, our focus on supporting our colleagues and maintaining robust controls remains. The Board and management recognise that uncertainty and change can be disruptive and contribute to distractions that impact the effectiveness of internal controls and sound practices. With home working remaining prevalent through 2021, associated arrangements that enabled colleagues to work securely while remote from the Group's sites have persisted. This aligns with the culture and values the Board seeks to promote and where each of the Board's committees has its own part to play.

As explained on page 58, we have focused on good communication that ensures our colleagues feel enabled to work from home or, where possible, in the office in Covid-safe conditions. Such clarity is an important part of wellbeing; it enables colleagues to be at their best, being attentive to following proper working practices and vigilant to potential threats. The developing situation has brought challenges; however, the Committee has responded by being robust during its engagement with management and teams on the adequacy of systems, cyber security and wider controls. All of these elements require rigorous attention and responsiveness to the evolving risks. Following a presentation on cyber security at a Committee meeting in April, the Board held two further discussions during the year. These covered topics including

the threats from phishing, the evolution in cyber threats targeting the supply chains of companies and investment in systems resiliency. More information on the assessment of the relevant principal risk can be found below. Based on the overall body of work undertaken across the year, on which the Committee received a further report in February 2022, we are satisfied that adequate controls remain in place.

### Supporting business growth – acquisition of Pinnacle

The Committee contributed to the assessment of the proposed acquisition of Pinnacle. This included considering the adequacy of management's response to the Financial Position and Prospects Procedures (FPPP) which the Board was required to approve as part of the Class 1 transaction. FPPP is one aspect of the required work associated with undertaking a Class 1 acquisition. It provides an assessment and assurance that in undertaking and then completing the transaction, the enlarged Group will be able to maintain sound internal controls and systems. These ensure that the Group is able to continue to meet its obligations as a listed company. The FPPP also formed the basis for the subsequent integration work, on which the Committee received updates in July and December. Good progress has been made, which reflects strong engagement between colleagues across our operations. We remain satisfied with the robustness of the Group's reporting procedures.

Following completion of the acquisition, the Committee met in July to consider and approve the work associated with the Half Year Report. This considered key areas of accounting judgement, and changes proposed to financial reporting, which reflected the newly enlarged Group and integration of Pinnacle. The Committee also considered EY's preliminary findings from their assessment of Purchase Price Allocation, which is an inherently complex area.

EY's work assessed how the cash consideration paid by the Group for Pinnacle (C\$385 million) should be appropriately allocated to the net assets acquired. This includes the fair value of the tangible fixed assets (the Pinnacle property, plant and equipment), current assets (including inventory and trade debtors), and identified intangible fixed assets (of which the material element is the customer contracts from which Pinnacle derives its income). The difference between the total consideration and the total fair value of the identified net assets is recognised as goodwill. Based on this assessment, as reported at the half year, the goodwill arising from the Pinnacle transaction had been assessed as £166 million. More information can be found in Note 5.1 to the financial statements. The Committee challenged the evaluation as well as the underlying assumptions, paying particular attention to understanding how the goodwill would be supported by future earnings and the assessment of the expected growth in those earnings in future years.

### Supporting change in the business – understanding our principal risks

The Committee separately considered and challenged management on its evaluation and proposed reporting of the Group's principal risks in light of the acquisition. An important consideration was ensuring shareholders and wider stakeholders received an adequate explanation of the risks to the Group. The shareholders and other stakeholders also need to understand how these risks might evolve, and how they align with the information provided in the Class 1 Circular.

The work on principal risks is ongoing as the integration matures and challenges emerge. For example, extreme weather patterns in North America, including British Columbia, created new challenges during the year. The Group reported these at the Half Year and in the Trading Update published in December. We are also continuing to support colleagues implementing improvements in health and safety practices, working with operational sites to identify areas for investment and strengthening the sharing of information and ideas on positive changes. The implementation of change can also be difficult and disruptive, and management recognised the challenges that this can entail. We appreciate the considerable work that colleagues across all our sites have contributed in responding to change, which has included, regrettably, the impact from the departure of valued people. These matters are also explained in our principal risk factors on pages 76 to 91.

Climate change and its impact on all businesses requires careful assessment. During 2021, we focused on strengthening our processes for climate risk identification, assessment, and management. This included considering the financial implications from a range of potential scenarios. As part of this, we also developed an asset-level physical risk assessment template, to assess in greater detail the potential physical risks to our Generation and Pellet Production assets. We established a Carbon Oversight Group (COG) to act as a Risk Management Committee, reviewing and challenging the climate change principal risk. We provide further details on these developments in our TCFD disclosure on pages 64 to 71 and principal risks disclosure on page 88.

The Committee takes a keen interest in understanding the evaluation of the Group's principal risks across all aspects, not just those pertaining to financial controls. These both augment and contribute to the Board's understanding and assessment of the risks, providing additional time for discussion and challenge.

Our people are at the very heart of the success of Drax, and their wellbeing and safety continues to be of paramount importance. As the Group develops, it is important we maintain our high standards of health and safety. We must also ensure that our policies, procedures and working practices adapt to the different activities that our colleagues and contractors undertake.

As mentioned in my report last year, and reflecting the Committee's recommendations, the Group has appointed external advisers DNV, who are recognised as industry experts in risk management. DNV's remit is to improve the robustness in the audit of Health, Safety and Environmental (HSE) matters. DNV commenced its baseline assessment during 2021, undertaking a detailed review of our processes by site across three key areas:

1. Human (looking to see if we have a learning culture)
2. Organisation (checking that management processes are aligned to best practice)
3. Technical (checking that technical controls are aligned to best practice)

DNV conducted interviews, reviewed documentation and materials, and produced assessment reports providing clarity on how we can align with standards that ensure our operations adhere to best practice in HSE. In July, DNV presented its findings to the Committee, outlining this baseline work, and identifying themes relating to opportunities for improvement. These opportunities included investment in data capture and automated reporting to improve the transparency and assessment of site-by-site performance against key performance indicators. The accountability of local leadership would also be brought into focus with such transparency and assessment in place. On page 129, you can find out more about the results of that work, DNV's recommendations and management's response, which the Committee considered further at its meeting in December.

In September 2021, we received a letter from the FRC in connection with relevant reporting requirements in our 2020 annual report and accounts. I worked with the Chair of the Board, management and our external auditor, Deloitte, in assessing the matters raised. As with all stakeholders, the feedback we have received from the FRC helps to inform how we act, including how we provide information to wider stakeholders to enable them to understand our business and performance. You can find out more about the process on page 121. In December 2021, the FRC wrote to the Group, confirming the matters identified were concluded based on our undertakings for future disclosures.

In September 2021, we announced our intention to conduct an audit tender process for the Group's external auditor. The process was overseen by the Committee and concluded in January 2022, with the Board approving the appointment of PwC as the new external auditor with effect from the 2024 financial year. A resolution proposing the appointment of PwC will be put to shareholders at the 2024 Annual General Meeting. On page 128 we provide more detail about the tender process.

### Role of the Committee

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities. This includes undertaking the following:

- Monitoring the integrity of the financial statements and other information provided to shareholders
- Reviewing significant financial reporting issues and judgements contained in the financial statements
- Advising the Board on whether the Committee believes the Annual Report and Accounts are fair, balanced and understandable
- Maintaining an appropriate relationship with the Group's external auditor and reviewing the effectiveness and objectivity of the external audit process
- Maintaining and monitoring the non-audit services policy
- Reviewing the systems of internal control and risk management
- Monitoring and reviewing the effectiveness of the internal audit function
- Making recommendations to the Board (to put to shareholders for approval) regarding the appointment of the external auditor

As Chair of the Committee, I report on the Committee's activities and considerations at each Board meeting following a Committee meeting. All members of the Board receive the minutes of each Committee meeting.

In undertaking its duties, each member of the Committee has access to the services of the Chief Financial Officer and the Group Company Secretary and their resources. Committee members also have access to external professional advice. In addition, I hold meetings with the Chief Financial Officer out of cycle from the formal meetings. I also attend planning meetings with those preparing for forthcoming Committee meetings to discuss relevant papers and key matters.

The Committee allows time at each meeting to speak in the absence of management. In addition, the Committee meets both the external auditor and the internal auditor without management present. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matter giving them material concern, they should promptly draw it to the Committee's attention via the Chair of the Committee. No such issues were raised in 2021.

### Committee activities in 2021

The Committee follows a programme of work designed to ensure that sound risk management processes, a robust system of internal control and fair and balanced performance reporting are in place.

The Committee undertakes its duties reflecting an annual work plan, which is agreed at the final meeting each year for the following calendar year. In addition, where appropriate to activities in the Group or to reflect changes in applicable regulations, agenda items are incorporated to ensure members of the Committee have the opportunity to consider and contribute to an analysis of material issues. The main areas of work undertaken by the Committee during 2021 at its routinely scheduled meetings are set out in the table on the following page.

February	April	July	December
<b>Item under review</b>			
<ul style="list-style-type: none"> <li>• The 2020 year-end review of key financial and reporting matters</li> <li>• The 2020 Annual Report and Accounts and preliminary results announcement, including post-balance sheet disclosures in respect of the CCGT sale and Pinnacle acquisition</li> <li>• The internal control framework update on effectiveness of internal controls and risk management during the period</li> <li>• Year-end risk review, including ongoing risks and mitigations arising from Covid-19 and Brexit</li> <li>• Final report from Deloitte on its 2020 audit findings</li> <li>• Summary of internal audit reviews for the period and outstanding actions</li> </ul>	<ul style="list-style-type: none"> <li>• Management update on key financial and reporting matters</li> <li>• The external auditor's management letter for the 2020 audit</li> <li>• The internal control framework update on effectiveness of internal controls and risk management during the period</li> <li>• An update on the integration plan for Pinnacle including financial reporting, risk, and internal control</li> <li>• Review of whistleblowing management, including incidents reported and investigation outcomes</li> <li>• An update on internal controls and risk management of cyber security</li> <li>• Summary of internal audit reviews for the period and outstanding actions</li> <li>• The effectiveness of the 2020 external audit process</li> <li>• Senior Accounting Officer reporting to HMRC and Group Tax Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• The 2021 interim review of key financial and reporting matters, including the impact of the CCGT sale and Pinnacle acquisition</li> <li>• Report from Deloitte on its 2021 Half-Year review findings</li> <li>• Consideration of the 2021 Half-Year report and results announcement</li> <li>• The internal control framework update on effectiveness of internal controls and risk management during the period</li> <li>• Half-year risk review, including ongoing risks and mitigations arising from Covid-19, and the impact of the Pinnacle acquisition on principal risks</li> <li>• An update on internal controls and risk management of sustainability, supported by an external review</li> <li>• An update from the Ethics and Business Conduct Committee</li> <li>• An update on internal controls and risk management of Environment, Health and Safety, supported by an external review</li> <li>• The Audit Committee's terms of reference</li> <li>• The Auditor Independence Policy</li> </ul>	<ul style="list-style-type: none"> <li>• Management update on key financial and reporting matters, and focus areas affecting the 2021 financial statements</li> <li>• Review the Group's response to the FRC's enquiries in respect of the 2020 Annual report and Accounts</li> <li>• Planning report from Deloitte on the 2021 audit</li> <li>• The internal control framework update on effectiveness of internal controls and risk management during the period</li> <li>• Consideration of the whistleblowing report and details of any recent incidents</li> <li>• An update on internal controls and risk management around financial reporting and the potential impact of new regulations</li> <li>• Summary of internal audit reviews for the period, outstanding actions, and the plan for 2022</li> <li>• An update on the external auditor tender process</li> <li>• An update on the integration activities involving Pinnacle</li> </ul>

### Acquisition of Pinnacle

The acquisition and subsequent integration of Pinnacle has been a key area of focus for the Committee during 2021. Before the completion of the transaction, the Committee reviewed the assessment of accounting policy differences between Pinnacle and the existing Drax Group. The Committee also reviewed a summary of the key risks and existing risk governance framework in place at Pinnacle, and a comparison of the key controls in operation. This work underpinned the shareholder circular issued on 12 March 2021.

Following the acquisition, the Committee has been regularly updated on the integration process. It has reviewed the impact of the acquisition on the financial reporting of the Group and its principal risks. From a financial reporting perspective, the Committee particularly focused on the most subjective and complex areas. These included the Purchase Price Allocation exercise and the impact of the transaction on the overall presentation of the Group's financial statements, such as the inclusion of non-controlling interests in the Group consolidation for the first time.

### Correspondence with the FRC

In September 2021, the Group received a letter from the FRC's Corporate Reporting Review team, requesting information about certain matters arising from their review of the Group's 2020 Annual Report and Accounts. The Chair of the Committee reviewed the draft responses to the FRC's enquiries in conjunction with management and Deloitte, and the proposed areas of improvement which the FRC had identified. As a result of the correspondence, the Group has sought to enhance clarity in certain disclosures in the 2021 Annual Report and Accounts, particularly in relation to rebasing (now defined in the glossary at the end of the Annual Report and Accounts) and financial instruments. The wider Committee then reviewed the commitments in detail at its meetings in December 2021 and February 2022, to ensure they were being appropriately addressed in the Annual Report and Accounts.

The FRC review was based solely on the Group's published report and financial statements and does not provide any assurance that the report and financial statements are correct in all material respects.

### Reviewing the effectiveness of the system of risk management and internal controls

The Committee received updates on the Group's internal control environment and reviewed internal audit reports at each of the four meetings held during 2021. It gave particular focus to the ongoing response to Covid-19, as controls and processes implemented during 2020 became embedded into business-as-usual. It also focused on the impact of the acquisition of Pinnacle on the Group. In addition, the Committee took part in several deep-dive risk and internal control reviews covering cyber security, health and safety, and sustainability. For the latter two reviews, external parties conducted in-depth analysis of particular areas and attended Committee meetings to provide additional expertise and insight.

Alongside the expert support provided by these external parties, management also co-ordinated an internal self-assessment and review of risk management and internal control activities covering the Group's principal risks. Control owners are required to provide a quarterly assessment on the operation of key controls, and to detail any gaps or control failures identified. These responses are then reviewed by a separate internal team, and the responses regarding control operation are periodically verified.

The Committee also received regular updates on the risks and internal controls specifically around financial reporting, including the continued development of a single Group-wide financial control framework. Its aim is to bring together consistency in approach and best practice across the Group. During 2021, the Group invested in a new system solution to enable clearer ownership, reporting and approval of the operation of key financial reporting controls.

Management and the Committee are closely following the possible implications from the Government's proposed corporate governance reforms, including potential new reporting requirements on internal controls around financial reporting. Members of the Committee have attended workshops with the internal auditor and established a draft implementation plan whilst management await final confirmation of the outcome of the consultation.

The Committee review and discuss any findings or action points arising from the internal and external reviews that are performed and ensure that any improvement plans are robust and have appropriate delivery targets. None of the findings discussed during the year were individually or collectively material to the financial performance, results, operations, or controls of the business, but the Committee was updated on any findings and opportunities for improvements.

The second half of 2021 saw increased volatility in commodity markets, in particular gas and power. This volatility saw prices increase significantly, driven by concerns over supply shortages. The Committee received updates on the impact of these changes on the trading and commodity principal risk, as discussed further on page 84. It was satisfied that the mitigating actions in place were appropriate to manage the underlying risks. The oversight and management of these risks falls under the remit of the Financial Risk Management Committee (as detailed on page 103) which ultimately reports to the Board.

The Committee also reviews information arising from whistleblowing reports, as appropriate to the circumstances and matters under review. It considers the scope of any investigation and the appropriateness of the steps being taken. The Board is also updated on these reviews separately. The Committee seeks to understand how matters identified in incidents inform training for colleagues and actions by management that can improve culture within our operations. An explanation of the Group's Whistleblowing Policy can be found on page 62.

## Reviewing key judgements and financial reporting matters

Explanations of all the Group's material accounting policies, critical accounting judgements, areas of significant estimation uncertainty and other material financial reporting matters are set out in the notes to the financial statements. The Committee reviewed these aspects of the financial statements, with a particular focus on the areas it deemed the most complex or subjective, as highlighted in the table below.

### Description

#### Acquisition of Pinnacle

The Group acquired Pinnacle on 13 April 2021 for a cash consideration of C\$385 million (£222 million). Refer to note 5.1 of the financial statements for more information.

The application of IFRS 3 requires a fair value exercise to be undertaken to allocate the purchase price to the identifiable assets acquired and the liabilities assumed. As described on page 229, in the case of the Pinnacle transaction, fair values of property, plant and equipment were based on a depreciated replacement cost (DRC) method. This requires assumptions to be made about input costs, the condition of the assets and any potential obsolescence.

In placing a value on Pinnacle's pre-existing long-term supply contracts with customers, assumptions were required regarding the potential renewal at the end of each contract's current term. In addition, an assessment of the wider biomass market was required in assessing the value of the Group's pre-existing contract with Pinnacle.

The acquisition of Pinnacle also resulted in the Group adopting, for the first time, accounting policies in respect of investments in associates and joint arrangements. For more information see note 4.6 of the financial statements. The Group also had to make a policy choice about the valuation of non-controlling interests. These changes impacted the presentation of the financial statements, and in particular the income statement.

### Audit Committee review and conclusion

The Committee played an important role in reviewing this significant Class 1 acquisition, and in challenging management's analysis and assumptions in preparing the accounting entries and associated disclosures.

This review also considered the key controls, both in the existing Group and in Pinnacle as part of the Financial Position and Prospects Procedures (FPPP). The Board was required to approve this as part of the Class 1 transaction.

The Committee reviewed a detailed paper from management in July 2021, prior to the approval of the Half-Year results. In particular, the paper considered:

- The approach taken in respect of valuing the property, plant and equipment
- The assumption made in determining the valuation of Pinnacle's portfolio of existing customer supply contracts that no renewal periods be considered
- The assessment by management that the pre-existing contractual relationship between the Group and Pinnacle was on market terms and so did not require an adjustment in the acquisition accounting

Having considered and challenged management's view, particularly regarding the consideration of market terms given the illiquid nature of the biomass market, the Committee was satisfied that the approach taken was appropriate.

While the new accounting policies adopted were not material to the financial statements, the Committee also considered the approach taken in respect of valuing non-controlling interests. It was satisfied that the policies adopted were consistent with the requirements of IFRS.

The Committee reviewed, and agreed with, a proposal from management to remove Adjusted EBITDA from the face of the Group's income statement as a result of adopting these policies. The Committee continues to feel that Adjusted EBITDA is an important metric; however, they concluded that the revised approach was consistent with the FRC's guidance on presentation.

Finally, the Committee reviewed the disclosures in the Annual Report and Accounts. The Committee concluded they were appropriate and, taken as a whole, provided a fair, balanced and understandable presentation of the transaction.

Description

**Accounting for derivative financial instruments**

As described more fully on page 248, the Group makes use of derivative financial instruments to manage key financial risks facing the Group.

The Group's balance sheet includes significant assets and liabilities arising from these contractual arrangements that are measured at fair value by virtue of being within the scope of IFRS 9. Judgement is required around which contracts meet specific criteria and which do not (and therefore remain outside the scope of IFRS 9).

In particular, a judgement is made that biomass contracts currently fall outside the scope of IFRS 9 by virtue of the current nature of the market and the contractual terms in place between counterparties. The market remains immature and there is not a readily accessible source of supply and demand at present, with trading activity limited.

Where a fair value calculation is required, this typically involves a mark-to-market calculation, comparing the contractual price to prevailing market rates. While the inputs to these calculations are largely taken from observable market prices or data points, the accounting and disclosure requirements are inherently complex. The size and scope of the Group's derivative portfolio mean small errors in the valuation or disclosure process could result in a material impact on the amounts included in the financial statements.

As a result, the accounting, controls, and disclosure in relation to derivative financial instruments all remain areas of focus for the Committee.

**Impairment of fixed assets and goodwill**

The Group reviews its fixed assets (or, where appropriate, groups of assets in cash-generating units (CGUs) for potential impairment. Impairment reviews are triggered by either the existence of potential indicators of impairment at a given point in time or, in the case of goodwill and other intangible assets with indefinite useful lives, are conducted at least annually.

As described on page 194, following the acquisition of Pinnacle in April 2021, the Group re-assessed its CGUs in respect of the Pellet Production business and also considered the allocation of goodwill. The assessment concluded that the Pinnacle operations represented a single CGU. In addition, it was concluded that goodwill from the acquisition should be allocated to the Pellet Production segment as a whole. This is due to the synergies expected to arise, and to the lack of a non-arbitrary way to allocate goodwill between CGUs within the segment, in line with IFRS 3.

The Customers business generates independent cash flows equivalent to its constituent operating entities, resulting in two CGUs – Drax Energy Solutions (formerly Haven Power) and Opus Energy.

Following the sale of the CCGT portfolio in January 2021, the Generation business considers its assets that generate independent cash flows to be the four individual sites (Drax Power Station, Galloway, Lanark and Cruachan). The Group's four OCGT development assets were treated as a single CGU for impairment purposes.

When an impairment review is required, the recoverable amount of the asset or CGU is assessed. This assessment is made with reference to the present value of the future cash flows expected to be derived from its value in use, or its expected fair value.

Audit Committee review and conclusion

At each meeting, the Committee receives an update on any new classes of derivative financial instrument that the Group has entered into and the proposed accounting treatment. During 2021, there were no new classes of instrument that required review.

In addition, ahead of each reporting date, the Committee reviewed and approved management's assessment that biomass contracts continue to fall outside the scope of IFRS 9. This involved comparing the requirements of the financial standard with the current situation in terms of observable practice and market conditions.

Having completed this review, the Committee was satisfied with management's assessment. However, it also noted this is a critical judgement given the potential impact on the financial statements should biomass contracts be deemed to be inside the scope of IFRS 9.

Finally, at each of its meetings, the Committee was updated on the operation of the Group's financial control framework, and the output from a rolling self-certification process. At the meeting held in December 2021, it gave particular focus to reviewing the controls in place around derivative financial instruments, and the improvements made to the control environment during 2021. These included introducing additional detailed reconciliations of closing balances and providing a more secure location for source data. Based on this review, the Committee was satisfied that the controls in place around derivative financial instruments were robust and appropriate.

At its meeting in December 2021, the Committee reviewed management's process and initial conclusions in respect of impairment for the 2021 financial year.

The Committee gave particular focus to:

- The impact of the acquisition of Pinnacle on the assessment of CGUs and allocation of goodwill in the Pellet Production segment
- The key assumptions made in the Customers forecast and the recovery of that business post-Covid-19
- The length of the forecasts for the purposes of impairment

Having considered management's reports, and challenged the approach and key assumptions made, the Committee concluded that the approach to impairment reviews was appropriate and no impairment charges were necessary. In particular, the Committee challenged management's assessment of the allocation of goodwill from the Pinnacle acquisition. Having debated this point, the Committee concluded that the treatment was appropriate.

At its meeting in February 2022, the Committee reviewed a roll-forward of the analysis from December 2021 and considered any significant impacts since that detailed analysis had been performed. The review did not indicate any material changes in the expectations from the different parts of the business, and the Committee was satisfied with management's assessment that no impairment charge was required at the Balance Sheet date.



## Description

**Impairment of fixed assets and goodwill continued**

Assumptions that underpin the assessment of value in use for each CGU are based on the most recent Board-approved forecast. The assumptions include all the necessary costs expected to be incurred to generate the cash inflows from the relevant assets in their current state and condition.

Impairment arises where management determines, and the Board concludes, that the carrying amount of an asset (or group of assets) exceeds its recoverable amount. Impairment reviews rely on assumptions and key estimates regarding future market prices, cashflow forecasts, discount rates and the use of appropriate sensitivities. You can find out more about this process and the assumptions made in note 2.4 to the financial statements.

**Calculation and presentation of alternative performance measures**

As described on page 181, the Group presents Adjusted results excluding the impact of exceptional items and certain remeasurements. Adjusted results are consistent with the way Executive management and the Board review and assess the performance of the Group. The effects of exceptional items and certain remeasurements are presented separately in a column on the face of the Group's income statement.

The Group has a clear policy that sets out the transactions considered as exceptional for the purpose of this presentation, and the determination of certain remeasurements.

Nevertheless, the classification of transactions as exceptional and the separate presentation of certain remeasurements requires judgement.

The Group also presents certain other management defined measures, known as Key Performance Indicators (KPIs) throughout the annual report and accounts, such as cash and committed facilities.

**Disposal of CCGT portfolio**

As described on page 232, the Group disposed of Drax Generation Enterprise Limited, which held its portfolio of CCGT generation assets, on 31 January 2021 for cash consideration of up to £193 million.

The transaction terms include £29 million of contingent consideration associated with the option to develop the site at Damhead Creek. As part of the accounting for the sale, a fair value of this contingent consideration is required to be calculated. As described on page 216, while this is a material number to the financial statements, management does not consider this to represent a significant judgement under IAS 1 due to the conditions associated with payment.

As a result of the disposal, the Group has presented income and expenditure related to the CCGT portfolio as discontinued operations and has disclosed a profit on disposal in relation to the transaction of £9 million.

## Audit Committee review and conclusion

The Committee also reviewed the impairment disclosures in the Annual Report and Accounts and concluded that the key assumptions and sensitivities had been appropriately disclosed.

The Committee plays an important governance role in the classification and presentation of items as exceptional in the financial statements.

During 2021, the Committee reviewed and approved updates to the Group's policy in respect of exceptional items, noting that the changes to the policy added further guidance and did not change the underlying principles applied. As part of the review, it was confirmed that the updated policy would not have changed the classification of exceptional items in the current or previous periods.

At each Committee meeting, management presents a paper that sets out the transactions proposed to be classified as exceptional in the financial year. The Committee reviews this paper and provides formal approval at reporting dates.

In 2021, the Committee challenged the exceptional classification of the ongoing costs associated with coal closure, and the costs associated with the restructuring of the Customers business. This was to ensure that they met the criteria outlined in the agreed policy and were not business-as-usual expenditure.

At its meeting in February 2022, the Committee reviewed the final classification of transactions as exceptional for the 2021 financial statements. It also considered the presentation of alternative performance measures in the 2021 Annual Report and Accounts. Having considered analysis from management, and the opinion of the external auditor, the Committee was satisfied that the approach is appropriate. It was also satisfied that the Annual Report and Accounts for 2021 are fair, balanced and understandable.

As a material disposal transaction, the sale of the CCGT portfolio to VPI Generation Limited, and associated financial reporting implications, were a key focus area for the Committee during 2021.

The Committee reviewed management's approach to disposal accounting and the presentation and classification of items as discontinued operations in the 2021 income statement. Having completed this review, the Committee was satisfied that the presentation was appropriate, in accordance with relevant financial standards, and accurately reflected the substance of the transaction and its impact on the Group.

In its February 2022 meeting, the Committee challenged management's assumptions regarding the fair value of the contingent consideration that remains outstanding. The Committee concluded that the valuation approach adopted by management is appropriate.

Description

**Review of other significant judgements and estimates**

The other areas of judgement and sources of estimation uncertainty that are significant to the financial statements are set out on page 180.

Management regularly reviews these other areas to ensure they are kept up to date and that the list is complete.

As part of the preparation for the 2021 Annual Report and Accounts, management considered the level of provision required for expected credit losses in the Customers business. This included consideration of whether the provision continues to represent a key source of estimation uncertainty under IAS 1.

Management also considers other matters that are not necessarily significant or material to the financial statements but may be of interest or relevant to current or future developments. One such area considered in detail during 2021 was the treatment of costs associated with the BECCS project at Drax Power Station. During the year, it was deemed appropriate to commence capitalisation of certain costs associated with the project. This decision was based on an increasing level of confidence in the development of the project in the future. The impact on the 2021 financial statements was immaterial and so this does not represent a significant judgement under IAS 1. However, the impact in future years is likely to be material. This matter will be kept under review, linked to the Board's assessment of the viability and level of confidence in the potential realisation of BECCS in the future. In making such an assessment, the Board will have to make judgements based on prevailing circumstances, which may be subject to material change.

Audit Committee review and conclusion

At each of its meetings the Committee reviews a paper prepared by management that summarises key financial reporting updates for the period. This paper includes a summary of significant accounting judgements and sources of material estimation uncertainty, and an update on any changes in the period.

In particular, during 2021, the Committee reviewed the approach taken to calculate expected credit loss provisions. It noted the development of Covid-19 during the year and the performance of cash collection against billing. Having completed this review, the Committee was satisfied that the approach adopted was appropriate, and also concluded that the risk of a material change in the estimated carrying value of related assets within the next financial year was unlikely.

As such, it was determined that this provision no longer represents a key source of estimation uncertainty under IAS 1. The Committee reviewed and approved the associated disclosure to be included in the financial statements.

The Committee challenged management on its assessment that the threshold for capitalisation of certain costs associated with the BECCS project had been reached. As part of this, the Committee noted the potential impact on future years. Having reviewed the relevant criteria, and the evidence provided by management, the Committee concluded that this treatment was appropriate. The Committee also noted that this treatment would be important to highlight in the Annual Report and Accounts, despite being immaterial in 2021.

Having considered the other matters raised in management's papers, the Committee was satisfied that the items disclosed as critical accounting judgements or key sources of estimation uncertainty on page 180 were appropriate. In addition, the Committee was satisfied that the descriptions accurately reflect the matters disclosed.

**Reviewing the 2021 Annual Report and Accounts**

At its meeting in December 2021, the Committee received reports from management on its planning for the various elements of the 2021 Annual Report and Accounts. This included a timetable for preparing drafts, and for the contributions – including peer review and commentary – being made by members of the wider management and executive teams. The Committee also discussed how such review would support the task of ensuring the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.

Between the year-end date and the date of the approval of the Annual Report and Accounts, the Committee met on 10 February 2022 to understand progress with the year-end audit process and discuss a paper from management covering key financial reporting matters. The meeting was attended by management and both the external and internal auditor. The Committee met again on 21 February 2022 principally to review both the external auditor's findings and the draft 2021 Annual Report and Accounts. The Committee also reviewed and approved the verification process undertaken by management around information included in the Annual Report and Accounts, including the level external assurance received around TCFD disclosures.

In addition, the Committee reviewed the internal controls, forecasts and relevant assumptions underpinning the Viability Statement and the ongoing adoption of the going concern basis in preparing the financial statements. This included reviewing a scenario analysis

prepared by management, which was reviewed by the external auditor, and which considered the potential future impact of the Group's principal risks on its financial projections. The Committee challenged the assumptions around availability of finance and covenant compliance made in the process and considered the appropriateness of the period of assessment for viability. Following this review the Committee concluded that the assessment period should be increased from three years to five years, as discussed further in the Viability Statement on page 74. The Committee was satisfied that the proposed statement was robust, fair and balanced, and that the ongoing use of the going concern basis of preparation was appropriate.

During 2021, focus was given to the potential scenarios relating to climate change risk. As detailed on page 64 the Group has completed an analysis of various future scenarios related to climate change and the potential impact on the Group by 2030. This analysis makes considerations both from a transition risk and physical risk perspective. For the assessment of viability noted above, the period of assessment was shorter, but many of the same factors and considerations were relevant. This is discussed in further detail on page 74. In February 2022, the Committee also reviewed and discussed a paper outlining how the potential future impacts of climate change had been considered in preparation of the financial statements, covering areas such as impairment reviews and the useful economic lives of the Group's assets.

The Committee considered and reviewed management's disclosure on exceptional items and certain remeasurements, and the adjustments in the middle column of the income statement (this can be found on page 200, referring where necessary to the agreed accounting policy). This included considering the impact of the acquisition of Pinnacle on the presentation of the income statement and associated notes. It also included a review of the calculation and presentation of Alternative Performance Measures, as detailed on page 200.

#### Fair, balanced and understandable

As a result of the Committee's review, it advised the Board of its conclusion that the Annual Report and Accounts – taken as whole – are fair, balanced and understandable. This view is underpinned by the Committee's discussions with operating and finance management regarding the Strategic Report, and with the finance team regarding the financial statements. In addition, the Committee believes the Annual Report and Accounts provides the information necessary for shareholders to assess the Company's and Group's position and performance, business model and strategy.

#### Review of Committee effectiveness

In line with the FRC's Guidance on Committees, the effectiveness of the Audit Committee is periodically considered. During the autumn of 2021, an internal review was undertaken of the Board and its committees, including the Audit Committee. The review concluded that the Audit Committee continued to work well, and that there was sufficient reporting and discussion on matters such as risk, compliance, internal controls and internal audit. This review built on the externally facilitated review of the performance of the Committee in autumn 2020. That review found that the Audit Committee worked well, with an effective Chair and Committee members all providing valuable contributions and effective challenge. The review noted there is good dialogue and constructive relationships between the Audit Committee Chair, CFO and the external Audit Partner. The review also found effective planning routines are in place, ensuring there is sufficient time to consider matters in advance of decisions being required, and that the challenges of surprises or disruption can be mitigated. An externally led review will be conducted in 2022.

#### External audit

##### Effectiveness of external audit

The Committee reviewed the effectiveness of the external auditor in April 2021 and does so annually. During the year, Makhan Chahal took over from Anthony Matthews as lead Audit Partner, bringing significant listed company and sector-specific auditing experience. Makhan worked closely with Anthony to enable a smooth handover of responsibilities.

The Committee's review primarily considered the independence and objectivity of Deloitte, its professional competence and past performance. The Committee also considered the robustness of the audit process including, in particular, the level of challenge given to critical management judgements. This took account of the Committee's own discussions with the external auditor on the work performed around areas of higher audit risk. It also accounted for discussions on the basis for the auditor's conclusions on those areas, and the depth of the auditor's understanding of the Group's businesses. The review of effectiveness also incorporated feedback from members of the finance and wider management teams. The Committee sought their views on matters including the quality of work and engagement while planning and executing the audit, both at a Group and business unit level.

In addition to completing the annual review, the Committee considers the effectiveness of the external auditor throughout the year and discusses this point at each meeting. It gives particular focus to the level of challenge being given to management, and the professional scepticism being applied. During 2021, key areas where this was evident included the Purchase Price Allocation assessment related to the Pinnacle acquisition and the annual impairment review process performed by management. It was also evident in the review of an appropriate level of expected credit loss provision within the Customers business unit. The Committee is therefore satisfied with the level of ongoing challenge that the external auditor has applied.

During 2021, Deloitte's audit of the Group's 2020 financial statements was selected for review by the FRC's Audit Quality Review (AQR) team. Once the FRC's report and findings are available, they will be considered in detail and discussed with the Audit Partner. The Committee will report on this in the next Annual Report and Accounts.

Based on its overall review, the Committee is satisfied that the external auditor and its audit has continued to be effective. The Committee agreed that the external auditor's work demonstrated an ongoing commitment to audit quality, that the audit process was robust, and that Deloitte had shown strong levels of technical knowledge and had provided appropriate professional scepticism in its work.

#### Independence of external audit

The Group has an Auditor Independence Policy (AIP) that defines procedures and guidance under which the Company's relationship with its external auditor is governed. The AIP also facilitates the Committee being able to satisfy itself that there are no factors that may, or may be seen to, impinge upon the independence, objectivity and effectiveness of the audit process. The Committee reviews the AIP annually and last did so in July 2021. As part of this annual review the Committee considers areas of development in best practice and guidance. The main features of the current AIP (the whole of which is available at [www.drax.com](http://www.drax.com)) are:

- A requirement to review the quality, cost effectiveness, independence and objectivity of the external auditor
- A requirement to rotate the lead Audit Partner every five years, and processes governing the employment of former external auditor employees
- A policy governing the engagement of the auditor to conduct non-audit activities. Under this policy, the general principle is that the incumbent external audit firm undertakes no non-audit services, unless:
  - The work requires a certificate or other assurance of the Group's appointed external auditor
  - The services provided relate to an interim review or to reporting accountant activity
  - Exceptional circumstances warrant it, and only then when the Committee is satisfied the engagement of the external audit firm is justified on merits clearly articulated by management and agreed in advance by the Committee or Committee Chair.

## External audit tender

### Introduction

Deloitte has provided a total uninterrupted engagement of 17 years as the Group's external auditor, covering the years ending 31 December 2005 to 2021. The UK Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR) introduced a requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors at least every 20 years. The last year-end of Deloitte's permissible tenure is for the year ended 31 December 2024. On 21 September 2021 a Regulatory News Service announcement stated that Drax Group plc was holding a tender process for the role of external auditor. This process was undertaken in advance of the mandatory rotation off as the Group's external auditor by 31 December 2024.

### Process

The Audit Committee has overseen the audit tender process, commencing in July 2021 with the setting of a timetable. Following this, the business appointed a project manager to support the planning and delivery of the process until its conclusion. Chairing the Review Panel, the CFO consulted with potential firms to assess their suitability.

Due consideration was given to any non-audit services provided that would need to be replaced and to the minimum time required to 'cleanse' any services provided. In addition, the 2021 FRC Audit Quality Review reports were reviewed to aid in assessing each firm's audit quality.

The Company Secretary led the governance activities and set out the Request for Information to participant firms. The Procurement Director led the commercial aspects and the definition of scorecard criteria, incorporating critical success factors. Regular communication, including access to the CFO and Audit Committee Chair, was maintained with each of the firms.

### Initial assessment

Invitation to Tender letters setting out an overview of the timetable and the process were issued in September 2021 to the shortlisted firms, including all 'Big Four' audit firms (excluding Deloitte as the incumbent auditor) and two others. Following the invitation, all interested parties were invited to meetings with management and ultimately requested to submit a full proposal document.

### Assessment criteria

The key focus of the evaluation and selection criteria was to appoint an audit firm that would provide the highest quality, most effective and efficient audit in future. In undertaking the tender,

the selection team was mindful of choosing a firm that embodied the required professional standards, displayed technical insight, demonstrated a good understanding of the Group and its sector, fitted well with the Drax culture and values, and had an appreciation of the importance of ESG matters, in addition to capabilities in responding to the evolution of the Group.

### Bid evaluation and recommendation

The initial assessment included meetings with management, submission of information to a data room and assessment of bids against the pre-defined scorecard criteria. The Audit Committee Chair was appointed as the Chair of the Selection Panel. In December 2021, an evaluation was made by the Committee with a subsequent recommendation to the Board to approve PwC as the next external auditor.

The Board met in January 2022 to assess the information and proposal provided by the Audit Committee. It was noted by the Board that PwC had met the required professional standards, demonstrated a good understanding of the Group and its sector, showed clarity of independence, and would be well placed to best serve the needs of shareholders and other external stakeholders.

The Board agreed to appoint PwC as the next Group auditor for the financial year ending 31 December 2024, subject to shareholder approval. On 28 January 2022, Drax announced that the Board had approved the proposed appointment of PwC as its external auditor to take effect from, and including, the financial year ending 31 December 2024. The appointment will be recommended to shareholders for approval at the AGM in 2024.

Subject to shareholder approval at the respective AGMs, Deloitte will continue in its role as external auditor to Drax for the financial years ending 31 December 2022 and 31 December 2023. PwC will shadow Deloitte in respect of audit for the financial year ending 31 December 2023, as part of an orderly transition.

Feedback was provided to all bid participants following the decision of the Board.

### Conclusions

The Company has complied with the UK 2016 SATCAR regulations to conduct a competitive tender. In addition, the Committee considers that the audit tender process undertaken has been conducted in a fair and transparent manner, in accordance with the Notes on Best Practice by the Financial Reporting Council (February 2017).

Anthony Matthews rotated off the Group audit following the completion of the 2020 reporting cycle, at the end of a five-year period of involvement. Makhan Chahal replaced Anthony during 2021, following the review of potential replacement partners and discussion by the Committee during 2020. The decision was based upon the depth of Makhan's sector knowledge, relevant FTSE 100 and FTSE 250 signing partner experience, and experience with complex trading and hedging positions. The Committee monitors and reviews at each meeting the balance between the fees paid to the external auditor for audit and non-audit services.

The external auditor also reports to the Committee on its own processes and procedures to ensure independence, objectivity and compliance with the relevant standards.

The amounts paid to the external auditor during each of the financial years ended 31 December 2020 and 2021 for audit and other services are set out below and in note 2.3 to the financial statements (page 191).

	Year ended 31 December 2021 €000's	Year ended 31 December 2020 €000's
<i>Schedule of fees paid to Deloitte LLP</i>		
Audit fees:		
Statutory audit of Drax Group	1,250.0	937.0
Statutory audit of the Company's subsidiaries	40.0	38.0
<b>Total audit fees:</b>	<b>1,290.0</b>	<b>975.0</b>
Interim review	110.0	98.0
Other assurance services	–	2.0
Corporate refinancing fees	–	110.0
Reporting accountant fees	469.0	116.0
<b>Total non-audit fees:</b>	<b>579.0</b>	<b>326.0</b>
<b>Total auditor's remuneration</b>	<b>1,869.0</b>	<b>1,301.0</b>

Deloitte performed certain non-audit services during 2021. As noted on page 120, the external auditor should not provide non-audit services where it might impair their independence or objectivity. Therefore, any engagement for the provision of non-audit services requires prior approval from the Committee or Committee Chair. Agreement to allow the external audit firm to perform additional non-audit services is taken only after considering two key factors. Namely, that the non-audit services policy has been fully applied and that any engagements are in the best interests of the Group and its key stakeholders.

During the year, there was an increase in the level of non-audit services provided by Deloitte. In total, this amounted to £579,000, of which £110,000 covered the Group's Half Year review. Deloitte provided support in a limited reporting accountant role in respect of the shareholder circular for the proposed acquisition of Pinnacle. The Committee was satisfied that the overall levels of audit and non-audit fees were not of a material level relative to the income of Deloitte as a whole. The Committee was also satisfied that the level of non-audit fees was below the 70% cap, based on the average audit fee for the preceding three years.

#### Auditor reappointment

The Group has fully complied with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Committee Responsibilities) Order 2014. The Committee discussed the appointment of an external auditor at its meeting on 21 February 2022 and recommended to the Board that a resolution to reappoint Deloitte as the Group's external auditor should be put to shareholders at the AGM in April 2022.

As explained on page 128, a competitive tender process took place during 2021 to identify a successor to Deloitte.

#### Internal audit

As reported in the 2020 Annual Report and Accounts, the Committee assessed the best approach to sustaining high quality internal audit and risk management functions during 2020. This review determined that the internal audit and risk management functions be separated, moving to a fully outsourced internal audit model. One of the key drivers for this decision was to allow the Group to draw on particular skills, prevailing market knowledge and wider industry-relevant experience, such as IT, cyber security, trading and commodities. KPMG was selected as the new internal auditor following this review, supported by an internal team, and has now completed its first full annual programme of work.

While fees are agreed on an audit-by-audit basis depending on the scope and requirement for specialist input, they are managed within an overall annual budget. The internal auditor presents an annual plan to the Committee for approval at its final meeting of the year, which covers the elements to be delivered in the following year. This proposed programme of work is based on the assessment of the internal auditor, taking into account input from interviews with key internal stakeholders from finance, risk and wider management. The Committee reviewed the plan in detail and subsequently approved it. This review sought to ensure that priority is given to the areas of highest risk for the Group, while maintaining appropriate coverage of all key risks.

The Committee receives reports at each meeting regarding progress against the overall internal audit plan and the reviews undertaken since its last meeting. The Committee reviews the findings and agrees the recommended actions and delivery dates for improvements. Key topics reviewed by the internal auditor during 2021 included IT disaster recovery, power trading, and product development and pricing within the Customers business. In addition, the internal auditor held separate planning

meetings with the Board and management to discuss the potential implications of the BEIS consultation "Restoring trust in audit and corporate governance". These sessions focused on the likely implications of the proposals, and on developing a structured approach to addressing the requirements. At each of its meetings, the Committee receives an update from the internal auditor on the latest developments in this area and discusses the planned approach to future changes.

In addition to reports from the internal auditor on their reviews completed during the period, the Committee also receives reports from management detailing progress on implementing recommendations from previous reviews. This allows the Committee to effectively monitor management's responses. The Chair of the Committee, independent of management, maintains direct contact with the internal auditor, allowing open dialogue and feedback.

#### Health, safety and environment

Where relevant, and agreed between the Committee and the internal auditor, additional external parties may be engaged to support with independent reviews – typically in highly specialised areas. This spans such matters as engineering practices, maintenance, process safety and training. These are integral to ensuring our colleagues are suitably enabled with the requisite knowledge and equipment to perform their work effectively and safely. The internal auditor will work with any external parties to review the scope of their work and how any key findings are subsequently being reported and managed.

As noted on page 119, the Committee reviewed and supported the appointment of a new external consultant during 2021. DNV GL Limited (DNV) was appointed to provide an assessment of the Group's Environment, Health and Safety practices. DNV undertook a detailed review of processes by site across three key areas: Human (to see if we have a learning culture); Organisation (checking that management processes are aligned to best practice); and Technical (are the technical controls aligned to best practice). DNV's initial findings were presented to the Committee in July, and regular updates are now being provided on progress against agreed actions. DNV will also highlight any further findings as their work continues.

Opportunities for improvement already identified include investment in data capture and automated reporting. This will improve the transparency and assessment of site-by-site performance against key performance indicators and the accountability of local leadership. To help action and embed the identified improvements, management are investing in a new IT system that will support the needs of the business now and in the future. The intention is to roll this solution out to all areas of the Group in Q3 2022. In both the Generation and Pellet Production operations, management has already commenced work to implement new integrated management systems that will be underpinned by this tool. It will replace burdensome manual tasks and allow for several existing systems to be decommissioned.

#### Effectiveness of internal audit

The Committee has considered the overall effectiveness of the approach to internal audit and is satisfied. This is based on the quality of the overall plan and the information provided in reporting. In particular, the Committee considered the effectiveness of KPMG, having completed its first full year as the Group's main internal auditor, and are satisfied with the quality, experience and expertise provided in their reviews.

This report was reviewed and approved by the Audit Committee.

**Vanessa Simms**  
Chair of the Audit Committee  
23 February 2022

# Remuneration Committee report



Nicola Hodson, Chair

The Group delivered strong financial performance in 2021 and made great strides in delivering on its key strategic objectives. The remuneration outcomes for the Executive Directors and senior management appropriately reflect this.

## Committee members

John Baxter  
Philip Cox  
Kim Keating  
Vanessa Simms

## Attending by invitation

CEO, Chief People Officer, Head of Reward and external remuneration advisers. The Group Company Secretary is the Secretary to the Committee.

## Number of meetings held in 2021: Three

In addition to the below, Nicola attended a number of planning meetings to consider key agenda items, planning for papers and ensuring the expectations of Nicola were satisfactorily reflected in the matters discussed and explained.

## Attendance in 2021

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	3	3	100%
Philip Cox	22 April 2015	3	3	100%
Kim Keating <sup>(1)</sup>	21 October 2021	1	0	0%
Nicola Hodson	12 January 2018	3	3	100%
David Nussbaum <sup>(2)</sup>	1 August 2017	3	3	100%
Vanessa Simms	19 June 2018	3	3	100%

(1) Kim Keating joined the Committee on 21 October 2021 and was unable to attend the meeting in December 2021 due to a pre-existing commitment.

(2) David Nussbaum stepped down as a member of the Committee on 31 December 2021.

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and the provisions of the Code.

## Terms of reference

The Committee regularly reviews its terms of reference, and the Board also then reviews these terms. The most recent review was in July 2021. The terms of reference are available on the Group's website at [www.drax.com/governance](http://www.drax.com/governance)

## Role of the Remuneration Committee

The principal responsibilities of the Remuneration Committee (the Committee) are to:

- Keep under review the implementation of the Directors' Remuneration Policy
- Determine the remuneration strategy and framework for the Executive Directors and senior management, ensuring that executive remuneration is aligned to the Group's purpose, values and strategy
- Determine, within that framework, the individual remuneration packages for the Executive Directors and senior management
- Approve the design of annual and long-term incentive arrangements for Executive Directors and senior management, including agreeing targets and payments under such arrangements
- Determine and agree the general terms and conditions of service and the specific terms for any individual within the remit of the Committee, either on recruitment or on termination
- Determine the policy for, and scope of, executive pension arrangements
- Oversee any major changes in employee remuneration throughout the Group, ensuring there is a consistency with the culture and values of Drax

## Key Remuneration Committee activities in 2021

- Reviewed and provided input to management's proposals on remuneration matters pertaining to legacy Pinnacle colleagues
- Considered and approved the remuneration of Executive Directors and senior management
- Reviewed the salary increases and aggregate bonuses paid in all businesses and corporate functions
- Considered and approved the Committee's Annual Report on Remuneration for 2020
- Reviewed and considered the Group's gender pay disclosures

## Annual Statement to Shareholders

Dear shareholders,

On behalf of the Remuneration Committee (the Committee), I am pleased to present the Directors' Remuneration Report for the 2021 financial year. In April 2021, our shareholders approved the Annual Report on Remuneration for 2020, with over 99% of votes cast in favour. The Committee and I are grateful to our shareholders for their support.

The report is set out in the sections listed below. New to this year we have included a table which provides a summary of the remuneration arrangements of Executive Directors and the wider workforce, and commentary on the extent to which there is appropriate alignment, which is a core principle for the Committee, and commentary on key features of the Policy in relation to provisions of the Corporate Governance Code. We hope that this additional information and its presentation helps shareholders understand the application of the Policy.

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Directors' Remuneration Policy	137 – 147
Annual Report on Remuneration for 2021	148 – 159

As noted throughout the annual report, 2021 was a strong year. The Group has delivered impressive financial performance in 2021 whilst also making progress on the Group's key strategic objectives including the acquisition of Pinnacle, the disposal of the thermal assets and advancing our plan to close our coal assets in September 2022, whilst developing options on BECCS.

Covid-19 still impacted the health, safety and wellbeing of our colleagues in 2021, particularly the first half of the year. Management maintained its view that pay stability and security of our workforce, many of whom are key workers, is of primary importance. To this end, our policies intended to provide continuity of pay for those who were unable to work due to illness or had caring responsibilities, as well as our commitment not to furlough or make redundancies as a result of Covid-19 continued in 2021. From September 2021 our pay policies reverted to our regular sick pay policies.

The Committee firmly believe that remuneration outcomes should be fair and appropriate with respect to business performance and consistent across the wider workforce, and has assessed remuneration outcomes for 2021 in line with these principles.

### Review of decisions made during 2021

#### Annual assessment of performance

The Committee determines the remuneration of the Executive Directors and members of the Executive Committee against the strategic objectives and priorities of the Group. For 2021, we achieved this through considering performance against a combination of strategic, business and financial metrics. The Group Scorecard reflects these metrics, and you can see details on page 150.

A high proportion of total remuneration is delivered through variable pay, rewarding the achievement of a balance of Group short-term and long-term targets.

The 2021 Group Scorecard included metrics reflecting key objectives for all major business areas, including Pellet Production, Generation and Customers, as well as metrics reflecting progress on strategic objectives and people, sustainability and reputation. The performance in the Pellet Production and Generation businesses was strong in 2021 and the Customers business bounced back well in 2021 from the difficult year it had in 2020 due to the impact of Covid-19. The detailed review of achievement against the performance metrics in the 2021 Group Scorecard is on page 150.

The Committee determined that the overall performance outcome against the Group Scorecard represents a fair reflection of the business and financial performance during 2021 with the level of payout commensurate with the shareholder experience over this period and that of our employees. The Committee did not exercise any discretion in its determination for bonus outturn. The outcome of the Group Scorecard was 1.61 and this score results in 80.50% of the maximum annual bonus being paid to Executive Directors, of which, and in line with our Policy, 40% will be deferred into shares and 60% will be paid in cash in March 2022.

This score also forms part of the performance assessment for the Performance Share Plan awards granted in March 2019. Further details are provided below.

#### Long-term assessment of performance

Awards which were granted in 2019 under the Performance Share Plan (PSP) were subject to performance criteria under the Policy approved by shareholders in 2018. Vesting for such awards was over the three-year period from 1 January 2019 to 31 December 2021 and was based on two measures. These were Relative Total Shareholder Return (TSR), accounting for 50% of the award, and the three-year average of the Group Scorecard, which accounted for the remaining 50% of the award. TSR over the period was between median and upper quartile, leading to 90.90% vesting for this element. The average Group Scorecard outcome over the same period was 1.14 leading to 63.67% vesting for this element. The overall vesting outcome for the 2019 PSP awards is therefore 77.28% of the maximum. A chart showing TSR performance relative to the FTSE 350 can be found on page 155.

The Committee determined that the vesting outcome was appropriate in the context of performance over the three year performance period and therefore no exercise of discretion was applied to the overall vesting. Drax's share price at 31 December 2021 was 61% higher than the start of the performance period. Given the averaging periods over which TSR has been calculated, this equates to a return of 54% based on the six month averaging period prior to the start and end of the performance period. These returns represent a strong result for our shareholders.

### Base salary review

For the 2021 pay review, all Executive Directors were given an increase in base salary of 2%. This took effect in April 2021 and was in line with increases applied to the wider workforce.

Will Gardiner was appointed to the role of CEO on 31 December 2017 and Andy Skelton was appointed to the role of CFO on 2 January 2019. Consistent with our Directors' Remuneration Policy (Policy), the base pay for both our Executive Directors was set at what the Committee considered to be an appropriate level on appointment in the context of the business at the time and the pay of comparable peers.

Under the leadership of the Executive Directors, Drax has made strong progress in delivering on its strategic aims. They have implemented the closure of our coal assets, sold our CCGT gas assets, in addition to evolving the business model and opportunities for growth, which has included the acquisition of pellet producer Pinnacle. That acquisition, combined with progress being made on bioenergy with carbon capture and storage (BECCS), creates the platform for a long-term sustainable business. As a result, during their tenure, opportunities for Drax extend well beyond the end of the present UK subsidy regime in 2027, with operations that combine the generation of power in the UK, with long-term contracts for supply of sustainable biomass to third parties in Europe and Asia well into the 2030's. Moreover, through the ongoing investment in technology, Drax has the potential to deliver flexible renewable power combined with carbon capture which places the Group at the forefront in contributing positively to the growing demands of climate change for the UK and overseas.

The Committee undertook a review of Executive Director salaries in late autumn in the context of these changes to the business, supported by external market data. The following factors were considered:

- The fundamental shape of the business has changed, the business has become more complex, with an extended global footprint, combined with the imperative of ongoing effective engagement with key stakeholders in the UK and overseas
- Drax has delivered strong performance under the leadership of the Executive Directors, delivering stable earnings, good operational performance and continued attention to the safety and welfare of our employees through challenging times
- Drax's Total Shareholder Return to 31 December 2021 was 173% from the date of Will's appointment and 95% from the date of Andy's appointment. This compares to the Total Shareholder Return of the FTSE 350 index over the same period of 14% since Will's appointment and 26% since Andy's appointment.

After careful consideration, the Committee determined that it was appropriate to apply adjustments to the base salaries of the Executive Directors to reflect the changes to the business. Accordingly, it was agreed to increase the base pay of Will Gardiner by 6.6% from £572,409 to £610,000 and for Andy Skelton by 4% from £372,963 to £388,000, effective from 1 January 2022. The resulting salaries position the Executive Directors at the median of similar roles within the FTSE 250.

The increases reflect a balanced approach to attracting and retaining talent and are consistent with our Policy, with adjustments to base pay to reflect performance and realisation of key goals following appointment. Will and Andy are a key part

of the management team which has been instrumental in delivering significant change, and we recognise the importance of them staying at Drax to deliver on the opportunities which the Committee believes to be in the interests of all our of stakeholders. The Committee remains committed to implementing appropriate reward structures, in line with our Policy, reflecting informed assessment of wider market and stakeholder considerations.

In addition to these adjustments to reflect the size and complexity of the roles and the business, Executive Directors will be eligible for the normal annual salary increase. Therefore, with effect from April 2022, an increase of 4.5% will be made as part of the annual pay review process, in line with the average base increase for the wider workforce. Effective from 1 April 2022, the base pay of Will Gardiner will increase from £610,000 to £637,500 and Andy Skelton from £388,000 to £405,500.

### Annual Bonus

The basis of performance for the annual bonus will be performance against the metrics in the 2022 Scorecard. This will apply to all colleagues which participate in the plan, including the Executive Directors. More information on the new and evolving metrics in the 2022 Scorecard are provided on pages 30 and 31.

### LTIP

It is intended that the 2022 LTIP grant is made on the normal timetable at the end of March 2022. For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with the upper quartile. The targets for the EPS element have not been determined but will be announced prior to the AGM by release of RNS.

### Pension

Under the Policy approved in April 2020, any new Executive Director joining Drax would receive a pension contribution (or cash payment in lieu of pension contribution) that is consistent with those of new joiners to the wider workforce (which is currently 10% of base salary). Existing Executive Directors will retain their current pension contribution until 31 December 2022, which is 20% of base salary for Will Gardiner and 16% for Andy Skelton. From 1 January 2023, these contribution rates will reduce to 10% or the equivalent to that of new joiners at that time.

### Pinnacle integration

On 13 April 2021 Drax completed the acquisition of Pinnacle Renewable Energy Inc. From this date Drax welcomed new colleagues based in Canada and the US. Careful consideration was given by management and the Committee to ensure that Pinnacle colleagues smoothly transitioned to the respective remuneration and broader HR policies of the Drax Group. Management intend to introduce an all-employee share plan for colleagues in Canada and the US. This would allow our colleagues in these territories to use part of their regular earnings to save towards the purchase of shares in Drax. We intend to submit the share plan rules for shareholder approval at the AGM in 2022. A more detailed explanation on the proposed plan can be found in the Notice of the Annual General Meeting, which is also available on our website. The plan will complement the existing employee Share Save plan which we currently operate for eligible employees in the UK.



### Workforce engagement

I believe that engagement with stakeholders is extremely important in both informing the decisions of the Committee and in communicating how the Committee conducts its work and reaches key decisions. I am pleased to say we have a variety of channels to colleagues.

There were four MyVoice Forum meetings with the respective Chairs and Will Gardiner and Philip Cox which took place in 2021. In addition, each business area had their own forums, and most business areas each had four meetings in 2021.

At these meetings a variety of matters on remuneration were discussed and feedback they provided has influenced our decision making. For example, one of the feedback themes was further improving communication of variable pay plans. The CEO sent various emails to all colleagues throughout 2021 clarifying the metrics in the 2021 Scorecard and with updates on performance on each during the year. This was important as the Scorecard serves as the basis of determining the annual bonus award for colleagues at all levels.

In this report we have clarified what remuneration elements are in place for Executive Directors and all employee groups across the organisation, highlighting the instances where there is difference (please see page 135).

Finally, every year we conduct an all-employee engagement survey where we assess the findings and address them through specific and targeted actions plans. In 2021 the engagement survey score directly influenced management's bonus as it was a metric in the 2021 Scorecard.

### Shareholder engagement

Drax engages with shareholders on executive pay in advance of a new Policy and any material changes to the implementation of the existing Policy. As such, Drax did not directly engage with shareholders on executive pay during 2021. We did however solicit views from some shareholders on the existing construct of the Scorecard with respect to metrics for the 2022 financial year.

In 2022 the Committee will complete a full review of the current Policy. This will involve meeting a number of shareholders to get their valuable feedback on the current Policy which we will take into consideration. On conclusion of this review, we will develop proposed revisions and will look to engage our largest shareholders to explain these proposed revisions.

### Summary

Along with the other members of the Committee, I am proud of the Group's performance in 2021 and I am satisfied that the 2021 remuneration outcomes for the Executive Directors and senior management fairly reflect the performance of the Group. Drax has undergone significant change during 2021 and during that period has grown the business, its global reach and returns to shareholders. Employees across all levels have responded well to this change and the outcome, on performance related pay in which they share, recognises that contribution.

These outcomes we believe also provide a fair and consistent approach to remuneration across the Group and remain in shareholders' interests. I hope that having read this report you will vote in support of the Annual Report on Remuneration for 2021 at the AGM on 27 April 2022.

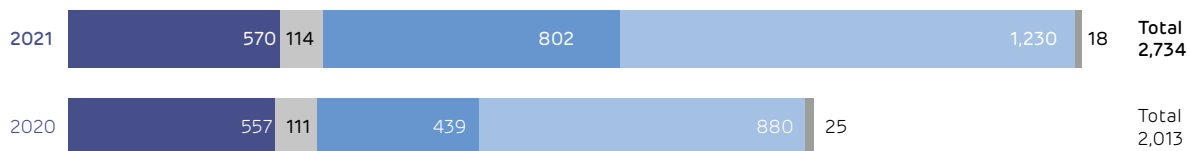
## Remuneration at a glance

This section provides a summary of the remuneration earned by each of the Executive Directors in 2021. Further detail is outlined in the Annual Report on Remuneration which starts on page 148.

### Total remuneration

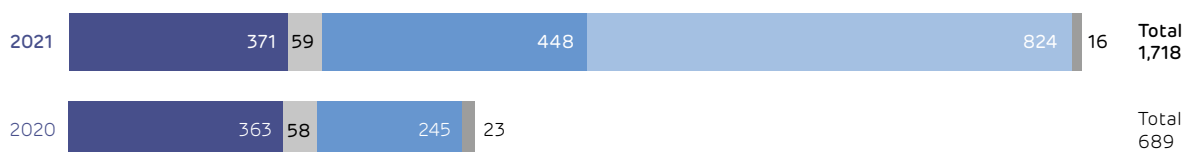
#### Will Gardiner (CEO) £000s

Will was in office for the full year.



#### Andy Skelton (CFO) £000s

Andy was in office for the full year.



■ Base salary ■ Pension ■ Annual bonus ■ LTIP ■ Other benefits and ShareSave

## Implementation of the Policy in 2021

Below is a summary of the key features of our Directors' Remuneration Policy (Policy), which was approved by shareholders at the AGM in 2020 and so became effective from that meeting. There is also a summary of how the Committee applied the Policy in 2021.

Element	Key features of the Policy (adopted in 2020)	Implementation of the Policy in 2021
<b>Base salary</b>	<ul style="list-style-type: none"> <li>The Committee targets market level, as determined by reference to appropriate comparator companies selected with consideration for factors such as sector, size and international presence.</li> <li>An Executive Director in post at the start of the Policy period, and who remains in the same role throughout the Policy period, would normally receive an increase in line with the average annual percentage increase in base salary of all other employees in the Group. The exceptions to this are where an Executive Director has been appointed at below market level to reflect experience and where an Executive Director has been promoted internally (or the scope of their role has changed) and their base salary is below market level.</li> </ul>	<ul style="list-style-type: none"> <li>For the pay increases made in April 2021, all Executive Directors received an increase in base salary of 2%. These increases were in line with increases applied to the wider workforce.</li> <li>In December's meeting the Committee agreed to increase the base pay of Will Gardiner by 6.6% and Andy Skelton by 4%, effective 1 January 2022. The detailed rationale for that is provided on page 132 and it is noted that it is consistent with the approach outlined in the Policy on page 137.</li> </ul>
<b>Pension and other benefits</b>	<ul style="list-style-type: none"> <li>An Executive Director is entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension, or a combination of pension contribution and cash in lieu of pension.</li> <li>Until 31 December 2022, the pension contribution rates for existing Executive Directors are 20% of base salary for Will Gardiner and 16% for Andy Skelton. From 1 January 2023, the contribution rates will reduce and will be aligned to those of new joiners (which is currently 10%).</li> <li>Other benefits provided as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>The employer pension contribution in 2021 for Will Gardiner was 20% of base salary, and it was 16% for Andy Skelton. Will Gardiner's employer contribution is delivered as cash in lieu, whereas for Andy Skelton it is delivered part as pension contribution and part as cash in lieu.</li> <li>Other benefits received included a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover.</li> </ul>
<b>Annual bonus</b>	<ul style="list-style-type: none"> <li>The maximum opportunity is 175% of base salary for Will Gardiner and 150% for Andy Skelton.</li> <li>60% of the bonus award is measured on financial metrics and 40% on strategic metrics.</li> <li>Bonus earned for the strategic metrics is deferred, but total bonus outcome is subject to a minimum of a 40% deferral. The portion of bonus which is deferred into shares is subject to a three-year vesting period and which must be retained for a further two years. In the event an Executive Director leaves the Company prior to the end of the vesting period (other than as a "good leaver"), the deferred shares will forfeit.</li> <li>Clawback and malus provisions apply.</li> </ul>	<ul style="list-style-type: none"> <li>The 2021 annual bonus outcome as percentage of maximum opportunity was 80.50%, of which 70.19% was based on performance against financial metrics and 29.81% against strategic metrics.</li> <li>In line with the Policy, 40% of the overall bonus award will be deferred into shares under the Deferred Share Plan.</li> </ul>
<b>Long-term incentive</b>	<ul style="list-style-type: none"> <li>For awards made under the LTIP, which was introduced in 2020, the maximum award level is 200% of base salary for Will Gardiner and 175% for Andy Skelton.</li> <li>Vesting is subject to long-term performance conditions, measured over a three-year performance period.</li> <li>Shares must be retained for a further two years from vesting.</li> <li>Clawback and malus provisions apply.</li> </ul>	<ul style="list-style-type: none"> <li>The 2021 LTIP award is measured on the three-year performance period to 31 December 2023, based on Total Shareholder Return (TSR) relative to the FTSE 350, which has a 50% weighting, and Cumulative Adjusted Earnings Per Share (EPS), which also has a 50% weighting.</li> <li>The 2019 PSP (granted under the provisions of the 2018 Remuneration Policy) will vest at 77.28% of the maximum and was based on the performance of TSR relative to FTSE 350 (50% weighting) and the average Group Scorecard outcome of the preceding three performance years (50% weighting). More information on the outcome can be found on page 151.</li> </ul>
<b>Shareholding requirement</b>	<ul style="list-style-type: none"> <li>The requirement is 250% of base salary for Will Gardiner and 200% for other Executive Directors.</li> <li>A post-cessation shareholding requirement, equal to the employment shareholding requirement, applies for a two-year period after cessation. Only shares for awards granted after the 2020 AGM are included.</li> </ul>	<ul style="list-style-type: none"> <li>Will Gardiner has met the shareholding requirement, with a shareholding at the 31 December 2021, equivalent to 735% of base salary, which includes 296,760 shares he acquired in the open market.</li> <li>Andy Skelton has also met the shareholding requirement, with a shareholding at 31 December 2021, equivalent to 301% of base salary, which includes 142,976 shares he acquired in the open market.</li> </ul>

## Alignment of Remuneration of Executive Directors and Wider Workforce

As noted in the table on the previous page, many aspects of the remuneration for Executive Directors are also applicable to the wider workforce, such as basis of the annual bonus award through the scorecard, and pension, and benefits entitlements. Below is a summary of the remuneration arrangements of the whole workforce, including Executive Directors, Executive and Senior Management and the wider workforce. In this table specific areas of remuneration which are not highlighted are aligned across all colleagues, and those highlighted in blue are not. Immediately below is a key to help interpret the content in the table.

### Key

- Aligned across workforce
- Unique to a specific colleague group

Remuneration element		Executive Directors <sup>(1)</sup>	Executive Leadership and Senior Management <sup>(2)</sup>	Wider workforce <sup>(3)</sup>
<b>Salary</b>	<b>Approach</b>	To target the appropriate market rate, as determined by comparisons with appropriate companies.		
	<b>Increases</b>	Keep pay for colleagues consistent with market rate and inflation; salary increases for Executive Directors will generally be in line with those for the rest of the workforce.		
<b>Pension</b>	<b>New hires</b>	All UK colleagues have the option to participate in the Group's defined contribution pension plan, with company contribution rate of up to 10% of salary. Some colleagues choose to take a cash payment in lieu of their pension, or a combination of pension contribution and cash in lieu of a contribution.  The 2021 employer contribution rates for the CEO and CFO were 20% of base salary and 16% of base salary respectively. From 1 January 2023, their contribution rates will align with the rate for new joiners (currently 10% of salary).		
	<b>Health and wellbeing</b>	All colleagues receive medical cover and access to an annual private health assessment or a local equivalent arrangement.		
<b>Benefits</b>	<b>Risk and protection</b>	All colleagues have company-funded life assurance and income protection, or a local equivalent arrangement, unless they're covered under alternative collective bargaining arrangements.		
	<b>Car benefit</b>	£12,000	Not applicable  Some colleagues have a car as job requirement	Not applicable  Some colleagues have a car as job requirement
	<b>Bonus</b>	<b>Eligibility</b>	All colleagues are eligible to take part in the annual bonus programme, unless they participate in an incentive programme specific to their role (e.g. a commission plan). The bonus award is designed as a reward for the delivery of targets and objectives important to the financial and strategic performance of the Group detailed in a scorecard.	
<b>Long-term incentive plan (LTIP)</b>	<b>Metrics</b>	Bonus awards are conditional on achieving the scorecard, which combines financial and strategic measures. These measures are the same for all colleagues, so there's Group-wide consistency.		
	<b>Deferral</b>	Bonus earned for the strategic measures is deferred into shares, and the overall bonus is subject to a minimum of a 40% deferral. The bonus deferral shares are subject to a three-year vesting and must then be retained for a further two years post-vesting.	Not applicable, no deferral	Not applicable, no deferral
	<b>Eligibility</b>	Discretionary annual grant of shares, under the LTIP, to colleagues where vesting experience is aligned to the long-term shareholder experience.	Discretionary annual grant of shares, under the LTIP, to colleagues where vesting experience is aligned to the long-term shareholder experience.	One Drax Awards are a discretionary grant of share awards to recognise performance and to aid retention of key talent below Executive Leadership and Senior Management level.
<b>Shareholding requirement</b>	<b>Metrics</b>	For awards made under the LTIP, vesting is subject to long-term performance conditions, measured over a three-year performance period.	For awards made under the LTIP, vesting is typically subject to long-term performance conditions, measured over a three-year performance period.	No performance conditions for One Drax Awards
	<b>Shareholding requirement</b>	Requirements of 250% and 200% of salary for the CEO and CFO respectively. A post-cessation shareholding requirement, equal to the employment sharing requirement, applies for a two-year period after cessation for awards granted since 2020.	Not applicable	Not applicable
<b>All-colleague plans (Sharesave)</b>		All UK colleagues have the option to buy shares in Drax at a discounted price (after a three-year or five-year saving period elapses). Our intention is to introduce an all-colleague share plan for colleagues in the US and Canada.		

### Notes:

- (1) Executive Directors comprises of the CEO and CFO.
- (2) Executive Leadership and Senior Management comprises all colleagues in the three most senior grades, excluding CEO and CFO.
- (3) Wider workforce comprises all colleagues in grades below the three most senior grades at Drax.

### Corporate Governance Code

The principal aims of our Directors' Remuneration Policy is to ensure that executive pay is closely linked to Group performance, underpins our purpose of enabling a zero-carbon, lower cost energy future; better aligns reward with delivering the strategy; incorporates targets that reflect the Group's progress, and are relevant and transparent for the wider workforce and our shareholders.

The Remuneration Committee last undertook a full review of the Directors' Remuneration Policy in 2020, taking into account the Group's strategy, shareholder feedback and the new provisions in the Corporate Governance Code at that time. The Remuneration Committee will undertake a further review of the existing Directors' Remuneration Policy during 2022 with any proposed changes put to shareholder approval in 2023.

The table below sets out how the existing Directors' Remuneration Policy specifically addresses the provisions of the Corporate Governance Code.

#### Our purpose is embedded in the core principles of our new remuneration policy

Making sure that executive remuneration is closely linked to the performance of the Company	Simplicity and focus in the design and application of our executive remuneration programmes	Incentives earned for the delivery of stretching corporate, financial, strategic and operational targets	Attracting and retaining the right talent through market-aligned incentive opportunity	Aligning executive reward with shareholder value, over the longer term, through the Long-Term Incentive Plan
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#### Our remuneration policy is aligned with the provisions of the 2018 Corporate Governance Code

##### Clarity

- Alignment between the delivery of strategic goals and remuneration outcomes
- Remuneration which rewards growth in shareholder value over the medium to longer-term
- Performance related elements, relevant for the Group as a whole, creating alignment across the wider workforce in delivering financial, operational and strategic imperatives

##### Simplicity

- Annual Bonus: a simple Scorecard structure focusing on a small number of financial, strategic and ESG metrics, which provides clarity, focus and ease of understanding
- The vesting of the long-term incentive plan (LTIP) is conditional in part on cumulative adjusted EPS, which reflects the capability to deliver more stable earnings, and total shareholder return, which ensures strong alignment with the shareholder experience

##### Risk

- A significant proportion of remuneration linked to the longer-term performance of the Group
- A significant shareholding requirement for Executive Directors during and post employment
- Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances

##### Predictability

- Transparent performance measures and targets make clear the possible range of remuneration outcomes and these potential outcomes are illustrated in the Directors' Remuneration Policy

##### Proportionality

- Performance measures are linked to the Company's strategy and aligned with long-term creation of value for shareholders
- Stretching targets ensure that payments are only made for strong corporate performance
- The Committee has discretion to override formulaic outcomes to ensure that remuneration appropriately reflects overall performance

##### Alignment to culture

- Bonus measures for all employees, including Executive Directors, are the same so that all employees are focused collectively on, and rewarded for, the delivery of financial and strategic goals and the Company's purpose
- The annual bonus for 2022 contains measures related to environmental, sustainability and people which underpin the Company's values and business strategy

## Directors' Remuneration Policy – approved by shareholders in 2020

The current Directors' Remuneration Policy (Policy) was approved by our shareholders at the AGM held on 22 April 2020 and became effective from that date. It will be binding until the close of the 2023 AGM, unless varied by shareholders at a General Meeting prior to then. The Policy is set out in full in this section. For reference, the scenario charts have been updated to reflect fixed pay expectations for 2022 and the impact on the annual bonus and LTIP awards.

### Base salary

Base salary helps to attract, reward and retain the right calibre of Executive Director to deliver the leadership and management needed to execute the Group's strategy and business plan.

#### Practical operation

Base salary reflects the role, the executive's skills and experience, and market level. To determine the market level, the Committee reviews remuneration data on executive positions at companies which the Committee considers to be appropriate comparators. The comparator companies are selected, with advice from the Committee's remuneration advisers, taking into account factors such as, but not limited to, sector, size, and international presence.

On appointment, an Executive Director's base salary is set at the market level, or below if the executive is not fully experienced at this level. Where base salary on appointment is below market level to reflect experience, it will be increased over time to align with the market level, subject to performance.

Base salaries of all Executive Directors are generally reviewed once each year, with increases applying from April. Reviews cover individual performance, experience, development in the role, market comparisons and pay reviews for the wider workforce.

#### Maximum potential value

The base salaries of Executive Directors in post at the start of the policy period, and who remain in the same role throughout the policy period, will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other employees in the Group.

Exceptions to this, subject to performance and development, are where:

- (i) An Executive Director has been appointed at below market level to reflect experience. Under this scenario, increases will be capped at 5% above the average annual percentage increase in salaries of all other Group employees.
- (ii) An Executive Director has been promoted internally (or the scope or nature of their role has changed) and their salary is below market level. Under this scenario, increases will not be capped and the Committee can increase base salary to the market level within an appropriate timeframe.

## Annual bonus

The award of annual bonus will be based on annual performance against financial and operational measures linked to the business plan. The aim of the deferred portion of the annual bonus is to further align executives to shareholders' interests, by linking share-based reward to long-term sustainable performance.

### Practical operation

The maximum opportunity will be split between two elements:

Financial element – performance is based on financial and operational metrics. This element represents 105% of salary for the CEO and 90% of salary for other Executive Directors. Subject to the minimum level of deferral noted below, this element will be paid in cash.

Strategic element – performance is based on strategic and other non-financial metrics. This element will represent 70% of salary for the CEO and 60% of salary for other Executive Directors. This element will be paid in shares deferred for a period of three years.

A minimum of 40% of the total bonus outcome will be deferred into shares in the form of nil cost options under the Deferred Share Plan (DSP), regardless of the pay outcomes of the financial and strategic elements. If this amount is not attained by the strategic element, a portion of the financial element will also be deferred into shares in order to achieve this minimum level of deferral.

A two-year holding period applies to DSP awards post-vesting, during which Executive Directors may not sell the shares, except to pay any tax due.

Dividends or dividend equivalents (which may assume notional reinvestment) are paid on DSP awards.

There is no payment for below threshold performance. The outcome for threshold performance is 0% of maximum. The outcome for target performance is 50% of maximum.

In certain circumstances, the Committee can apply malus and clawback to cash bonus awards.

Targets, outcomes and resulting payouts are published in the Annual Report on Remuneration.

The Committee will review the formulaic outcome of the bonus award and has the discretion to amend the final outcome to make sure that bonus payments reflect overall performance. The use of such discretion will be explained fully in the relevant Annual Report on Remuneration.

### Maximum potential value

Role	Maximum opportunity (% of base salary)
CEO	175%
Other Executive Directors	150%

### Performance measures

The performance conditions applicable to the annual bonus awards are split between the two elements:

Financial element – performance measures based on annual financial and operational targets, which will be linked directly to the performance of the Group and determined by the Board. The Committee may amend the measures used each year in line with business strategy.

Strategic element – performance measures based on non-financial and strategic targets, which will be determined annually by the Board and will be aligned with the business strategy.

The weighting of the respective elements is 60% on financial elements and 40% on strategic elements. The Committee has the discretion to vary the weightings from year to year.

In exceptional circumstances such that the Committee believes the original measures and/or targets are no longer appropriate, the Committee has discretion to amend performance measures and targets during the year.

## Long Term Incentive Plan (LTIP)

The Group's LTIP provides long-term alignment with shareholders based on the outcomes of Relative Total Shareholder Return (TSR) and Cumulative Adjusted Earnings Per Share (EPS).

### Practical operation

Under the LTIP, Executive Directors may at the discretion of the Committee receive an annual grant of shares.

Shares vest on the third anniversary of the grant, subject to continued service or in exceptional circumstances earlier subject to specified "good leaver" termination provisions, and the achievement of performance conditions over a three-year period determined by the Committee. Vested awards are then subject to a further holding period of two years for Executive Directors.

Dividends or dividend equivalents (which may assume notional reinvestment) may be paid on LTIP awards.

There is no payment for below threshold performance. The outcome for threshold performance is 25% of maximum.

The Committee will include an override provision in each grant under the LTIP. This will give the Committee discretion to determine that no vesting shall occur, or that vesting shall be reduced, if there are circumstances (relating to the Group's overall performance or otherwise) which make vesting when calculated by reference to the performance conditions alone inappropriate.

In certain circumstances, the Committee can apply malus or clawback to unvested/vested awards, as set out in the notes to the policy table.

The Committee reserves discretion to:

- (i) amend the performance conditions/targets attached to outstanding awards granted under this Policy, in the event of a major corporate event or significant change in economic circumstances, or a change in accounting standards having a material impact on outcomes; and
- (ii) adjust the vesting of LTIP awards and/or the number of shares underlying unvested LTIP awards, on the occurrence of a corporate event or other reorganisation. In the event of a change of control, the treatment of long-term incentives will be determined in accordance with the plan rules.

### Maximum potential value

Role	Maximum opportunity (% of base salary)
CEO	200%
Other Executive Directors	175%

In exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts.

### Performance measures

Two performance measures apply to LTIP awards and they are as follows:

- (i) TSR performance over three years relative to the FTSE 350 (50% of award), vesting as follows:
  - Below Median = 0% of maximum
  - Median = 25% of maximum
  - Upper Quartile = 100% of maximum
- (ii) Cumulative Adjusted EPS performance over three years, (50% of award), vesting as follows:
  - Below Threshold = 0% of maximum
  - Threshold = 25% of maximum
  - Maximum = 100% of maximum

Straight line vesting occurs between performance levels for both conditions.

## Pension

Pension provision is one of the components to attract, reward and retain the right calibre of executive, to ensure delivery of the leadership and management needed to execute the Group's purpose and strategy.

### Practical operation

Executive Directors are entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension (subject to normal statutory deductions), or a combination of pension contributions and cash in lieu of pension.

### Maximum potential value

Existing Executive Directors will receive the following pension contribution rates until 31 December 2022.

- CEO – 20% of salary
- CFO – 16% of salary

From 1 January 2023, the contribution rates for existing Executive Directors will be aligned with the rate for new joiners to the wider workforce (currently 10% of salary).

The pension contribution rate for any new Executive Director will be aligned with the wider workforce rate from the date of appointment.

### Performance measures

No performance measures apply.

## Benefits

Benefits are provided to be market competitive as an integral part of Executive Directors' total remuneration.

### Practical operation

Executive Directors receive a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover. Additional benefits may be provided if the Committee considers them appropriate.

Relocation expenses are paid, where appropriate, in individual cases. Executive Directors' relocation expenses are determined on a case-by-case basis. The Policy is designed to assist the Executive Director to relocate to a home of similar standing.

### Maximum potential value

Benefits are set at a level appropriate to the individual's role and circumstances.

The maximum opportunity will depend on the type of benefit and cost of its provision, which will vary according to the market and individual circumstances.

### Performance measures

No performance measures apply.



## Shareholding requirement

The shareholding requirement aligns the interests of Executive Directors with shareholders.

### Practical operation

The shareholding requirement for the CEO is 250% of salary and for the other Executive Directors is 200% of salary. This is to be achieved within a period five years after the date of the 2020 AGM (or after the date of appointment for new Executive Directors if this is later) from vested shares derived from awards under the Company's share plans.

Until this level is reached, Executive Directors who receive shares by virtue of any share plan award or who receive DSP awards are expected to retain 50% of the shares received net (i.e. after income tax and national insurance contributions). Shares which have not vested and are subject to performance conditions will not count towards the requirement. Unvested awards subject to service only (e.g. DSP awards) will count towards the guideline on a net of tax basis.

Shares vesting in respect of awards granted after the 2020 AGM will be held in the Group's Employee Benefit Trust until the shareholding requirement is met and all share disposals will be subject to the Company's share dealing code.

### Maximum potential value

N/A

### Performance measures

N/A

## Post cessation shareholding requirement

The Group's post-cessation shareholding requirement aligns the interests of Executive Directors with shareholders over the longer term beyond their departure from the Group.

### Practical operation

A post-cessation shareholding requirement, equal to the employment shareholding requirement (or the shareholding on departure if lower) applies for a two year period after cessation of employment. For clarity, the post-cessation shareholding requirement is 250% of salary for the CEO and for the other Executive Directors is 200% of salary. In addition, shares vesting during this period will remain subject to the two-year post-vesting holding period, which may therefore extend beyond the two-year period for which the post-cessation shareholding requirement applies.

Only shares relating to awards which are granted after the date of the 2020 AGM will be included for the purposes of this requirement. Shares purchased by the Executive Director (including those from all employee share plans), will not be included.

Shares counting towards this requirement will not be released from the Employee Benefit Trust during the period in which the post-cessation shareholding requirement applies, to support enforceability. Acceptance of the post-cessation shareholding requirement will be a condition of participation in all share awards granted after the 2020 AGM and will be included in the grant documentation for awards.

Both Will Gardiner and Andy Skelton have entered into such an agreement.

### Maximum potential value

N/A

### Performance measures

N/A

## Performance measures and approach to setting targets

The measures for elements of variable pay will be:

- In respect of the annual bonus plan, financial, strategic and operational measures consisting of targets set by the Committee each year in conjunction with the Board. The targets are aligned with key business goals determined at the start of each year
- In respect of shares granted under the LTIP from April 2020, a combination of:
  - Relative TSR, which aligns Executive Director remuneration with creation of long-term shareholder value;
  - Cumulative Adjusted EPS, which aligns Executive Director remuneration with the realisation of our earnings growth plans, which is a major determinant of shareholder value.
- The Committee sets targets for the performance measures each year, taking into account market conditions, the business plan and other circumstances as appropriate. A summary of the measures that apply for the following year are disclosed in the Annual Report on Remuneration.

## Elements of previous policy that will continue

Remuneration component and link to strategy	Practical operation	Performance measures
Performance Share Plan awards made in 2019 link long-term share-based incentives to TSR and to the achievement of Business Plan strategic targets.	Vesting is subject to achievement of performance conditions and continued service or "good leaver" termination provisions. Further details of the terms were included in the relevant Annual Report on Remuneration at the time of grant.	Vesting of conditional awards is subject to relative TSR performance and average Group Scorecard outcome over three years.
DSP awards made in 2019 and 2020 until they vest three years later or lapse, as applicable.	Vesting is subject to continued service or "good leaver" termination provisions. Further details of the terms of the awards were included in the relevant Annual Report on Remuneration at the time of grant.	N/A

## Circumstances in which malus or clawback may apply

Malus and clawback for the annual bonus – the Committee may reduce the performance outcome, or may require an Executive Director to repay any amount of cash bonus it considers appropriate, in circumstances of:

- material financial misstatement;
- fraud or misconduct;
- material failure of risk management and corporate failure;
- if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information; and,
- in other circumstances that the Committee considers justifying the operation of the clawback provision.

The clawback period is two years from the date a bonus is paid. If a repayment of bonus is required, the Committee may reduce the number of shares that may vest under the DSP or LTIP arrangements by an appropriate amount.

The Committee may also reduce the number of shares, or clawback shares for a two-year period commencing on vesting under an LTIP and/or DSP awards in circumstances of:

- material financial misstatement;
- fraud or misconduct;
- material failure of risk management and corporate failure;
- if assessment of a performance condition is found to have been based on an error, inaccuracy or misleading information; and,
- in other circumstances that the Committee considers justifying the operation of these provisions.

If a repayment of a share award is required, the Committee may reduce the number of shares that may vest under the DSP or LTIP arrangements, and/or may reduce the amount of any annual bonus by an appropriate amount.

### Committee's judgement and discretion

In addition to assessing and making judgements on the meeting of performance targets and the appropriate incentives payable, the Committee has certain operational discretions it can exercise in relation to Executive Directors' remuneration. These include, but are not limited to:

- reviewing the formulaic outcome of the cash bonus, DSP and LTIP awards and applying discretion to amend the final outcomes, to ensure that the outcomes reflect overall performance or an individual executive's performance;
- deciding whether to apply malus or clawback to an award; and,
- determining whether a leaver is a "good leaver".

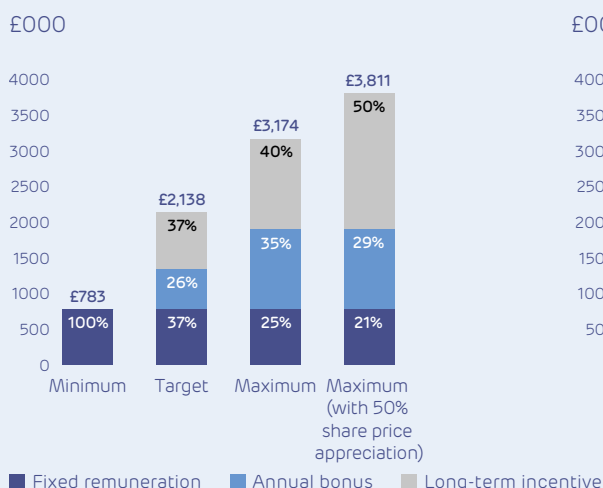
Where such discretion is exercised, it will be explained in the relevant Annual Report on Remuneration.

### Remuneration scenarios

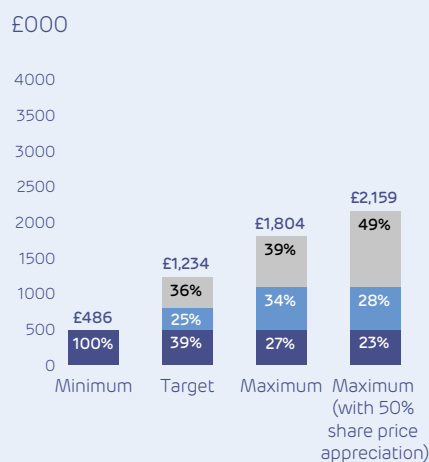
The composition and value of the Executive Directors' remuneration packages at below threshold (minimum), target and maximum performance scenarios under the Drax Group Policy are set out in the charts below. The assumptions used in the charts are provided in the following table:

Description	Fixed remuneration	Annual bonus	Long term incentive
<b>Minimum</b>	Base salary is the rate payable as determined by the Board following the annual review.  Benefits and pension entitlement remain as disclosed in the Policy.	None	None
<b>Target</b>		50% of the maximum opportunity.	62.5% vesting (midpoint between threshold and maximum).
<b>Maximum</b>		Maximum cash bonus and deferred shares (175% of salary for CEO and 150% of salary for other Executive Directors).	Maximum LTIP opportunity (200% of salary for CEO and 175% of salary for other Executive Directors) with no allowance for share price appreciation or dividend equivalents.
<b>Maximum (with 50% share price appreciation)</b>		Maximum cash bonus and deferred shares (175% of salary for CEO and 150% of salary for other Executive Directors).	Maximum LTIP opportunity (200% of salary for CEO and 175% of salary for other Executive Directors) with allowance for 50% share price appreciation over the three-year performance period and no allowance for dividend equivalents.

#### Will Gardiner (CEO)



#### Andy Skelton (CFO)



### Approach to recruitment remuneration

The Committee will apply the components of this Policy to determine the remuneration of newly appointed Executive Directors. Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to good performance. The incentive provision for a new Executive Director will include an annual bonus of up to 150% of salary, or 175% of salary for the CEO, with financial and strategic elements as set out in the Policy table above, and an LTIP award of up to 175% of salary, or 200% of salary for the CEO (in exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts but in such circumstances it would be capped at 300% of salary).

The Committee may also determine it appropriate to honour prevailing contract commitments for an individual in the event they are promoted to an Executive Director position.

In relation to Executive Directors appointed from outside the Group, where the Committee considers it to be necessary to secure the appointment of the Executive Director, the Committee may:

- pay compensation for loss of benefits on resignation from a previous employer, such as loss of long-term share incentives (subject to the right to phase any payment to reflect performance, the requirement to mitigate loss and the Group's right to claw back any amount which is subsequently paid to the Executive Director by the former employer, and to claw back an appropriate proportion of the payment if the Executive Director leaves soon after appointment). Any compensation made will not exceed the value of the benefits lost as determined by the Committee acting fairly and reasonably;
- agree a rate for employer pensions contributions, or salary supplements in lieu of pension contribution, which reflects the contribution rate for the wider workforce at the date of appointment; and,
- make appropriate payments in circumstances where an Executive Director is relocated from outside the UK.

### Service agreements and termination

Executive Directors' service agreements are of indefinite duration, terminable at any time by either party giving 12 months' notice. They are available for inspection at the Group's registered office.

Element	Details
<b>Notice periods</b>	<p>Executive Directors may be required to work during the notice period or may be provided with pay in lieu of notice if not required to work the full notice period.</p> <p>Under each of the Executive Directors' service agreements, the Group has the right to make a payment in lieu of notice of termination, the amount of that payment being the salary and benefits that would have accrued to the Executive Director during the contractual notice period. For the avoidance of any doubt this excludes any performance bonus (or cash equivalent) for the relevant period of unworked notice.</p>
<b>Compensation for loss of office</b>	<p>If an Executive Director's employment is brought to an end by either party, and if the Committee considers that it is necessary to pay the Executive Director a termination payment, the Committee's policy, in the absence of a breach of the service agreement by the Executive Director, is to determine an Executive Director's termination payment in accordance with his/her service agreement. The termination payment will be calculated based on the value of base salary and contractual benefits that would have accrued to the Executive Director during the contractual notice period. The Committee will seek mitigation to reduce the amount of any termination payment to a leaving Executive Director when appropriate to do so, having regard to the circumstances and the law governing the agreement. It may, for example, be appropriate to consider mitigation if the Executive Director has secured another job at a similar level. Mitigation would not apply retrospectively to a contractual payment in lieu of notice.</p> <p>In addition, the Executive Director may be entitled to a payment in respect of his/her statutory rights. The Group may pay reasonable fees for a departing Executive Director to obtain independent legal advice in relation to their termination arrangements and nominal consideration for agreement to any contractual terms protecting the Group's rights following termination. No service agreement includes any provision for the payment of compensation upon termination. Any compensation payable in those circumstances would need to be determined at the time and in the light of the circumstances.</p>

Element	Details
<b>Treatment of annual bonus on termination</b>	<p>All bonus payments are discretionary. The Committee will consider whether a departing Executive Director should receive a cash bonus and deferred share award in respect of the financial year in which, and/or immediately preceding which, the termination occurs, pro-rated to reflect the period of the performance year completed at the date of termination. The Committee will take into account performance; the reason for termination; cooperation with succession; any breach of goodwill; adherence to contractual obligations/restrictions; and any other factors which they believe should be taken into account. The service contract for Will Gardiner as CEO, does not entitle him to any payment of bonus on termination of employment.</p> <p>If the employment ends in any of the following circumstances, the Executive Director will be treated as a "good leaver" and the Executive Director will be eligible for an annual bonus:</p> <ul style="list-style-type: none"> <li>• redundancy;</li> <li>• retirement;</li> <li>• ill-health or disability, proved to the satisfaction of the Group; and,</li> <li>• death.</li> </ul> <p>If the termination is for any other reason, an award will be at the Committee's discretion and it is the Committee's policy to ensure that any such award properly reflects the departing Executive Director's performance and behaviour towards the Group. Therefore the amount of any such award will be determined, taking into account (i) the Executive Director's personal performance and behaviour towards the Group and (ii) the Group's performance.</p> <p>If an award is made, it will normally be paid/granted as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the award to be made earlier, for example, on termination due to ill-health, in which case, on-target performance shall be assumed.</p>
<b>Treatment of unvested long-term incentive and deferred share awards on termination</b>	<p>The Committee will consider the extent to which deferred and conditional share awards held by the Executive Director under the DSP and LTIP should lapse or vest. Any determination by the Committee will be in accordance with the rules of the relevant plan.</p> <p>In summary, the rules of the LTIP provide that awards will vest (pro-rated to the date of employment termination) if employment ends for any of the following reasons ("long-term good leaver reasons"):</p> <ul style="list-style-type: none"> <li>• redundancy;</li> <li>• retirement;</li> <li>• ill-health or disability, proved to the satisfaction of the Company;</li> <li>• death; and,</li> <li>• change of control.</li> </ul> <p>If employment ends for any other reason, the participant may be deemed a "good leaver" at the Committee's discretion. In doing so, it will take account of all relevant circumstances, in particular, the Group's performance; the Executive Director's performance and behaviour towards the Group during the performance cycle of the relevant awards; and other relevant factors, including the proximity of the award to its maturity date.</p> <p>Awards which vest subject to satisfaction of performance conditions, will be time pro-rated, and will ordinarily vest on the normal vesting date subject to the post-vesting shareholding period.</p> <p>The rules of the DSP provide that deferred bonus awards will vest (in full) if employment ends for any of the good leaver reasons detailed above. If employment ends for any other reason, the participant may be deemed a "good leaver" at the Committee's discretion. In doing so it will take account of all relevant circumstances, in particular, the Group's performance; the Executive Director's performance and behaviour towards the Group during the performance cycle of the relevant awards, and a range of other relevant factors, including the proximity of the award to its maturity date.</p> <p>The rules of the DSP and LTIP also provide that in circumstances where awards vest, they do so at the normal vesting date, unless the Committee exercises discretion to vest awards earlier.</p>
<b>Outside appointments</b>	<p>Executive Directors may accept external Board appointments, subject to the Chair's approval. Normally only one appointment to a listed company would be approved. Fees may be retained by the Executive Director.</p>

### Consideration of circumstances for leavers

The Committee will consider whether the overall value of any benefits accruing to a leaving Executive Director is fair and appropriate, taking account of all relevant circumstances. Examples of circumstances in which the Committee may be minded to award a cash bonus, DSP award and/or permit the vesting of LTIP and/or DSP awards include:

- the Executive Director's continued good performance up to and following the giving of notice; and,
- the Executive Director accommodating the Company in the timing of his/her departure and handover arrangements.

Conversely, the Committee may be minded not to allow such payments if the reason for the departure is (for example) due to poor performance or if the Executive Director does not continue to perform appropriately following notice.

### Remuneration of Non-Executive Directors and Chair

#### Remuneration component and link to strategy

#### Practical operation

#### Maximum potential value

#### Fees

To attract a Chair and independent Non-Executive Directors who, together with the Executive Directors, form a Board with a broad range of skills and experience.

The Chair's remuneration is determined by the Committee whilst that of the other Non-Executive Directors is determined by the Chair and the Executive Directors. These are determined in the light of:

- fees of the Chair and Non-Executive Directors of other listed companies selected for comparator purposes, on the same basis as for Executive Directors;
- the responsibilities and time commitment; and,
- the need to attract and retain individuals with the necessary skills and experience.

Overall aggregate fees paid to all Non-Executive Directors will remain within the limit as stated in the Company's Articles (currently £1,000,000).

Non-Executive Directors' fees are reviewed periodically against market comparators.

Non-Executive Directors receive an annual base fee. Additional annual fees are paid:

- to the Senior Independent Director (which includes the fee for chairing a Board Committee other than the Audit Committee);
- to the Chair of the Audit Committee;
- to the Chair of the Remuneration Committee; and,
- to the Chair of any other committee (this is not paid to the Chair of the Nomination Committee if he or she is also the Chair of the Board).

Non-Executive Directors are not entitled to participate in any performance related remuneration arrangements.

#### Expenses

Reasonable travel and accommodation expenses are reimbursed as applicable.

Non-Executive Directors do not receive any benefits in kind, nor are they eligible for any annual performance bonus, pension or any of the Group's share-based reward plans.

The Chair's notice period is six months whilst the other Non-Executive Directors have a notice period of one month. Further information on the service agreements of the Non-Executive Directors can be found on page 154 of the Annual Report & Accounts 2021.

### Differences between the policy and that of the remuneration of employees generally

The following differences apply between the remuneration of Executive Directors and the policy on the remuneration of employees generally:

- Executive Directors and a number of senior employees are eligible for LTIP awards, although there are differences in the quantum of the grants that are made;
- annual bonus levels vary across the workforce, but deferral of bonuses into DSP awards applies only to Executive Directors;
- employees in the collective bargaining unit have a contractual right to receive an annual bonus, subject to the Group's performance and continued employment, whereas Executive Directors and all other UK-based employees participate in a discretionary bonus plan;
- employer pension contribution (or salary supplement) are up to 10% of salary for new joiners from 1 July 2019, irrespective of seniority. There are legacy pension contribution arrangements which continue to be in operation for employees who joined prior to 1 July 2019. From 1 January 2023 the contribution rates for existing Executive Directors will be aligned with the rate for new joiners to the wider workforce (currently 10% of salary); and,
- in some cases hourly paid employees qualify for overtime payments.

### Context

#### Wider employee population

In determining Executive Director remuneration, the Committee also takes into account the level of general pay increases within the Group. Employees are not directly consulted on the Policy, but there are a number of existing channels designed to capture the views of the workforce on remuneration, including the MyVoice forums.

The Committee's policy is that annual salary increases for Executive Directors should not exceed the average annual salary increase for the wider employee population unless there is a particular reason for a higher increase, such as a change in the nature or scope of responsibilities or if an Executive Director has been appointed at a salary below market level reflecting experience in the role.

The Committee also considers external market benchmarking to inform executive remuneration decisions. External market benchmarking is also considered in relation to remuneration decisions of the wider workforce.

#### Environmental, social and governance issues

The Committee is able to consider corporate performance on environmental, social and governance issues when setting the remuneration of Executive Directors. Specific measures can be included in the strategic element of the annual bonus. The Committee is also able to consider these issues in determining whether to exercise its discretion to adjust formulaic outcomes of the annual bonus and LTIP.

## Annual Report on Remuneration

The relevant sections of this Report have been audited as required by the Regulations and, in accordance with the Regulations, this part of the report will be subject to an advisory vote by shareholders at the AGM to be held on 27 April 2022.

### Single total figure of remuneration – Executive Directors (audited information)

The table below sets out the single figure of remuneration and the breakdown for each Executive Director for the financial year to 31 December 2021, together with comparative earnings for 2020:

Director	Year	Salary <sup>(1)</sup> (£000)	Benefits <sup>(2)</sup> (£000)	Bonus <sup>(3)</sup> (£000)	Long Term Incentives (£000)	Pension (£000)	Other (£000)	Total Remuneration (£000)	Total Fixed Pay (£000)	Total Variable Pay (£000)
Will Gardiner	2021	570	18	802	1,230 <sup>(4)</sup>	114	–	2,734	702	2,032
	2020	557	18	439	880 <sup>(5)</sup>	111	7 <sup>(6)</sup>	2,013	687	1,326
Andy Skelton <sup>(7)</sup>	2021	371	16	448	824 <sup>(4)</sup>	59	–	1,718	446	1,272
	2020	363	16	245	–	58	7 <sup>(6)</sup>	689	437	253

Notes:

- (1) Base salary is the amount earned in 2021 and in 2020.
- (2) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance.
- (3) Bonus is the value of the award from the 2020 and 2021 annual bonus plans. It includes the value of bonus deferred and paid in shares after three years subject only to continued service. 53% of the overall bonus earned for 2020 was deferred and 40% of the overall bonus earned for 2021 will be deferred.
- (4) Represents the value of the 2019 PSP award which should vest in March 2022, together with the dividend equivalent shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2021, which was £5.549. The value of the award attributable to share price appreciation for Will Gardiner is £398,494 and for Andy Skelton is £266,913. This is based on the growth in the value of the shares due to vest (including dividend equivalent shares) from the grant share price (£3.751) to the average share price over the last quarter of 2021.
- (5) 2020 numbers (for the 2018 PSP award) are restated to reflect the actual share price on vesting of £3.656 on 8 March 2021.
- (6) Represents the value of the Sharesave Awards granted in 2020. The value in the table is based on the share price on grant £1.588 less the exercise price of £1.271. Note, no Sharesave Awards were made in 2021 as both Will Gardiner and Andy Skelton had maximum contributions under contract.
- (7) Andy Skelton joined on 2 January 2019. He was therefore not granted an award under the 2018 PSP and so had no LTIP vesting in relation to the 2020 single figure.

### Base salaries – Executive Directors

The base salaries of the Executive Directors as at 31 December 2021, together with comparative figures as at 31 December 2020, are shown in the following table:

Director	Base salary at 31 December 2021 (£000)	Base salary at 31 December 2020 (£000)	Percentage increase (1 April 2021)
Will Gardiner	572	561	2.0%
Andy Skelton	373	366	2.0%

The base salaries of Will Gardiner and Andy Skelton were reviewed with effect from 1 April 2021 in line with the Policy and increased by 2%. This was aligned with the average increase for the wider workforce. As noted earlier in the report, Will Gardiner and Andy Skelton received a base pay increase effective 1 January 2022 of 6.6% and 4% respectively. The rationale for these increases are provided on page 132.



### Single total figure of remuneration – Non-Executive Directors (audited information)

The fees for the Chairman and Non-Executive Directors were reviewed at the start of 2021 and were subsequently increased by 2% with effect from 1 January 2021. This was aligned with the average increase for the wider workforce in 2021. For completeness, the table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2021 together with comparative figures for 2020.

Director	Year	Base fee (£000)	Additional fee for Senior Independent Director (£000)	Additional fee for Chairing a Committee (£000)	Total (£000)
Philip Cox	2021	255	–	–	255
	2020	250	–	–	250
John Baxter	2021	56	–	–	56
	2020	55	–	–	55
Nicola Hodson	2021	56	–	10	66
	2020	55	–	10	65
Kim Keating <sup>(1)</sup>	2021	11	–	–	11
	2020	–	–	–	–
David Nussbaum <sup>(2)</sup>	2021	56	10	–	66
	2020	55	10	–	65
Erika Peterman <sup>(3)</sup>	2021	11	–	–	11
	2020	–	–	–	–
Vanessa Simms	2021	56	–	10	66
	2020	55	–	10	65

#### Notes:

- (1) Kim Keating joined the Board on 21 October 2021. Her base fee was in line with the fee structure in the Directors' Remuneration Policy. It was paid in Canadian dollars, being her local currency, using an exchange rate at the time of payment. The exchange rate used to convert her base fee to Canadian dollars was £1 = C\$1.722.
- (2) Since 1 January 2019 David Nussbaum has donated his gross fees to charity.
- (3) Erika Peterman joined the Board on 21 October 2021. Her base fee was in line with the fee structure in the Directors' Remuneration Policy. It was paid in US dollars, being her local currency, using an exchange rate at the time of payment. The exchange rate used to convert her base fee to US dollars was £1=\$1.371.

### Annual fees – Non-Executive Directors

The annual fee structure for the Non-Executive Directors for 2021 is shown in the following table. As noted previously, the fees were increased by 2% on 1 January 2021. The fee structure prior to this increase is also provided in the following table for reference.

Director	Fees at 31 December 2021 (£)	Fees at 31 December 2020 (£)	Percentage increase (1 January 2021)
Chair	255,000	250,000	2%
Non-Executive Director base fee	56,100	55,000	2%
Senior Independent Director	10,200	10,000	2%
Audit Committee Chair	10,200	10,000	2%
Remuneration Committee Chair	10,200	10,000	2%
Nomination Committee Chair <sup>(1)</sup>	7,650	7,500	2%

#### Notes:

- (1) This is not paid if the Chair of the Nomination Committee is also Chair of the Board. No fee was paid in 2021.

### Annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2021 Group Scorecard is set out in the following table:

Key Performance Indicator	Weighting	Low target (0% of max earned)	Target (50% of max earned)	Stretch target (100% of max earned)	Outturn	Score (out of 2)	Weighted Score (out of 2)
<b>Financial</b>							
Group Adjusted EBITDA (£m)	40%	301.5	335.0	368.5	373	2.00	
Leverage (£m)	20%	(1,176)	(1,069)	(962)	(1,002)	1.63	1.13
<b>Strategic</b>							
Strategic Projects – BECCS Advancement	10%	Partially Achieved	Achieved	Strongly Achieved	Strongly Achieved	2.00	
Strategic Project – Pinnacle Integration	5%	Partially Achieved	Achieved	Strongly Achieved	Achieved	1.00	
Pinnacle Sustainability	6.7%	Partially Achieved	Achieved	Strongly Achieved	Achieved	1.00	
People	6.7%	77	80	83	79	0.67	
Reputation	6.7%	25	30	35	34	1.80	
Pinnacle Financial	5%	ND	ND	ND	ND	0.00	0.48
	100%						1.61
Overall bonus outcome (total bonus award)						1.61 (80.50% of maximum)	
Proportion of total bonus award earned for Financial KPIs						70.19% (1.13/1.61)	
Proportion of total bonus award earned for Strategic KPIs						29.81% (0.48/1.61)	

The targets were aligned with the Group's strategy and 2021 Business Plan and reviewed regularly by the Board as part of their ongoing scrutiny of business and executive performance. No adjustment to the performance targets was made. Outlined below is a brief synopsis of the Key Performance Indicators (KPIs) used and their strategic rationale.

- Group Adjusted EBITDA (excluding Pinnacle's contribution) – was our principal financial metric, combining the underlying performance of each business to give a Group outcome. Group Adjusted EBITDA for 2021 was £373 million relative to a target and budget of £335 million (score of 2.00). Management is extremely pleased with the financial performance. The outturn of this metric was part of the Group's independent financial audit.
- Leverage (Average Net Debt) – a progressive and sustainable structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year. Average net debt was (£1,002) million, and thereby marginally falling short of the stretch target of (£962) million (score of 1.63).
- Progress on Strategic Projects – progress on key projects is of critical importance for Drax in progressing the Group's strategy. There were two projects which were included in this metric. The first was the integration of Pinnacle into the Drax organisation structure with focus on activities leading to a successful transaction close, the ongoing organisation of the business and adoption of Drax processes and standards. This work has been a key focus for many employees across the Group in 2021 and we are pleased to report that significant progress has been made in line with all key targets which were set (score of 1.00). The second was progress on advancing our BECCS strategy. Substantial progress was made in 2021 against the objectives set, across all critical path activities of our BECCS strategy (score of 2.00). Further information on the performance of BECCS is detailed on pages 2 and 16 of the Annual Report. The choice of projects, and assessment of performance of them in 2021 was subject to the Committee's scrutiny and approval.
- People, reputation, and sustainability practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders. In 2021 the assessment of our sustainable business practice was focused on progress on the adoption of Drax Group Sustainability practices by the newly acquired business (score of 1.00). This is combined with an independent rating of how well we engage and support our employees measured through the all-employee engagement survey, administered by a leading and globally recognised management consultancy who presented results and insights to the Board in December 2021 (score of 0.67), and an independent rating of our reputation measured through a separate external agency tracking reputation on a quarterly basis and where the results are rolled up to an annual performance score (score of 1.80).

The Committee completed an in-depth review of the score for each of the performance measures, and in aggregate, to ensure that the result was appropriate individually and in aggregate. The Committee felt that the outcomes were reflective of the Group's strong financial and strategic performance, as well as wider employee and shareholder experiences. No discretion was exercised by the Committee in determining the bonus outcome. The Committee approved the Group Scorecard result for 2021 at a meeting held on 22 February 2022, subject to the final approval of the financial results and Annual Report and Accounts by the Directors on 23 February 2022.

### Bonus earned for 2021 (audited information)

The table below sets out the bonuses earned for the 2021 financial year and the split between cash and deferred elements.

Director	Max bonus opportunity (as % base salary)	Total bonus outcome (as % of maximum)	Total bonus outcome (as % base salary)	Total bonus outcome (£000)	60% paid in cash (£000)	40% deferred in shares (£000)
Will Gardiner	175%	80.50%	140.88%	802	481	321
Andy Skelton	150%	80.50%	120.75%	448	269	179

A minimum of 40% of the total bonus award must be deferred into shares for three years, regardless of the outcomes of the financial and strategic KPIs. If this amount is not attained by the strategic KPIs a portion of the bonus earned with respect to the financial KPIs is also deferred into shares to achieve the minimum level of deferral. As a result, 40% of the total bonus award for 2021 for the Executive Directors will be deferred into shares for a period of three years and the remaining 60% will be paid in cash in March 2022. The deferral element will in ordinary circumstances vest in March 2025, subject to the Executive Director being employed by Drax at that time. If the Executive Director leaves, other than as a "good leaver", the deferral element will be forfeited.

### PSP incentive outcomes (audited information)

The vesting outcome for awards granted in 2019 under the Performance Share Plan (PSP), which were subject to performance conditions over the three-year period from 1 January 2019 to 31 December 2021 and will vest in March 2022 is provided in the tables below.

Performance Condition	Weighting	Performance for threshold vesting	Performance for Vesting at threshold performance	Performance for 50% vesting (Scorecard only)	Performance for maximum vesting	Actual performance	Vesting (% of max)
Relative TSR vs FTSE 350 constituents	50%	Median	25%	-	Upper quartile	Between median and upper quartile (rank of 89 out of 315)	90.90%
Average Corporate Score for 2019, 2020 and 2021	50%	Average score of 0.75	0%	Average score of 1.0	Average score of 1.5	1.14 (scores 0.90, 0.90 and 1.61)	63.67%
							77.28%

The Committee considered the Group's overall performance for 2021 and felt that this appropriately reflected in the Relative TSR outcome and the three-year average Scorecard outcome. No discretion was therefore exercised by the Committee in determining the 2019 PSP outcome. The table provides the awards due to vest based on this vesting result.

Director	Awards Granted (as % of base salary)	Awards granted	Awards vesting (as % of base salary)	Awards vesting	Dividend shares earned	Total shares due to vest	Total value (£000) <sup>(1)</sup>
Will Gardiner	175%	247,245	216%	191,071	30,561	221,632	1,230
Andy Skelton	175%	165,607	222%	127,981	20,469	148,450	824

#### Notes:

- (1) Represents the value of the 2019 PSP award which should vest in March 2022, together with the dividend shares in relation to those vested shares. The value of the award is calculated based on the average share price over the last quarter of 2021, which was £5.549. The value of the award attributable to share price appreciation for Will Gardiner is £398,494 and for Andy Skelton is £266,913. This is based on the growth in value of the shares due to vest (including dividend shares) from the grant share price (£3.751) to the average share price over the quarter of 2021 (£5.549).

### LTIP awards granted in 2021 (audited information)

The table below shows the conditional awards granted under the LTIP to Executive Directors on 1 April 2021.

Director	Award granted (as % of salary)	Number of shares granted <sup>(1)</sup>	Face value of awards granted (£000)
Will Gardiner	200%	266,650	1,145
Andy Skelton	175%	152,022	653

Note:  
 (1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £4.293. In accordance with the LTIP rules, dividend shares are awarded at the time and in the event that awards actually vest. No dividend shares are awarded where the initial awards lapse.

The performance conditions that apply to the LTIP awards granted in 2021 are set out below.

Performance Condition	Weighting	Performance for threshold vesting	Vesting at threshold performance	Performance for maximum vesting	Vesting at maximum performance
Relative TSR vs FTSE 350 constituents	50%	Median	25%	Upper Quartile	100%
Cumulative Adjusted EPS	50%	104.9p	25%	128.2p	100%

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2023.

### DSP awards granted in 2021 (audited information)

The table below shows the deferred conditional share awards granted under the Deferred Share Plan (DSP) to Executive Directors on 1 April 2021 in respect of bonus earned for performance in the financial year ending 31 December 2020. These shares will vest on 1 April 2024.

Director	Value of deferred bonus (£000)	Number of shares granted <sup>(1)</sup>
Will Gardiner	234	54,498
Andy Skelton	131	30,441

Note:  
 (1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £4.293. In accordance with the DSP rules, dividends in respect of the deferred shares are reinvested in additional shares, which vest when the deferred shares vest.

### Sharesave options granted in 2021 (audited information)

No grants of Sharesave options were made to Will Gardiner or Andy Skelton in 2021. Both have ongoing Sharesave contracts to the maximum permitted monthly savings.

### Pension entitlements for defined contribution schemes (audited information)

Executive Directors are entitled to receive a contribution to the Group's defined contribution pension plan, cash in lieu of pension contributions or a mixture of these. The employer contribution for Will Gardiner in 2021 was 20% of base salary. The employer contribution for Andy Skelton was 16%. Will Gardiner's employer contribution is delivered as cash in lieu of pension, whereas for Andy Skelton it is delivered in part as contributions to Group pension plan and part as cash in lieu. No Executive Director was a member of a defined benefit pension scheme.

### Payments to former directors (audited information)

Andy Koss, who was a former Executive Director, stood down from the Board on 7 April 2020 and his employment was terminated on the grounds of redundancy on 30 June 2020. He was entitled to pro-rata vesting of a PSP award made in 2018. A total of 108,236 shares (equivalent to £395,711 based on the share price of £3.656 at vesting) vested in March 2021, including dividend shares, based on performance vesting of 57.2% of maximum, as outlined in last year's report. Of this, 50,810 shares were sold to cover tax and the balance of 57,426 shares are subject to a two-year holding period and will be held in trust on his behalf and eligible for release in March 2023.

### Payments for loss of office (audited information)

There were no payments in 2021 to former Directors with respect to loss of office.

## Statement of Directors' shareholding and share interests (audited information)

The shareholding guidelines under the current Directors' Remuneration Policy require Executive Directors who receive shares by virtue of share plan awards, or who receive deferred bonus share awards under the DSP, to retain 50% of the shares received net (i.e. after income tax and national insurance contributions) until the value held is equal to at least 250% of salary for the CEO and 200% of salary for other Executive Directors. Only shares that are not subject to performance conditions count towards the shareholding requirement (shares owned by the Director and unvested awards subject to service only – DSP awards – on a net of tax basis).

As at 31 December 2021, the shareholding guidelines were as detailed in the table below:

### Directors' interests in shares

Director	Number of shares <sup>(1)</sup>	Value at year end <sup>(2)</sup>	Shareholding (as % of base salary)	Shareholding guideline <sup>(3)</sup>
Will Gardiner <sup>(4)</sup>	695,372	£4,207,001	735%	250%
Andy Skelton <sup>(5)</sup>	185,602	£1,122,892	301%	200%

Notes:

- (1) The number of shares also includes shares purchased in the open market by the Executive Director and those acquired through participation in Sharesave programmes.
- (2) Based on the mid-market quotation on 31 December 2021 of £6.05.
- (3) Under the existing Directors' Remuneration Policy.
- (4) The total figure includes 602,286 shares owned plus 93,086 unvested DSP shares on a net of tax basis (296,760 shares were purchased by Will Gardiner in the open market between 2015 and 2021).
- (5) The total figure includes 142,976 shares owned plus 42,626 unvested DSP shares on a net of tax basis (142,976 shares were purchased by Andy Skelton in the open market between 2019 and 2021).

### Directors' interests under share plans

Director	Date of grant	As at 1 January 2021	Awards made during the year	Number of shares vesting during the year	Number of shares lapsing during the year	As at 31 December 2021	Date of vesting <sup>(1)</sup>	Value of awards <sup>(2)</sup>
<b>Will Gardiner</b>								
2018 DSP	5 March 2018	40,327	0	40,327	0	0	5 March 2021	£0
2018 PSP	5 March 2018	363,725	0	208,050	155,675	0	5 March 2021	£0
2019 DSP	28 March 2019	38,941	0	0	0	38,941	28 March 2022	£235,593
2019 PSP	28 March 2019	247,245	0	0	0	247,245	28 March 2022	£1,495,832
2020 DSP	30 March 2020	82,195	0	0	0	82,195	30 March 2023	£497,280
2020 LTIP	7 May 2020	562,506	0	0	0	562,506	7 May 2023	£3,403,161
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£112,799
2021 DSP	1 April 2021	0	54,498	0	0	54,498	1 April 2024	£329,713
2021 LTIP	1 April 2021	0	266,650	0	0	266,650	1 April 2024	£1,613,233
<b>Total</b>		<b>1,358,542</b>	<b>321,148</b>	<b>248,377</b>	<b>155,675</b>	<b>1,275,638</b>		<b>£7,687,611</b>
<b>Andy Skelton</b>								
2019 PSP	28 March 2019	165,607	0	0	0	165,607	28 March 2022	£1,001,922
2020 DSP	30 March 2020	49,985	0	0	0	49,985	30 March 2023	£302,409
2020 LTIP	7 May 2020	320,697	0	0	0	320,697	7 May 2023	£1,940,217
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£112,799
2021 DSP	1 April 2021	0	30,441	0	0	30,441	1 April 2024	£184,168
2021 LTIP	1 April 2021	0	152,022	0	0	152,022	1 April 2024	£919,733
<b>Total</b>		<b>559,892</b>	<b>182,463</b>	<b>0</b>	<b>0</b>	<b>742,355</b>		<b>£4,461,248</b>

Notes:

- (1) The vesting date shown reflects the three-year anniversary, but the Committee reserves the right to change the vesting date by a period not exceeding 30 days.
- (2) Based on the mid-market quotation on 31 December 2021 of £6.05. For Sharesave options, this is the intrinsic value, e.g., based on the excess value at 31 December 2021 over and above the exercise price.
- (3) Sharesave Awards are options and all other awards (DSP, PSP and LTIP) are conditional share awards.
- (4) There was no movement in share interests between 31 December 2021 and the date of publication.

### Non-Executive Directors' shareholdings

There is no shareholding requirement for Non-Executive Directors. The table below shows the shareholdings of the Non-Executive Directors, and their connected persons, and the value is based on the mid-market quotation on 31 December 2021 of £6.05. There was no movement in share interests between 31 December 2021 and the date of publication.

Director	Number of shares	Value at year end
Philip Cox	60,000	£363,000
John Baxter	10,000	£60,500
Nicola Hodson	0	£0
Kim Keating	0	£0
David Nussbaum	0	£0
Erika Peterman	0	£0
Vanessa Simms	0	£0

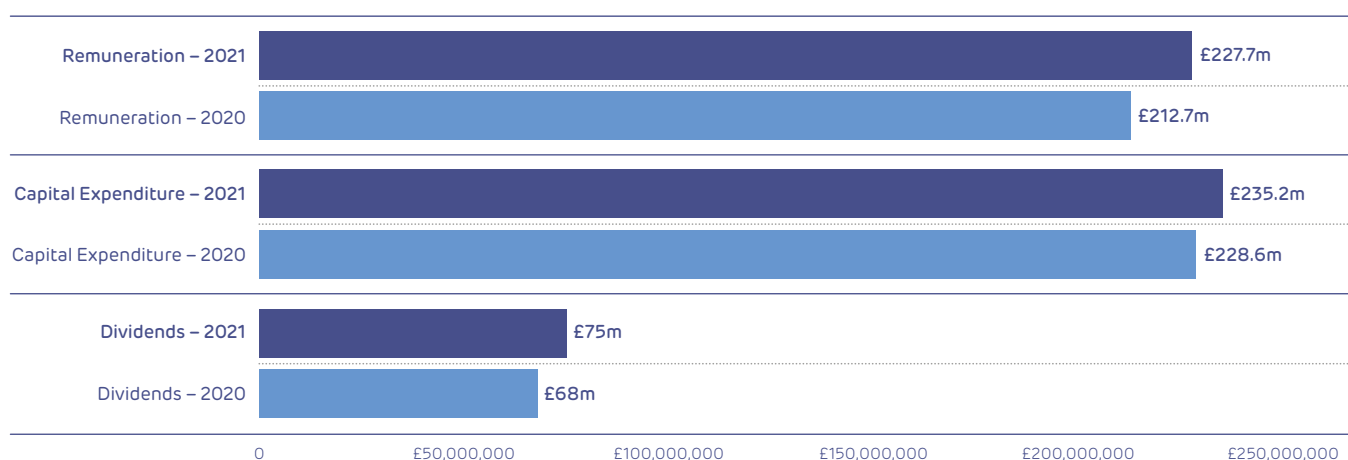
### Service agreements or contracts for services

The following table shows, for each Director of the Company as at the date this annual is published, or those who served as a Director of the Company at any time during the year ended 31 December 2021, the start date and term of the service agreement or contract for services, and details of the notice periods. New contracts for services were agreed with Vanessa Simms, Kim Keating and Erika Peterman in 2021.

Director	Date appointed as a director and member of the Board	Contract start date/renewal date	Permitted Contract term (years)	Unexpired term at date of publication	Notice period by the Company (months)	Notice period by the Director (months)
Will Gardiner	16 November 2015	16 November 2015	Indefinite term	Not applicable	12	12
Andy Skelton	2 January 2019	2 January 2019	Indefinite term	Not applicable	12	12
Philip Cox	1 January 2015	1 January 2021	3 years	1 year and 9 months	6	6
John Baxter	17 April 2019	17 April 2019	3 years	1 month	1	1
Nicola Hodson	12 January 2018	12 January 2021	3 years	1 year and 9 months	1	1
Kim Keating	21 October 2021	21 October 2021	3 years	2 years and 7 months	1	1
David Nussbaum	1 August 2017	1 August 2020	3 years	1 year and 5 months	1	1
Erika Peterman	21 October 2021	21 October 2021	3 years	2 years and 7 months	1	1
Vanessa Simms	19 June 2018	19 June 2021	3 years	2 years and 3 months	1	1

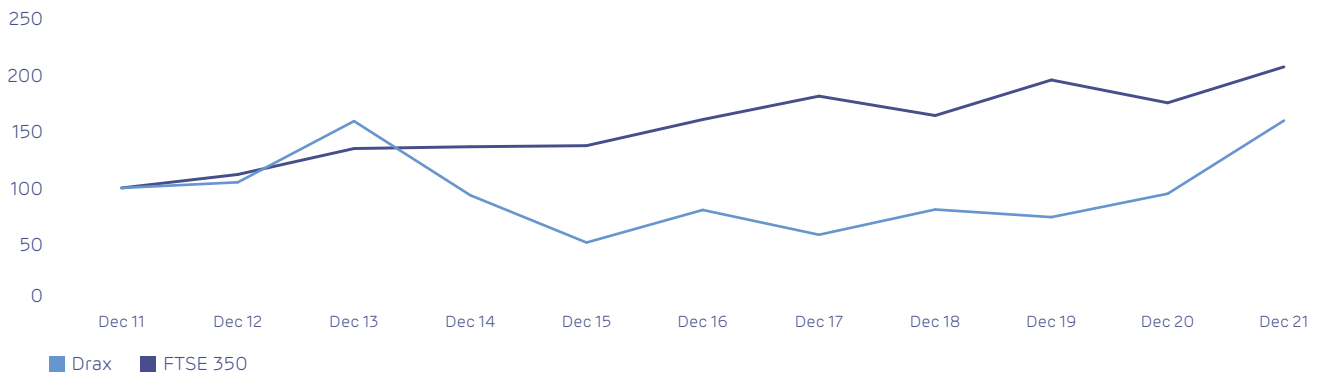
### Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to other disbursements from profit, namely distributions to shareholders and capital expenditure. These were the most significant outgoings from the Group in the last financial year, other than normal operating costs. At the forthcoming AGM 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. The cost with respect to dividends for 2021 in the table below relates to the interim dividend, which was paid in October 2021, and the final dividend to be paid in May 2022, subject to approval at the AGM.



## Drax 10 year Total Shareholder Return performance to 31 December 2021

The graph below shows how the value of £100 invested in both the Company and the FTSE 350 Index (Index) on 31 December 2011 has changed. This Index has been chosen as a suitable broad comparator against which the Company's shareholders may judge their relative returns given that the Company is a member of the Index. The graph reflects the TSR for the Company and the Index referred to on a cumulative basis over the period from 31 December 2011 to 31 December 2021.



## CEO's pay – last 10 financial years

Year	2012	2013	2014	2015	2016	2017 <sup>(1)</sup>	2018	2019	2020	2021
Group CEO's total single figure (£000)	1,406	3,360	1,854	1,248	1,581	1,236	1,885	1,121	2,013	2,734
Base Salary (£000)	523	542	559	571	574	585	530	541	557	570
Bonus % of maximum awarded	100%	100%	73%	46%	88%	53%	53%	45%	45%	80.50%
LTIP award % of maximum vesting	–	–	40.52%	21.66%	15.43%	0.00%	57.63%	18.00%	57.20%	77.28%

Notes:

- (1) Dorothy Thompson stood down as CEO on 31 December 2017 where she was replaced by Will Gardiner. The information reported from 2012 to 2017 relates to the remuneration Dorothy Thompson earned over this period; the information reported from 2018 to 2021 relates to the remuneration Will Gardiner earned over this period.

## Percentage change in Directors' remuneration compared with the wider employee population

The table below shows how the percentage change in the Directors' salary/fees, benefits and bonus (where applicable) between 2020 and 2021 compares with the percentage change in the average of each of those components of pay for a group of employees. There are several employer entities but no employees who are specifically employed by Drax Group plc. As a result, the Committee has selected all Group employees below Executive Director level based in the UK, as the majority of employees are based in the UK and this provides the most appropriate comparison.

	Salary/fees (percentage increase)		Taxable benefits (percentage increase)		Bonus (percentage increase)	
	2021	2020	2021	2020	2021	2020
Will Gardiner <sup>(1)</sup>	2.0%	3.0%	0.0%	0.0%	82.9%	19.2%
Andy Skelton <sup>(1)</sup>	2.0%	3.0%	0.0%	0.0%	82.9%	9.4%
Philip Cox	2.0%	0%	N/A	N/A	N/A	N/A
John Baxter	2.0%	0%	N/A	N/A	N/A	N/A
Nicola Hodson	2.0%	0%	N/A	N/A	N/A	N/A
Kim Keating <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
David Nussbaum	2.0%	0%	N/A	N/A	N/A	N/A
Erika Peterman <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A	N/A
Vanessa Simms	2.0%	0%	N/A	N/A	N/A	N/A
Average for UK employees	2.0%	3.0%	0.0%	0.0%	78.9%	0.0% <sup>(3)</sup>

Notes:

- (1) The maximum bonus opportunity for Will Gardiner and Andy Skelton increased for FY20 to 175% and 150% respectively, on adoption of the current Policy in 2020. This explains the bonus percentage increase for Will Gardiner and Andy Skelton for 2020. Note, the bonus Scorecard outcome for FY19 and FY20 was the same (0.90). For 2021 the percentage increase is due to a higher bonus scorecard outcome for FY21 of 1.61 (versus 0.90 for FY20).
- (2) Kim Keating and Erika Peterman joined the Board on 21 October 2021 and therefore the percentage change in their fees has not been provided.
- (3) There was no change in the average bonus for UK employees for 2020. This was because there was no change in bonus opportunity for the wider workforce and the bonus Scorecard outcome for FY19 and FY20 was the same (0.90). For 2021 the percentage increase is due to a higher bonus scorecard outcome for FY21 of 1.61 (versus 0.90 for FY20).

## Remuneration Committee report continued

The Non-Executive Directors only receive a fee and the existing fees were increased by 2%, effective 1 January 2021. The average base salary increase resulting from the April 2021 pay review was 2% for the wider workforce, which was the same base salary increase which Will Gardiner and Andy Skelton received. With respect to taxable benefits, there were no material change to Drax's existing benefits policies in 2021, both respect to benefits offered and level of cover.

The bonus outcome increased proportionately for all employees for 2021 due to a higher outturn of the company bonus versus the outturn of the bonus for 2020 (Scorecard outcomes of 1.61 and 0.90 respectively).

### CEO pay ratio

The table below sets out the CEO pay ratio for 2021, along with the comparative ratios for 2019 and 2020. The pay ratios have been calculated using actual earnings for the CEO and UK employees. The CEO total single figure remuneration is given on page 148 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	50th Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2021	Option A	84:1	52:1	34:1
2020	Option A	65:1	38:1	25:1
2019	Option A	42:1	25:1	16:1

The methodology used for calculating the 2019, 2020 and 2021 pay ratios was the same. For 2021, the total remuneration of all UK employees of the Group on 31 December 2021 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2021. The only exception is for employees with Defined Benefit (DB) pensions, where the employer contribution to the respective schemes has been used in the calculation (rather than the single figure methodology) to reduce the administrative complexity. This is likely to undervalue the DB pension value. No adjustments (other than to achieve full-time and full-year equivalent rates) were made and no components of remuneration have been omitted. Of the three options permitted to calculate the percentiles, the Committee has chosen option A (the calculation of the total pay and benefits for 2021 for all UK employees on an FTE basis), as we believe it is the most robust and most statistically accurate method of the options permitted and it is in line with the preference of BEIS.

Set out in the table below is the base salary and the total pay and benefits for each of the identified employees in respect of 2021.

Element	25th Percentile (P25)	50th Percentile (P50)	75th Percentile (P75)
Base Salary	£23,611	£35,882	£55,000
Total Pay and Benefits	£32,722	£53,033	£81,336

Base salaries of all employees, including Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role. The CEO has a larger portion of his pay based on performance of the business than the individuals at P25, P50 and P75. The Committee believe that our senior executives should have a significant portion of their pay directly linked to the performance of the business, but recognise that this does mean the pay ratios will fluctuate each year depending on business performance and associated outcomes of incentive plans.

The 2021 pay ratios report a wider gap between actual earnings of the CEO and UK employees (than compared to the 2019 and 2020 CEO pay ratios) and this is ultimately due to the higher outturn of the bonus for 2021, despite the Scorecard being the basis of the bonus outcome for all employees. This is also due to a higher vesting of the 2019 PSP versus the 2018 and 2017 PSP (77.28% versus 57.2% and 18.0% respectively).

The Group is comprised of different business units and teams with different levels of pay, including call centre staff, support staff and engineers. The Committee reviews information about employee pay, reward and progression policies of the Group and, (given the relative differences in responsibilities of the roles, the pay relativities between grades within the organisation, and the positioning of pay versus the wider market), is comfortable that the median pay ratio is consistent with these policies.



## Statement of implementation of the Remuneration Policy in 2021

This section sets out the proposed implementation of the Directors' Remuneration Policy in 2022. No deviations from the procedure for the implementation of the Policy are proposed.

### Base salary

Below are the base salaries of the Executive Directors to take effect on 1 April 2022. This is an increase of 4.5%, which is consistent with the base pay increases for the wider workforce in accordance with the Policy. The overall increase in base salary from 1 April 2021 to 1 April 2022 is 11.4% and 8.7% for Will Gardiner and Andy Skelton respectively. This takes into consideration the base salary increase effective 1 January 2022 to move their base salaries to market rate and the scheduled annual increase of 4.5% effective 1 April 2022 as part of the annual pay review process, which is the average increase for the wider workforce in the UK. An explanation for these changes is set out on page 132.

	Base salary as at 1 April 2021 £000	Base salary as at 1 April 2022 £000	Percentage increase £000
Will Gardiner	572	638	11.4%
Andy Skelton	373	406	8.7%

### Benefits and pension

There are no changes intended to the benefits provided to Executive Directors. Pension contributions for the existing Executive Directors will be unchanged compared to 2021 but as previously reported will be aligned with the rate applicable for new joiners to the wider workforce (currently 10% of base salary) from 1 January 2023.

### Annual bonus

The Group Scorecard measures for 2022 have been established for the Group. The Committee believes that the performance targets for the 2022 Scorecard are commercially sensitive, and therefore prospective disclosure would not be in the best interests of shareholders. Details of performance against metrics will be disclosed in the 2022 Annual Report on Remuneration as far as possible, whilst maintaining commercial confidentiality. The following table sets out the categories and a description of the metrics. Further information on this can be found in the report on pages 30 and 31.

Target	Reason for use
Financial metrics (overall weighting of 60% in the Scorecard)	
Group adjusted EBITDA <sup>(1)</sup> (40% weighting)	Adjusted EBITDA is our principal financial metric, combining the underlying performance of each business to give a Group outcome.
Leverage <sup>(1)</sup> (20% weighting)	A progressive and structural reduction in debt is a key objective for the Group with progress assessed against weighted average net debt targets measured within the financial year.
Strategic metrics (overall 40% weighting in the Scorecard)	
Progress on strategic projects (20% weighting)	This element will assess progress against key strategic projects. The primary project will be further advancement of our BECCS roadmap. In addition, there will be a KPI focused on the further assessment of opportunities to deploy new build BECCS in other geographies outside of the UK, and a KPI on progress made on Cruachan 2.
Environmental, employees and sustainability (20% weighting)	Sustainability and Environmental practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders (as noted on page 31). There will be a KPI focused on improving inclusion across Drax, assessed based on an independent rating. There will be a KPI focused on reducing Drax's carbon emissions at both the Group and individual site level. Finally, a KPI focused on developing a blueprint for a low carbon and low particulate emissions mill. Each of the KPIs in this category will have an equal weighting in the Scorecard.

Notes:

(1) The outturn of this KPI is part of the Group's independent financial audit.

## LTIP

The Committee intends to grant LTIP awards to Executive Directors of 200% of salary for the CEO and 175% of salary for the CFO. For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with upper quartile. The targets for the EPS element have not been determined at the date of this report but will be announced prior to the AGM by release of RNS. The performance period for both elements will run from 1 January 2022 to 31 December 2024.

## Non-Executive Directors' fees

The Non-Executive Directors' fees are reviewed by the Chair and the Executive Directors on an annual basis. Any changes to the fee structure with respect to 2022 will be disclosed in the 2022 Annual Report on Remuneration.

## Shareholder voting

The table below shows the voting outcome at the 2021 AGM on the 2020 Annual Report on Remuneration. The votes cast represent 79.92% of the issued share capital. In addition, shareholders holding 3,677,293 shares abstained.

Voting on the 2020 Annual Report on Remuneration	For	Against
Number of votes	315,926,134	2,084,439
Proportion of votes	99.34%	0.66%

As a reminder, the table below shows the last voting outcome for the Directors' Remuneration Policy at the 2020 AGM.

Voting on the 2020–23 Directors' Remuneration Policy	For	Against
Number of votes	304,206,978	17,334,456
Proportion of votes	94.61%	5.39%

## Committee activity and key decisions in 2021

The key matters considered and decisions reached by the Committee in 2021 are shown in the table below:

### Our workforce

Reviewed the application of the increases from the annual salary review

Approved the outcome of the 2020 Group Scorecard and approved the outturn of the 2020 Group Bonus Plan

Reviewed 2020 Gender Pay Gap statistics and approved the reporting of them

Adopted the 2021 Group Scorecard for the purpose of determining relevant aspects of 2021 remuneration

Reviewed and inputted on proposals for management of remuneration with respect to Pinnacle colleagues

### Executives and senior management

Approved a proposal for members of the Executive Committee and senior staff salary review

Approved Executive Director and Executive Committee member annual bonus awards for 2020

Approved the Deferred Share Plan and LTIP awards for 2021

Approved the vesting of the 2018 PSP awards

Approved the new remuneration packages for the colleagues promoted to the Executive Committee in 2021 (Chief People Officer, General Counsel and EVP Pellet Operations)

### Committee governance

Considered and approved the 2020 Annual Report on Remuneration

Approved the operation of the all-employee Sharesave Share Plan in 2021

Received updates on workforce engagement

Reviewed the fees paid to PwC, as the Committee's remuneration adviser, together with fees paid by the Group to PwC for other matters, and reviewed PwC's independence

In 2021, the Remuneration Committee was chaired by Nicola Hodson. Other members of the Remuneration Committee during the year were John Baxter, Philip Cox, David Nussbaum, Vanessa Simms and Kim Keating from 21 October 2021, all of whom are independent Non-Executive Directors, and the Group Company Secretary was secretary to the Committee. David Nussbaum stepped down as a member of the Committee on 31 December 2021. The CEO was invited to attend meetings of the Committee, except when his own remuneration was discussed, as was the Chief Transformation Officer, Chief People Officer and the Group Head of Reward.

### Adviser to the Committee

The adviser to the Committee for the year was PwC. PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of Executive Directors and Non-Executive Directors. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest. In the autumn the Committee conducted a review of the independent adviser and this review is due to conclude in March 2022. On the appointment of a new independent adviser, it will be communicated in the Directors' Remuneration Report for 2022.

From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee. PwC was paid £95,300, excluding VAT, during 2021 in respect of advice given to the Committee determined on a time and material basis.

This report was reviewed and approved by the Remuneration Committee.

### Nicola Hodson

Chair of the Remuneration Committee

23 February 2022

# Directors' report

This report contains information which the Company is obliged to disclose and which cannot be found in the strategic, financial, sustainability or corporate governance reports of this document.

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2021. The Directors' report required under the Companies Act 2006 is comprised of this Report, the Corporate Governance Report and the Audit, Nomination and Remuneration Committee Reports.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 7.1 to the financial statements on page 248.

## Directors

The following Directors held office during the year:

Philip Cox	Vanessa Simms
Will Gardiner	John Baxter
Andy Skelton	Kim Keating (appointed on 21 October 2021)
David Nussbaum	Erika Peterman (appointed on 21 October 2021)
Nicola Hodson	

The appointment and replacement of Directors is governed by the Company's Articles of Association ("Articles"), the UK Corporate Governance Code, the Companies Act 2006 and related legislation. See Articles 77 to 86 of the Company's Articles, available on the Company's website at [www.drax.com/about-us/corporate-governance/compliance-and-policies/](http://www.drax.com/about-us/corporate-governance/compliance-and-policies/).

## Annual General Meeting (AGM)

The AGM will be held at 12.30pm on Wednesday 27 April 2022 at etc.venues St Paul's, 200 Aldersgate, London EC1A 4HD. A separate document contains the notice convening the AGM and includes an explanation of the business to be conducted at the meeting.

## Dividends

An interim dividend of 7.5 pence per share was paid on 8 October 2021 (2020: 6.8 pence), to shareholders on the register on 27 August 2021.

The Directors propose a final dividend of 11.3 pence per share (2020: 10.3 pence), which will, subject to approval by shareholders at the AGM, be paid on 13 May 2022, to shareholders on the register on 29 April 2022.

Details of past dividends can be found on the Company's website at [www.drax.com/investors/shareholder-information/dividends/](http://www.drax.com/investors/shareholder-information/dividends/).

## Share capital

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE 250 Index, under the symbol DRX and with the ISIN number GB00B1VNSX38.

The Company has only one class of equity shares, being ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each, with each ordinary share having one vote. Shares held in treasury do not carry voting rights.

Details of movements in the Company's issued share capital can be found in note 4.5 to the financial statements on page 226.

## Shares in issue

<b>At 1 January 2021</b>	410,848,934
Issued in period	2,219,093
<b>At 31 December 2021</b>	413,068,027
Treasury shares at 31 December 2021	13,841,295
Total voting rights at 31 December 2021	399,226,732
Issued between 1 January and 23 February 2022	0
<b>At 23 February 2022</b>	413,068,027
Treasury shares at 23 February 2022	13,841,295
Total voting rights at 23 February 2022	399,226,732

### Authority to purchase own shares

At the AGM held on 21 April 2021, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. At the 2022 AGM, shareholders will be asked to renew the authority to make market purchases of up to 10% of the issued ordinary share capital. More details on resolution 18 can be found in the Notice of Meeting. During 2021, the Directors did not use their authority to purchase shares in the company.

### Interests in voting rights

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service and also on the Company's website.

As at 23 February 2022, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held <sup>(1)</sup>
Invesco Limited	22 Oct 2020	–	38,578,024	–	38,578,024	9.71%
Schroders plc	29 Jun 2021	–	38,333,806	67,765	38,401,571	9.64%
BlackRock Inc	22 Jun 2020	–	23,524,482	1,178,747	24,703,229	6.22%
Orbis Holdings Limited	12 Feb 2021	–	20,018,646	–	20,018,646	5.04%

Notes:

(1) As at the date of the last notification made to the Company by the investor, in compliance with DTR.

### Rights and obligations attaching to shares

The rights attaching to the Company's Ordinary Shares are set out in the Articles, available on the Company's website at [www.drax.com/about-us/corporate-governance/compliance-and-policies/](http://www.drax.com/about-us/corporate-governance/compliance-and-policies/). The Articles may only be changed by shareholders by special resolution.

Attention should be given to the following sections within the Articles, covering the rights and obligations attaching to shares:

- Variation of rights – which covers the rights attached to any class of shares that may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the relevant class (excluding any shares of that class held as treasury shares), or with the sanction of a special resolution passed at a separate General Meeting of the holders of shares of the class duly convened and held in accordance with the Companies Act.
- Transfer of shares – provides detail of how transfers of shares may be undertaken. It also sets out the Directors' rights of refusal to effect a transfer and the action that Directors must take following such refusal. It should be noted that a shareholder does not need to obtain the approval of the Company, or of other holders of shares in the Company, for a transfer of shares to take place.
- Voting, deadlines and proxies – these sections of the Articles deal with voting on a show of hands and on a poll. They also cover the appointment of a proxy or corporate representative. In respect of appointment of a proxy or corporate representative, the Articles provide for the submission of proxy forms not less than 48 hours (or such shorter time as the Board may determine) before the time appointed for the holding of the meeting. It has been the Company's practice since incorporation to hold a poll on every resolution at Annual General Meetings and General Meetings.

### Disabled employees

The Company gives full consideration to applications for employment by disabled persons, bearing in mind the aptitudes of the applicant concerned. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues, and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, so far as possible, be identical to that of other employees.

### Political donations

Drax is a politically neutral organisation and did not make any political donations in 2021. The Company regularly engages with regulators and policymakers (including those associated with political parties and governments) to listen and contribute to discussions on a wide range of matters. Such engagement is an important part of our strategy and contributing to initiatives enabling the UK in its goal of reaching net zero by 2050. Further information on how we engage with stakeholders can be found on pages 34 to 41, and our Political Engagement Policy can be found on the Company's website at: [www.drax.com/about-us/corporate-governance/compliance-and-policies/drax-political-engagement-policy/](http://www.drax.com/about-us/corporate-governance/compliance-and-policies/drax-political-engagement-policy/). While we do not believe that any expenditure incurred as a result of this engagement would be considered a political donation under the Companies Act 2006 ("the Act"), due to the broad definition of political donations and as a matter of good governance and transparency, we have provided information on areas of expenditure which may be regarded as falling within the scope of the Act. During the year ended 31 December 2021, Drax exhibited at, and held events at, conferences organised by political parties, spending a total of £75,925 (2020: £11,180). These events allow Drax to present its views on a non-partisan basis to politicians from across the political spectrum and non-political stakeholders such as NGOs and other listed and non-listed companies. These payments do not indicate support for any political party. The recipients were the Conservative Party (£53,800), the Labour Party (£14,475) and the Scottish National Party (£7,650).

At our 2022 AGM, Drax will be seeking renewal from shareholders of the existing authority approved at the 2021 AGM. More details are contained in the Notice of Meeting.

### Other significant agreements

- A £300 million facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and as further amended and restated on 18 November 2020) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the "Facility Agreement").
- A £35 million term facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and as further amended and restated on 18 November 2020) with Drax Corporate Limited as borrower (the "Term Facility Agreement").
- An indenture dated 26 April 2018 (as amended and supplemented from time to time, including by a supplemental indenture dated 12 February 2019 and a supplemental indenture dated 16 May 2019) between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing \$500 million 6.625% senior secured notes due November 2025 (the "2018 Indenture").
- An indenture dated 4 November 2020 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing €250 million 2.625% senior secured notes due 2025 (the "2020 Indenture" and, together with the 2018 Indenture, the "Indentures").
- A £375 million term loan facilities agreement dated 24 July 2019 between, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) (the "2019 Private Placement").
- A £98 million and €126.5 million term loan facilities agreement dated 18 August 2020, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) (the "2020 Private Placement").
- A C\$300 million term loan facility agreement and C\$10 million revolving credit facility agreement dated 12 July 2021, amongst others, Pinnacle Renewable Energy Inc. and Royal Bank of Canada (as facility agent) (the "2021 Facility Agreement").

Under the Indentures, a change of control (a "Notes Change of Control") occurs if any person other than Drax Group plc becomes the ultimate beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited (unless replaced by a successor parent company), or else if all or substantially all of the assets of Drax Group Holdings Limited are disposed of outside of the Group. No later than 60 days after any change of control, Drax Group Holdings Limited must offer to purchase any outstanding notes at 101% of the principal amount of such notes plus accrued interest and other unpaid amounts.

Under the Facility Agreement, the Term Facility Agreement, the 2019 Private Placement, the 2020 Private Placement and the 2021 Facility Agreement, a change of control occurs if any person or group of persons acting in concert gains control of Drax Group plc or if Drax Group plc no longer holds directly 100% of the issued share capital of Drax Group Holdings Limited (subject to carve-outs for the interposition of an intermediate holding company) or else if a Notes Change of Control occurs. Following a change of control, if any lender requires, it may by giving notice to the relevant Group entity within 30 days of receiving notice from such Group entity that a change of control has occurred, cancel its commitments and require the repayment of its share of any outstanding amounts within three business days of such cancellation notice being given.

Further information in respect of the Group's financial risk management programme (including commodity risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, and credit risk) appears in note 7.2 to the financial statements on page 253.

### Directors' interests and indemnity arrangements

Other than a service contract between the Executive Directors and a Group company no Director had a material interest at any time during the year in any significant contract with the Company or any of its subsidiary undertakings. There are no agreements between the Group and its Directors providing for compensation for loss of office or employment because of a takeover bid. The Company has appropriate indemnity insurance cover in place in respect of legal action against Directors of the Company and its subsidiaries.

### Strategic report

The Strategic report on pages 1 to 91 contains disclosures in relation to workforce engagement, stakeholder engagement, diversity, Greenhouse Gas emissions, streamlined energy and carbon reporting requirements (SECR), future development and research activities.

### Auditors and the disclosure of information to the auditor

So far as each person serving as a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each Director has taken all steps that he/she ought to have taken as a Director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

As described in the Audit Committee Report on page 128, during 2021 the Audit Committee conducted an audit tender process for the external auditor. The result of this tender process was the appointment of PricewaterhouseCoopers LLP (PwC) as the new external auditor, to take effect from, and including, the financial year ending 31 December 2024. The appointment will be recommended to shareholders for approval at the AGM in 2024. Subject to shareholder approval at the respective AGMs, Deloitte LLP will continue in its role as external auditor to Drax for the financial years ending 31 December 2022 and 31 December 2023. Resolutions will be proposed at the AGM for (i) the re-appointment of Deloitte LLP as the auditor of the Group; and (ii) authorising the Directors to determine the auditor's remuneration. As explained, the Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 118 to 129.

The Directors' report was approved by the Board on 23 February 2022 and is signed on its behalf by:

#### Brett Gladden

Group Company Secretary

Registered office: Drax Power Station, Selby, North Yorkshire, YO8 8PH

Registered in England and Wales Number 5562053

# Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 23 February 2022 and is signed on its behalf by:

**Will Gardiner**  
CEO



## Verification statements

### LRQA Independent Assurance Statement

Relating to the Drax Group Plc Environmental and Social Governance data for the period January 1, 2021 to December 31, 2021.

LRQA Limited ("LRQA") has provided independent limited assurance to Drax Corporate Limited ("Drax") over specific data within the Drax Group plc Annual Report 2021 ("the Report") including the following:

- Group GHG emissions (Scope 1 and 2)
- Group GHG emissions (Scope 3)
- Water abstraction and discharge
- Employment data on headcount
- Group energy consumption
- Percentage of emissions in the UK
- Group generation emissions intensity
- Group emissions intensity

The assurance was conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000. LRQA's full independent limited assurance statement can be found at [www.drax.com/sustainability](http://www.drax.com/sustainability)

### Summary Assurance Statement from Bureau Veritas UK Ltd

Bureau Veritas UK Ltd has provided independent assurance to Drax Group Plc over its 'average biomass supply chain greenhouse gas emissions' data as reported in its Annual report and accounts 2021.

The assurance process was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after December 15, 2015), issued by the International Auditing and Assurance Standards Board.

Bureau Veritas' full assurance statement includes certain limitations, exclusions, observations, and a detailed assurance methodology and scope of work.

The full assurance statement with Bureau Veritas' independent opinion can be found at [www.drax.com/sustainability](http://www.drax.com/sustainability)

## Pinnacle

The Pinnacle business joined Drax in April 2021. Since then, we've been working hard on integrating the businesses and getting to know each other better. On these pages we share some stories from our Canadian colleagues, who are helping us achieve our purpose, ambition and strategic objectives.





Canada is a land of extremes – from high summer temperatures and wildfires, to bitterly cold winters – and carefully planning and preparation are key to keeping our colleagues safe and our operations running.

“

All our plants are impacted by cold, snow, and ice in winter, but our most extreme weather is experienced at High Level. Last year, the plant recorded its coldest temperature on record: -42°C. When you factor in the wind chill, that's -52°C, but we're still operating and making pellets. We look ahead, preparing our people, our plants and the business. For our people, personal protective equipment and making sure colleagues are dressed appropriately is critical. This includes providing things like winter gloves, balaclavas, and ice cleats for boots. When it's extremely cold, colleagues use a buddy system when they go outside. We have radio contact and send people out two at a time for very short periods, mixed with lots of inside stints to warm up. The cold weather affects our machinery, and the fibre itself is colder: this impacts on how fast we can run our pellet mills, so our output and sales volumes are typically lower in Q1 of each year. The planning is key: if you aren't proactive, winter will control you instead of you managing it.”

**Russell Higdon,**  
General Manager of five Canadian pellet plants – Meadowbank, Smithers, Houston, Burns Lake, and High Level



The MyVoice forums are a key part of our listening strategy and workforce engagement and, in late 2021, we established a MyVoice Forum in Canada, with all members officially appointed in January 2022.

The newly appointed Canadian MyVoice Forum chair, Fernanda Castro, met with the Chair and CEO in September and November 2021, with a new co-chair appointed in January 2022 alongside Fernanda.

“

As a Co-Chair of my voice forum, during the forum's meetings, I am able to bring forward my colleague's voice, making sure leaders can listen, support and address any concern or feedback given.

“Besides connecting with colleagues from different parts of the business that I would never have a chance, it also gives me a sense of accomplishment. I can see how much this forum can influence decision-making and strengthen our corporate culture by listening to everyone around the globe/business.”

**Fernanda Castro**  
Co-chair MyVoice forum, Canada



Ongoing process safety management is essential for identifying and managing process risk, to reduce the likelihood of a major accident. We focus on controls of plant, process and people, delivering a consistent approach to process safety and sharing best practice across the Group.

“

In January 2021, we created a team to identify risk in our process, starting with dry conveyors – assessing each against agreed criteria and identifying areas for improvement. My team and I then worked with engineering firms and vendors to ensure the conveyors had the appropriate protection, which we accomplished during 2021. We also completed a full review of our Port Facility at Westview and are looking to implement best practices learned between the Drax and Pinnacle. It is an extremely exciting time in our process safety journey, and I am pleased to be a part of this journey.”

**Jeff Johnston**  
Technical Manager, Northern Operations, Canada

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# Independent Auditor's report to the members of Drax Group plc

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of Drax Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the basis of preparation and statement of accounting policies on pages 178 to 182;
- the notes 2.1 to 8.3 related to the consolidated financial statements; and
- the notes 1 to 9 related to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 2.3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Valuation of goodwill and other intangible assets</li> <li>• Valuation of commodity and foreign exchange contracts</li> <li>• Estimation of Customers unbilled revenue</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li>⚠ Newly identified</li> <li>⬆ Increased level of risk</li> <li>↔ Similar level of risk</li> <li>⬇ Decreased level of risk</li> </ul>
<b>Materiality</b>	<p>The materiality that we used for the group financial statements was £11.4m which represents approximately 3% of Adjusted Earnings before Interest, Taxation, Depreciation and Amortisation, excluding the impact of exceptional items and certain remeasurements (Adjusted EBITDA).</p>
<b>Scoping</b>	<p>We performed full scope audit work at four components: Drax Generation, Drax Energy Solutions, Opus Energy, Drax Biomass; and audit of specified account balances at Pinnacle. These components represent the principal business units and account for virtually all of the group's net assets, revenue and profit before tax.</p>
<b>Significant changes in our approach</b>	<p><i>Changes in key audit matters</i></p> <ul style="list-style-type: none"> <li>• Valuation of goodwill and other intangible assets has been identified as a key audit matter in the current year due to the significant level of judgements and increased audit effort in this area.</li> <li>• Estimation of Opus Energy expected bad debt provision was identified as a key audit matter in the prior year due to the impact of Covid-19 and its effect on predicting expected customer default risks. This is no longer considered a key audit matter in the current year due to reduced levels of uncertainty in the determination of expected credit losses.</li> <li>• In the prior year, impairment of OCGT development assets were a key audit matter due to significant uncertainty that underpinned the business case for these assets. We no longer report this as a key audit matter following the award of three Capacity Market contracts during the current year as detailed on page 197.</li> </ul>

### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the availability of adequate funding.
- assessing the assumptions used in the forecasts, including performing sensitivity analysis in relation to assumptions for future commodity prices.
- checking the amount of headroom in the forecasts.
- assessing the historical accuracy of forecasts prepared by management.
- testing mathematical accuracy of the model used to prepare the forecasts.
- assessing whether the Directors have considered the impact of climate risk on the group's going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Valuation of goodwill and other intangible assets



<b>Key audit matter description</b>	<p>As at 31 December 2021, the carrying amount of the group's goodwill and intangible assets amounted to £416.3m (2020: £248.2m) and £188.6m (2020: £181.8m).</p> <p>The group's impairment assessment of cash generating units to which goodwill is allocated in accordance with IAS 36 <i>Impairment of Assets</i> involves value in use calculations which require estimates, including significant assumptions regarding future cash flows and discount rates. The future cash flow projections are based on a number of variables including margins, future commodity prices, supply volumes, capacity market clearing prices and macro-economic conditions such as climate risk.</p> <p>Further detail of the key judgements and estimation uncertainties are disclosed on pages 181 and 194. Goodwill and intangible assets are disclosed in Section 5.2.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of relevant controls related to the impairment review of goodwill and intangible assets.</p> <p>We checked the arithmetical accuracy of the value in use calculations. We evaluated the current year changes to the key assumptions and assessed retrospectively whether prior year assumptions were appropriate.</p> <p>We involved our internal valuation specialists in evaluating management's discount rates. We benchmarked the discount rate to comparable assets and considered the underlying assumptions based on our knowledge of the group and its industry.</p> <p>We assessed the accuracy of management's cash flow projections by comparing historical forecasts with actual cash flows. We assessed whether forecast cash flows were consistent with Board approved forecasts. We also performed sensitivity analysis as part of our overall evaluation of forecast cash flows.</p> <p>In relation to climate risks, we evaluated whether cash flow projections and related assumptions, such as future commodity prices, incorporate the reasonably expected impact of climate change and associated policy changes.</p> <p>We also assessed the financial statements disclosures in relation to the impairment assessments performed.</p>
<b>Key observations</b>	<p>We conclude that the valuation of goodwill and intangible assets as well as the relevant disclosures are appropriate based on the results of our work.</p>

5.2. Valuation of commodity and foreign exchange contracts



<b>Key audit matter description</b>	<p>Net losses on derivative contracts recognised in the consolidated income statement in the year, from continuing operations, are £43.3m (2020: £70.3m), with related derivative assets of £1,246.1m (2020: £283.3m) and liabilities of £1,504.5m (2020: £453.6m) recognised on the consolidated balance sheet as at 31 December 2021.</p> <p>The group has exposure to a number of different financial risks including foreign exchange risk and commodity risk and uses a variety of derivative contracts to mitigate these risks, including commodity contracts, benefit locks and cross currency swaps. The valuation of derivative contracts is complex and requires judgement in areas including the selection of appropriate valuation methodologies and assumptions, including in respect of future market prices, credit risk factors, time value of money and spread adjustments.</p> <p>Due to the inherent risks as described above, the large volume of data involved in the contract valuations, the complex valuation methodologies and models applied, we have identified a risk of error and a potential fraud risk relating to the possibility for management or employees of the company to value trades inappropriately.</p> <p>Specifically, we have identified risks in relation to the valuation of certain more complex derivative contracts which do not have simple contractual terms, specifically being benefit locks (and similar contracts) and inflation swaps and the application of credit risk data calculations as part of deriving overall fair value estimates for derivative contracts.</p> <p>Further detail of the key judgements is disclosed in the Audit Committee report on pages 123 to 126. Section 7 sets out the financial risk management disclosures.</p> <p>In addition the Group uses contracts to buy and sell biomass. These are currently deemed by management to be outside of the scope of IFRS 9, as disclosed in the critical accounting judgements, on the basis that they are not "net settleable". If this judgement were to be incorrect, material balances may be incorrectly excluded from the balance sheet. We therefore identified a risk of error in relation to whether the biomass contracts are net settleable and thus within potentially the scope of IFRS 9.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of and tested the operating effectiveness of relevant controls related to the valuation of commodity and foreign exchange contracts.</p> <p>With the involvement of our internal financial instrument specialists, we tested management's key judgements and calculations. This included testing a sample of trades undertaken to trade tickets and checking key contractual terms such as volumes and contracted prices.</p> <p>We have assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments and performed independent valuations across a sample of both commodity and foreign exchange contracts.</p> <p>We have analysed the appropriateness of management's assumptions by benchmarking these to third party sources. We also reviewed the consistency of the assumptions used across other areas of the financial statements, such as asset impairment, where relevant.</p> <p>We have challenged management's approach and assumptions involved in assessing fair value adjustments such as credit risk, time value of money and spread adjustments through consideration of third-party data.</p> <p>We have reviewed management's assessment of whether biomass contracts are "net settleable" as at year end. We have challenged this assessment and considered other sources of evidence which may corroborate or contradict management's conclusions.</p>
<b>Key observations</b>	<p>The valuation of commodity and foreign exchange contracts is reasonable, based on the results of our audit. We consider the valuation methodologies used by management to be appropriate and the valuations are within acceptable ranges for all instruments.</p>



### 5.3. Estimation of Customers unbilled receivables



<b>Key audit matter description</b>	<p>The recognition of retail revenue requires an estimation of customer usage between the date of the last meter reading and year end, which is known as unbilled revenue. Across the Customers division, unbilled revenue at the balance sheet date amounted to £256.3m (2020: £204.6m).</p> <p>The method of estimating unbilled revenue is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value.</p> <p>We identified a risk of error and a potential fraud risk in relation to revenue recognition in the Customer businesses, in particular to the estimates underpinning unbilled revenue, as these judgemental areas could be manipulated by management to misreport revenue.</p> <p>Further detail of the key judgements is disclosed in the Audit Committee report on pages 123 to 126. Accrued income is disclosed in note 3.5.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of relevant controls over the estimation of certain aspects of unbilled revenue, including controls relating to the reconciliation of meter readings provided by the energy markets, and which are used by management to estimate the power supplied. We also tested the controls over the price per unit applied in the valuation of certain aspects of unbilled revenue.</p> <p>When external market information was not available at the balance sheet date, we obtained and evaluated management's reconciliation of the volume of power purchased to their calculations of revenue supplied and completed sample tests to assess whether the December 2021 unbilled revenue amount was subsequently billed.</p> <p>We also reviewed the aggregate unbilled revenue balance from previous periods to test whether the volumes recognised were appropriate in line with the values accrued.</p>
<b>Key observations</b>	<p>We considered the estimates for revenue earned in the year to be appropriate. Our retrospective reviews of estimated revenues revealed that management have historically achieved a high level of accuracy.</p>

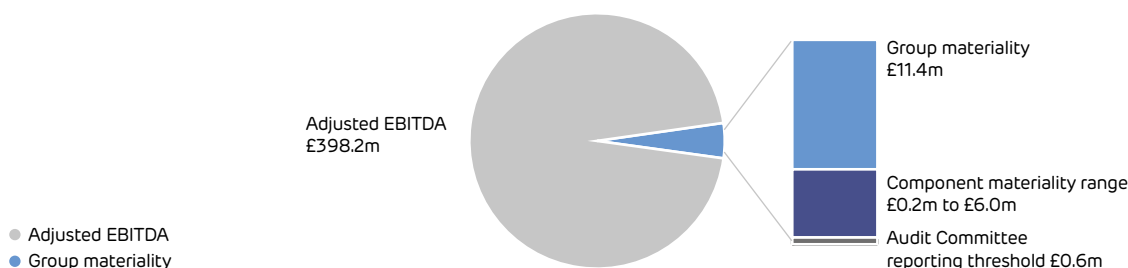
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
<b>Materiality</b>	£11.4m (2020: £12.3m)	£4m (2020: £6.0m)
<b>Basis for determining materiality</b>	Approximately 3% of Adjusted EBITDA (2020: 3% of Adjusted EBITDA)	0.5% of net assets (2020: 0.8%) capped at 35% (2020: 49%) of the materiality identified for the group.
<b>Rationale for the benchmark applied</b>	We consider that Adjusted EBITDA is of particular relevance to users of the financial statements and is a key measure of performance used by the group. It excludes volatility caused in particular by the remeasurements of derivative contracts and exceptional items, defined as those transactions that, by their nature, do not reflect the trading performance of the group in the period.	In determining materiality, we considered the net assets of the company as its principal activity is as an investment holding entity for the group.



## 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
<b>Performance materiality</b>	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
<b>Basis and rationale for determining performance materiality</b>	In determining performance materiality, we considered the following factors: <ol style="list-style-type: none"> <li>our risk assessment, including our assessment of the overall control environment and that we consider it appropriate to rely on controls over a number of business processes;</li> <li>no significant changes in the business during the year which would impact on our ability to identify potential misstatements; and</li> <li>history of low level of misstatements identified in the previous audits and managements willingness to correct those adjustments.</li> </ol>	

## 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6m (2020: £0.6m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Identification and scoping of components

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. We performed full scope audit work at four components: Drax Generation, Haven Power, Opus Energy, Drax Biomass; and audit of specified account balances at Pinnacle. These components represent the principal business units and account for virtually all of the group's net assets, revenue and profit before tax.

The group audit was performed by the group audit team in the UK and a component Deloitte team in Canada under the supervision of the Senior Statutory Auditor. Our audit work at all significant component locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £4.0m to £6.0m (2020: £4.3m to £6.1m).

At the group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

### 7.2. Our consideration of the control environment

Our audit approach was to place reliance on management's relevant controls over revenue and financial instruments business cycles. As part of our controls testing, we obtained an understanding of and tested controls through a combination of inquiry, observation, inspection and re-performance.

We also involved our IT specialists in assessing relevant controls over the group's IT systems. Working with IT specialists we obtained an understanding of the IT environment to assess the relevant risks of material misstatement arising from each relevant IT system and the supporting infrastructure technologies based on the role of each application in the group's flow of transactions. For the assessed risks on key IT systems, we obtained an understanding of and tested relevant automated and general IT controls.

### 7.3. Our consideration of climate-related risks

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the Group. This is set out in the strategic report on page 88, the principal risks set out on page 88 and accounting policies on page 194. From the financial statements' perspective, these risks have been focused on the valuation of goodwill and other intangible assets. This is consistent with our evaluation of the climate-related risks facing the Group and is linked to the key audit matter as highlighted in section 5.1 above, where we have described both the risks related to these assumptions and our audit procedures in relation to the challenge of these assumptions. In addition we have:

- Challenged how the Directors considered climate change in their assessment of going concern based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- Involved our Environmental Social and Governance (ESG) specialist in assessing the Task Force for Climate related Financial Disclosures (TCFD) on pages 64 to 71 against the recommendations of the TCFD framework.
- Read the climate risk disclosures included throughout the strategic report section of the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

#### 7.4. Working with other auditors

The group audit team are responsible for the scope and direction of the audit process and provide direct oversight, review, and co-ordination of our component audit teams. We interacted regularly with the component team during each stage of the audit and reviewed key working papers. We maintained continuous and open dialogue with our component teams in addition to holding formal regular meetings to ensure that we were fully aware of their progress and results of their procedures.

Due to the COVID-19 pandemic and the travel restrictions in place during the year, the senior statutory auditor was unable to conduct visits to physically meet with the component audit team in Canada. As a result of this, we performed alternative virtual procedures which included discussing our risk assessment (including risks of material misstatement due to fraud), discussing the audit approach and any issues arising from the component team's work, meetings with local management, and reviewing key audit working papers to drive a consistent and high-quality audit. In addition to our direct interactions, we sent detailed instructions to our component audit teams and attended audit closing meetings.

#### 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

##### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error that was approved by the board on 21 February 2022;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit team and relevant internal specialists, including tax, pensions, IT, valuations, financial instruments and ESG specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of commodity and foreign exchange contracts, estimation of Customers unbilled revenue, and cut-off of bilateral sales. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context the UK Companies Act, Listing Rules, Pensions legislation, Tax legislation, and Regulations established by regulators in the key markets in which the group operates, including the Office of Gas and Electricity Markets (Ofgem).

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of commodity and foreign exchange contracts and estimation of Customers unbilled revenue as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud in cut-off of bilateral sales, in addition to our testing described above we have performed focussed testing on trades close to the year-end combined with analytical review procedures to assess accuracy and completeness of revenue recognised; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 74 and 75;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 74 and 75;
- the directors' statement on fair, balanced and understandable set out on page 164;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 76 to 91;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 76 to 91; and
- the section describing the work of the audit committee set out on pages 118 to 129.

## 14. Matters on which we are required to report by exception

### 14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

## 15. Other matters which we are required to address

### 15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 27 April 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31 December 2005 to 2021.

### 15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

## 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

### **Makhan Chahal, FCA (Senior statutory auditor)**

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

23 February 2022

# Financial statements

## Introduction

The Consolidated financial statements provide detailed information about the financial performance (Consolidated income statement and Consolidated statement of comprehensive income), financial position (Consolidated balance sheet), reserves (Consolidated statement of changes in equity), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 183 to 187, as well as voluntary information which management believe users of the accounts may find useful, in line with the spirit of IFRS.

## Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to the International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 as it applies in the United Kingdom.

The financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively).

## Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the average monthly exchange rate to the extent that this approximates the exchange rate prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items are not retranslated.

Foreign exchange gains and losses arising on such retranslations are recognised in the Consolidated income statement within foreign exchange gains/losses.

## Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using the rates prevailing at the reporting date. The income and expenditure of such operations are translated into sterling using the average monthly exchange rate to the extent this approximates the exchange rates prevailing at the date of the transactions. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets, and its results for the year, are recognised in the Consolidated statement of comprehensive income.

## Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 1 to 93 of this Annual report. In particular, Covid-19 and climate change are considered in the Financial Review on page 22.

In the Viability statement on pages 74 to 75 the directors state that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years.

Consequently, the directors also have a reasonable expectation that the Group will continue in existence for the next 12 months from the date of signing these Consolidated financial statements and, therefore, have adopted the going concern basis in preparing these financial statements.

## Basis of consolidation

These consolidated financial statements incorporate the financial results of the Company and of all its subsidiaries made up to 31 December each year. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control of an entity to the date control ceases.

All intra-group assets and liabilities, equity, income, expenses, unrealised profits and cash flows relating to transactions between the members of the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders that are current ownership interests, entitling their holders to a proportionate share of net assets upon liquidation, may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See note 4.6 for the accounting policy and further details on the Group's accounting for non-controlling interests.

Joint arrangements are contractual arrangements where two or more parties have joint control over the arrangement. Joint arrangements are classified as either a joint operation or a joint venture based upon an analysis of the rights and obligations of the parties in the normal course of business. If the parties to the joint operation have direct rights to the assets, and direct obligations for the liabilities, relating to the arrangement, then it is a joint operation. If the parties to the joint operation have rights to the net assets of the arrangement, then it is a joint venture.

The Group currently only has a joint operation and no joint ventures. The Group recognised its direct right to assets, liabilities, revenue and expenses of the joint operation, as well as its share of any jointly held assets, liabilities, revenue and expenses. These amounts are recognised within the appropriate financial statement line items in accordance with the IFRS standards applicable for that line item.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. This is generally the case where the Group holds between 20% and 50% of the voting rights of an entity.

Associates are accounted for using the equity method. Investments in associates are initially recognised at cost, which includes transaction costs. Goodwill is not separately recognised in relation to associates. Subsequent to initial recognition, the carrying amount of investments in associates are adjusted to recognise the Group's share of after tax profit or loss and other comprehensive income (OCI) of equity-accounted associates, that are recognised in the Consolidated income statement and Consolidated statement of comprehensive income respectively. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. If the carrying amount of an associate reaches £nil, the Group only recognises its share of losses of the associate to the extent it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated against the investment to the extent of the Group's percentage ownership in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of impairment. Accounting policies of equity-accounted associates have been aligned where necessary to ensure consistency with the policies adopted by the Group.

Associates are tested for impairment whenever there are any indicators of impairment. An impairment loss is recognised to the extent of which the carrying amount of the investment exceeds its recoverable amount. Impairment losses on associates are recognised within Income from associates in the Consolidated income statement.

### Accounting policies

The significant accounting policies for the measurement of an individual item in the financial statements are described in the note to the financial statements relating to the item concerned (see contents on page 168).

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards and amendments effective as of 1 January 2021. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the financial statements other than in respect of 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'.

### Adoption of Interest Rate Benchmark Reform – Phase 2

Interest Rate Benchmark Reform has resulted in the move away from certain Interbank Offered Rates (IBORs). The financial statement impact of IBOR Reform has been undertaken as a two-phase project. The Group already applies Phase 1 of IBOR Reform, in relation to the amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'. The Phase 1 amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR Reform, in the period prior to the replacement of an interest rate benchmark impacted by IBOR Reform. The reliefs have the effect that IBOR Reform should not generally cause hedge accounting to terminate.

In the current year, the Group has applied for the first time 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'. The amendment was issued in August 2020 and is mandatory for annual reporting periods beginning on or after 1 January 2021. The Group has not restated prior periods as a result of this amendment.

Phase 2 of IBOR Reform provides reliefs from financial reporting impacts of the replacement of an existing interest rate benchmark with an alternative benchmark rate as a result of IBOR Reform. IBOR Reform Phase 2 provides key reliefs regarding a practical expedient for changes to contractual cash flows as a direct consequence of IBOR Reform and hedge accounting reliefs for hedging relationships directly affected by IBOR Reform.

If the Group had not applied the Phase 2 amendments, due to the Group transitioning GBP LIBOR interest rate swaps to Sterling Overnight Index Average (SONIA) in the year, the Group's cash flow hedge accounting for the GBP LIBOR-linked cash flows that swaps were hedging would have had to be discontinued and the amounts accumulated in the hedge reserve relating to these hedges would have had to have been reclassified to the Consolidated income statement. As a result of applying the Phase 2 amendments, hedge accounting has not been discontinued and the amounts accumulated in the hedge reserve relating to these hedges were deemed to be based on the new SONIA benchmark.

Phase 2 amendments have also meant that the Group has amended the effective interest rate in the floating rate GBP LIBOR-linked borrowings that have been transitioned to SONIA. Had the Phase 2 amendments not been applied, the Group would have had to derecognise the borrowings and recognise a new financial liability for the borrowings, with any gain or loss as a result of this being recognised in the Consolidated income statement.

See note 7.2.3 for further details on IBOR reform and the application of 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)'.

### Configuration or Customisation Costs in a Cloud Computing Arrangement (IAS 38)

In 2021, the IFRS Interpretations Committee (IFRS IC) finalised its agenda decision regarding how to account for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement that conveys to the customer the right to receive access to the supplier's application software over the contract term.

The agenda decision concluded that the right to receive access does not provide the customer with a software asset and therefore, the access to the software is a service that the customer receives over the contract term. The agenda decisions also concluded that often the configuration and customisation costs do not result in an intangible asset of the customer. Therefore, these costs should be recognised as an expense over the period to which they relate.

In limited circumstances, certain configuration and customisation activities may result in a separate asset controlled by the customer. If this is the case the assets should be assessed as to whether it is separately identifiable and if it meets the recognition criteria of IAS 38.

Any changes resulting from this agenda decision would be a change in accounting policy. Agenda decisions should be implemented on a timely basis with entities entitled to sufficient time to implement any necessary accounting policy changes. Assessing the impact of the agenda decision on the Group requires detailed analysis of the historical amounts capitalised. Given the volume of transactions and complexity of disaggregating historic projects included in the analysis this process is still ongoing. This has been further complicated due to the lack of access to key staff and information as a result of the ongoing contractual discussions with a supplier (See note 5.2). The Group expects to conclude its analysis in the first half of 2022. Accordingly, the Group plans to adopt it as a new accounting policy for SaaS arrangements with effect from 1 January 2022 and the results of this change will be reflected in the 2022 Financial Statements.

### Judgements and estimates

The preparation of financial statements requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements which have the most significant effect on the amounts recognised in the consolidated financial statements, and the key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below. Further detail, including sensitivity analysis where appropriate for the key estimates and assumptions, is included in the related notes.

### Critical accounting judgements

The critical judgements made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements are set out below.

### Certain remeasurements and exceptional items

Each year management confirms the judgements made regarding transactions to exclude from the Adjusted results of the Group, as described under Alternative performance measures, below. The judgement as to whether a transaction or group of transactions should or should not be classified as a certain remeasurement or an exceptional item can have a significant impact on the Adjusted results of the Group.

An internal policy governs the judgements made by management and in all instances, these judgements are approved by the Audit Committee.

See note 2.7 on page 202

### Accounting for biomass purchase and sale contracts

The Group buys and sells biomass for operational requirements in its Pellet Production and Generation segments. The Group's risk management policies also permit some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. As such, the Group undertook an assessment of whether contracts to buy and sell biomass for optimisation purposes brought the Group's biomass contracts within the scope of IFRS 9. If the contracts were deemed to be within the scope of IFRS 9, this would result in these contracts being recognised at fair value as derivative financial instruments from inception.

The Group assessed both biomass purchase and sale contracts and concluded that the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9. The Group concluded this due to the contractual terms having no net settlement provisions and the highly illiquid nature of the biomass market meaning contracts cannot be readily converted into cash. The lack of an active spot market means market participants cannot look to make trading profits from short-term price fluctuations as prices and contracts are negotiated bilaterally with no active market price and no guarantee there will be a willing buyer or seller to trade with. Accordingly, biomass contracts are not recognised in the financial statements until delivery, consistent with the accounting in prior years.

Had the Group concluded biomass contracts were within the scope of IFRS 9, a £1 per tonne movement in price would result in a £31.4 million fair value gain or loss being recognised. The Group continues to assess developments in the biomass market on an ongoing basis to identify whether these developments change this assessment.

### Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that carry a significant risk of a material effect on next year's financial statements – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

### Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, anticipated future replacement cycles and other available evidence. Useful economic lives are reviewed at least annually. The carrying value of Drax Power Station at 31 December 2021 is £882.1 million and depreciation on these assets in the year, based on the useful economic lives disclosed in note 3.1, was £75.1 million. If the useful economic lives were to increase by ten years, the impact on the depreciation charge for the year would be a reduction of approximately £19.4 million. As the future of biomass generation and the Government's net zero strategy become clearer, the potential for a change in useful economic lives for Drax Power Station is increasing (see note 3.1 for further explanation of this).



### Impairment

An impairment review is conducted annually of goodwill, intangible assets with an indefinite life, and as required for other assets and cash-generating units (CGUs) where an indicator of possible impairment exists. In 2021, an impairment assessment has been completed for five of the Group's CGUs which all have allocated goodwill (Drax Energy Solutions (formerly Haven Power), Opus, Lanark, Galloway and Cruachan). An impairment review has also been performed on one Group of CGUs, the Pellet Production segment, to which goodwill is allocated. The Pellet Production segment consists of two CGUs (Pinnacle and DBI). The assessment of future cash flows that underpin the impairment reviews are based on management's best estimate of a number of variables including margins, future commodity prices, supply volumes, capacity market clearing prices and macro-economic conditions. The Galloway CGU is the only CGU that has a reasonably possible change in any assumptions which could lead to an impairment. In particular, a reasonably possible increase in the discount rate over the next 12 months, could significantly reduce the headroom, and therefore further minor changes in other assumptions would lead to an impairment. It is therefore a key source of estimation uncertainty.

See note 2.4 on page 194

### Pension liabilities

The Group records a net surplus or liability in its balance sheet for its obligation to provide benefits under approved defined benefit pension schemes, less the fair value of assets held by the pension schemes. The actuarial valuations of the schemes' liabilities are performed annually by an independent qualified actuary and depend on assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change. Two of the key estimates within the valuation are the discount and inflation rates. Sensitivities in the valuations are discussed in note 6.3. The value of the pension surplus recognised by the Group at 31 December 2021 in relation to the Drax ESPS scheme is £44.0 million and the value of the pension surplus recognised in relation to the Drax 2019 scheme is £4.9 million.

See note 6.3 on page 242

### Alternative performance measures (APMs)

The Group uses APMs throughout the Annual report and accounts that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's performance. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined by IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

Defined below are the key APMs used by the Board to assess performance. See the APMs glossary table on page 286 for details of all APMs used, the APM's closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

### Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total Results column on the face of the Consolidated income statement. Exceptional items and certain remeasurements are deducted from the Total Results in arriving at the Adjusted results for the year. The Group's Adjusted results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

### Adjusted basic earnings per share

Adjusted basic earnings per share is Adjusted profit from continuing and discontinued operations attributable to the owners of the parent divided by the weighted average number of shares outstanding. This is the same denominator used when calculating basic earnings/(loss) per share.

This metric is used in discussions with the investor community.

### Adjusted EBITDA

Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess the performance of our operations.

Following the acquisition of Pinnacle on 13 April 2021, the Group acquired investments with non-controlling interests. Adjusted EBITDA excludes amounts directly attributable to non-controlling interests.

### Exceptional items and certain remeasurements

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, any related precedent and commercial context. Presentation of a transaction as exceptional is approved by the Audit Committee in accordance with an agreed policy.

During the year ended 31 December 2021, the policy has been reviewed and approved by the Audit Committee and guidance issued on the application of the policy. The guidance has been updated for the definition of materiality and clarification that all matters should be assessed on a case-by-case basis in line with the principles set out in the overriding policy. The updated policy would not have changed the transactions classified as exceptional items in the comparative figures contained within these Financial Statements.

Certain remeasurements comprise fair value gains and losses on derivative forward contracts to the extent those contracts do not qualify for hedge accounting, or hedge accounting is not effective which, under IFRS, are recorded in revenue, cost of sales or foreign exchange gains/losses. Management believes adjusting for fair value gains and losses recognised on derivative contracts provides readers of the accounts with useful information as this removes the volatility caused by movements in market prices over the life of the derivative. The Group regards all of its forward contracting activity to represent economic hedges and therefore the contracted price at delivery or maturity is relevant to the Group and its performance, rather than how the contracted price compares to the current market price, as the Group is not seeking to make trading profits through market price movements.

The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of financial trading (such as forward foreign currency purchases), in Adjusted results. The result of this adjustment shows the impact in revenue, cost of sales and foreign exchange gains/losses at the time the transaction takes place.

See note 2.7 on page 202

#### Net debt

The Group defines net debt as total borrowings less cash and cash equivalents. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs) (see note 4.3) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations and trade and other payables. Some of this debt is denominated in foreign currencies and the Group has entered into hedging arrangements associated with this currency exposure.

Net debt is a key metric used by debt rating agencies and the investor community as a key measure of liquidity and the ability to manage the Group's current obligations.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which are predominantly entered into for operating purposes rather than as a way to finance the purchase of an asset. The exclusion of lease liabilities from the calculation of net debt is also consistent with the Group's covenant reporting requirements.

Following the acquisition of Pinnacle on 13 April 2021, the Group acquired investments with non-controlling interests. The Group discloses net debt attributable to owners of the parent. This measure excludes the proportion of net debt that is attributable to non-controlling interests from the values disclosed.

The Group discloses net debt both before and after the impact of relevant currency hedging derivatives. This adjusts the borrowings figure included in the net debt calculation to take into account the effect of financial instruments entered into to hedge movements in, for example, foreign exchange rates in relation to debt principal repayments. The directors believe that this measure provides useful information about the economic substance of the Group's net debt position.

#### Net debt to Adjusted EBITDA ratio

This metric is the ratio of net debt to Adjusted EBITDA, expressed as a multiple. The Group has a long-term target for net debt to Adjusted EBITDA of around 2.0x.

The net debt to Adjusted EBITDA ratio gives an indication of how many years it could take the Group to pay back its debt if net debt and EBITDA are held constant.

From time to time, the Group discloses a "proforma" ratio, which includes adjustments to reflect the cash flow timing impact of significant one-off or other events outside of the Group's control that, in the view of the directors, would otherwise distort performance in the period. Where applicable, such adjustments are described and a rationale for the adjustment provided.

## Section 1: Consolidated financial statements

### Consolidated income statement

	Notes	Year ended 31 December 2021			Year ended 31 December 2020		
		Adjusted Results <sup>(1)</sup> £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results <sup>(1)</sup> £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	2.2	5,173.9	(85.9)	5,088.0	4,235.0	9.7	4,244.7
Cost of sales		(4,331.1)	134.3	(4,196.8)	(3,434.8)	(84.2)	(3,519.0)
<b>Gross profit</b>		<b>842.8</b>	<b>48.4</b>	<b>891.2</b>	<b>800.2</b>	<b>(74.5)</b>	<b>725.7</b>
Operating and administrative expenses <sup>(2)</sup>	2.3	(448.4)	(21.5)	(469.9)	(391.0)	(31.0)	(422.0)
Impairment losses on financial assets		(16.3)	–	(16.3)	(43.1)	–	(43.1)
Depreciation	3.1	(164.5)	(0.5)	(165.0)	(133.1)	–	(133.1)
Amortisation	5.2	(34.4)	–	(34.4)	(38.4)	–	(38.4)
Asset obsolescence charges	2.7	–	–	–	–	(239.3)	(239.3)
Losses on disposal of fixed assets		(9.4)	–	(9.4)	(5.9)	–	(5.9)
Income from associates		0.3	–	0.3	–	–	–
<b>Operating profit/(loss)</b>		<b>170.1</b>	<b>26.4</b>	<b>196.5</b>	<b>188.7</b>	<b>(344.8)</b>	<b>(156.1)</b>
Foreign exchange gains/(losses)	2.5	0.9	(5.1)	(4.2)	(2.2)	(0.6)	(2.8)
Interest payable and similar charges	2.5	(70.9)	(0.3)	(71.2)	(67.7)	(8.6)	(76.3)
Interest receivable	2.5	0.4	–	0.4	0.5	–	0.5
<b>Profit/(loss) before tax</b>		<b>100.5</b>	<b>21.0</b>	<b>121.5</b>	<b>119.3</b>	<b>(354.0)</b>	<b>(234.7)</b>
Tax:							
– Before effect of changes in tax rate	2.6	(11.7)	(5.7)	(17.4)	(9.1)	67.3	58.2
– Effect of changes in tax rate	2.6	(0.4)	(48.6)	(49.0)	(13.8)	(4.3)	(18.1)
Total tax (charge)/credit		(12.1)	(54.3)	(66.4)	(22.9)	63.0	40.1
<b>Net result from continuing operations<sup>(3)</sup></b>		<b>88.4</b>	<b>(33.3)</b>	<b>55.1</b>	<b>96.4</b>	<b>(291.0)</b>	<b>(194.6)</b>
<b>Net result from discontinued operations</b>	5.4	<b>16.7</b>	<b>7.4</b>	<b>24.1</b>	<b>21.2</b>	<b>15.5</b>	<b>36.7</b>
<b>Profit/(loss) for the period</b>		<b>105.1</b>	<b>(25.9)</b>	<b>79.2</b>	<b>117.6</b>	<b>(275.5)</b>	<b>(157.9)</b>
Attributable to:							
Owners of the Parent Company		105.6	(25.9)	79.7	117.6	(275.5)	(157.9)
Non-controlling interests		(0.5)	–	(0.5)	–	–	–
<b>Earnings/(loss) per share:</b>		<b>Pence</b>		<b>Pence</b>	<b>Pence</b>		<b>Pence</b>
<b>For net result from continuing operations attributable to the owners of the Parent Company</b>							
– Basic	2.8	22.3		13.9	24.3		(49.0)
– Diluted	2.8	21.5		13.5	23.8		(49.0)
<b>For net result for the period attributable to the owners of the Parent Company</b>							
– Basic	2.8	26.5		20.0	29.6		(39.8)
– Diluted	2.8	25.6		19.3	29.0		(39.8)

#### Notes:

- (1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. See note 2.7 for further details.
- (2) The 2020 comparatives have been re-presented with £1.0 million of costs previously presented in an acquisition and restructuring line, now being presented within Operating and administrative costs.
- (3) Net result from continuing operations of £88.4 million is inclusive of £(0.5) million attributable to non-controlling interests.

## Consolidated statement of comprehensive income

	Notes	Years ended 31 December	
		2021 £m	2020 £m
<b>Profit/(loss) for the period</b>		<b>79.2</b>	<b>(157.9)</b>
<b>Items that will not be subsequently reclassified to profit or loss:</b>			
Remeasurement of Defined benefit pension scheme	6.3	<b>30.7</b>	1.4
Deferred tax on remeasurement of Defined benefit pension scheme	2.6	<b>(7.2)</b>	(0.3)
Deferred tax on share-based payments	2.6	<b>5.4</b>	–
Net fair value gains on cost of hedging	7.4	<b>17.3</b>	53.3
Deferred tax on cost of hedging	2.6	<b>(7.7)</b>	(11.7)
Net fair value gains/(losses) on cash flow hedges	7.3	<b>1.1</b>	(33.0)
Deferred tax on cash flow hedges	2.6	<b>3.6</b>	5.1
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Exchange differences on translation of foreign operations	4.5	<b>8.7</b>	(9.3)
Exchange differences on translation of foreign operations attributable to NCI		<b>(2.6)</b>	–
Net fair value losses on cash flow hedges	7.3	<b>(182.0)</b>	(38.4)
Net gains/(losses) on cash flow hedges reclassified to the income statement	7.3	<b>12.6</b>	(35.7)
Deferred tax on cash flow hedges	2.6	<b>37.6</b>	12.3
<b>Other comprehensive expense</b>		<b>(82.5)</b>	(56.3)
<b>Total comprehensive expense for the year</b>		<b>(3.3)</b>	(214.2)
<b>Attributable to:</b>			
Owners of the Parent Company		<b>(0.2)</b>	(214.2)
Non-controlling interests		<b>(3.1)</b>	–

## Consolidated balance sheet

	Notes	As at 31 December	
		2021 £m	2020 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	5.2	416.3	248.2
Intangible assets	5.2	188.6	181.8
Property, plant and equipment	3.1	2,310.7	1,941.1
Right-of-use assets	3.2	119.8	29.0
Other fixed asset investments		5.5	1.5
Retirement benefit surplus	6.3	48.9	9.5
Deferred tax assets	2.6	28.7	65.3
Derivative financial instruments	7.1	357.5	103.8
		<b>3,476.0</b>	<b>2,580.2</b>
<b>Current assets</b>			
Inventories	3.4	199.1	208.2
ROC assets	3.3	301.4	139.6
Trade and other receivables and contract-related assets	3.5	641.9	525.3
Derivative financial instruments	7.1	888.6	179.5
Current tax assets		-	9.0
Cash and cash equivalents	4.1	317.4	289.8
Assets held for sale	5.4	-	261.3
		<b>2,348.4</b>	<b>1,612.7</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables and contract-related liabilities	3.7	(1,211.1)	(907.0)
Lease liabilities	3.2	(15.1)	(7.0)
Current tax liabilities		(3.4)	-
Borrowings	4.2	(40.6)	-
Derivative financial instruments	7.1	(962.7)	(311.5)
Liabilities directly associated with the assets held for sale	5.4	-	(82.5)
		<b>(2,232.9)</b>	<b>(1,308.0)</b>
<b>Net current assets</b>		<b>115.5</b>	<b>304.7</b>
<b>Non-current liabilities</b>			
Borrowings	4.2	(1,320.4)	(1,065.7)
Lease liabilities	3.2	(110.8)	(23.2)
Derivative financial instruments	7.1	(541.8)	(142.1)
Provisions	5.3	(86.4)	(91.2)
Deferred tax liabilities	2.6	(225.3)	(222.0)
Retirement benefit obligation	6.3	-	(1.3)
		<b>(2,284.7)</b>	<b>(1,545.5)</b>
<b>Net assets</b>		<b>1,306.8</b>	<b>1,339.4</b>
<b>Shareholders' equity</b>			
Issued equity	4.5	47.7	47.5
Share premium	4.5	432.2	430.0
Hedge reserve	7.3	(177.4)	(76.0)
Cost of hedging reserve	7.4	78.5	87.2
Other reserves	4.5	706.0	697.3
Retained profits	2.10	198.3	153.4
<b>Total equity attributable to the owners of the Parent Company</b>		<b>1,285.3</b>	<b>1,339.4</b>
Non-controlling interest	4.6	21.5	-
<b>Total shareholders' equity</b>		<b>1,306.8</b>	<b>1,339.4</b>

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 23 February 2022.

Signed on behalf of the Board of directors:

Andy Skelton  
CFO

Section 1: Consolidated financial statements continued

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Non-controlling interests £m	Total £m
<b>At 1 January 2020</b>	<b>47.4</b>	<b>429.6</b>	<b>121.5</b>	<b>40.8</b>	<b>706.6</b>	<b>369.7</b>	<b>-</b>	<b>1,715.6</b>
Loss for the year	-	-	-	-	-	(157.9)	-	(157.9)
Other comprehensive (expense)/income	-	-	(89.7)	41.6	(9.3)	1.1	-	(56.3)
<b>Total comprehensive (expense)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(89.7)</b>	<b>41.6</b>	<b>(9.3)</b>	<b>(156.8)</b>	<b>-</b>	<b>(214.2)</b>
Equity dividends paid (note 2.9)	-	-	-	-	-	(64.7)	-	(64.7)
Issue of share capital (note 4.5)	0.1	0.4	-	-	-	-	-	0.5
<b>Total transactions with the owners</b>	<b>0.1</b>	<b>0.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64.7)</b>	<b>-</b>	<b>(64.2)</b>
Movements on cash flow hedges released directly from equity	-	-	(133.1)	-	-	-	-	(133.1)
Deferred tax on cash flow hedges released directly from equity	-	-	25.3	-	-	-	-	25.3
Movements on cost of hedging released directly from equity	-	-	-	5.2	-	-	-	5.2
Deferred tax on cost of hedging released directly from equity	-	-	-	(0.4)	-	-	-	(0.4)
Movement in equity associated with share-based payments (note 6.2)	-	-	-	-	-	5.2	-	5.2
<b>At 31 December 2020</b>	<b>47.5</b>	<b>430.0</b>	<b>(76.0)</b>	<b>87.2</b>	<b>697.3</b>	<b>153.4</b>	<b>-</b>	<b>1,339.4</b>
Profit/(loss) for the year	-	-	-	-	-	79.7	(0.5)	79.2
Other comprehensive (expense)/income	-	-	(127.1)	9.6	8.7	28.9	(2.6)	(82.5)
<b>Total comprehensive (expense)/income for the year</b>	<b>-</b>	<b>-</b>	<b>(127.1)</b>	<b>9.6</b>	<b>8.7</b>	<b>108.6</b>	<b>(3.1)</b>	<b>(3.3)</b>
Equity dividends paid (note 2.9)	-	-	-	-	-	(70.9)	-	(70.9)
Issue of share capital (note 4.5)	0.2	2.2	-	-	-	-	-	2.4
Acquisition of subsidiary with NCI (note 5.1)	-	-	-	-	-	-	39.6	39.6
Investment of NCI	-	-	-	-	-	-	6.5	6.5
Transactions with NCI	-	-	-	-	-	(0.2)	(21.5)	(21.7)
<b>Total transactions with the owners in their capacity as owner</b>	<b>0.2</b>	<b>2.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(71.1)</b>	<b>24.6</b>	<b>(44.1)</b>
Movements on cash flow hedges released directly from equity	-	-	33.2	-	-	-	-	33.2
Deferred tax on cash flow hedges released directly from equity	-	-	(7.5)	-	-	-	-	(7.5)
Movements on cost of hedging released directly from equity	-	-	-	(23.7)	-	-	-	(23.7)
Deferred tax on cost of hedging released directly from equity	-	-	-	5.4	-	-	-	5.4
Movement in equity associated with share-based payments (note 6.2)	-	-	-	-	-	7.4	-	7.4
<b>At 31 December 2021</b>	<b>47.7</b>	<b>432.2</b>	<b>(177.4)</b>	<b>78.5</b>	<b>706.0</b>	<b>198.3</b>	<b>21.5</b>	<b>1,306.8</b>

## Consolidated cash flow statement

	Notes	Years ended 31 December	
		2021 £m	2020 £m
<b>Cash generated from operations</b>	4.4	<b>354.5</b>	413.4
Income taxes refunded/(paid)		12.4	(48.3)
Interest paid		(60.5)	(59.2)
Interest received		0.1	0.3
<b>Net cash from operating activities</b>		<b>306.5</b>	306.2
<b>Made up of:</b>			
<b>Net cash from continuing operating activities</b>		<b>322.9</b>	269.7
<b>Net cash from discontinued operating activities</b>		<b>(16.4)</b>	36.5
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(191.0)	(163.8)
Purchases of intangible assets		(18.7)	(10.6)
Proceeds from the sale of property, plant and equipment		0.7	1.6
Proceeds from the sale of other fixed asset investment		-	1.5
Acquisition of subsidiaries net of cash acquired	5.1	(203.5)	-
Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		183.7	-
<b>Net cash used in investing activities</b>		<b>(228.8)</b>	(171.3)
<b>Made up of:</b>			
<b>Net cash used in continuing investing activities</b>		<b>(412.5)</b>	(134.8)
<b>Net cash used in discontinued investing activities</b>		<b>183.7</b>	(36.5)
<b>Cash flows from financing activities</b>			
Equity dividends paid	2.9	(70.9)	(64.7)
Investment of NCI		6.5	-
Acquisition of additional shares from NCI		(21.5)	-
Proceeds from issue of share capital		2.4	0.5
New borrowings drawn down	4.2	302.6	298.9
Repayment of other borrowings	4.2	(256.3)	(475.0)
Payment of principal on lease liabilities		(13.2)	(8.8)
<b>Net cash absorbed by financing activities</b>		<b>(50.4)</b>	(249.1)
<b>Made up of:</b>			
<b>Net cash absorbed by continuing financing activities</b>		<b>(50.4)</b>	(249.1)
<b>Net cash absorbed by discontinued financing activities</b>		<b>-</b>	-
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>27.3</b>	(114.2)
Cash and cash equivalents at 1 January		289.8	404.1
Effect of changes in foreign exchange rates		0.3	(0.1)
<b>Cash and cash equivalents at 31 December</b>	4.1	<b>317.4</b>	289.8

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flow as part of the disclosure provided in note 4.4. Further details of the cash flow impact of exceptional items can be found in note 2.7.

## Section 2: Financial performance

The Financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of the Group's businesses (see note 2.1), analysis of certain income statement items (notes 2.2–2.6) and information regarding the Adjusted and Total Results, dividends and distributable profits (notes 2.7–2.10). Further commentary on the Group's trading and operational performance during the year, which is predominantly reflected in Adjusted EBITDA, can be found in the Strategic report on pages 1 to 93, with particular reference to key transactions and market conditions that have affected the results.

### 2.1 Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central corporate office providing certain specialist and shared functions. The Group's businesses, which each represent a reportable segment are:

- Generation: power generation activities in the UK;
- Customers: supply of electricity and gas to business customers in the UK; and
- Pellet Production: production and sale of sustainable compressed wood pellets at our processing facilities in the US and Canada.

Pellet Production includes the financial results of Pinnacle Renewable Energy Inc. (Pinnacle) from the date of acquisition on 13 April 2021. Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three segments. The primary measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA (as defined in the basis of preparation).

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Corporate office costs are included within central costs.

When defining gross profit within the financial statements, the Group follows the principal trading considerations applied by its Generation, Customers and Pellet Production businesses when making a sale. In respect of Generation, this reflects the direct costs of the commodities to generate the power (such as biomass, coal, and carbon, or power purchased) and the relevant grid connection costs that arise. In respect of Customers, this reflects the direct costs of supply; being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms. In respect of the Pellet Production business, this reflects the direct costs of production, being the fibre, fuel and drying costs, in addition to direct freight and port costs.

Accordingly, cost of sales excludes depreciation, presented separately on the face of the income statement, indirect overheads and staff costs. See note 3.4 for details of the cost included in inventories.

#### Seasonality of trading

The primary activities of the Group are affected by seasonality. Demand in the UK for electricity and gas is typically higher in the winter period (October to March) when temperatures are lower, and thus drives higher prices and dispatch. Conversely, demand is typically lower in the summer months (April to September), when prices are lower.

This trend is experienced by all of our UK-based businesses, as they operate within the UK electricity and gas markets and is most notable within the Generation business due to its scale and the flexible operation of thermal generation plant when prices may be lower in the summer.

The Pellet Production business incurs certain costs that are higher in winter months due to the effects of inclement weather. Production volumes and margins are typically higher in the summer months. The business is protected from demand fluctuations as a result of seasonality by regular production and dispatch schedules under its contracts with customers, both intra-group and externally.



## 2.1 Segmental reporting continued

### Segment revenues and results

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2021. The Board monitors the Adjusted Results for the Group by reportable operating segment as presented in the tables below. The financial information in these tables is comprised solely of results from continuing operations. The Adjusted profit before tax from discontinued operations of £20.3 million (2020: £26.0 million) is attributable entirely to the Generation segment and is described in further detail in note 5.4. Segment Adjusted EBITDA is presented in note 2.7.

Year ended 31 December 2021

	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
<b>Revenue</b>								
External sales	2,651.2	2,359.6	163.1	-	-	5,173.9	(85.9)	5,088.0
Inter-segment sales	2,031.1	-	286.7	-	(2,317.8)	-	-	-
<b>Total revenue</b>	<b>4,682.3</b>	<b>2,359.6</b>	<b>449.8</b>	<b>-</b>	<b>(2,317.8)</b>	<b>5,173.9</b>	<b>(85.9)</b>	<b>5,088.0</b>
Cost of sales	(4,131.9)	(2,255.9)	(267.0)	-	2,323.7	(4,331.1)	134.3	(4,196.8)
<b>Segment gross profit</b>	<b>550.4</b>	<b>103.7</b>	<b>182.8</b>	<b>-</b>	<b>5.9</b>	<b>842.8</b>	<b>48.4</b>	<b>891.2</b>
Operating and administrative expenses	(198.9)	(81.7)	(96.9)	(70.9)	-	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	-	(16.3)	-	-	-	(16.3)	-	(16.3)
Depreciation and amortisation	(103.4)	(30.5)	(61.4)	(3.6)	-	(198.9)	(0.5)	(199.4)
Income from associates	-	-	0.3	-	-	0.3	-	0.3
Losses on disposal of fixed assets	(7.8)	(0.4)	(1.0)	(0.2)	-	(9.4)	-	(9.4)
<b>Operating profit/(loss)</b>	<b>240.3</b>	<b>(25.2)</b>	<b>23.8</b>	<b>(74.7)</b>	<b>5.9</b>	<b>170.1</b>	<b>26.4</b>	<b>196.5</b>
Foreign exchange gains/(losses)	2.0	(0.1)	(0.8)	(0.2)	-	0.9	(5.1)	(4.2)
Net interest charge	(4.4)	(5.6)	(19.6)	(40.9)	-	(70.5)	(0.3)	(70.8)
<b>Profit/(loss) before tax</b>	<b>237.9</b>	<b>(30.9)</b>	<b>3.4</b>	<b>(115.8)</b>	<b>5.9</b>	<b>100.5</b>	<b>21.0</b>	<b>121.5</b>

The segmental split of exceptional items and certain remeasurements are set out in note 2.7.

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2020:

Year ended 31 December 2020

	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
<b>Revenue</b>								
External sales	2,115.7	2,119.3	-	-	-	4,235.0	9.7	4,244.7
Inter-segment sales	1,530.1	-	231.0	-	(1,761.1)	-	-	-
<b>Total revenue</b>	<b>3,645.8</b>	<b>2,119.3</b>	<b>231.0</b>	<b>-</b>	<b>(1,761.1)</b>	<b>4,235.0</b>	<b>9.7</b>	<b>4,244.7</b>
Cost of sales	(3,036.9)	(2,035.0)	(127.4)	-	1,764.5	(3,434.8)	(84.2)	(3,519.0)
<b>Segment gross profit</b>	<b>608.9</b>	<b>84.3</b>	<b>103.6</b>	<b>-</b>	<b>3.4</b>	<b>800.2</b>	<b>(74.5)</b>	<b>725.7</b>
Operating and administrative expenses	(209.0)	(80.1)	(51.9)	(50.0)	-	(391.0)	(31.0)	(422.0)
Impairment losses on financial assets	-	(43.1)	-	-	-	(43.1)	-	(43.1)
Depreciation and amortisation	(104.0)	(36.7)	(27.6)	(3.2)	-	(171.5)	-	(171.5)
Asset obsolescence charge	-	-	-	-	-	-	(239.3)	(239.3)
(Losses)/gains on disposal of fixed assets	(1.1)	0.8	(5.6)	-	-	(5.9)	-	(5.9)
<b>Operating profit/(loss)</b>	<b>294.8</b>	<b>(74.8)</b>	<b>18.5</b>	<b>(53.2)</b>	<b>3.4</b>	<b>188.7</b>	<b>(344.8)</b>	<b>(156.1)</b>
Foreign exchange gains/(losses)	1.2	(0.3)	-	(3.1)	-	(2.2)	(0.6)	(2.8)
Net interest charge	(2.9)	(6.6)	(12.8)	(44.9)	-	(67.2)	(8.6)	(75.8)
<b>Profit/(loss) before tax</b>	<b>293.1</b>	<b>(81.7)</b>	<b>5.7</b>	<b>(101.2)</b>	<b>3.4</b>	<b>119.3</b>	<b>(354.0)</b>	<b>(234.7)</b>

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements.

## Section 2: Financial performance continued

### 2.1 Segmental reporting continued

#### Capital expenditure by segment

Assets and working capital are monitored on a consolidated basis; however, spend on capital projects is monitored by operating segment.

	Additions to intangible assets		Additions to property, plant and equipment <sup>(1)</sup>	
	2021 £m	2020 £m	2021 £m	2020 £m
Generation	3.4	1.9	103.2	157.9
Customers	8.9	6.2	0.1	0.5
Pellet Production	8.2	–	108.6	58.5
Central	1.8	0.5	3.6	3.1
<b>Total</b>	<b>22.3</b>	<b>8.6</b>	<b>215.5</b>	<b>220.0</b>

Total cash outflows in relation to capital expenditure during the year for continuing and discontinued operations were £209.7 million (2020: £174.4<sup>(1)</sup> million). Capital expenditure excluding movements on decommissioning provisions was £237.8 million (2020: £199.7 million).

Note:  
(1) The difference between the cost capitalised and the cash flow in 2020 is predominantly a result of the recognition of the asset associated with the increase in the decommissioning provision in the year, a non-cash adjustment of £28.9 million (see note 5.3).

#### Intra-group trading

Intra-group transactions are carried out at management's best estimate of arm's-length, commercial terms that, where possible, equate to market prices. During 2021, the Pellet Production segment sold biomass pellets with a total value of £286.7 million (2020: £231.0 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £2,031.1 million (2020: £1,530.1 million) to the Customers segment.

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

#### Major customers

There was no individual customer that represented 10% or more of total revenue for the year ended 31 December 2021 (2020: consolidated revenue includes £495.2 million from one individual customer. These revenues arose in the Generation segment).

#### Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the Company's country of domicile. In presenting the geographic information, segment revenue has been based on the geographic location of customers and segment assets were based on the geographic location of the assets.

In prior years all of the Group's revenue was UK based and all non-current assets, excluding the Pellet Production plant assets (see note 3.1) which are located in North America, were all located in the UK. Since the acquisition of Pinnacle, the Group now has third party pellet sales to additional locations, as seen in the table below. Pinnacle's non-current assets are located in North America, in both the US and Canada.

	Revenue from continuing operations (based on location of customer) £m		Non-current assets <sup>(1)</sup> (based on asset's location) £m	
	31 December 2021 £m	31 December 2020 £m	31 December 2021 £m	31 December 2020 £m
North America	11.5	–	987.4	323.8
Europe	39.1	–	–	–
Asia	93.0	–	–	–
UK	4,944.4	4,244.7	2,053.5	2,077.8
<b>Total</b>	<b>5,088.0</b>	<b>4,244.7</b>	<b>3,040.9</b>	<b>2,401.6</b>

(1) Non-current assets comprise goodwill, intangible assets, PP&E, right-of-use assets and investments.

## 2.2 Revenue

### Accounting policy

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excludes transactions between Group companies. Revenue is presented gross in the income statement as the Group controls the specified good or service prior to the transfer to the customer.

Revenues from the sale of electricity by the Group's Generation business are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable. The performance obligations for these contracts are deemed to be a series of distinct goods that are substantially the same and transfer consecutively. Control is deemed to have passed to the customer at the point that the electricity has been supplied. The performance obligation is satisfied based on the output method; this method recognises revenue based on the value transferred to the customer. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied.

The Group recognises the income or costs arising from the Contract for Difference (CfD) (see below) in the Consolidated income statement as a component of revenue at the point the Group meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

Ancillary services derived from the provision of services to National Grid are recognised by reference to the stage of completion of the contractual performance obligations. Most such contracts are for the delivery of a service either continually or on an ad-hoc basis over a period of time and thus stage of completion is calculated by reference to the amount of the contract term that has elapsed. Depending on the contract terms, this approach may require judgement in estimating probable future outcomes.

Other income from power generation is derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum). This is recognised at the point the control of the goods is transferred to the customer, typically at the point of delivery to the customer's premises or collection by the customer.

Revenue from the sale of electricity and gas directly to business customers through the Customers business is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered. Energy supplied is measured based upon metered consumption and contractual rates; however, where a supply has taken place but is not yet measured or billed, the revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income. This estimate is not considered to be a key source of estimation uncertainty because historical experience has demonstrated that these estimates are materially accurate based on the subsequent billings and settlements.

Revenue on contracts for the sale of electricity and gas is satisfied over time and is recognised in line with the progress of those contracts. The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price customers contracts, and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can be variable, therefore actual outcomes may vary from initial estimates.

The Group is eligible for, and applies, the practical expedient available in IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations. The right to receive consideration from a customer is at an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

The Group produces biomass pellets. External pellet sales are recognised when the customer obtains control of the pellets which is generally at the point the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price for the pellets. For Cost, insurance and freight (CIF) sales, where freight is also arranged for the customer, this is considered a separate performance obligation and revenue from the freight portion is recognised over the period the vessel sails.

### CfD payments

The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index (CPI) and changes in system balancing costs. The strike price at 31 December 2021 was £118.54 per MWh.

When market prices (based on average traded prices in the preceding season) are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the generating unit supported by the CfD. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

## Section 2: Financial performance continued

### 2.2 Revenue continued

#### ROC sales

The generation and sale of Renewable Obligation Certificates (ROCs) is a key driver of the Group's financial performance. The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2021 the Group is operating in CP20.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with the UK Retail Price Index (RPI). The buy-out price in CP20 is £50.80. ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to suppliers who presented ROCs in a CP.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group made sales (and related purchases) of ROCs to help optimise its working capital position.

External sales of ROCs in the table below includes £339.8 million of such sales (2020: £495.2 million), with a similar value reflected in cost of sales. External ROC sales are recognised at the point the ROCs are transferred to the counterparty. See note 3.3 for further details of ROCs generated and sold by the Generation businesses and those utilised by the Customers business in the year.

Further analysis of revenue for the year ended 31 December 2021 is provided in the table below. The financial information in these tables is comprised solely of results from continuing operations:

	Year ended 31 December 2021		
	External £m	Intra-group £m	Total £m
<b>Generation</b>			
Electricity sales	1,790.2	1,688.5	3,478.7
ROC sales	538.6	342.6	881.2
CfD income	234.9	–	234.9
Ancillary services	50.6	–	50.6
Other income	36.9	–	36.9
<b>Customers</b>			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
<b>Pellet Production</b>			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
<b>Elimination of intra-group sales</b>	–	(2,317.8)	(2,317.8)
<b>Total adjusted consolidated revenue</b>	<b>5,173.9</b>	<b>–</b>	<b>5,173.9</b>
Certain remeasurements	(85.9)	–	(85.9)
<b>Total consolidated revenue</b>	<b>5,088.0</b>	<b>–</b>	<b>5,088.0</b>

Certain remeasurements losses of £85.9 million (2020: gains of £9.7 million) are comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

Revenue recognised in the period that was included within contract liabilities at the start of the year was £5.4 million (2020: £13.3 million). See note 3.7 for further details on contract liabilities.

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil (2020: £nil).

## 2.2 Revenue continued

The following is an analysis of the Group's revenues for the year ended 31 December 2020:

	Year ended 31 December 2020		
	External £m	Intra-group £m	Total £m
<b>Generation</b>			
Electricity sales	1,049.2	1,156.3	2,205.5
ROC sales	650.2	373.8	1,024.0
CfD income	342.3	–	342.3
Ancillary services	36.4	–	36.4
Other income	37.6	–	37.6
<b>Customers</b>			
Electricity and gas sales	2,118.8	–	2,118.8
Other income	0.5	–	0.5
<b>Pellet Production</b>			
Pellet sales	–	231.0	231.0
<b>Elimination of intra-group sales</b>	–	(1,761.1)	(1,761.1)
<b>Total adjusted consolidated revenue</b>	4,235.0	–	4,235.0
Certain remeasurements	9.7	–	9.7
<b>Total consolidated revenue</b>	4,244.7	–	4,244.7

For accounting policies and other disclosures related to contract assets and liabilities, including a reconciliation between opening and closing balances, please see notes 3.5 and 3.7.

For accounting policies and other disclosures related to costs incurred to acquire customer contracts, please see note 3.6.

## 2.3 Operating expenses

This note sets out the material components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's auditor, Deloitte LLP, in respect of services they provided to the Group during the year:

	Years ended 31 December	
	2021 £m	2020 <sup>(1)</sup> £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	218.6	196.3
Repairs and maintenance expenditure on property, plant and equipment	109.1	100.1
Other operating and administrative expenses	142.2	125.6
<b>Total operating and administrative expenses</b>	<b>469.9</b>	<b>422.0</b>

(1) The 2020 comparatives have been represented with £1.0 million of costs previously presented in an acquisition and restructuring line, now being presented within Operating and administrative costs.

## Section 2: Financial performance continued

### 2.3 Operating expenses continued

#### Auditor's remuneration

	Years ended 31 December	
	2021 £'000	2020 £'000
<b>Audit fees:</b>		
Fees payable for the audit of the Group's consolidated financial statements	1,250.0	937.0
Fees payable for the audit of the Company's subsidiaries	40.0	38.0
	1,290.0	975.0
<b>Other fees:</b>		
Review of the Group's half-year condensed consolidated financial statements	110.0	98.0
Other services	–	2.0
<b>Total audit-related fees</b>	<b>1,400.0</b>	<b>1,075.0</b>
Other assurance services	469.0	226.0
<b>Total non-audit fees</b>	<b>469.0</b>	<b>226.0</b>
<b>Total auditor's remuneration</b>	<b>1,869.0</b>	<b>1,301.0</b>

The Group fee relates to the audit of all the subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries disclosed above.

Other assurance services provided by Deloitte LLP in 2021 consist of agreed upon procedures and other assurance services provided in connection with the acquisition of Pinnacle Renewable Energy Inc. (2020: assurance and agreed-upon procedures performed in connection with the bond refinancing in October 2020 and the proposed acquisition of Pinnacle Renewable Energy Inc.). See the Audit Committee report on page 118 for further details on other assurance services provided by Deloitte LLP.

### 2.4 Impairment review of fixed assets and goodwill

#### Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units (CGUs)) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment at least annually.

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's CGUs (or groups of CGUs) expected to benefit from the synergies or other benefits of the combination.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognised for goodwill is not reversed in a subsequent period. Non-financial assets other than goodwill that have an impairment loss recognised are reviewed in subsequent reporting periods for possible reversal of the impairment.

#### CGUs

In respect of the Customers business, the Group considers the smallest groups of assets that generate independent cash inflows to be equivalent to the operating entities within those businesses.

Prior to the acquisition of Pinnacle, the Pellet Production business was considered to consist of one CGU – DBI. As a result of the Pinnacle acquisition, the Group has assessed Pinnacle and deemed that the cash inflows across the Pinnacle plants are not independent from each other and therefore Pinnacle consists of one CGU. The Pellet Production business therefore now consists of two CGUs – DBI and Pinnacle. Goodwill recognised on the acquisition of Pinnacle has been allocated to the Pellet Production segment due to the pellet operations as a whole being expected to benefit from the synergies of the larger, combined pellet operations.

In respect of the Generation business, the Group generally considers the smallest groups of assets that generate independent cash inflows to be the individual sites that share common infrastructure and control functions. As described on page 12, following the decision to cease commercial coal generation at Drax Power Station in 2020, a review of CGUs at that site determined the site to be comprised of two separate CGUs, one for biomass generation assets and one for coal generation assets. Following this change the coal CGU was fully written down in the prior year. In January 2021 the Group disposed of its CCGT power stations (See note 5.4 for further details).

## 2.4 Impairment review of fixed assets and goodwill continued

The Central function does not have any external cash inflows and therefore does not meet the definition of a CGU and so is not included in the table below.

Segment name	CGUs contained within segment	Impairment indicators identified?	Goodwill £m
Generation	Drax Power Station (biomass)	N	–
	Lanark	N	11.3
	Galloway	N	40.1
	Cruachan	N	26.9
	OCGTs	N	–
Customers	Drax Energy Solutions (formerly Haven Power)	Y	10.7
	Opus Energy	Y	159.2
Pellet Production	Pinnacle and DBI	N	168.1

If an indication of potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the present value of the future cash flows expected to be derived from the continuing use of the asset or CGU (value in use), or the expected price that would be received to sell the asset to another market participant (fair value less costs to sell). The initial assessment of the recoverable amount is normally based on value in use.

The assessment of future cash flows is based on the approved long-term forecasts used to support the Board's strategic planning process and includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Future cash flows include, where relevant, contracted cash flows arising from the Group's cash flow hedging activities and as a result the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges. Assessments of future cash flows consider relevant environmental and climate factors. In particular, macro-economic, commodity price and third-party cost assumptions reflect considerations in respect of the impact of climate change, growth in renewable technologies, electrification and the impact of relevant policies on longer-term supply and demand profiles.

The additional value that could be obtained from enhancing the Group's assets is not reflected, nor the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to. In determining value in use, the estimate of future cash flows is discounted to present value using a rate reflecting the specific risks attributable to the CGU in question.

If the recoverable amount is less than the current carrying amount in the financial statements, a provision is made to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Impairment losses are recognised immediately in the Consolidated income statement.

### Assessment of indicators of impairment

A review of the Group's CGUs gave rise to an indicator of impairment for the two CGUs which comprise the Customers business unit due to the continuing adverse impacts of Covid-19 on their financial performance during 2021. As goodwill is attributed to both of these CGUs, an impairment review is performed annually.

In determining that no indicators of impairment existed in respect of the remaining CGUs, the Group considered changes in market prices for commodities, foreign currency exchange rates, changes in macro-economic conditions, potential impacts of climate change, Covid-19 and regulatory requirements since the previous balance sheet date, and the impact of such changes on the Group's long-term planning models and future forecast cash flows.

Particular consideration was given to assumptions regarding biomass generation and biomass prices post-2027, when current subsidies for biomass generation are due to expire. Forecasts indicated that the majority of the carrying amount of the Drax Power Station (biomass) CGU is supported by pre-2027 cash flows. Whilst the Group has a strategic imperative to reduce biomass prices over time, as part of a strategy to secure a long-term future for biomass generation, the long-term models that inform impairment conclusions are subjected to an additional sensitivity to identify the risk that biomass prices do not reduce significantly in the period up to and following the cessation of subsidies. Further consideration of biomass prices is included in the Strategic report on pages 1 to 93. Drax Power Station is viewed as having a useful life until 2039 at least and an expectation of continuing to be in operation until that time.

## 2.4 Impairment review of fixed assets and goodwill continued

### Goodwill impairment review

#### Pellet Production

The recoverable amount of the Pellet Production group of CGUs, consisting of the Pinnacle and DBI CGUs, was measured based on a value in use calculation. This calculation depends on a broad range of assumptions, the most significant of which are production costs and volumes. Estimates regarding these assumptions are based on management's expectations of future organic growth and lower costs. Management has projected cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36 to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes within the industry including climate change and the expected growth in the biomass industry as economies transition to more renewable forms of energy and net zero. Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro environmental factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the industry.

The carrying amounts and discount rates applied to the Pellet Production group of CGUs are set out in the table below:

Group of CGUs	Carrying Amount Em	Discount Rate
Pellet Production	967.1	8.5%

The discount rate of 8.5% was calculated based on independent analysis commissioned by the Group.

The value in use for the Pellet Production group of CGUs was significantly in excess of its carrying amount, including allocated goodwill, as disclosed in the table above. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than its carrying amount.

#### Drax Energy Solutions (formerly Haven Power) and Opus Energy

The recoverable amounts of the Drax Energy Solutions and Opus Energy CGUs are measured annually, based on a value in use calculation. This calculation depends on a broad range of assumptions, the most significant of which are customer margins and supply volumes. Estimates regarding these assumptions are based on management's expectations of future organic growth, wholesale energy and third-party costs and achieved profitability. Inherent in these assumptions are expectations about future energy prices, collection rates and supply costs. Management has projected cash flows based on a period of 15 years, reflecting consideration of aspects of the plan which are realised over a long-term horizon. This is longer than the five-year period specified by IAS 36 to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes within the industry including climate change, the transition to renewable forms of energy and net zero, and the impact of future changes in climate levies on energy supply. Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on prudent expectations of market share and profitability along with more general macro environmental factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the industry. These businesses are principally focused on renewable electricity sales and therefore consideration of climate and environmental impacts are already a key feature of their business models.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount Em	Discount Rate
Drax Energy Solutions	48.7	8.7%
Opus Energy	249.0	8.7%

The expected future cash flows of the Drax Energy Solutions CGU were discounted using a discount rate of 8.7%, calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Customers business. The Group believes that this rate reflects the prospects for a well-established Customers business, reflecting the comparatively long trading record and customer bases these businesses hold. The value in use of the Drax Energy Solutions CGU, including the goodwill, was significantly in excess of its carrying amount. Reflecting the significant headroom in the analysis, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Drax Energy Solutions CGU that was lower than its carrying amount.



## 2.4 Impairment review of fixed assets and goodwill continued

The carrying amount of the Opus Energy CGU at 31 December 2021 includes intangible assets of £89.0 million. Opus Energy's forecasted cash flows are adjusted to reflect the relative risk profile of its customer base. However Opus Energy is integrated and operating under the same central management team as Drax Energy Solutions. Opus Energy also operates in the same industry, under the same macro-economic conditions and is impacted by the same commodity prices and impacts of climate change as Drax Energy Solutions. Therefore the discount rate has been assessed at 8.7%, in line with that of Drax Energy Solutions. The recoverable amount of the Opus Energy CGU was assessed under several scenarios that reflect the Group's future plans for the business. In each case the recoverable amount remained in excess of its carrying amount assuming a recovery trajectory that returns to profitability following the impact of Covid-19.

The Group conducted a sensitivity analysis on the estimates of future cash flows for the Opus Energy CGU and concluded that no reasonable possible change in any of the key assumptions would result in the recoverable amount falling below its carrying amount.

### Lanark, Galloway and Cruachan

The Group tests the goodwill associated with the Lanark, Galloway and Cruachan CGUs for potential impairment annually. The recoverable amount of each CGU was calculated based on a value in use calculation using the Group's established planning model. The model depends on a broad range of assumptions, the most significant of which are power prices, operating model, sources of stability income and the discount rate applied. Estimates regarding these assumptions are based on management's expectations of future wholesale energy prices, operational factors and ongoing capital investment required to maintain the assets. Management has projected cash flows based on the period of 15 years. This is longer than the five-year period specified by IAS 36 to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes within the industry including climate change and the continued transition to renewable forms of energy and net zero carbon initiatives. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on macro-environmental factors which were obtained from publicly available forecasts and does not exceed the relevant long-term average growth rate for the industry.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount £m	Discount Rate
Lanark	52.7	7.3%
Galloway	178.3	7.3%
Cruachan	297.7	7.3%

The discount rates were calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Generation business.

The value in use for the Lanark CGU and Cruachan CGU in the table above, including allocated goodwill, were significantly in excess of their carrying amount. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than their carrying amount.

The nature of the run-of-river assets and the application of fair value accounting on acquisition in 2018 results in a limited level of headroom for the Galloway CGU of £41 million. The value in use calculation for Galloway is sensitive to the discount rate applied. An increase in the discount rate of 1.1% would significantly reduce the headroom, and therefore in combination with very minor changes to other inputs, could result in a recoverable amount that was materially lower than the carrying amount for the Galloway CGU. Having conducted a sensitivity analysis of all key assumptions, apart from the Galloway discount rate, no other reasonably possible changes that would result in the elimination of all headroom were identified.

### Development assets impairment review

The development assets arose on the acquisition of four OCGT projects in December 2016 and reflect the value of planning and consents. Full impairment reviews have been performed on these assets in prior years.

In 2021, three of these OCGT projects obtained Capacity Market contracts for the delivery period October 2024 to September 2039, providing increased certainty over future cash flows over this period to the Group. As such these three OCGT projects no longer have any impairment indicators. These three projects continue to progress to enable them to be operational by 2024. Therefore the three development assets have been transferred to property, plant and equipment during the year and will be depreciated over the expected life of the OCGTs once construction of these projects has been completed and the assets are available for use. The development asset relating to the OCGT which is yet to take a contract is immaterial. The Group is confident of obtaining a Capacity Market contract for this project in a future auction.

## Section 2: Financial performance continued

### 2.5 Net finance costs

Finance costs reflect expenses incurred in managing the debt structure (such as interest payable on bonds) as well as foreign exchange gains and losses, the unwinding of discounts on provisions for reinstatement of the Group's sites at the end of their useful lives (see note 5.3), net interest charged on the Group's defined benefit pension scheme obligations (see note 6.3) and lease liabilities (see note 3.2). These are offset by interest income that the Group generates through efficient use of short-term cash surpluses, for example through investment in money market funds.

#### Refinancing activity in 2021

Changes in the Group's financing structure during 2021 are described in note 4.2.

A reconciliation of Net finance costs is in the table below:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Interest payable and similar charges:</b>		
Interest payable on borrowings measured at amortised cost	(59.2)	(57.1)
Interest on lease liabilities	(4.9)	(1.0)
Unwinding of discount on provisions	(0.6)	(0.4)
Amortisation of deferred finance costs – excluding amounts identified below	(5.7)	(5.9)
Other financing charges	(0.5)	(3.3)
<b>Total interest payable and similar charges included in adjusted results</b>	<b>(70.9)</b>	<b>(67.7)</b>
<b>Interest receivable:</b>		
Interest income on bank deposits	0.1	0.2
Net finance credit in respect of defined benefit scheme (note 6.3)	0.3	0.3
<b>Total interest receivable included in adjusted results</b>	<b>0.4</b>	<b>0.5</b>
<b>Foreign exchange gains/(losses) included in adjusted results</b>	<b>0.9</b>	<b>(2.2)</b>
<b>Total recurring net finance costs included in adjusted results</b>	<b>(69.6)</b>	<b>(69.4)</b>
<b>Exceptional costs of debt restructure:</b>		
Fees to exit existing facilities (note 4.3)	–	(3.8)
Acceleration of deferred costs in relation to previous facilities	–	(4.8)
<b>Total exceptional costs of debt restructure</b>	<b>–</b>	<b>(8.6)</b>
Certain remeasurements on financing derivatives	(5.4)	(0.6)
<b>Total net finance costs</b>	<b>(75.0)</b>	<b>(78.6)</b>

Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the balance sheet date.

## 2.6 Current and deferred taxation

The tax charge includes both current and deferred tax. The tax charge reflects the estimated effective tax on the profit before tax for the Group for the year ended 31 December 2021 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement.

### Accounting policy

Current tax includes UK corporation tax, corporate income tax in Canada and US income tax. It is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit or loss before tax as reported in the Consolidated income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable or deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A provision is made for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases, based on specialist independent tax advice. No uncertain tax provisions have been recognised in the current or prior year.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred taxes are recognised in other comprehensive income or directly in equity respectively.

The Group has utilised the relief available under the research and development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants, in line with IAS 20 Government Grants and are recorded in operating profit within the Consolidated income statement, with the corresponding receivable being offset against corporation tax payable.

In accounting for taxation, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end unless future rates have been substantively enacted. Deferred tax assets are recognised where it is considered more likely than not that they will be recovered.

	Years ended 31 December	
	2021 £m	2020 £m
<b>Total tax charge/(credit) from continuing operations comprises:</b>		
Current tax		
– Current year	7.7	11.2
– Adjustments in respect of prior periods	1.4	(12.3)
Deferred tax		
– Before impact of tax rate changes	7.3	(62.4)
– Adjustments in respect of prior periods	1.0	5.3
– Effect of changes in tax rate	49.0	18.1
	<b>66.4</b>	<b>(40.1)</b>

	Years ended 31 December	
	2021 £m	2020 £m
<b>Tax charged/(credited) on items recognised in other comprehensive income:</b>		
Deferred tax on remeasurement of defined benefit pension scheme	7.2	0.3
Deferred tax on share-based payments	(5.4)	–
Deferred tax on cash flow hedges	(41.2)	(17.4)
Deferred tax on cost of hedging	7.7	11.7
	<b>(31.7)</b>	<b>(5.4)</b>

## Section 2: Financial performance continued

### 2.6 Current and deferred taxation continued

	Years ended 31 December	
	2021 £m	2020 £m
<b>Tax charged/(credited) on items released directly from equity:</b>		
Deferred tax on cost of hedging	(5.4)	0.4
Deferred tax on cash flow hedges	7.5	(25.3)
	2.1	(24.9)

UK corporation tax is the main tax for the Group and is calculated at 19% (2020: 19%) of the assessable profit or loss for the year. Due to the Group's overseas operations the federal tax rates in the US of 21% (2020: 21%) and the corporate tax rate in Canada of 27% (2020: not relevant to the Group) are also relevant to the Group's tax charge.

No tax charge or credit arose on the disposal of Drax Generation Enterprise Ltd as the gain arising from the disposal was exempt from tax by virtue of the substantial shareholding exemption.

The tax rate for the full year, before the impact of changes in tax rates, is lower than the standard corporation tax rate applicable in the UK, principally due to the tax benefit arising from UK Patent Box claims and the new super-deduction introduced in the Finance Act 2021, which allows for a 130% in-year deduction for tax purposes against the cost of qualifying capital expenditure on plant and machinery incurred from April 2021.

The Finance Act 2021 contains legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Management has therefore remeasured the deferred tax assets and liabilities at this higher rate of tax where these are expected to be realised or settled on or after 1 April 2023. The impact of this rate increase is a net £49.0 million deferred tax charge through the Total column of the Consolidated income statement (2020: 17% to 19% rate increase resulting in a net £18.1 million charge).

Drax completed the acquisition of Pinnacle Renewable Energy Inc. on 13 April 2021. The Group tax charge above includes the tax charge in respect of the results of the Pinnacle Group for the period under Drax ownership.

The Group tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
<b>Profit/(loss) before tax from continuing operations</b>	<b>100.5</b>	<b>21.0</b>	<b>121.5</b>	119.3	(354.0)	(234.7)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2020: 19%)	19.2	4.0	23.2	22.6	(67.3)	(44.7)
<b>Effects of:</b>						
Adjustments in respect of prior periods	2.4	–	2.4	(7.0)	–	(7.0)
Expenses not deductible for tax purposes	2.8	1.7	4.5	2.5	–	2.5
Effect of changes in tax rate	0.4	48.6	49.0	13.8	4.3	18.1
Difference in overseas tax rates	(1.1)	–	(1.1)	0.1	–	0.1
Patent box benefit	(8.0)	–	(8.0)	(8.0)	–	(8.0)
Tax effect of RDEC credit	(0.9)	–	(0.9)	(1.1)	–	(1.1)
UK super-deduction	(2.7)	–	(2.7)	–	–	–
<b>Total tax charge/(credit)</b>	<b>12.1</b>	<b>54.3</b>	<b>66.4</b>	22.9	(63.0)	(40.1)

In the medium term, the Group anticipates that the underlying effective tax rate will be marginally lower than the main rate of corporation tax in the UK. This is principally due to tax relief arising from the UK Patent Box regime (see below) and the UK capital allowances super-deduction (applicable FY21-FY23). These benefits are partially offset by US federal tax rates of 21% and the Canadian corporate income tax rate of 27%.

Drax Power was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation the Company is entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of the patented technology.

## 2.6 Current and deferred taxation continued

The movements in deferred tax assets and liabilities during each year are shown below.

	Financial instruments £m	Accelerated capital allowances £m	Non-trade losses £m	Intangible assets £m	Trade losses £m	Other liabilities £m	Other assets £m	Total £m
<b>At 1 January 2020</b>	(26.7)	(194.6)	1.7	(20.1)	27.5	(27.5)	16.1	(223.6)
Credited to the income statement	9.1	13.0	0.6	4.4	6.7	4.2	1.0	39.0
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(0.3)	(0.3)
Credited to other comprehensive income in respect of cash flow hedges	17.4	–	–	–	–	–	–	17.4
Charged to other comprehensive income in respect of cost of hedging	(11.7)	–	–	–	–	–	–	(11.7)
Credited to equity in respect of cash flow hedges	25.3	–	–	–	–	–	–	25.3
Charged to equity in respect of cost of hedging	(0.4)	–	–	–	–	–	–	(0.4)
Effect of changes in foreign exchange rates	–	–	–	–	(0.7)	–	(0.3)	(1.0)
Transferred to liabilities held for sale	–	(1.4)	–	–	–	–	–	(1.4)
<b>At 1 January 2021</b>	<b>13.0</b>	<b>(183.0)</b>	<b>2.3</b>	<b>(15.7)</b>	<b>33.5</b>	<b>(23.3)</b>	<b>16.5</b>	<b>(156.7)</b>
(Charged)/credited to the income statement	(5.6)	(64.4)	–	(3.5)	11.7	5.4	(0.9)	(57.3)
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(7.2)	(7.2)
Credited to other comprehensive income in respect of share-based payments	–	–	–	–	–	–	5.4	5.4
Credited to other comprehensive income in respect of cash flow hedges	41.2	–	–	–	–	–	–	41.2
Charged to other comprehensive income in respect of cost of hedging	(7.7)	–	–	–	–	–	–	(7.7)
Charged to equity in respect of cash flow hedges	(7.5)	–	–	–	–	–	–	(7.5)
Credited to equity in respect of cost of hedging	5.4	–	–	–	–	–	–	5.4
Impact of acquisition	–	(44.7)	–	(0.6)	14.4	(0.8)	19.6	(12.1)
Effect of changes in foreign exchange rates	–	(0.5)	–	(0.1)	0.4	–	0.1	(0.1)
<b>At 31 December 2021</b>	<b>38.8</b>	<b>(292.6)</b>	<b>2.3</b>	<b>(19.9)</b>	<b>60.0</b>	<b>(18.7)</b>	<b>33.5</b>	<b>(196.6)</b>
<b>Deferred tax balances (after offset) for financial reporting purposes:</b>								
Net Canadian deferred tax asset	–	(38.1)	–	(0.2)	17.5	(0.4)	26.6	5.4
Net US deferred tax asset	–	(27.6)	–	–	42.5	(0.3)	8.7	23.3
Net UK deferred tax liability	38.8	(226.9)	2.3	(19.7)	–	(18.0)	(1.8)	(225.3)

## Section 2: Financial performance continued

### 2.6 Current and deferred taxation continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, otherwise they are shown separately in the balance sheet. Within the above trade losses deferred tax asset of £60.0 million there is £36.5 million (2020: £33.5 million) in relation to start-up losses in the US business. The remaining £23.5 million relates to Pinnacle US (£6.0 million) and Pinnacle Canada (£17.5 million) acquired during the year.

The US business is profitable at a profit before tax level in 2021 and as a result, the net deferred tax asset has reduced by £3.7 million in 2021. As a result of deductions for accelerated capital allowances and other timing differences, the US business is expected to report a loss for tax purposes for 2021. The Canadian business generated a small loss before tax in 2021.

The future reversal of timing differences and the expected reversal of accelerated capital allowances, coupled with the profitability, stable output and forecast improvement in operational performance, mean that the Canadian and US businesses anticipate that they will generate sufficient profits in the medium term against which to utilise the deferred tax asset.

### 2.7 Alternative performance measures

See the APMs Glossary table to these financial statements on page 286 for details of all APMs used, the APMs closest IFRS equivalent, the reason why the APM is used by the Group and a definition of how each APM is calculated.

The Group presents Adjusted Results in the Consolidated income statement. The Directors believe that this approach is useful and provides a clear and consistent view of underlying trading performance. Certain remeasurements and exceptional items are excluded from Adjusted Results and presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.

The Group has a policy and framework for the determination of transactions as exceptional. All transactions presented as exceptional are also approved by the Audit Committee. See the Audit Committee Report on page 116 for further details. In these financial statements, the following transactions have been designated as exceptional items and presented separately:

- Costs associated with the acquisition and integration of Pinnacle Renewable Energy Inc. (2021 and 2020, Pellet production)
- The restructuring of the Customers business (2021, Customers).
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation (2021 and 2020, Generation).
- Tax rate change (2021, all segments).
- Costs incurred as a result of restructuring the Group's debt in 2020, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities (2020, Central).
- Asset obsolescence charges relating to coal-specific assets written-off following the decision to cease commercial coal generation in March 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station (2020, Generation).

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices – i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better reflect the trading performance of the Group in Adjusted Results.

## 2.7 Alternative performance measures continued

	Years ended 31 December	
	2021 £m	2020 £m
<b>Exceptional items:</b>		
Inventory provision as a result of coal closure	(0.3)	(4.8)
Acquisition costs	(7.9)	(1.0)
Restructuring costs	(5.2)	–
Integration costs	(4.1)	–
Coal closure costs	(4.8)	(30.0)
Asset obsolescence charges	–	(239.3)
<b>Exceptional items included within operating profit</b>	<b>(22.3)</b>	<b>(275.1)</b>
Cost of debt restructure (note 2.5)	–	(8.6)
<b>Exceptional items included in profit before tax</b>	<b>(22.3)</b>	<b>(283.7)</b>
<b>Taxation on Exceptional items</b>	<b>(46.1)</b>	<b>48.6</b>
<b>Exceptional items after taxation</b>	<b>(68.4)</b>	<b>(235.1)</b>
<b>Remeasurements:</b>		
Net fair value remeasurements on derivative contracts included in revenue	(77.0)	8.7
Net remeasurements realised on maturity of derivative contracts included in revenue	(8.9)	1.0
Net fair value remeasurements on derivative contracts included in cost of sales	36.6	(46.6)
Net remeasurements realised on maturity of derivative contracts included in cost of sales	98.0	(28.2)
Net remeasurements reclassified to profit or loss on discontinued hedges included in cost of sales	–	(4.6)
<b>Remeasurements included within operating profit</b>	<b>48.7</b>	<b>(69.7)</b>
Net fair value remeasurements on derivative contracts included in Interest payable and similar charges	(0.3)	–
Net fair value remeasurements on derivative contracts included in Foreign exchange gains/(losses)	(5.1)	(0.6)
<b>Remeasurements included in profit before tax</b>	<b>43.3</b>	<b>(70.3)</b>
Taxation on certain remeasurements	(8.2)	14.4
<b>Remeasurements after taxation</b>	<b>35.1</b>	<b>(55.9)</b>
<b>Reconciliation:</b>		
<b>Adjusted net result from continuing operations</b>	<b>88.4</b>	<b>96.4</b>
Exceptional items after tax	(68.4)	(235.1)
Remeasurements after tax	35.1	(55.9)
<b>Profit/(loss) after tax</b>	<b>55.1</b>	<b>(194.6)</b>

Asset obsolescence charges in the table above is comprised of:

	2021 £m	2020 £m
Asset obsolescence charges for property, plant and equipment due to coal closure	–	225.1
Asset obsolescence charges for intangible assets due to coal closure	–	0.8
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	–	13.4
<b>Total asset obsolescence charges</b>	<b>–</b>	<b>239.3</b>

## Section 2: Financial performance continued

### 2.7 Alternative performance measures continued

Adjusted EBITDA, Adjusted profit after tax and Total profit after tax are key measures of profitability for the Group but, as a result of discontinued operations, are not visible on the face of the income statement. Therefore, a reconciliation is provided below:

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m
Continuing operations	377.9	88.4	55.1	366.1	96.4	(194.6)
Discontinued operations	20.3	16.7	24.1	45.9	21.2	36.7
<b>Total</b>	<b>398.2</b>	<b>105.1</b>	<b>79.2</b>	<b>412.0</b>	<b>117.6</b>	<b>(157.9)</b>

For each item designated as exceptional the table below summarises the impact of the item on the Adjusted results and the tax charge from continuing operations, and the total cash flow from continuing and discontinued operations:

	Year ended 31 December 2021							
	Revenue £m	Gross profit £m	Operating profit £m	Profit/(loss) before tax £m	Tax (credit)/ charge £m	Profit/(loss) for the period £m	Basic earnings/(loss) per share Pence	Cash flow from Operating activities £m
<b>Total results IFRS measure</b>	<b>5,088.0</b>	<b>891.2</b>	<b>196.5</b>	<b>121.5</b>	<b>(66.4)</b>	<b>55.1</b>	<b>13.9</b>	<b>306.5</b>
<b>Certain remeasurements:</b>								
Net fair value remeasurement on derivative contracts	85.9	(48.7)	(48.7)	(43.3)	8.2	(35.1)	(8.8)	-
<b>Exceptional items:</b>								
Inventory provision as a result of coal closure	-	0.3	0.3	0.3	(0.1)	0.2	0.1	-
Acquisition costs	-	-	7.9	7.9	-	7.9	1.8	7.9
Restructuring costs	-	-	5.2	5.2	(0.8)	4.4	1.1	4.4
Integration costs	-	-	4.1	4.1	(0.8)	3.3	0.8	3.3
Operating expenditure as a result of coal closure	-	-	4.8	4.8	(0.8)	4.0	1.2	-
Impact of tax rate change	-	-	-	-	48.6	48.6	12.2	-
<b>Total</b>	<b>85.9</b>	<b>(48.4)</b>	<b>(26.4)</b>	<b>(21.0)</b>	<b>54.3</b>	<b>33.3</b>	<b>8.4</b>	<b>15.6</b>
<b>Adjusted totals</b>	<b>5,173.9</b>	<b>842.8</b>	<b>170.1</b>	<b>100.5</b>	<b>(12.1)</b>	<b>88.4</b>	<b>22.3</b>	<b>322.1</b>

	Year ended 31 December 2020							
	Revenue £m	Gross profit £m	Operating (loss)/profit £m	(Loss)/profit before tax £m	Tax charge/ (credit) £m	(Loss)/ profit for the period £m	Basic (loss)/ earnings per share Pence	Cash flow from Operating activities £m
<b>Total results IFRS measure</b>	<b>4,244.7</b>	<b>725.7</b>	<b>(156.1)</b>	<b>(234.7)</b>	<b>40.1</b>	<b>(194.6)</b>	<b>(49.0)</b>	<b>306.2</b>
<b>Certain remeasurements:</b>								
Net fair value remeasurement on derivative contracts	(9.7)	69.7	69.7	70.3	(14.4)	55.9	14.1	-
<b>Exceptional items:</b>								
Inventory provision as a result of coal closure	-	4.8	4.8	4.8	(0.8)	4.0	1.0	-
Acquisition costs	-	-	1.0	1.0	(0.2)	0.8	0.2	0.8
Operating expenditure as a result of coal closure	-	-	30.0	30.0	(5.1)	24.9	6.3	-
Asset obsolescence charges – coal closure	-	-	225.9	225.9	(38.7)	187.2	47.1	-
Asset obsolescence charges – Repower	-	-	13.4	13.4	(2.3)	11.1	2.8	-
Cost of debt restructure	-	-	-	8.6	(1.5)	7.1	1.8	-
<b>Total</b>	<b>(9.7)</b>	<b>74.5</b>	<b>344.8</b>	<b>354.0</b>	<b>(63.0)</b>	<b>291.0</b>	<b>73.3</b>	<b>0.8</b>
<b>Adjusted totals</b>	<b>4,235.0</b>	<b>800.2</b>	<b>188.7</b>	<b>119.3</b>	<b>(22.9)</b>	<b>96.4</b>	<b>24.3</b>	<b>307.0</b>



## 2.7 Alternative performance measures continued

Adjusted EBITDA from continuing and discontinued operations is a key measure of performance for the Group, but is not visible from the face of the income statement. A reconciliation from the Adjusted operating profit from continuing operations visible on the face of the income statement is shown below:

	Year ended 31 December 2021		
	Attributable to		
	the owners of the Parent Company £m	NCI £m	Total £m
<b>Adjusted operating profit</b>	<b>170.6</b>	<b>(0.5)</b>	<b>170.1</b>
Depreciation and amortisation	198.3	0.6	198.9
Loss on disposal of fixed assets	9.3	0.1	9.4
Other gains	(0.3)	–	(0.3)
Adjusted EBITDA from continuing operations	377.9	0.2	378.1
Adjusted EBITDA from discontinued operations	20.3	–	20.3
<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>398.2</b>	<b>0.2</b>	<b>398.4</b>

	Year ended 31 December 2020 <sup>(1)</sup> £m
<b>Adjusted operating profit</b>	<b>188.7</b>
Depreciation and amortisation	171.5
Loss on disposal of fixed assets	5.9
Adjusted EBITDA from continuing operations	366.1
Adjusted EBITDA from discontinued operations	45.9
<b>Adjusted EBITDA from continuing and discontinued operations</b>	<b>412.0</b>

(1) No split between amounts attributable to Drax and amounts attributable to NCI has been presented as, prior to 2021, the Group had no NCI and so all amounts were attributable to the owners of the Parent Company.

	Year ended 31 December 2021					Adjusted Results £m
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	
<b>Segment Adjusted EBITDA:</b>						
Continuing operations	351.5	5.7	85.7	(70.9)	5.9	377.9
Discontinued operations	20.3	–	–	–	–	20.3
<b>Total</b>	<b>371.8</b>	<b>5.7</b>	<b>85.7</b>	<b>(70.9)</b>	<b>5.9</b>	<b>398.2</b>

	Year ended 31 December 2020					Adjusted Results £m
	Generation £m	Customers £m	Pellet Production £m	Central £m	Intra-group eliminations £m	
<b>Segment Adjusted EBITDA:</b>						
Continuing operations	399.9	(38.9)	51.7	(50.0)	3.4	366.1
Discontinued operations	45.9	–	–	–	–	45.9
<b>Total</b>	<b>445.8</b>	<b>(38.9)</b>	<b>51.7</b>	<b>(50.0)</b>	<b>3.4</b>	<b>412.0</b>

### Cash and committed facilities

The below table reconciles the Group's cash and committed facilities of £548.8 million (2020: £681.9 million).

	2021 £m	2020 £m
Cash and cash equivalents (note 4.1)	317.4	289.8
Revolving credit facility (RCF) available but not utilised <sup>(1)</sup>	231.4	232.2
Customers trade receivable factoring facility available but not utilised (note 4.4)	–	30.0
2020 Private placement facility available but not utilised (note 4.2)	–	130.0
<b>Total cash and committed facilities</b>	<b>548.8</b>	<b>682.0</b>

(1) The Group's available balance on the RCF facility (includes £300 million and C\$10 million RCF, see note 4.2) is reduced by letters of credit drawn under the RCF. At 31 December 2021 £74.4 million letters of credit were drawn (2020: £67.8 million).

## Section 2: Financial performance continued

### 2.8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profits) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings (profit after tax in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact of all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the contingency period (such as those to be issued under employee share schemes – see note 6.2), were exercised and treated as ordinary shares as at the balance sheet date.

	Years ended 31 December	
	2021	2020
<b>Earnings attributable to equity holders of the Company (£m), made up of:</b>	<b>79.7</b>	<b>(157.9)</b>
Net result from continuing operations	55.6	(194.6)
Net result from discontinued operations	24.1	36.7
<b>Number of shares:</b>		
<b>Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)</b>	<b>398.4</b>	<b>396.8</b>
Effect of dilutive potential ordinary shares under share plans	14.2	8.2
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)</b>	<b>412.6</b>	<b>405.0</b>

Repurchased shares (see note 4.5) are not included in the weighted average calculation of shares. For the purpose of calculating diluted EPS, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Years ended 31 December	
	2021	2020
<b>Total earnings/(loss) per share</b>		
Earnings/(loss) per share – basic (pence)	20.0	(39.8)
Earnings/(loss) per share – diluted (pence)	19.3	(39.8)

Application of the same calculation to Adjusted profit after tax of £105.6 million results in Adjusted basic EPS of 26.5 pence and Adjusted diluted EPS of 25.6 pence (2020: Adjusted profit after tax of £117.6 million, Adjusted basic EPS of 29.6 pence and Adjusted diluted EPS of 29.0 pence).

	Years ended 31 December	
	2021	2020
<b>Earnings per share from continuing operations</b>		
Earnings/(loss) per share – basic (pence)	13.9	(49.0)
Earnings/(loss) per share – diluted (pence)	13.5	(49.0)

Application of the same calculation to Adjusted profit after tax from continuing operations of £88.9 million results in Adjusted basic EPS of 22.3 pence and Adjusted diluted EPS of 21.5 pence (2020: Adjusted profit after tax from continuing operations of £96.4 million, Adjusted basic EPS of 24.3 pence and Adjusted diluted EPS of 23.8 pence).

	Years ended 31 December	
	2021	2020
<b>Earnings per share from discontinued operations</b>		
Earnings per share – basic (pence)	6.1	9.2
Earnings per share – diluted (pence)	5.8	9.1

Application of the same calculation to Adjusted profit after tax from discontinued operations of £16.7 million results in Adjusted basic EPS of 4.2 pence and Adjusted diluted EPS of 4.1 pence (2020: Adjusted profit after tax from discontinued operations of £21.2 million, Adjusted basic EPS of 5.3 pence and Adjusted diluted EPS of 5.2 pence).

## 2.9 Dividends

	Years ended 31 December	
	2021 £m	2020 £m
<b>Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):</b>		
Interim dividend for the year ended 31 December 2021 of 7.5 pence per share paid on 8 October 2021 (2020: 6.8 pence per share paid on 2 October 2020)	29.9	27.0
Final dividend for the year ended 31 December 2020 of 10.3 pence per share paid on 14 May 2021 (2019: 9.5 pence per share paid on 15 May 2020)	41.0	37.7
	<b>70.9</b>	<b>64.7</b>

At the forthcoming Annual General Meeting 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 (equivalent to approximately £45 million) payable on or before 13 May 2022. The final dividend has not been included as a liability as at 31 December 2021. This would bring total dividends payable in respect of the 2021 financial year to £75 million.

The Group has a long-standing capital allocation policy. This policy is based on a commitment to robust financial metrics that underpin the Group's strong credit rating, investment in the core business, paying a sustainable and growing dividend, and returning surplus capital to shareholders. The Board is confident that the dividend is sustainable and expects it to grow as the implementation of the Group's strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends, the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-linked revenue streams.

In future years, if there is a build-up of capital in excess of the Group's investment needs, the Board will consider the most appropriate mechanism to return this to shareholders.

Consideration of sustainability, including a link to our dividend, can be found in the Market context section on pages 2 and 3.

## 2.10 Retained profits

Retained profits are a component of equity reserves. The overall balance reflects the total profits the Group has generated over its lifetime, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Years ended 31 December	
	2021 £m	2020 £m
<b>At 1 January</b>	<b>153.4</b>	<b>369.7</b>
Profit/(loss) for the year	79.7	(157.9)
Remeasurement gains on defined benefit pension scheme (note 6.3)	30.7	1.4
Deferred tax on actuarial gains on defined benefit pension scheme (note 2.6)	(7.2)	(0.3)
Deferred tax on share base payments (note 2.6)	5.4	–
Equity dividends paid (note 2.9)	(70.9)	(64.7)
Net movements in equity associated with share-based payments (note 6.2)	7.4	5.2
Adjustments related to non-controlling interests (note 4.6)	(0.2)	–
<b>At 31 December</b>	<b>198.3</b>	<b>153.4</b>

### Distributable profits

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The Parent Company financial statements set out on pages 276 to 282 of this Annual report, disclose the Parent Company's distributable reserves of £199 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

The majority of the Group's distributable reserves are held in holding and operating subsidiaries. Management actively monitors the level of distributable reserves in each company in the Group, ensuring adequate reserves are available for upcoming dividend payments and that the Parent Company has access to these reserves.

The immediate cash resources of the Group of £317 million are set out in note 4.1 and the recent history of cash generation within note 4.4. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 4.2) place customary conditions on the amount of dividend payments to be made in any given year. The Group expects to be able to make dividend payments, in line with its policy, within these conditions for the foreseeable future. See the Viability statement on page 74 and note 4.2 for further details on the restrictions and covenants relating to the financing facilities.

## Section 3: Operating assets and working capital

This section gives further information on the operating assets we use to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise our working capital balances.

### 3.1 Property, plant and equipment

This note shows the cost, depreciation and net book value of the physical assets controlled by the Group that are used in the businesses to generate revenue. The cost of an asset is what was paid to purchase or construct the asset. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any residual value, to the income statement evenly over the useful economic life (UEL) of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

#### Accounting policy

Property, plant and equipment assets are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment assets are stated at cost less accumulated depreciation and any provision for impairment in value.

The Group constructs many of its assets as part of long-term development projects. Assets that are in the course of construction are not depreciated until they are ready for use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated UELs of the assets from the date that they are brought into use (where relevant, limited to the expected decommissioning date of the site where the asset is located).

In accordance with IFRS 5, the depreciation on the gas-fired assets ceased in December 2020, the point at which the assets were classified as, and transferred to, assets held for sale (see note 5.4).

The table below shows the weighted average remaining useful economic lives of the main categories of assets held at the balance sheet date:

	Average UEL remaining 2021 (years)
<b>Freehold buildings</b>	<b>19</b>
<b>Plant and equipment</b>	
Electricity generation assets:	
Drax Power Station common plant	15
Drax Power Station biomass-specific assets	17
Hydro-electric plants (including pumped storage)	40
Pellet production plant	10
Other plant, machinery and equipment	14
<b>Decommissioning asset</b>	<b>18</b>
<b>Plant spare parts</b>	<b>18</b>

Freehold land held at cost is considered to have an unlimited useful life and is not depreciated. The value of freehold land held at 31 December 2021 is £26.5 million (2020: £11.7 million).

The Group's total commitment for future capital expenditure is disclosed in note 7.7.

An impairment charge is recognised immediately if the carrying value of an asset exceeds its recoverable amount. The Group's policy is to recognise an impairment charge through accumulated depreciation and impairment if the asset will continue to be used by the Group or if the asset will be subsequently sold. Assets that will no longer be used by the Group are disposed of by removing both the cost and any accumulated depreciation and impairment.

Electricity generation assets are grouped according to the fuel type of the plant. Certain assets at Drax Power Station are common to the whole plant and are shown separately. Common plant that will continue to be used for biomass generation post coal closure will continue to be recognised.

### 3.1 Property, plant and equipment continued

Pellet Production plant includes the US and Canadian based assets of the Group's Pellet Production segment and the assets at the Daldowie Fuel Plant near Glasgow.

Plant spare parts are depreciated over the remaining useful life of the relevant power station or plant.

Costs relating to major inspections, overhauls and upgrades to the power stations are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the balance sheet date. Any changes are applied prospectively.

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during 2021, are set out in note 2.4.

During the year, the pre-front end engineering design (Pre-FEED) study for Bioenergy with carbon capture and storage (BECCS) was successfully completed. Also, the East Coast Cluster, of which Drax is a constituent, was named a 'track one' cluster by the UK government in its plans to develop carbon capture, usage and storage by the mid-2020s. These developments, along with other information, has resulted in the Group commencing the capitalisation of costs associated with BECCS, due to the recognition requirements of IAS 16 now being met. This has resulted in £5.4 million of costs related to BECCS being capitalised up to 31 December 2021.

#### Significant estimation uncertainty

Asset lives are reviewed annually at each balance sheet date, taking into consideration the impact of climate and environmental change. See note 2.4 for further details.

As disclosed on page 208, the Group has made an estimate regarding UELs. Given the continued focus on climate change, greener sources of energy and transitioning to a net zero economy, the power generation industry is going through a period of transformation, which can impact on the UELs of assets. As the Government's net zero strategy continues to evolve and become clearer, particularly in relation to BECCS, the Group will continue to assess any potential impact of these developments and whether UELs would be required to be updated, particularly in relation to Drax Power Station. Accordingly, given the continued rate of change in these areas, this increases the risk that UELs will be updated in the near future as new information becomes available, and as such a change in UELs, particularly in relation to Drax Power Station's biomass assets, has been disclosed as a key source of estimation uncertainty. If BECCS is deployed at Drax Power Station this could result in an extension of the end of station life. If the useful economic life of Drax Power Station was to increase by ten years, the impact on the depreciation charge for the year would be a decrease of approximately £19.4 million.

## Section 3: Operating assets and working capital continued

### 3.1 Property, plant and equipment continued

	Freehold land and buildings £m	Plant and equipment £m	Plant spare parts £m	Assets under the course of construction £m	Total £m
<b>Cost:</b>					
<b>At 1 January 2020</b>	421.9	2,851.7	69.1	204.6	3,547.3
Additions at cost	–	29.6	6.5	183.9	220.0
Disposals	(1.4)	(16.7)	–	–	(18.1)
Asset obsolescence (note 2.7)	–	–	–	(13.4)	(13.4)
Issues to maintenance projects	–	–	(5.4)	–	(5.4)
Transfers between categories	13.0	109.2	2.9	(125.1)	–
Transfers to intangible assets	–	–	–	(5.7)	(5.7)
Transfers to assets held for sale	(40.8)	(129.5)	(3.5)	(52.2)	(226.0)
Effect of foreign exchange rates	(3.4)	(8.0)	–	(3.3)	(14.7)
<b>At 1 January 2021</b>	<b>389.3</b>	<b>2,836.3</b>	<b>69.6</b>	<b>188.8</b>	<b>3,484.0</b>
Additions at cost	13.9	0.9	5.3	195.4	215.5
Acquisitions	43.8	185.0	–	61.1	289.9
Disposals	(1.4)	(26.8)	–	–	(28.2)
Issues to maintenance projects	–	–	(5.5)	–	(5.5)
Transfers between PPE and Inventories	–	–	3.7	–	3.7
Transfers from right-of-use assets	0.3	0.7	–	–	1.0
Transfers from/(to) Intangibles	–	19.3	–	(1.2)	18.1
Transfers between PPE categories	5.7	156.4	(0.8)	(161.3)	–
Effect of foreign exchange rates	2.2	8.0	–	2.2	12.4
<b>At 31 December 2021</b>	<b>453.8</b>	<b>3,179.8</b>	<b>72.3</b>	<b>285.0</b>	<b>3,990.9</b>
<b>Accumulated depreciation and impairment:</b>					
<b>At 1 January 2020</b>	90.1	1,111.7	18.1	–	1,219.9
Depreciation charge for the year	13.6	128.0	2.5	–	144.1
Asset obsolescence (note 2.7)	0.2	223.3	1.6	–	225.1
Disposals	(0.4)	(10.2)	–	–	(10.6)
Issues to maintenance projects	–	–	(1.2)	–	(1.2)
Transfers between categories	0.2	(4.5)	4.3	–	–
Transfers to assets held for sale	(0.3)	(29.9)	(0.4)	–	(30.6)
Effect of foreign exchange rates	(1.0)	(2.8)	–	–	(3.8)
<b>At 1 January 2021</b>	<b>102.4</b>	<b>1,415.6</b>	<b>24.9</b>	<b>–</b>	<b>1,542.9</b>
Depreciation charge for the year	15.8	130.2	3.8	–	149.8
Disposals	(0.1)	(16.2)	–	–	(16.3)
Issues to maintenance projects	–	–	(0.8)	–	(0.8)
Transfers from right-of-use assets	0.1	0.7	–	–	0.8
Transfers between PPE categories	(0.4)	0.4	–	–	–
Effect of foreign exchange rates	0.4	3.4	–	–	3.8
<b>At 31 December 2021</b>	<b>118.2</b>	<b>1,534.1</b>	<b>27.9</b>	<b>–</b>	<b>1,680.2</b>
Net book value at 31 December 2020	286.9	1,420.7	44.7	188.8	1,941.1
<b>Net book value at 31 December 2021</b>	<b>335.6</b>	<b>1,645.7</b>	<b>44.4</b>	<b>285.0</b>	<b>2,310.7</b>

The charge for depreciation to the income statement comprises the following:

	Years ended 31 December	
	2021 £m	2020 £m
Total depreciation charged on property, plant and equipment	149.8	144.1
Total depreciation charged on right-of-use assets (note 3.2)	15.2	7.9
Less:		
Depreciation charged on property, plant and equipment held for sale	–	(18.3)
Depreciation charged on right-of-use assets held for sale	–	(0.6)
<b>Depreciation charged for continuing operations</b>	<b>165.0</b>	<b>133.1</b>

### 3.1 Property, plant and equipment continued

Plant and equipment shown above includes the following categories of assets:

	Biomass and coal plant £m	Hydro-electric plant £m	Gas thermal plants £m	Pellet production plant £m	Other £m	Total plant and equipment £m
<b>Cost:</b>						
<b>At 1 January 2020</b>	1,970.2	466.5	117.7	282.6	14.7	2,851.7
Additions at cost	29.1	–	–	–	0.5	29.6
Disposals	(6.3)	–	–	(10.4)	–	(16.7)
Transfers between categories	79.9	4.5	11.8	12.2	0.8	109.2
Transfers to assets held for sale	–	–	(129.5)	–	–	(129.5)
Effect of foreign exchange rates	–	–	–	(8.0)	–	(8.0)
<b>At 1 January 2021</b>	<b>2,072.9</b>	<b>471.0</b>	<b>–</b>	<b>276.4</b>	<b>16.0</b>	<b>2,836.3</b>
Additions at cost	–	–	–	0.8	0.1	0.9
Acquisitions	–	–	–	185.0	–	185.0
Disposals	(20.2)	–	–	(5.6)	(1.0)	(26.8)
Transfers from right-of-use assets	–	–	–	0.7	–	0.7
Transfers from Intangibles	–	–	19.3	–	–	19.3
Transfers between PPE categories	65.1	5.0	–	82.0	4.3	156.4
Effect of foreign exchange rates	–	–	–	8.0	–	8.0
<b>At 31 December 2021</b>	<b>2,117.8</b>	<b>476.0</b>	<b>19.3</b>	<b>547.3</b>	<b>19.4</b>	<b>3,179.8</b>
<b>Accumulated depreciation and impairment:</b>						
<b>At 1 January 2020</b>	1,013.6	15.0	11.3	62.5	9.3	1,111.7
Depreciation charge for the year	70.9	13.3	18.6	22.7	2.5	128.0
Asset obsolescence	223.2	–	0.1	–	–	223.3
Disposals	(5.2)	–	–	(5.0)	–	(10.2)
Transfers between categories	(4.1)	(0.2)	(0.1)	(0.1)	–	(4.5)
Transfers to assets held for sale	–	–	(29.9)	–	–	(29.9)
Effect of foreign exchange rates	–	–	–	(2.8)	–	(2.8)
<b>At 1 January 2021</b>	<b>1,298.4</b>	<b>28.1</b>	<b>–</b>	<b>77.3</b>	<b>11.8</b>	<b>1,415.6</b>
Depreciation charge for the year	70.3	12.1	–	45.0	2.8	130.2
Disposals	(11.2)	–	–	(4.2)	(0.8)	(16.2)
Transfers from right-of-use assets	–	–	–	0.7	–	0.7
Transfers between PPE categories	(1.0)	1.0	–	0.4	–	0.4
Effect of foreign exchange rates	–	–	–	3.4	–	3.4
<b>At 31 December 2021</b>	<b>1,356.5</b>	<b>41.2</b>	<b>–</b>	<b>122.6</b>	<b>13.8</b>	<b>1,534.1</b>
Net book value at 31 December 2020	774.5	442.9	–	199.1	4.2	1,420.7
<b>Net book value at 31 December 2021</b>	<b>761.3</b>	<b>434.8</b>	<b>19.3</b>	<b>424.7</b>	<b>5.6</b>	<b>1,645.7</b>

Issues and transfers reflect changes in the categorisation of assets during the period e.g. when an asset under construction is complete, it is transferred to the relevant depreciable asset category, or the issue of spare parts for use in repair and maintenance projects. When spare parts are utilised in such projects, the net book value of the part is transferred from the property, plant and equipment balance and recognised as an expense in the income statement within operating costs.

## Section 3: Operating assets and working capital continued

### 3.2 Leases

#### Accounting policy

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Group for a period of time. If the Group is deemed to have control of an identified asset, then a lease is recognised on the balance sheet. A right-of-use asset and a corresponding lease liability are recognised.

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. Incremental borrowing rates are calculated biannually. The borrowing rate for leased property is derived with reference to property yields specific to the location of the leased property and property type. For non-property leases, the borrowing rate is derived from a series of inputs including a risk-free rate based on UK Gilt curves and an adjustment for credit risk based on the Group's credit rating. The liability is subsequently adjusted for interest, repayments and other modifications.

Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets, and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right-of-use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Lease extension or termination options are included within the lease term when the Group, as the lessee, has the discretion to exercise the option and where it is probable that the option will be exercised.

Leases with a term shorter than 12 months or where the identified asset has a value below £3,500 are expensed to the income statement on a straight-line basis over the term of the agreement.

#### Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Railcars £m	Vessels £m	Total £m
<b>Cost and carrying amount:</b>					
<b>At 1 January 2020</b>	24.2	5.9	8.1	–	38.2
Additions at cost	6.3	3.9	0.8	–	11.0
Disposals	(0.2)	(0.7)	–	–	(0.9)
Remeasurements	–	0.1	–	–	0.1
Transfers to assets held for sale	(6.5)	–	–	–	(6.5)
Effect of foreign exchange rates	(0.1)	(0.1)	(0.2)	–	(0.4)
<b>At 1 January 2021</b>	<b>23.7</b>	<b>9.1</b>	<b>8.7</b>	<b>–</b>	<b>41.5</b>
Additions at cost	0.2	7.0	4.1	33.3	44.6
Other movements	(0.5)	(4.2)	(0.3)	–	(5.0)
Transfers to PPE	(0.3)	(0.7)	–	–	(1.0)
Acquired in business combinations	4.7	4.1	17.0	34.6	60.4
Effect of foreign exchange rates	0.1	(0.1)	0.7	0.6	1.3
<b>At 31 December 2021</b>	<b>27.9</b>	<b>15.2</b>	<b>30.2</b>	<b>68.5</b>	<b>141.8</b>
<b>Accumulated depreciation and impairment</b>					
<b>At 1 January 2020</b>	3.8	2.0	1.0	–	6.8
Depreciation charge for the year	3.6	3.2	1.1	–	7.9
Disposals	(0.2)	(0.7)	–	–	(0.9)
Transfers to assets held for sale	(1.2)	–	–	–	(1.2)
Effect of foreign exchange rates	0.1	(0.3)	0.1	–	(0.1)
<b>At 1 January 2021</b>	<b>6.1</b>	<b>4.2</b>	<b>2.2</b>	<b>–</b>	<b>12.5</b>
Depreciation charge for the year	4.3	4.6	3.2	3.1	15.2
Other movements	(1.9)	(3.3)	(0.3)	–	(5.5)
Transfers to PPE	(0.1)	(0.7)	–	–	(0.8)
Effect of foreign exchange rates	0.1	–	0.5	–	0.6
<b>At 31 December 2021</b>	<b>8.5</b>	<b>4.8</b>	<b>5.6</b>	<b>3.1</b>	<b>22.0</b>
Net book value at 31 December 2020	17.6	4.9	6.5	–	29.0
<b>Net book value at 31 December 2021</b>	<b>19.4</b>	<b>10.4</b>	<b>24.6</b>	<b>65.4</b>	<b>119.8</b>



### 3.2 Leases continued

#### Lease liabilities

	Total £m
<b>Carrying amount:</b>	
<b>At 1 January 2020</b>	<b>32.5</b>
Additions	11.0
Remeasurements	0.1
Interest charged to the income statement	1.2
Payments	(8.8)
Transfers to liabilities directly associated with assets held for sale	(5.6)
Effect of foreign exchange rates	(0.2)
<b>At 1 January 2021</b>	<b>30.2</b>
Additions	44.7
Acquired in business combinations	61.1
Interest charged to the income statement	4.9
Payments	(17.9)
Other movements	0.2
Effect of foreign exchange rates	2.7
<b>At 31 December 2021</b>	<b>125.9</b>

The existence of termination, extension and purchase options have not had a material impact on the determination of the lease liabilities.

In addition to the payments disclosed above, the Group also made total payments of £0.8 million (2020: £0.9 million) during the year in relation to short-term and low value leases. The value of commitments for short-term and low-value leases is immaterial.

The maturity of the gross undiscounted lease liabilities at 31 December 2021 is as follows:

	Total	
	2021 £m	2020 £m
Within one year	21.2	7.9
Within one to two years	18.9	5.9
Within two to five years	46.4	12.6
After five years	78.4	8.4
<b>Total gross payments</b>	<b>164.9</b>	<b>34.8</b>
Effect of discounting	(39.0)	(4.6)
<b>Lease liabilities recognised in the balance sheet</b>	<b>125.9</b>	<b>30.2</b>
Current portion	15.1	7.0
Non-current portion	110.8	23.2

The Group recognised the following charges from continuing operations relating to leases in the income statement:

	Total	
	2021 £m	2020 £m
Expense for short-term leases	0.8	0.8
Interest expense on leases	4.9	1.0
Depreciation and impairment expense on leases	15.2	7.3

## Section 3: Operating assets and working capital continued

### 3.3 ROC assets

The Group earns ROC assets, which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning sustainable biomass pellets to generate electricity at Drax Power Station, and generating renewable energy at a number of the Group's hydro plants. This note sets out the value of these assets that the Group held at the year end.

#### Accounting policy

ROCs are recognised as current assets in the period they are generated. The Group uses their fair value at initial recognition, based on anticipated sales prices, as deemed cost. The value of ROCs earned is recognised in the income statement as a reduction to cost of sales in that period.

Where the Customers business incurs an obligation to deliver ROCs to Ofgem, that obligation is provided for in the period incurred.

At each reporting date the Group reviews the carrying value of ROC assets held against updated anticipated sales prices. Where relevant, this takes account of agreed forward sale contracts and the likely utilisation of ROCs generated to settle the Group's own ROC obligations. Any impairment is recognised in the period incurred.

Historical experience indicates that the assumptions used in the valuation are reasonable; however, actual sales prices may subsequently differ from those assumed.

ROC valuations are comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price, and an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the compliance period. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are paid over to suppliers who presented ROCs in a compliance period on a pro-rata basis. The estimate is based on assumptions about likely levels of renewable generation and also the demand for ROCs over the compliance period and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Past experience indicates that the values arrived at are reasonable, but they remain subject to possible variation.

	Total 2021 £m	Total 2020 £m
<b>Carrying amount:</b>		
<b>At 1 January</b>	<b>139.6</b>	162.7
Earned from generation	658.2	489.5
Purchased from third-parties	361.3	504.1
Utilised by the Customers business	(320.7)	(376.0)
Sold to third-parties	(537.0)	(640.7)
<b>At 31 December</b>	<b>301.4</b>	139.6

Recognition of revenue from the sale of ROCs is described in further detail in note 2.2.

### 3.4 Inventories

The Group holds inventory of fuels and other consumable items that are used in the process of generating electricity, and raw materials used in the production of compressed wood pellets. This note shows the cost of biomass, coal, other fuels and plant consumables held at the end of the year.

#### Accounting policy

The Group's raw materials and fuel inventory are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of purchased fuel inventory includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs. The Group uses forward foreign currency exchange contracts to hedge the costs denominated in foreign currencies. Where these contracts are designated into hedge relationships in accordance with IFRS 9, the inventory cost is recognised at the hedged value and all such gains and losses are included in cost of sales when they arise.

Both biomass and coal inventories are weighed when entering, moving within or exiting the Group's sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing inventory volumes. Both calibrated weighers and efficiency calculations are subject to a range of tolerable error. All fuel inventories are subject to regular surveys to ensure these measurements are sufficiently accurate.

### 3.4 Inventories continued

Coal inventories are verified by an independent inventory survey carried out by a suitably trained specialist and a provision is made where the survey indicates a lower level of inventory than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. Biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Biomass inventory is surveyed using regularly calibrated radar scanning technology to support the methods outlined above.

The cost of manufactured fuel inventories includes all direct costs incurred in production and conversion including raw materials, labour, direct overheads and other costs incurred in bringing the inventories to their existing condition and location. It also includes an allocation of overheads, including depreciation and other indirect costs, based on normal operating capacity. Costs that do not contribute to bringing inventories to their present condition and location, such as storage and administration overheads, are excluded from the cost of inventories and expensed as incurred.

Fibre inventory includes estimation in the conversion rates to determine the volume of residual fibre stockpiles and log inventory. Third-party surveys are performed regularly to assess the volume of inventory and appropriate adjustments are made, if required, using conversion factors estimated by management. Internal inventory counts are performed periodically at all locations.

	As at 31 December	
	2021 £m	2020 £m
Biomass – finished goods	144.6	157.0
Biomass – fibre and other raw materials	12.8	3.1
Coal	8.4	24.4
Other fuels and consumables	33.3	23.7
	<b>199.1</b>	<b>208.2</b>

The net realisable value of coal in the table above is stated after provisions of £0.9 million (2020: £4.8 million). The majority of this provision relates to inventory that the Group anticipates it will not be possible to utilise in the period before the coal units are closed in September 2022. No other inventory provisions have been recognised.

The cost of inventories recognised as an expense in the year ended 31 December 2021 was £1,352.0 million (2020: £1,045.8 million). This includes the value of write downs of inventory in the year described above of £0.9 million (2020: £4.8 million) and the reversal of previously written down inventories of £0.7 million (2020: £0.2 million). See note 2.1 for details of where costs of inventory recognised as an expense are presented in the Consolidated income statement.

### 3.5 Trade and other receivables and other contract-related assets

Trade receivables represent amounts owed by customers for goods or services provided that have not yet been paid. Accrued income represents income earned in the period but not yet invoiced, largely in respect of power delivered to customers that will be invoiced the following month.

#### Accounting policy

Trade and other receivables are initially measured at transaction price and subsequently measured at amortised cost.

The Group has access to receivables monetisation facilities under which amounts receivable can be sold to a third-party on a non-recourse basis. Receivables sold under such facilities are accounted for at fair value through other comprehensive income (FVOCI) in accordance with IFRS 9, due to the objective of the business model being achieved by both collecting contractual cash flows and the selling of the financial assets. All receivables that fall under this business model are sold under these facilities where possible. These receivables are derecognised at the point of sale which is shortly after the initial recognition of the receivable balance. As a result, no fair value gains or losses have been recognised. Fees are recognised in the income statement as incurred.

Contingent consideration receivable is a financial asset. As the cash flows are not solely payments of principal and interest, it does not meet the criteria for recognition at either amortised cost or FVOCI, and is therefore recognised at fair value through profit and loss (FVTPL).

### 3.5 Trade and other receivables and other contract-related assets continued

	Years ended 31 December	
	2021 £m	2020 £m
<b>Amounts falling due within one year:</b>		
Trade receivables	187.5	158.0
Accrued income	270.3	211.7
Prepayments	97.4	92.5
Other receivables	59.0	63.1
Contingent consideration	27.7	–
	<b>641.9</b>	<b>525.3</b>

Trade receivables and accrued income principally represent sales of energy to counterparties within both the Generation and Customers businesses, with the remaining amounts relating to the Pellet Production business. At 31 December 2021, the Group had amounts receivable from one significant counterparty representing 10% of total trade receivables and accrued income (2020: two significant counterparties representing 12% of total trade receivables and accrued income).

Of total trade receivables and accrued income at 31 December 2021, £314.0 million (2020: £257.4 million) relates to the Customers business, £125.9 million related to the Generation business (2020: £112.3 million) and £17.9 million (2020: £nil) relates to the Pellet Production business.

The contingent consideration relates to the Group's disposal of the CCGT power stations in January 2021. Should the acquirer satisfy certain triggers in respect of the option to develop the Damhead Creek land disposed of as part of this sale, £29.0 million of contingent consideration would become payable to the Group from the acquirer. The estimated fair value of this contingent consideration is £27.7m. Contingent consideration is disclosed within current assets; however, the timing of the receipt would be dependent on when a trigger was to occur, which may be in a period greater than 12 months. See note 7.1 for further details on the contingent consideration.

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any services provided where payment is not yet due. The balances are included within accrued income. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. Contract assets at 31 December 2021 were £6.0 million (2020: £1.8 million)

#### Impairment of financial assets

##### Accounting policy

The Group applies the impairment model in IFRS 9 to provide for expected credit losses on the Group's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables (including accrued income) and contract assets is measured at an amount equal to the lifetime expected credit loss. Contract assets relate to amounts for goods or services provided under customer contracts and, therefore, have substantially the same risk characteristics as the trade receivables for the same types of contracts.

For other financial assets, the Group recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises a 12-month expected credit loss provision.

The greatest concentration of credit risk exists in the Customers business. For the larger consumers within the Customers business (and also customers within the Generation and Pellet Production businesses) a provision matrix method is adopted. For the SME consumers within the Customers business, the risk is higher due to the wide range of customer characteristics within the portfolio. The loss provisioning for these customers is complex and requires a provisioning tool that is more dynamic than the provision matrix method. The Group considers default to be when a customer is in breach of its terms.

The Group writes off a financial asset when there is no realistic prospect of recovery and all attempts to recover the balance have been exhausted. An indication that all credit control activities have been exhausted is where the debt is greater than 365 days old and active recovery attempts have failed, or where there are insolvency issues relating to the customer.

As time has passed since the emergence of Covid-19 more information around customer collection rates and the impact of the pandemic has become available. Also, as the UK has progressed its vaccination programme, restrictions have been eased and the UK has moved closer towards operating as it was pre-Covid-19. As such, the level of uncertainty relating to the expected credit loss provision has reduced and is no longer considered a key source of estimation uncertainty.

### 3.5 Trade and other receivables and other contract-related assets continued

#### Combined probability method

The Group uses a machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of a debt on an individual account basis using a broad range of indicators that are specific to the customer. The likelihood of the debt becoming more than 365 days past due is assessed by the algorithm, along with the likelihood that the customer would then go on to default. The sophistication of the algorithm enables it to combine historical default experience with relevant economic conditions that may impact the probability of default.

As a result of Covid-19, in the prior year the Group increased its expectation of potential customer business failure rates and the resulting expected credit losses within the Customers business unit, particularly in relation to the SME customer base. The Group updated its provisioning methodology, using data for collection performance since the implementation of lockdown measures in the UK during March 2020 and expectations regarding future default rates, to take account of this increased risk.

The algorithm is trained on historical data and so incorporates experience of the Covid-19 impacted periods. A judgement overlay was included at the end of 2020 to capture Management's estimation of residual risk relating to Covid-19 not yet fully reflected within the data that the model has been trained on. As the model now incorporates Covid-19 experience, the 2021 judgement overlay has been removed.

#### Provision matrix method

Larger customers within the Group are grouped according to the age of the debt based on the number of days past due. The provision rates are based on historical collection rates and an expectation of future cash collection. The rate of default increases once the balance is 30 days past due and subsequently in 30-day increments.

The movement in the overall allowance for expected credit losses on trade receivables is laid out in the following table:

	2021			2020		
	Combined probability method £m	Provision matrix method £m	Total £m	Combined probability method £m	Provision matrix method £m	Total £m
<b>At 1 January</b>	<b>51.4</b>	<b>5.0</b>	<b>56.4</b>	37.8	2.9	40.7
Amounts written off	(41.5)	(2.0)	(43.5)	(29.5)	(2.7)	(32.2)
Net additional amounts provided against	34.5	(0.8)	33.7	43.1	4.8	47.9
<b>At 31 December</b>	<b>44.4</b>	<b>2.2</b>	<b>46.6</b>	51.4	5.0	56.4
<b>Gross trade receivables</b>	<b>144.1</b>	<b>90.0</b>	<b>234.1</b>	172.1	42.3	214.4
<b>Average ECL %</b>	<b>31%</b>	<b>2%</b>	<b>20%</b>	30%	12%	26%

The year end provision represents 22% of the gross Customers trade receivables balance. If the coverage were to increase/decrease by 5%, the provision value would increase/decrease by £10.4 million.

The provision above relates to trade receivables in the Customers business. The risk of default within the Generation business is considered to be extremely low and the calculated provision is negligible. This is supported by strong historic collection rates and timely receipts.

The risk of default within the Pellet Production business is also considered to be extremely low with no provision held. This is also supported by strong historic collection rates and timely receipts. This is because the external customer base is small, and all customers have long-term supply contracts. Furthermore, payment terms with all customers are very short and invoices usually settled within 7 days with negligible levels of aged debt.

The expected credit loss provision calculated for other financial assets of the Group was negligible.

Credit and counterparty risk are disclosed in further detail in note 7.2.

The net charge to the income statement in 2021 for impairment losses on financial assets was £16.3 million (2020: £43.1 million). This is the net of the additional amounts provided against in relation to trade receivables of £33.7 million (2020: £47.9 million) less a £17.4 million benefit in the period in respect of resolution of legacy credit balances (2020: £4.8 million benefit).

The value of provisions calculated using the combined probability model is set out below. This shows the trade receivables balances for SME consumers within the Customers business grouped by the combined probability assigned by the model.

The following table shows the comparative risk profile of amounts due based on the combined probability model at 31 December;

## Section 3: Operating assets and working capital continued

### 3.5 Trade and other receivables and other contract-related assets continued

Probability of default range %	2021		2020	
	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m
80–100	43.3	35.3	36.8	29.7
50–79	10.7	5.7	16.5	8.9
26–49	11.1	3.3	18.7	5.6
0–25	79.0	0.1	100.1	1.7
Total	144.1	44.4	172.1	45.9
Other adjustments		–		5.5
Closing provision		44.4		51.4

The other adjustments of £nil (2020: £5.5 million) reflects the judgement overlay discussed above to capture management's estimation of residual risk relating to Covid-19 on future cash collection performance.

The value of provisions calculated using the Group's provision matrix method is set out below. This shows the risk profile in 30-day increments of the trade receivables, accrued income and contract assets of the Group's larger consumers within the Customers business, and customers within the Generation and Pellet Production businesses at 31 December 2021.

	2021			2020		
	Expected credit loss rate	Estimated total gross carrying amount at default	Lifetime expected credit losses	Expected credit loss rate	Estimated total gross carrying amount at default	Lifetime expected credit losses
	%	£m	£m	%	£m	£m
Accrued income balances not yet due	3%	278.9	8.6	2%	215.2	3.5
Trade receivables days past due:						
Balances not yet due	1%	70.8	0.4	3%	22.9	0.7
Between 0-30 days	1%	14.0	0.1	15%	2.5	0.4
Between 31-60 days	17%	1.2	0.2	3%	11.3	0.3
Between 61-90 days	13%	0.8	0.1	37%	0.6	0.2
Over 90 days	44%	3.2	1.4	68%	5	3.4
Trade receivables total	2%	90.0	2.2	12%	42.3	5.0
<b>Total</b>	<b>3%</b>	<b>368.9</b>	<b>10.8</b>	<b>3%</b>	<b>257.5</b>	<b>8.5</b>

The expected credit loss rate is a weighted average for the portfolio of larger trade receivables associated with the Customers business. Contract assets, included within accrued income, and the majority of the trade receivables balances not yet due are held in the Generation and Pellet Production businesses where the risk of default is considered to be extremely low and immaterial to provide for. This is supported by strong historic collection rates and timely receipts.

### 3.6 Contract costs

The Group incurs costs of obtaining contracts in the Customers business.

#### Accounting policy

Management expects that incremental broker fees paid to intermediaries as a result of obtaining electricity and gas contracts are recoverable. The Group has therefore capitalised them as contract costs at the point the fee is paid. The fees are amortised over the contract period in line with the recognition of revenue and are charged to cost of sales. The balance is included within prepayments in note 3.5. This amount includes both current and non-current balances. No impairment losses were recognised in either year. The reconciliation from opening to closing contract costs is as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>At 1 January</b>	<b>40.1</b>	42.3
Additions	14.0	26.9
Amortisation	(30.4)	(29.1)
<b>At 31 December</b>	<b>23.7</b>	40.1

### 3.7 Trade and other payables and contract-related liabilities

Trade and other payables represent amounts the Group owes to its suppliers (for trade purchases and ongoing costs), taxes and social security amounts due in relation to the Group's role as an employer, and other creditors that are due to be paid in the ordinary course of business. The Group makes accruals for amounts that will fall due for payment in the future as a result of the Group's activities in the current period (e.g. fuel received but for which the Group has not yet been invoiced).

#### Accounting policy

Trade and other payables are measured at amortised cost.

The Group facilitates a supply chain finance scheme, a form of reverse factoring under which certain suppliers can obtain early access to funding. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to fall away. The amount due is recognised in trade payables.

The Group also has access to payment facilities, utilised to leverage scale and efficiencies in transaction processing. Under these facilities the Group benefits from a short extension to payment terms, within a normal working capital cycle, for a small fee. The original liability is derecognised and the amount due to the facility provider is recognised in other payables. Fees are recognised in the income statement in the period incurred.

The Group does not include trade and other payables in its calculation of net debt, see note 4.3.

	As at 31 December	
	2021 £m	2020 £m
Trade payables	147.8	112.9
Fuel accruals	50.3	57.9
Energy supply accruals	362.1	326.2
Other accruals	269.8	222.0
Other payables	366.5	176.9
Contract liabilities	14.6	11.1
	<b>1,211.1</b>	907.0

Trade payables are unsecured and are usually paid within 60 days of recognition. The carrying amounts of trade and other payables are the same as their fair values, due to their short-term nature.

The Group has not utilised any Covid-19 Government support schemes in the current or prior year.

Trade payables includes £50.4 million (2020: £43.7 million) related to reverse factoring. Other payables include £62.2 million (2020: £63.7 million) due under other payment facilities.

## Section 3: Operating assets and working capital continued

### 3.7 Trade and other payables and contract-related liabilities continued

Energy supply accruals includes £264.3 million (2020: £222.9 million) in relation to the Group's obligation to deliver ROCs arising from Customers activities. The remaining balance principally comprises third-party grid charge accruals of £48.2 million (2020: £35.4 million) and Feed-in-Tariff accruals of £19.8 million (2020: £31.6 million).

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the UK Emission Trading Scheme (UK ETS). In the prior year the Group was under the EU Emission Trading Scheme (EU ETS) and therefore recognised a liability in respect of its unsettled obligations to deliver emissions allowances under the EU ETS. Other accruals at 31 December 2021 includes £39.3 million (2020: £37.5 million) with respect to the Group's estimated liability to deliver carbon emissions allowances. Allowances are purchased in the market and are recorded at cost.

Other accruals also includes accruals for capital and operating expenditure where the invoice has not yet been received.

Contract liabilities primarily relate to the advance consideration received from customers for fixed price electricity and gas contracts, for which revenue is recognised based on the stage of completion of the multi-year contract. The balance reduces as revenue is subsequently recognised in the following periods, offset by further advance consideration received. The reconciliation of opening to closing contract liabilities is as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>At 1 January</b>	<b>11.1</b>	21.8
Revenue recognised in the year that was included in the contract liability at the start of the period	<b>(5.4)</b>	(13.3)
Additions as a result of cash received from customers in the period not yet recognised in revenue	<b>8.9</b>	2.6
<b>At 31 December</b>	<b>14.6</b>	11.1

Contract liabilities at 31 December 2021 includes £nil due after more than one year (2020: £3.5 million).



## Section 4: Financing and capital structure

This section provides further information about the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

### 4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. It is the Group's policy to invest available cash on hand in short-term, low-risk bank accounts or deposit accounts.

	As at 31 December	
	2021 £m	2020 £m
<b>Cash and cash equivalents</b>	<b>317.4</b>	<b>289.8</b>

Cash collateral is sometimes paid or received in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be paid to the counterparty. When derivative positions are in the money, collateral may be received from counterparties. These positions reverse when contracts are settled and the collateral is returned.

The cash and cash equivalents balance above includes a net £172.8 million (2020: £4.5 million) of collateral receipts from counterparties. The increase in collateral is predominantly due to the significant price increases seen in the power, gas and carbon markets. See note 7.6 for details on collateral requirements the Group has met through its available non-cash credit facilities.

### 4.2 Borrowings

#### Accounting policy

The Group measures all debt instruments (whether financial assets or financial liabilities) initially at fair value, which equates to the principal value of the consideration paid or received. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are amortised over the expected life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the repayment date is fixed regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and recognised over the life of the instrument as part of the effective interest rate, if draw down is probable. If draw down is not probable they are recognised on a systematic basis, over the period the Group is able to draw down.

Fees that are paid for the availability of a facility, such that the amount and timing of draw down can vary at the Group's discretion (such as a revolving credit facility, or RCF) are recognised on a systematic basis over the life of the facility.

Debt instruments denominated in foreign currencies are revalued using period end exchange rates, with any exchange gains and losses arising recognised as a component of net FX gains or losses in the period they arise. The Group hedges foreign currency risk in accordance with the policy set out in note 7.2. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the balance sheet.

## Section 4: Financing and capital structure continued

### 4.2 Borrowings continued

The Group's net borrowings at each year end were as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Secured borrowing at amortised cost:</b>		
2.625% loan notes 2025 €250m <sup>(1)</sup>	207.2	220.1
6.625% loan notes 2025 \$500m <sup>(2)</sup>	367.0	362.4
Index-linked loan £35m <sup>(3)</sup>	40.6	38.4
UK infrastructure private placement facilities (2019) <sup>(4)</sup>	370.0	367.5
UK infrastructure private placement facilities (2020) <sup>(5)</sup>	201.2	77.3
CAD term facility C\$300m <sup>(6)</sup>	175.0	–
<b>Total borrowings</b>	<b>1,361.0</b>	<b>1,065.7</b>
<b>Split between:</b>		
Current liabilities	40.6	–
Non-current liabilities	1,320.4	1,065.7

- (1) Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 3.24%
- (2) Cross-currency interest rate swaps have been used to fix the sterling value of interest payments. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 4.9%
- (3) Provides a term loan facility maturing in March 2022. On maturity the principal amount (£35.0m) multiplied by the index ratio (UK RPI) will become payable. Interest is payable on the loan at a fixed rate of 5.3% multiplied by the index ratio. As at 31 December 2021 the value of the index ratio added to the principal amount was £5.6 million (2020: £3.4 million)
- (4) Provides committed facilities totalling £375m with a range of maturities extending out to between 2024 and 2029. Interest rate swaps have been used to fix floating rates. This equates to an effective sterling interest rate of 3.3%
- (5) Provides committed facilities totalling £98m and €126.5m with a range of maturities extending out to between 2024 and 2030. Interest rate swaps have been used to fix sterling floating rates on sterling facilities. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments on euro facilities. This instrument also fixed the sterling repayment of the principal. This equates to an effective sterling interest rate of 3.7%
- (6) This facility matures in 2024 with the option to extend by two years and has a customary margin grid reference over the Canadian dollar offered rate (CDOR). No interest rate or cross-currency interest rate swaps are in place to hedge the facility, so the Group is exposed to movements in both floating interest rates and movements in the Canadian dollar

Current borrowings relate to the repayment of the Group's index-linked loan. The loan is due for repayment on 31 March 2022.

In 2020 the Group entered a new infrastructure term loan facility agreement. At 31 December 2020 £53.0 million and €31.5 million were drawn and £45.0 million and €95.0 million were committed. On 18 February 2021, the Group drew down the remaining committed amounts under its 2020 infrastructure term loan facilities agreement.

On acquisition of Pinnacle, the Group acquired three senior debt facilities denominated in Canadian dollars totalling C\$441.0m. The facilities comprised a revolver, delayed draw and term loan. Subsequently, on 13 July 2021, the Group completed the refinancing of all three Canadian dollar facilities acquired from Pinnacle. The new facilities include a C\$300 million term loan and C\$10 million RCF. The balance on the facilities were repaid from the cash proceeds received from the new facility and the Group's existing cash reserves.

The Group's committed £300 million RCF had no cash drawings as at 31 December 2021 or 31 December 2020. The Group also has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 4.4, which are utilised to accelerate working capital cash inflows and defer cash outflows. See note 2.7 for further details on the Group's cash and committed facilities.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.49% (as at 31 December 2020: 3.88%).

#### Compliance with loan covenants

The Group has customary financial covenants, principally in relation to consolidated net income and the consolidated net income to debt ratio. The consolidated net income to debt ratio broadly equates to an EBITDA to net debt calculation and is calculated in line with the Group's financial covenant requirements in the loan facility agreements. The Group is required to test its financial covenants every six months and has complied with all financial covenants during the current year and prior year. The Group has significant headroom and expects to continue to comply with these financial covenants in future periods under all reasonably possible downside scenarios. See the Viability statement on page 74 for further details on the scenarios considered. The Group also has conditions placed on its dividend payments as a result of the financing facilities (see note 2.10).

## 4.2 Borrowings continued

### Reconciliation of borrowings

The table below shows the movement in borrowings during the current and previous year:

	Year ended 31 December 2021		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
<b>Borrowings at 1 January</b>	<b>1,085.3</b>	<b>(19.6)</b>	<b>1,065.7</b>
<b>Cash movements:</b>			
Drawdown of 2020 Infrastructure private placement facilities	130.8	(0.5)	130.3
Repayment of debt acquired from Pinnacle	(253.1)	–	(253.1)
Drawdown of C\$300m term facility	173.1	(0.8)	172.3
Other cash movements	(3.2)	–	(3.2)
<b>Non-cash movements:</b>			
Borrowings acquired on acquisition of Pinnacle (note 5.1)	256.3	–	256.3
Indexation of linked loan	2.2	–	2.2
Amortisation of deferred finance costs (note 2.5)	–	5.7	5.7
Amortisation of USD loan note premium	(0.3)	–	(0.3)
Effect of foreign exchange rates	(14.9)	–	(14.9)
<b>Borrowings at 31 December</b>	<b>1,376.2</b>	<b>(15.2)</b>	<b>1,361.0</b>

	Year ended 31 December 2020		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
<b>Borrowings at 1 January</b>	<b>1,267.5</b>	<b>(22.3)</b>	<b>1,245.2</b>
<b>Cash movements:</b>			
Extension of ESG facility	–	(0.8)	(0.8)
Drawdown of 2025 €250 million loan notes	225.5	(3.4)	222.1
Repayment of ESG facility	(125.0)	–	(125.0)
Drawdown of 2020 Infrastructure private placement facilities	81.4	(3.8)	77.6
Repayment of 2022 fixed loan notes	(350.0)	–	(350.0)
<b>Non-cash movements:</b>			
Acceleration of deferred finance costs in relation to previous facilities (note 2.5)	–	4.8	4.8
Indexation of linked loan	0.5	–	0.5
Amortisation of deferred finance costs (note 2.5)	–	5.9	5.9
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Effect of foreign exchange rates	(14.2)	–	(14.2)
<b>Borrowings at 31 December</b>	<b>1,085.3</b>	<b>(19.6)</b>	<b>1,065.7</b>

## 4.3 Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 4.2) and subtracting cash and cash equivalents (note 4.1). The table below reconciles net debt in terms of changes in these balances across the year:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Net debt at 1 January</b>	<b>(775.9)</b>	<b>(841.1)</b>
Increase/(decrease) in cash and cash equivalents	27.3	(114.2)
(Increase)/decrease in borrowings	(310.2)	165.3
Effect of changes in foreign exchange rates	15.2	14.1
<b>Net debt at 31 December</b>	<b>(1,043.6)</b>	<b>(775.9)</b>

Borrowings include listed bonds, bank debt and RCFs only to the extent drawn in cash, net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities and trade and other payables.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead disclosed as operating commitments. The exclusion of lease liabilities from the calculation of net debt is also consistent with the Group's covenant reporting requirements.

## Section 4: Financing and capital structure continued

### 4.3 Reconciliation of net debt continued

The Group does not include balances related to supply chain financing or factoring in the definition of net debt. These facilities do not increase the Group's working capital cycle beyond the Group's standard payment terms and are only short-term balances. Therefore, the balances do not meet the Group's definition of borrowings and so are excluded from net debt.

A reconciliation of the change in borrowings during the year is set out in the table on note 4.2.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments and interest in respect of the Group's US dollar (USD) and euro (EUR) denominated debt (see note 4.2). If USD and EUR balances were translated at the hedged rate, rather than the rate prevailing at the balance sheet date, the carrying amount of the Group's borrowings would be impacted. The table below reconciles net debt excluding the impact of hedging instruments, as disclosed in the table above, to net debt including the impact of hedging instruments through translating the borrowings at the hedged rates:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Net debt excluding the impact of hedging instruments</b>	<b>(1,043.6)</b>	<b>(775.9)</b>
Impact of hedging instruments	(64.4)	(43.2)
<b>Net debt including the impact of hedging instruments</b>	<b>(1,108.0)</b>	<b>(819.1)</b>

### 4.4 Notes to the consolidated cash flow statement

#### Cash generated from operations

Cash generated from operations is the starting point of the Group's cash flow statement on page 187. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit/(loss) for the year to the amount of cash generated from the Group's operations.

	Years ended 31 December	
	2021 £m	2020 £m
<b>Profit/(loss) for the year – continuing</b>	<b>55.1</b>	<b>(194.6)</b>
<b>Profit for the year – discontinued</b>	<b>24.1</b>	<b>36.7</b>
<b>Adjustments for:</b>		
Interest payable and similar charges	70.9	74.0
Interest receivable	(0.3)	(0.6)
Effect of foreign exchange rates	1.3	(1.0)
Tax charge/(credit)	68.1	(26.0)
RDEC credit	(7.5)	(5.7)
Depreciation of property, plant and equipment	149.8	144.1
Amortisation of intangible assets	34.4	38.4
Depreciation of right-of-use assets	15.2	7.9
Income from associates	(0.3)	–
Asset obsolescence charge	–	239.4
Losses on disposal	9.4	6.0
Profit on disposal of subsidiaries	(16.2)	–
Certain remeasurements of derivative contracts <sup>(1)</sup>	(74.6)	31.4
Defined benefit pension scheme current service cost	6.3	8.4
Defined benefit pension scheme past service (credit)/cost	(2.6)	7.4
Non-cash charge for share-based payments	7.4	5.2
Provision movements recognised in the income statement	–	20.4
<b>Operating cash flows before movement in working capital</b>	<b>340.5</b>	<b>391.4</b>
<b>Changes in working capital:</b>		
Decrease in inventories	37.4	87.1
(Increase)/decrease in receivables	(58.0)	25.1
Increase/(decrease) in payables	209.7	(98.4)
(Increase)/decrease in ROC assets	(161.8)	23.1
<b>Total cash released from working capital</b>	<b>27.3</b>	<b>36.9</b>
Defined benefit pension scheme contributions	(13.3)	(14.9)
<b>Cash generated from operations</b>	<b>354.5</b>	<b>413.4</b>

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the income statement and cash realised from derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve pending release to the income statement in the period the hedged transaction occurs, as well as rebasing impact.

#### 4.4 Notes to the consolidated cash flow statement continued

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements. When compared to the year end position, such measures have been utilised to a broadly consistent level throughout the year unless otherwise stated. The impact of these actions on the cash flows of the Group is described below.

The cash flow impacts described below are based on the estimated impact on the current year when compared to the cash flows that would have been received had the Group not taken these actions. The current year impact is also adjusted to take account of actions taken in prior years, which have accelerated cash flows that would otherwise have been received in the current year had no actions been taken. The intention is to present the overall cumulative impact on the current year cash flow from the actions taken.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and ROC sales on operating cash flows was a £22.3 million outflow (2020: £74.0 million outflow), due to fewer ROCs being sold at the end of 2021 compared to the end of the previous year. This is reflected as an increase (2020: increase) in ROC assets and is a component of the overall net increase of £161.8 million (2020: decrease of £23.1 million) in ROC assets shown in the table above. The level of ROCs generated, purchased and sold during the period is set out in note 3.3. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. These facilities were utilised during the year but no amounts remained outstanding at 31 December 2021 (2020: £nil).

Utilisation of both of these methods to accelerate cash flows is higher around the middle of ROC compliance periods (1 April to 31 March) as the Group has generated a large amount of ROCs but energy suppliers do not yet require ROCs to settle their obligation. At the start of the compliance period the Group has not generated large amounts of ROCs, and towards the end of the compliance period energy suppliers are purchasing ROCs to settle their obligation, therefore utilisation of these methods is lower as the Group has less ROCs available.

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2021, this generated a working capital outflow of £32.0 million (2020: £26.7 million outflow) due to less cash being released from rebased trades at the end of 2021 than in the prior year. This is reflected as an adjustment to derivative remeasurements in the table on page 224. The total cash benefit released from related trades that remained outstanding at 31 December 2021 was £48.1 million (2020: £80.1 million). This cash benefit is made up of £nil (2020: £24.4 million) released from foreign currency contracts and £48.1 million (2020: £55.7 million) from cross-currency interest rate swaps.

The Customers business has access to a £200.0 million facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis, which generated a net cash inflow of £30.0 million in the year ended 31 December 2021 (2020: net cash inflow of £7.8 million), reflected as a reduction in receivables in the table on page 224. Utilisation of the facility was £200.0 million at 31 December 2021 (2020: £170.0 million).

The Customers' receivables facility was due to mature in June 2022. Subsequent to the year end the Group has refinanced this facility, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million.

There has been significant volatility in power and commodity markets during 2021. The Group actively manages the liquidity requirements, including collateral, associated with the hedging of power and other commodities. At 31 December 2021 the Group had a net posting of collateral. However, the design of the Group's trading agreements and methods of lodging collateral resulted in a cash inflow of £168.3 million in 2021 (2020: £12.0 million inflow) reflected as an increase (2020: increase) in payables in the table on page 224. See notes 4.1 and 7.6 for further details on cash collateral receipts and non-cash collateral postings respectively.

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 31 December 2021, the Group had trade payables of £50.4 million (2020: £43.7 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 31 December 2021 was £62.2 million (2020: £63.6 million).

## Section 4: Financing and capital structure continued

### 4.4 Notes to the consolidated cash flow statement continued

#### Changes in liabilities arising from financing cash flows

A reconciliation of the movements in liabilities arising from financing activities for both cash and non-cash changes is provided below:

	As at 31 December 2021		
	Borrowings £m	Lease liabilities £m	Total £m
<b>Balance at 1 January</b>	<b>1,065.7</b>	<b>30.2</b>	<b>1,095.9</b>
Cash flows from financing activities	46.3	(13.2)	33.1
Impact of foreign exchange rates	(14.9)	2.7	(12.2)
Other movements	7.6	45.1	52.7
Acquisition of subsidiary	256.3	61.1	317.4
<b>Balance at 31 December</b>	<b>1,361.0</b>	<b>125.9</b>	<b>1,486.9</b>

	As at 31 December 2020		
	Borrowings £m	Lease liabilities £m	Total £m
<b>Balance at 1 January</b>	<b>1,245.2</b>	<b>32.5</b>	<b>1,277.7</b>
Cash flows from financing activities	(176.1)	(8.8)	(184.9)
Impact of foreign exchange rates	(14.2)	(0.2)	(14.4)
Other movements	10.8	6.7	17.5
<b>Balance at 31 December</b>	<b>1,065.7</b>	<b>30.2</b>	<b>1,095.9</b>

Other movements principally relate to the amortisation of deferred finance costs, discounting of lease liabilities and lease additions in the year.

### 4.5 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

#### Accounting policy

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	As at 31 December	
	2021 £m	2020 £m
<b>Authorised:</b>		
865,238,823 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each (2020: 865,238,823)	<b>100.0</b>	100.0
<b>Issued and fully paid:</b>		
2021: 413,068,027 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each (2020: 410,848,934)	<b>47.7</b>	47.5

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2021 (number)	2020 (number)
<b>At 1 January</b>	<b>410,848,934</b>	410,475,731
Issued under employee share schemes	<b>2,219,093</b>	373,203
<b>At 31 December</b>	<b>413,068,027</b>	410,848,934

The Company has only one class of shares, which are ordinary shares of 11<sup>16</sup>/<sub>29</sub> pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

## 4.5 Equity and reserves continued

### Shares issued under employee share schemes

Throughout January to December 2021, a total of 2,219,093 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan, Performance Share Plan and Bonus Matching Plan (deferred shares).

### Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

	Share premium	
	2021 £m	2020 £m
<b>At 1 January</b>	<b>430.0</b>	429.6
Issue of share capital	2.2	0.4
<b>At 31 December</b>	<b>432.2</b>	430.0

### Other reserves

Other equity reserves reflect the impact of certain historical transactions, which are described under the table below:

	Capital redemption reserve £m	Translation reserve £m	Merger reserve £m	Treasury shares £m	Total other reserves £m
<b>At 1 January 2020</b>	1.5	44.7	710.8	(50.4)	706.6
Exchange differences on translation of foreign operations	–	(9.3)	–	–	(9.3)
<b>At 31 December 2020</b>	<b>1.5</b>	<b>35.4</b>	<b>710.8</b>	<b>(50.4)</b>	<b>697.3</b>
Exchange differences on translation of foreign operations	–	8.7	–	–	8.7
<b>At 31 December 2021</b>	<b>1.5</b>	<b>44.1</b>	<b>710.8</b>	<b>(50.4)</b>	<b>706.0</b>

The capital redemption and treasury share reserves arose when the Group completed a share buy-back programmes.

Exchange differences relating to the translation of the net assets of the Group's US and Canadian-based subsidiaries from their functional currencies (USD and CAD) into sterling for presentation in these consolidated financial statements are recognised in the translation reserve.

Movements in the hedge reserve and the cost of hedging reserve, which reflect the change in fair value of derivative financial instruments designated into hedge accounting relationships in accordance with IFRS 9, are set out in notes 7.3 and 7.4.

## 4.6 Non-controlling interests

### Accounting policy

The Group elects on an acquisition-by-acquisition basis whether to measure non-controlling interests at their proportionate share of the identifiable net assets of the acquiree at the acquisition date, or at fair value. The Group has elected to use the proportionate share of the identifiable net assets for the Pinnacle acquisition. The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and the fair value of any consideration paid or received is recognised in equity, within retained profits.

The Group has three subsidiary undertakings with a non-controlling interest. These subsidiaries were acquired during the year through the acquisition of Pinnacle. The total value of the non-controlling interest at the acquisition date of Pinnacle was £39.6 million.

When the Group acquired Pinnacle the non-controlling interest in Alabama Pellets LLC (APLLC) was 30%. In July 2021, the Group acquired a further 20% interest in APLL for £21.5 million (\$29.7 million), increasing the Group's total interest in APLL to 90% and reducing the non-controlling interest to 10%. This resulted in a £0.2 million decrease recognised in equity, within retained profits, for the difference between the adjustment to non-controlling interests and the fair value of any consideration paid.

## Section 4: Financing and capital structure continued

### 4.6 Non-controlling interests continued

#### Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the consolidated position of each entity above and its subsidiaries that would be shown in its consolidated financial statements prepared in accordance with IFRS under Group accounting policies before intercompany eliminations.

At 31 December 2021	Non-controlling interest %	Profit/(loss) for the year £m	Total comprehensive income/(loss) £m	Total equity £m	Distributions to non-controlling interests £m
Alabama Pellets LLC	10%	(9.9)	(9.9)	124.4	12.9
Lavington Pellet Inc.	25%	0.2	0.2	22.1	4.3
Smithers Pellet Inc.	30%	(1.3)	(1.3)	19.6	6.9
<b>Total</b>		<b>(11.0)</b>	<b>(11.0)</b>	<b>166.1</b>	<b>24.1</b>

#### Summarised Statement of total comprehensive income

At 31 December 2021	Revenue £m	Profit/(loss) for the year £m	Total comprehensive income/(loss) £m	Total comprehensive income/(loss) attributable to the owners of the company £m	Total comprehensive income/(loss) attributable to the non-controlling interests £m
Alabama Pellets LLC	25.6	(9.9)	(9.9)	(8.2)	(1.7)
Lavington Pellet Inc.	29.3	0.2	0.2	0.1	0.1
Smithers Pellet Inc.	11.8	(1.3)	(1.3)	(0.9)	(0.4)
<b>Total</b>	<b>66.7</b>	<b>(11.0)</b>	<b>(11.0)</b>	<b>(9.0)</b>	<b>(2.0)</b>

#### Summarised Balance sheet

At 31 December 2021	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m
Alabama Pellets LLC	126.4	14.7	(16.1)	(0.6)	124.4
Lavington Pellet Inc.	18.0	6.9	(2.1)	(0.7)	22.1
Smithers Pellet Inc.	18.3	2.0	(0.7)	–	19.6
<b>Total</b>	<b>162.7</b>	<b>23.6</b>	<b>(18.9)</b>	<b>(1.3)</b>	<b>166.1</b>

#### Summarised Cash flow

At 31 December 2021	Net cash inflow/(outflow) from operating activities £m	Net cash inflow/(outflow) from investing activities £m	Net cash inflow/(outflow) from financing activities £m	Net cash inflow/(outflow) £m
Alabama Pellets LLC	(2.9)	(47.9)	50.6	(0.2)
Lavington Pellet Inc.	2.2	(0.5)	(0.1)	1.6
Smithers Pellet Inc.	(0.7)	(2.5)	3.6	0.4
<b>Total</b>	<b>(1.4)</b>	<b>(50.9)</b>	<b>54.1</b>	<b>1.8</b>

Further information on changes during the year in the Group's non-controlling interests is given in the Consolidated statement of changes in equity.



## Section 5: Other assets and liabilities

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and provisions.

### 5.1 Acquisitions

#### Accounting policy

Business combinations are accounted for using the acquisition method. Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred, the identifiable assets acquired, and the liabilities assumed are measured at their fair value on the acquisition date. Amounts relating to the settlement of pre-existing relationships are recognised in the Consolidated income statement with a corresponding adjustment to the consideration transferred to reflect that part of the consideration is deemed to relate to the settlement of the pre-existing relationship.

From the acquisition date the assets and liabilities of acquired subsidiaries are recognised in the Consolidated balance sheet, and the revenues and profit or loss of the acquired subsidiaries are recognised in the Consolidated income statement. Acquisition-related costs are recognised as an expense in the Consolidated income statement in the period they are incurred.

Goodwill is measured as the excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired.

Share based payment awards held by employees of the acquired company that are voluntarily replaced are recognised as post-acquisition remuneration. Share based payment awards held by employees of the acquired company that are obliged to be replaced are allocated between post-acquisition remuneration, treated as an expense, and pre-acquisition remuneration which is treated as part of the overall consideration.

#### Acquisition of Pinnacle

The Group announced the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) on 8 February 2021. The acquisition was approved by shareholders on 31 March 2021 and subsequently completed on 13 April 2021. The primary reason for the acquisition is to advance the Group's biomass strategy by more than doubling its biomass production capacity, significantly reducing its cost of biomass production and adding a major biomass supply business underpinned with high-quality Asian and European counterparties.

The Group signed an agreement for the acquisition of 100% of the issued share capital of Pinnacle by Drax Canadian Holdings Inc., a wholly owned subsidiary of the Group (the acquisition). The acquisition was implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia, Canada, at a price of C\$11.30 per share (representing a premium of 13% based on the closing market price on 5 February 2021 of C\$10.04 per share) and therefore valuing the fully diluted equity of Pinnacle at C\$385 million (£222 million).

The acquisition was financed from the Group's existing cash reserves, which included amounts drawn down in February under the infrastructure term loan facilities, agreed in 2020 (see note 4.2).

Transaction costs in relation to the acquisition were £8.9 million, of which £1.0 million was recognised in the prior year and £7.9 million has been recognised as an expense in the current year within Operating and administrative expenses. The Group has also incurred integration costs of £4.1 million to date, also recognised within Operating and administrative expenses. See note 2.7.

The purchase consideration consisted of the following:

	£m
Cash paid to ordinary shareholders	218.1
Cash paid to settle existing share-based payment awards	4.2
<b>Total purchase consideration</b>	<b>222.3</b>

There was no contingent consideration in relation to the acquisition.

#### Acquisition date fair values

As part of the accounting for the Pinnacle acquisition, the assets and liabilities acquired are measured at fair value on the acquisition date. Property, plant and equipment have been measured at fair value using a Depreciated Replacement Cost (DRC) approach. This approach estimates what it would cost to produce or construct a modern equivalent asset of similar capacity and utility. The cost is then adjusted to reflect:

- physical depreciation (such as wear and tear, decay, deterioration due to age and loss not prevented by current maintenance);
- functional obsolescence (the loss caused by internal factors resulting in a decrease in the ability to serve the purpose for which it was manufactured); and
- economic obsolescence (the loss in value caused by external adverse conditions, such as poor market demand for a product, industrial reorientation, and excessive governmental regulations).

## Section 5: Other assets and liabilities continued

### 5.1 Acquisitions continued

The valuation is performed by an independent valuation specialist. A fair value uplift of £23.6 million (C\$40.8 million) has been recognised on the carrying value of Property, plant and equipment acquired as part of the acquisition. If different assumptions and inputs were used this could have resulted in a different fair value.

The Pinnacle business held a number of long-term customer contracts at the acquisition date. As part of the acquisition accounting, these existing customer contracts were required to be measured at their fair value. In determining the fair value of these contracts estimates are required for inputs to the valuation such as the margin associated with these customer contracts, the required return for assets used to generate these contract revenues, retention rates, and an appropriate discount rate based on the risk profile of these contracts. A change to any of these inputs can significantly impact the fair value calculated for these customer contracts. Details of the valuation approach and the key inputs for the customer contracts are disclosed in note 5.2. An asset with a fair value of £35.9 million (C\$62.1 million) has been recognised in relation to customer contracts at acquisition.

The Group and Pinnacle had a pre-existing relationship relating to long-term supply contracts under which Pinnacle supplied the Group with biomass pellets at a fixed price. Valuing the pre-existing relationship compared to current market transactions involves estimation of what the pricing for an identical biomass contract would be at the acquisition date, which, given the highly illiquid nature of the biomass market, with very few spot market transactions and contracts being negotiated bilaterally with no quoted market price, is inherently judgemental. On acquisition the Group assessed the terms of these supply contracts compared to current market transactions for an identical contract. Pricing for current market transactions for the purpose of this exercise was assessed based on the existing portfolio of the Group and Pinnacle contracts. These supply contracts were determined to be consistent with the pricing for current market transactions for an identical contract and the settlement provision for terminating these contracts would have been immaterial. As a result, no consideration has been attributed to the settlement of the pre-existing relationship and therefore no gain or loss relating to the pre-existing relationship has been recognised.

The fair values of the acquired Property, plant and equipment, contract asset and pre-existing relationship are inherently judgemental and involve a high degree of estimation, meaning valuations based on different methodologies or assumptions may have resulted in a materially different fair value. However, these valuations have been performed by specialists, using appropriate methodologies and information. No new information is expected to become available within the next financial year that would be relevant for the acquisition date fair values. Therefore, these valuations are not expected to be revisited and consequently do not have a significant risk of a material adjustment to the carrying amounts within the next financial year. As such these fair value measurements have not been disclosed as key sources of estimation uncertainty for the Group.

The Group has a one year measurement period, from the acquisition date, to finalise the acquisition accounting. Provisional fair values of the identifiable assets acquired, liabilities assumed and non-controlling interest as at 13 April 2021 were as follows:

	Fair value £m
Property, plant and equipment and intangible assets	326.2
Right-of-use assets	60.4
Other non-current assets	4.3
Inventories	26.8
Trade and other receivables	29.4
Cash and cash equivalents	18.8
Trade and other payables	(37.1)
Lease liabilities	(61.1)
Borrowings	(256.3)
Deferred tax liabilities	(12.1)
Other liabilities	(3.3)
<b>Net identifiable assets acquired</b>	<b>96.0</b>
Less: non-controlling interest	(39.6)
Add: goodwill	165.9
<b>Net assets acquired</b>	<b>222.3</b>

Goodwill on acquisition predominantly relates to the value of uncontracted revenues and synergies expected to be realised by combining Pinnacle with the Group's existing pellet business. The increased size of the Group's pellet business is expected to enable greater flexibility, opportunities to optimise the Group's pellet production operations and logistics across the enlarged portfolio and to increase knowledge. The goodwill is not expected to be deductible for tax purposes. See note 5.2 for further details on goodwill. Goodwill is required to be denominated in the functional currency of the operations to which the goodwill is allocated to. The goodwill on the Pinnacle acquisition relates to both CAD and USD functional currency operations. This resulted in goodwill of C\$97.4 million and \$151.9 million which, when translated at the acquisition date, resulted in £165.9 million of goodwill. These goodwill balances are translated at the balance sheet rates into the Group's presentational currency of GBP (see note 5.2 for further details).

The non-controlling interest has been measured at the proportionate share of the identifiable net assets of the acquiree at the acquisition date (see note 4.6 for further details on non-controlling interests).

## 5.1 Acquisitions continued

### Acquired receivables

The Group acquired receivables with a fair value of £22.9 million (C\$39.6 million). These trade receivables had a gross contracted value of £22.9 million (C\$39.6 million). No provision for receivables was recognised due to the risk of default within the Pinnacle business being considered to be extremely low, as explained further in note 3.5.

### Contingent liabilities

No contingent liabilities or indemnification assets have been recognised on acquisition of Pinnacle.

### Revenue and profit contribution

From the acquisition date to 31 December 2021 £213.7 million of revenue and £17.7 million of net loss has been recognised in the Consolidated income statement relating to Pinnacle. If the acquisition had occurred on 1 January 2021, being the start of the current reporting period, it is estimated that Group consolidated revenue of £5,230.5 million and Group consolidated net profit of £69.9 million would have been recognised in the Consolidated income statement. In determining these amounts, it has been assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

### Reconciliation of net cash outflow from investing activities

	Cash outflow/(inflow)
	£m
Cash paid to acquire Pinnacle	222.3
Less balances acquired:	
Cash	(18.8)
<b>Net cash outflow</b>	<b>203.5</b>

## 5.2 Goodwill and intangible assets

Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets can be acquired in business combinations or purchased separately.

### Accounting policy

Intangibles acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs to bring the asset into the condition and location required for use as intended by management.

Intangible assets are amortised over their anticipated useful lives. Useful lives are reviewed at each balance sheet date. No changes to useful lives were made during the period. Amortisation calculations are specific to each category of assets and are explained in further detail below.

Goodwill is measured as the excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired.

Goodwill arising on the acquisition of a foreign operation is treated as an asset of that operation and therefore denominated in the functional currency of the operation to which it is allocated. Goodwill denominated in a foreign currency is translated at the balance sheet rate. Exchange differences arising on retranslation are recognised in other comprehensive income.

The IFRS Interpretations Committee (IFRS IC) finalised its agenda decision regarding how to account for cost of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. The agenda decision concluded that the configuration and customisation costs do not normally result in an intangible asset and should therefore be recognised as an expense.

## Section 5: Other assets and liabilities continued

### 5.2 Goodwill and intangible assets continued

Any changes resulting from this agenda decision would be a change in accounting policy. Agenda decisions should be implemented on a timely basis with entities entitled to sufficient time to implement any necessary accounting policy changes. Assessing the impact of the agenda decision on the Group requires detailed analysis of the historical amounts capitalised. Given the volume of transactions and complexity of the projects included in the analysis this process is still ongoing. The Group expects to conclude its analysis in the first half of 2022. Accordingly, the Group plans to adopt a new accounting policy for SaaS arrangements with effect from 1 January 2022 and the results of this change will be reflected in the 2022 Financial Statements.

Carrying amounts are assessed for indicators of impairment at each balance sheet date. The customer-related assets are attributable to the Opus Energy CGU and the Pinnacle CGU. The brand is attributed to the Opus Energy CGU. Details of the impairment test relating to these CGUs are included in note 2.4.

The Group has incurred research and development expenses of £11.4 million (2020: £11.5 million), which are included in Operating and administrative expense in the Consolidated income statement.

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Other intangibles £m	Goodwill £m	Total £m
<b>Cost and carrying amount:</b>							
<b>At 1 January 2020</b>	211.0	11.3	119.3	21.0	–	248.2	610.8
Additions at cost	–	–	8.6	–	–	–	8.6
Transfers from Property, plant and equipment	–	–	5.7	–	–	–	5.7
Disposals	–	–	(1.4)	–	–	–	(1.4)
Transfers to assets held for sale	–	–	(0.5)	–	–	–	(0.5)
Effect of foreign exchange rates	–	–	(0.2)	–	–	–	(0.2)
<b>At 1 January 2021</b>	<b>211.0</b>	<b>11.3</b>	<b>131.5</b>	<b>21.0</b>	<b>–</b>	<b>248.2</b>	<b>623.0</b>
Additions at cost	8.2	–	14.1	–	–	–	22.3
Transfers from/(to) Property, plant and equipment	–	–	1.2	(19.3)	–	–	(18.1)
Acquired in business combinations	35.9	–	0.4	–	0.2	165.9	202.4
Effect of foreign exchange rates	0.4	–	–	–	0.1	2.2	2.7
<b>At 31 December 2021</b>	<b>255.5</b>	<b>11.3</b>	<b>147.2</b>	<b>1.7</b>	<b>0.3</b>	<b>416.3</b>	<b>832.3</b>
<b>Accumulated amortisation</b>							
<b>At 1 January 2020</b>	101.7	3.4	50.6	–	–	–	155.7
Charge for period	24.9	1.1	12.4	–	–	–	38.4
Asset obsolescence (note 2.7)	–	–	0.8	–	–	–	0.8
Eliminated on disposal	–	–	(1.4)	–	–	–	(1.4)
Transfers to assets held for sale	–	–	(0.5)	–	–	–	(0.5)
<b>At 1 January 2021</b>	<b>126.6</b>	<b>4.5</b>	<b>61.9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>193.0</b>
Charge for period	22.8	1.1	10.5	–	–	–	34.4
Acquired in business combinations	0.1	–	–	–	0.1	–	0.2
Effect of foreign exchange rates	(0.1)	–	–	–	(0.1)	–	(0.2)
<b>At 31 December 2021</b>	<b>149.4</b>	<b>5.6</b>	<b>72.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>227.4</b>
<b>Net book value</b>							
At 31 December 2020	84.4	6.8	69.6	21.0	–	248.2	430.0
<b>At 31 December 2021</b>	<b>106.1</b>	<b>5.7</b>	<b>74.8</b>	<b>1.7</b>	<b>0.3</b>	<b>416.3</b>	<b>604.9</b>

#### Customer-related assets

Customer-related assets reflect the value of customer contracts acquired on the acquisition of Opus Energy in February 2017 and the acquisition of Pinnacle in April 2021, which provided the Group with access to customer bases with contracted cash flows.

The Opus Energy asset valuation of £211.0 million reflected the estimated value of the future cash flows associated with this customer base at the acquisition date and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows have been discounted using an asset specific discount rate of 10.7%. The asset has an estimated useful life from acquisition of 11 years, calculated based on customer churn-rate analysis (the churn-rate shows how many customers are expected to leave the business in a given year), and is being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time.

## 5.2 Goodwill and Intangible assets continued

The Pinnacle asset valuation of £35.9 million (C\$62.1 million) was estimated based on a multi-period excess earnings method. This is based on the present value of the incremental after-tax cash flows attributable to the customer related intangible asset, after deducting a contributory asset charge that represents the required return for fixed assets, net working capital and the assembled workforce that are required to produce the cash flows. The valuation estimates an appropriate margin to apply to the contracts. No customer retentions were assumed as part of the valuation. The inputs used as part of the valuation are detailed below:

	Pinnacle customer-related asset
Discount rate	10%
Weighted average tax rate	25.2%
Return on net working capital	1.5%
Return on fixed assets	7%
Return on the assembled workforce	8.5%
Useful economic life	10 years

Reasonable changes in each of the above inputs are unlikely to result in a materially different value of the Pinnacle customer-related asset apart from the assumption regarding customer retentions which would in turn impact the useful economic life. The analysis assumes that existing contracts are not renewed at the end of their current term. This assumption was based on the long duration of these contracts and the developing nature of the market for bioenergy pellets. Future renewals will depend on factors such as market conditions and the requirement and availability of appropriate support mechanisms in jurisdictions where the Group's customers operate. Had a different assumption been made in respect of contract renewals, this could have resulted in a materially higher value for the customer-related asset with an equivalent reduction in goodwill.

The Pinnacle customer-related asset is being amortised on a straight-line basis to reflect the even spread of contract maturities over the useful economic life.

### Goodwill

The table below shows the carrying amount of goodwill by CGU:

	As at 31 December	
	2021 £m	2020 £m
<b>CGU allocation:</b>		
Drax Energy Solutions (formerly Haven Power) CGU: Haven Power acquired in 2009	10.7	10.7
Opus Energy CGU: Opus Energy acquired in 2017	159.2	159.2
Lanark CGU: Drax Generation Enterprise acquired in 2018	11.3	11.3
Galloway CGU: Drax Generation Enterprise acquired in 2018	40.1	40.1
Cruachan CGU: Drax Generation Enterprise acquired in 2018	26.9	26.9
Pellet group of CGUs: Pinnacle acquired in 2021	168.1	–
<b>At 31 December 2021</b>	<b>416.3</b>	<b>248.2</b>

A full impairment assessment of CGUs with goodwill allocated to them has been performed as detailed in note 2.4.

### Opus Energy brand

The Opus Energy brand was acquired as part of the acquisition in February 2017 and valued at £11.3 million on a relief-from-royalty method. The brand is being amortised on a straight-line basis over its assumed 10-year useful life from acquisition.

### Computer software

Additions in the period include those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the Customers segment. Software assets are amortised on a straight-line basis over estimated useful lives ranging from three to five years.

As at 31 December 2021, computer software assets in the course of construction amounted to £39.3 million (2020: £30.7 million). This includes £19.2 million (2020: £19.2 million) for a billing system where the Group has stopped development and is engaged in active discussion with the supplier reflecting the supplier's failure to perform under this contract. No amounts have been provided in respect of these assets as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

### Carbon assets

Carbon assets arise on the purchase of carbon emissions allowances in excess of the amount allocated under the Emissions Trading Scheme and required for the current financial year, and are measured at cost, net of any impairment. Given their short-term nature, carbon assets are not amortised.

The amount charged to the Consolidated income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy the obligation for the current year and takes into account generation and market purchases allocated to the current financial year, and to the extent further purchases are required, is based on the market price at the balance sheet date.

## Section 5: Other assets and liabilities continued

### 5.3 Provisions

The Group makes provision for reinstatement to cover the estimated costs of decommissioning and demolishing its generation and pellet assets and remediating the sites at the end of the useful economic lives of the assets. Other provisions are made when the Group has an obligation as a result of an event occurring in the period. During 2020, the Group has recognised a restructuring provision in respect of coal closure.

#### Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Specifically, a provision is made for the estimated decommissioning costs at the end of the useful economic life of the Group's generating and pellet assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided is calculated on a site-by-site basis and represents the present value of the expected costs. The discount rate used is a risk-free rate that reflects the duration of the liability. The average discount rate used across the Group's decommissioning provisions is 1.16% (2020: 0.75%). The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within Property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

An increase of 10% to our cost estimates would increase the decommissioning provision by £6.8 million. A change in our estimates on the useful economic lives of assets included in the provision would not materially impact the value of the provision. An increase of 1% in the discount rate used to calculate the provision would decrease the provision by £11.1 million.

The Group recognises a restructuring provision when it has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring either by starting to implement the plan or announcing its main features to those affected by it. The restructuring provision includes only the direct expenditures arising from the restructuring programme. These are costs that would have been avoided if the restructuring programme did not go ahead. Any costs to be incurred relating to the ongoing activities of the Group are excluded from the provision.

A provision for termination benefits is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

Other provisions include a small provision in respect of dilapidation costs for leased offices.

	Decommissioning provision £m	Restructuring provision £m	Other provisions £m	Total £m
<b>Carrying amount:</b>				
<b>At 1 January 2021</b>	<b>70.1</b>	<b>20.6</b>	<b>0.5</b>	<b>91.2</b>
Additions	–	4.3	–	<b>4.3</b>
Utilised	–	(8.2)	(0.3)	<b>(8.5)</b>
Released	(2.7)	–	–	<b>(2.7)</b>
Unwinding of discount	0.6	–	–	<b>0.6</b>
Transfer on acquisition	1.5	–	–	<b>1.5</b>
<b>At 31 December 2021</b>	<b>69.5</b>	<b>16.7</b>	<b>0.2</b>	<b>86.4</b>

Decommissioning provisions are made in respect of the Group's thermal generating plant (Drax Power Station) and pellet plants. The most recent update took place in December 2020 for Drax Power Station. The decommissioning provision for the pellet plants was updated in October 2021. Decommissioning provisions are not considered a key source of estimation uncertainty to which there is a significant risk of a material adjustment to the carrying amount within the next financial year. Decommissioning provisions are based on costs sufficiently far in the future that, given the length of time, it is not anticipated that any new, more reliable, or accurate information will be available within the next financial year to update this estimate and that would cause a material adjustment. Notwithstanding this, due to the high degree of estimation and uncertainty regarding the potential costs and timing of decommissioning the Group's generating and pellet plants, there remains a risk of a material adjustment to the carrying amount in the longer-term.

Decommissioning provisions are based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of each site (2039 for Drax Power Station and between 2022 and 2040 for the pellet plants). For Drax Power Station this has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis. The decommissioning provision for pellet plants is estimated by management using existing technology at current prices.

The restructuring provision consists of redundancy costs relating to the closure of the coal units at Drax Power Station. It also includes costs for engineering works required to make the coal units and related assets safe when they cease being used. The additions in the year predominantly relate to increases in the expected costs of these engineering works. The amounts utilised predominantly relate to redundancy costs. Of the balance remaining at 31 December 2021, £2.1 million relates to redundancy costs which are expected to be utilised in 2022. The remaining £14.6 million relates to engineering works, of which £4.6 million is expected to be utilised in 2022 with the remaining amounts expected to be utilised in the period 2023 to 2026.

## 5.4 Assets held for sale and discontinued operations

Assets held for sale are non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than through continuing use. If a component of an entity is disposed of or classified as held for sale its results are classified as a discontinued operation.

Non-current assets and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

### Accounting policy

Non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than continuing use are classified as held for sale if they are available for immediate sale in their present condition and if the sale is considered highly probable. A sale is deemed highly probable if all the following criteria are met:

- the appropriate level of management is committed to a plan to sell the asset (or disposal group);
- an active programme to locate a buyer and complete the plan has been initiated;
- the asset (or disposal group) are being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once an asset (or disposal group) has been classified as held for sale it is recognised at the lower of its carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets, investment properties measured at fair value and contractual rights under insurance contracts, which are exempt from this requirement and continue to be measured in line with their relevant IFRS requirements.

Impairment losses and subsequent reversals of impairment losses are recognised in the income statement. Reversals of impairment losses are only recognised to the extent they reverse a prior impairment. If an impairment loss is recognised in relation to a disposal group the impairment would be allocated first to goodwill and then on a pro-rata basis to the non-current assets within the disposal group.

A discontinued operation is a component of the Group that meets one of the following criteria:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria.

When an operation is classified as a discontinued operation its results are presented separately in the Consolidated income statement. The results of the discontinued operation are also re-presented in the Consolidated income statement as discontinued in any comparative periods.

### Assets held for sale

On 15 December 2020, the Group announced it had reached an agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT portfolio, to VPI Generation Limited. Accordingly, these assets were a disposal group and were recognised as held for sale at 31 December 2020.

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio 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 (see notes 3.5 and 7.1). The sale price represents a return over the Group's 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. A completion accounts process concluded in July 2021, subsequent to the balance sheet date, that finalised working capital adjustments at £22 million, amending the initial consideration to £186 million.

## Section 5: Other assets and liabilities continued

### 5.4 Assets held for sale and discontinued operations continued

A reconciliation of the gain on disposal, and net assets disposed of, is set out below:

	Gain on disposal £m
<b>Consideration received or receivable</b>	
Cash	188.0
Fair value of contingent consideration	27.7
Carrying amounts of net assets disposed	(198.6)
<b>Gross gain on disposal</b>	<b>17.1</b>
Other expenses:	
Transaction costs	(4.2)
Net mark-to-market losses	(4.4)
<b>Net gain on disposal</b>	<b>8.5</b>

The Group recognised certain transaction-related and mark-to-market costs, as incurred, during the year ended 31 December 2020. As a result, recognition of the net gain on disposal in the Group's income statement is spread across 2020 and 2021, as illustrated below:

	Year ended 31 December		Total £m
	2021 £m	2020 £m	
Gross gain on disposal	17.1	–	17.1
Transaction costs	(0.9)	(3.3)	(4.2)
Mark-to-market costs	(1.1)	(3.3)	(4.4)
<b>Net gain on disposal</b>	<b>15.1</b>	<b>(6.6)</b>	<b>8.5</b>

The following assets and liabilities were reclassified as held for sale in relation to the agreed sale of DGEL at 31 December 2020:

	Notes	As at 31 December 2020 £m
Property, plant and equipment	3.1	195.4
Right-of-use assets	3.2	5.3
Trade and other receivables		58.3
Inventories		0.9
Deferred tax asset	2.6	1.4
<b>Total assets</b>		<b>261.3</b>
Lease liabilities	3.2	(5.6)
Provisions		(13.8)
Trade and other payables		(63.1)
<b>Total liabilities</b>		<b>(82.5)</b>
<b>Net assets held for sale</b>		<b>178.8</b>

The assets and liabilities were disposed of on 31 January 2021 and as such no assets or liabilities were held for sale at 31 December 2021.



## 5.4 Assets held for sale and discontinued operations continued

### Discontinued operations

The income and expenses of the CCGT portfolio have been classified as discontinued operations.

	Year ended 31 December 2021			Year ended 31 December 2020		
	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	51.8	(2.5)	49.3	205.8	(25.3)	180.5
Cost of sales	(31.6)	(7.2)	(38.8)	(127.3)	47.7	(79.6)
<b>Gross profit/(loss)</b>	<b>20.2</b>	<b>(9.7)</b>	<b>10.5</b>	<b>78.5</b>	<b>22.4</b>	<b>100.9</b>
Operating expenses	0.1	(1.9)	(1.8)	(32.6)	(3.3)	(35.9)
<b>Adjusted EBITDA</b>	<b>20.3</b>			<b>45.9</b>		
Depreciation and amortisation	–	–	–	(19.2)	–	(19.2)
Other gains	–	17.1	17.1	–	–	–
<b>Operating profit</b>	<b>20.3</b>	<b>5.5</b>	<b>25.8</b>	<b>26.7</b>	<b>19.1</b>	<b>45.8</b>
Net finance costs	–	–	–	(0.7)	–	(0.7)
<b>Profit before tax on discontinued operations</b>	<b>20.3</b>	<b>5.5</b>	<b>25.8</b>	<b>26.0</b>	<b>19.1</b>	<b>45.1</b>
Total tax (charge)/credit	(3.6)	1.9	(1.7)	(4.8)	(3.6)	(8.4)
<b>Profit after tax from discontinued operations and total profit from discontinued operations</b>	<b>16.7</b>	<b>7.4</b>	<b>24.1</b>	<b>21.2</b>	<b>15.5</b>	<b>36.7</b>
<b>Earnings per share</b>	<b>Pence</b>		<b>Pence</b>	<b>Pence</b>		<b>Pence</b>
on profit for the period from discontinued operations attributable to owners of the parent						
– Basic	4.2		6.1	5.3		9.2
– Diluted	4.1		5.8	5.2		9.1

## Section 6: Our people

The notes in this section relate to the remuneration of the directors and employees of the Group, including the Group's obligations under retirement benefit schemes.

### 6.1 Colleagues including directors and employees

This note provides a more detailed breakdown of the cost of employees, including Executive Directors of the Group. The average number of employees in Operations (staff based at production sites), Customers (employees in our Customers segment) and Central and administrative functions are also provided.

Further information in relation to pay and remuneration of the Executive Directors can be found in the Remuneration Committee report, starting on page 130.

#### Staff costs (including Executive Directors)

	Years ended 31 December	
	2021 £m	2020 £m
Wages and salaries	167.9	147.6
Social security costs	20.0	17.3
Defined benefit pension service cost (note 6.3)	6.3	8.4
Defined contribution pension cost	15.7	16.1
Share-based payments (note 6.2)	7.4	6.3
Termination benefits	7.3	17.0
<b>Total staff costs</b>	<b>224.6</b>	<b>212.7</b>
Staff costs capitalised	(7.5)	(3.8)
Staff costs included in discontinued operations	1.5	(12.6)
<b>Staff costs per operating and administrative expenditure from continuing operations</b>	<b>218.6</b>	<b>196.3</b>

Termination benefits of £7.3 million (2020: £17.0 million) includes a defined benefit past service credit of £2.6 million (2020: cost of £7.4 million). See note 6.3.

#### Average monthly number of people employed (including Executive Directors)

	Years ended 31 December	
	2021 (number)	2020 (number)
Generation operations	754	968
Pellet Production operations	520	253
Customers	964	1,071
Central and administrative functions	884	723
	<b>3,122</b>	<b>3,015</b>

### 6.2 Share-based payments

The Group operates three share option schemes for employees: the Long Term Incentive Plan 2020 (LTIP) for Executive Directors and senior employees (which replaced the Performance Share Plan (PSP) from 2020), the Deferred Share Plan (DSP) for Executive Directors, and the Sharesave Plan (SAYE) for all UK qualifying employees. Awards are made to certain employees below senior management under the rules of the LTIP – such awards are retention and recognition awards, designated as One Drax Awards, for more junior colleagues. The Group incurs a non-cash charge in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

#### Accounting policy

The LTIP, PSP, DSP, One Drax Award and SAYE share-based payments are equity settled. Equity-settled share-based payments, in accordance with IFRS 2, are measured at the fair value of the equity instrument at the date of grant and are recognised in the income statement on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each balance sheet date.

## 6.2 Share-based payments continued

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Equity settled</b>		
LTIP 2020 (granted from 2020)	3.6	0.4
PSP (granted from 2017)	0.9	0.8
DSP (granted from 2017)	0.6	0.7
One Drax awards	0.7	–
SAYE	1.6	3.3
<b>Cash settled</b>		
One Drax awards	–	1.1
<b>Total share-based payment expense (note 6.1)</b>	<b>7.4</b>	<b>6.3</b>

Of the total share-based payment expense in the table above, £nil relates to discontinued operations (2020: £0.7 million).

### Share Incentive Plan (SIP)

Between 2008 and 2010, qualifying employees could buy up to £1,500 worth of Partnership Shares in any one tax year. Matching shares were awarded to employees to match any shares they bought, in a ratio of one-to-one, with the cost of matching shares borne by the Group. There have been no awards under the SIP Partnership and Matching Share plan since 2010. In December 2021, the SIP was wound up and, as at 31 December 2021, there were no outstanding SIP shares.

Shares in the Company held under trust and under the Company's control as a result of the SIP are as follows:

	Shares held at 1 January 2021 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2021 (number)	Cost at 31 December 2021 £	Nominal value at 31 December 2021 £	Market value at 31 December 2021 £
SIP	59,373	–	59,373	–	–	–	–

### Long Term Incentive Plan (LTIP)

The LTIP was introduced in 2020 for Executive Directors and senior employees. This replaced the Performance Share Plan which operated from 2017 to 2019 (see below). Under the LTIP, annual awards of performance and service-related shares are made for no consideration to Executive Directors and other senior employees up to a maximum of 200% of their annual base salary. Vesting of a proportion of shares (50%) is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) is conditional upon performance of Cumulative Adjusted EPS over three years.

The fair value of the LTIP awards of £2.0 million made in 2021 (2020: £3.1 million) is being charged to the income statement on a straight-line basis over the three-year vesting period. The fair value of LTIP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2021 awards are the share price at the grant date of 418 pence (2020: 203 pence), expected volatility of 40% (2020: 37%), and risk-free interest rate of 0.12% (2020: 0.05%).

Movements in the number of shares outstanding for the LTIP is shown below:

	2021 (number)	2020 (number)
<b>At 1 January</b>	<b>3,055,168</b>	–
Granted	1,990,385	3,093,600
Forfeited	(445,760)	(38,432)
Expired	(29,565)	–
<b>At 31 December</b>	<b>4,570,228</b>	<b>3,055,168</b>

The weighted average fair value of the options granted during the year was 388 pence (2020: 156 pence).

Shares were forfeited due to the employee failing to meet the continuing service conditions of the grant and as such do not attract a charge.

Shares expire due to employees not meeting market-based conditions, withdrawing (by choice) part way through the vesting period or for whatever reason, do not exercise their options in the exercise period after they vest. Under IFRS 2 such options still attract a charge.

All of the LTIP options outstanding at the end of the period had an exercise price of £nil (2020: £nil). The weighted average remaining contractual life was 21 months (2020: 29 months).

## Section 6: Our people continued

### 6.2 Share-based payments continued

#### Performance Share Plan (PSP)

The PSP was introduced for Executive Directors and senior employees to replace the Bonus matching plan (BMP) from 2017. Under the PSP, annual awards of performance and service-related shares were made for no consideration up to a maximum of 175% of their annual base salary. Vesting of a proportion of shares (50%) was conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) is conditional upon performance against the internal balanced corporate scorecard. No PSP awards were granted in 2021 (2020: none).

Movements in the number of shares outstanding for the PSP awards are as follows:

	2021 (number)	2020 (number)
<b>At 1 January</b>	<b>1,807,607</b>	3,001,565
Forfeited	(325,362)	(553,820)
Exercised	(627,101)	(159,429)
Expired	(138,722)	(480,709)
<b>At 31 December</b>	<b>716,422</b>	1,807,607

All of the PSP options outstanding at the end of the period had an exercise price of £nil (2020: £nil). The weighted average remaining contractual life was 4 months (2020: 8 months).

The weighted average share price of options exercised during the period at the date of exercise was 199 pence (2020: 202 pence).

#### Deferred Share Plan (DSP)

In addition, the Group operates the DSP, under which Executive Directors defer into shares a minimum of 40% (2020: 40%) of their annual bonus. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions. The share price on the grant date of DSP awards made in 2021 was 418 pence (2020: 149 pence) and the fair value of these awards of £0.4 million (2020: £0.3 million) is being charged to the income statement on a straight-line basis over the three-year vesting period.

The fair value of DSP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2021 awards are the share price at the date of grant, expected volatility of 40% (2020: 37%), and risk-free interest rate of 0.12% (2020: 0.05%).

Movements in the number of share options outstanding for the DSP awards are as follows:

	2021 (number)	2020 (number)
<b>At 1 January</b>	<b>690,438</b>	648,248
Granted	99,367	179,921
Forfeited	(40,568)	(47,115)
Exercised	(135,972)	(90,616)
Expired	(45,839)	–
<b>At 31 December</b>	<b>567,426</b>	690,438

The weighted average fair value of the options granted during the year was 418 pence (2020: 149 pence).

All of the DSP options outstanding at the end of the period had an exercise price of £nil (2020: £nil). 100% of the DSP options granted in 2021 will vest in three years; the weighted average remaining contractual life of the DSP options outstanding at the end of the period was 11 months (2020: 16 months).

The weighted average share price of options exercised during the period at the date of exercise was 380 pence (2020: 154 pence).

The number of options exercisable at the year end was nil (2020: nil).

#### Sharesave Plan (SAYE)

In April 2021, participation in the SAYE plan was offered again to all UK qualifying employees. Options were granted for employees to acquire shares at a price of 331 pence (2020: 127 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts. The fair value of the options granted in connection with the SAYE plan of £1.0 million (2020: £4.9 million) is being charged to the income statement over the term of the relevant contracts.

## 6.2 Share-based payments continued

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2021				2020			
	Three-year Weighted average exercise price (pence)	SAYE three-year (number)	Five-year Weighted average exercise price (pence)	SAYE five-year (number)	Three-year Weighted average exercise price (pence)	SAYE three-year (number)	Five-year Weighted average exercise price (pence)	SAYE five-year (number)
<b>At 1 January</b>	<b>137</b>	<b>9,523,816</b>	<b>139</b>	<b>3,649,625</b>	271	3,055,918	244	1,656,746
Granted	331	790,701	331	109,566	127	8,951,973	127	3,225,364
Forfeited	141	(813,391)	132	(607,663)	204	(81,835)	319	(6,195)
Exercised	174	(828,697)	180	(516,317)	267	(81,817)	206	(13,089)
Expired	170	(295,606)	164	(95,501)	270	(2,320,423)	249	(1,213,201)
<b>At 31 December</b>	<b>149</b>	<b>8,376,823</b>	<b>140</b>	<b>2,539,710</b>	137	9,523,816	139	3,649,625

Shares granted during 2021 were significantly lower to 2020. This was due to the high level of employee subscriptions to the 2020 scheme and there being a limit on the amount employees are able to save across all SAYE schemes.

The fair value of SAYE awards is calculated using a Black-Scholes model, which compares exercise price to share price at the date of grant. The fair value of SAYE options granted and the inputs to the option pricing model used in the current and previous year are set out in the table below:

Grant date	13 April 2021 three-year	13 April 2021 five-year	14 April 2020 three-year	14 April 2020 five-year
Share price at grant date (pence)	413	413	185	185
Vesting period	3 years	5 years	3 years	5 years
Exercise price (pence)	331	331	127	127
Dividend yield	4.3%	4.7%	8.6%	8.6%
Annual risk-free interest rate	0.43%	0.68%	0.04%	0.10%
Expected volatility	38.4%	35.8%	35.0%	39.6%
Fair value of options granted (pence)	111	105	41	39

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three and five years respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the SAYE options exercised during the period, the weighted average share price at the date of exercise was 438 pence (2020: 296 pence).

The range of exercise prices of SAYE options outstanding at the end of the period was between 127 pence and 331 pence (2020: 127 pence and 298 pence). The weighted average remaining contractual life was 23 months (2020: 33 months).

The number of options exercisable at the year end was 8,551 (2020: 3,857).

### One Drax Awards

One Drax Awards are granted under the rules of the LTIP to certain employees below senior management. These shares vest one year after the date of grant. The number of shares awarded to the employee is equivalent to 10% of their base pay based on the Drax Group share price as at the grant date.

The share price on the grant date of One Drax Awards made in 2021 was 418 pence and the fair value of these awards of £0.3 million is being charged to the income statement on a straight-line basis over the one-year vesting period.

Movements in the number of share options outstanding for the One Drax Awards are as follows:

	2021 (number)
<b>At 1 January</b>	<b>-</b>
Granted	226,852
Forfeited	(10,083)
Exercised	-
Expired	(703)
<b>At 31 December</b>	<b>216,066</b>

The weighted average fair value of the options granted during the year was 418 pence.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on page 139.

## Section 6: Our people continued

### 6.3 Retirement benefit obligations

The Group operates two defined benefit and five defined contribution pension schemes.

Name of scheme	Type of Benefit	Status	Country
Drax Power Group (DPG) section of the Electricity Supply Pension Scheme (ESPS)	Defined benefit final salary	Closed to new members in 2002	UK
Drax 2019 Scheme	Defined benefit final salary	Closed to new members on transfer in 2019	UK
Drax Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Energy Solutions (formerly Haven Power) Personal Pension Plan	Defined contribution	Open to new members	UK
Opus Energy Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Biomass Inc. 401(k) Plan	Defined contribution	Open to new members	US
Pinnacle Registered Retirement Savings Plan	Defined contribution	Open to new members	CAN

#### Trustee governance (defined benefit pension schemes)

The UK defined benefit plans are administered by a separate board of trustees, which is legally separate from the Group. The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy for the assets and the day-to-day administration of the benefits.

#### Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

#### Significant estimation uncertainty

Measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of pension scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2021 have been prepared on a consistent basis with those in the previous period. The assumptions have been prepared in accordance with independent actuarial advice received.

#### Defined contribution schemes

The Group operates five defined contribution schemes for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Total included in staff costs	15.7	16.1

As at 31 December 2021, contributions of £1.1 million (2020: £0.3 million) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further outstanding payment obligations once the contributions have been paid.

#### Defined benefit schemes

Any pension surplus and liability are shown gross on the Balance Sheet as there is no legal right of offset between the two defined benefit pension schemes. The net pension surplus/(liability) for the two defined benefit pension schemes is as follows:

	As at 31 December	
	2021 £m	2020 £m
Drax Power Group section of ESPS	44.0	9.5
Drax 2019 Scheme	4.9	(1.3)
<b>Total net surplus recognised in the balance sheet</b>	<b>48.9</b>	<b>8.2</b>

### 6.3 Retirement benefit obligations continued

The DPG section of the ESPS and the Drax 2019 scheme are collectively referred to as the Defined Benefit Schemes or the Schemes below. At 31 December 2021, application of the accounting assumptions used in relation to the Defined Benefit Schemes, which are described in further detail below, continued to result in a net position of surplus assets over liabilities.

Both plans are Defined benefit final salary pension plans, which provide benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. Pension benefits are updated in line with inflationary increases.

The DPG section of the ESPS was closed to new members as of 1 January 2002 unless they had qualified through being existing members of another part of the ESPS. Members who joined before this date continue to build up pension benefits as part of the scheme. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three-times the members pension at retirement.

The Drax 2019 scheme was set up following a transaction on 31 December 2018, when Drax acquired assets from ScottishPower. Under the terms of the Sale and Purchase Agreement, employees with Defined benefit pension rights who moved to Drax as part of the transaction were able to build up future Defined benefit pension and were also able to transfer their defined benefits they had already built up to Drax. The 2019 Scheme was set up to facilitate this from 1 January 2020. From this date, 96 members joined the 2019 scheme and continued to build up future Defined benefit pension. Of these, 81 members agreed to transfer their past service into the Drax 2019 Defined Benefit Scheme.

Under the Drax 2019 Scheme, employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). No other post-retirement benefits are provided. The Scheme is open to future accrual of benefits but closed to new members.

The Schemes expose the Group to actuarial and other risks, the most significant of which are considered to be:

<b>Investment risk</b>	<p>The Schemes' liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The ESPS Scheme holds a significant proportion of growth assets (diversified growth funds, direct lending and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given this Scheme's long-term objectives.</p> <p>The 2019 Scheme has an interim investment allocation in place whilst the long-term strategy is agreed. The Scheme's interim strategic asset allocation is 40% in gilts and cash to support liability hedging and swaptions positions, 35% allocated to synthetic credit (which is not yet in place), 15% to short duration gilts and 10% to credit opportunities.</p>
<b>Discount rate risk</b>	A decrease in corporate bond yields will increase the value placed upon the Schemes' liabilities, although this will be partially offset by an increase in the value of the Schemes' bond holdings.
<b>Longevity risk</b>	The majority of the Schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the Scheme.
<b>Inflation risk</b>	The majority of the Schemes' obligations to pay benefits are linked to inflation and, as such, higher inflation will lead to higher liabilities. In most cases, caps on inflationary increases are in place to protect against extreme inflation. The Schemes have a significant holding in liability-driven investments and around 85% of inflation risk in the Schemes is hedged on a low-risk measure (2020: 85%).
<b>Credit risk</b>	Around 85% of the Schemes' funded liabilities are currently hedged against interest rates and inflation using liability-driven investments. Note that the Schemes hedge interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Schemes' holding in corporate bonds mitigates this risk to some extent.
<b>Risk management</b>	The Group and Trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme so as to protect against interest rates being lower or inflation being higher than expected.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension schemes through new legislation) and other demographic risks (such as making a higher proportion of members with dependants eligible to receive pensions from the Group). The Trustees ensure certain benefits are payable on death before retirement.

A qualified independent actuary, Aon, carried out the most recent funding valuation of the DPG ESPS as at 31 March 2019, and the most recent funding valuation of the 2019 Scheme as at 31 March 2021. The actuarial review at 31 December 2021 is based on the same membership and other data as these funding valuations. The Scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the Scheme cost.

## Section 6: Our people continued

### 6.3 Retirement benefit obligations continued

The results of the latest funding valuation have been adjusted to the balance sheet date, taking into account experience over the period since that date, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation and the related current service costs were measured using the projected unit credit method.

The principal assumptions for the Schemes are set out below. Where absolute assumptions differ between the two schemes, reflecting differences in the expected duration of the Scheme liabilities, a weighted average is shown.

	As at 31 December	
	2021 % p.a.	2020 % p.a.
Discount rate	1.9	1.5
Inflation (RPI)	3.0	2.6
Rate of increase in pensions in payment and deferred pensions	2.9	2.6
Rate of increase in pensionable salaries	3.6	3.2

Mortality assumptions are based on recent actual mortality experience of scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2021 will live, on average, for a further 26 years if they are male (2020: 26 years) and for a further 28 years if they are female (2020: 28 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 and 29 years respectively (2020: 27 and 29 years respectively). At this time we do not consider Covid-19 to have had a significant impact on mortality rates but plan to assess this as part of future experience analysis.

The weighted average duration of the DPG ESPS at 31 December 2021 based on the IAS 19 position was around 20 years (2020: around 20 years). The weighted average duration of the 2019 Scheme at 31 December 2021 based on the IAS 19 position was 24 years (2020: 25 years).

The DPG ESPS defined benefit obligation includes benefits for current employees of the Group (50%), former employees of the Group who are yet to retire (5%) and retired pensioners (45%). The 2019 Scheme defined benefit obligation includes benefits for current employees of the Group (55%), former employees of the Group who are yet to retire (43%) and retired pensioners (2%).

The net surplus recognised in the balance sheet in respect of the Schemes is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

	As at 31 December	
	2021 £m	2020 £m
Defined benefit obligation	(320.9)	(378.1)
Fair value of plan assets	369.8	386.3
<b>Net surplus recognised in the balance sheet</b>	<b>48.9</b>	<b>8.2</b>

The total charges recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Included in staff costs (note 6.1):</b>		
Current service cost	6.3	8.4
Past service (credit)/cost	(2.6)	7.4
<b>Included in finance costs (note 2.5):</b>		
Interest on net defined benefit surplus	(0.3)	(0.3)
<b>Total amounts recognised in the income statement</b>	<b>3.4</b>	<b>15.5</b>

The 2021 past service credit relates to the Group disposal of the CCGT portfolio on 31 January 2021 as described in note 5.4. This led to 42 members, of a pre-transaction total of 96, ceasing to accrue benefits in the Drax 2019 Scheme. However, the pension scheme did not form part of the transaction and therefore the assets and liabilities in relation to the Drax 2019 Scheme will remain on the Group's balance sheet.

The calculation was performed by a qualified actuary using the same assumptions as those applied to the rest of the Scheme and the past service credit represents the difference between the liability relating to the standard Group benefits as per the current reserve in the calculation of the Group's IAS 19 position and the corresponding liability in respect of the equivalent redundancy benefits offered to those employees to be made redundant.



### 6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation of the Schemes are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Defined benefit obligation at 1 January</b>	<b>378.1</b>	345.4
Current service cost	6.3	8.4
Past service (credit)/cost	(2.6)	7.4
Employee contributions	-	0.2
Interest cost	5.3	6.9
Actuarial (gains)/losses	(15.4)	30.5
Benefits paid	(50.8)	(20.7)
<b>Defined benefit obligation at 31 December</b>	<b>320.9</b>	378.1

The actuarial gains of £15.4 million (2020: losses of £30.5 million) reflect gains of £10.3 million arising from changes in financial assumptions (2020: losses of £30.0 million), gains arising from scheme experience of £4.3 million (2020: gains of £0.3 million) and gains of £0.8 million arising from changes in demographic assumptions (2020: losses of £0.8 million).

The gains due to changes in financial assumptions principally reflect the decrease in the present value of the scheme liabilities arising as a result of the change in discount rate assumption to 1.9% p.a. (2020: 1.5% p.a.) following an increase in corporate bond yields. This was partly offset by increases in the present value of the scheme liabilities from higher assumed inflation assumptions reflecting market pricing.

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2021 £m	2020 £m
<b>Fair value of plan assets at 1 January</b>	<b>386.3</b>	352.4
Interest on plan assets	5.7	7.2
Remeasurement gains	15.3	32.3
Employer contributions	13.3	14.9
Employee contributions	-	0.2
Benefits paid	(50.8)	(20.7)
<b>Fair value of plan assets at 31 December</b>	<b>369.8</b>	386.3

Employer contributions included payments totalling £7.2 million (2020: £5.3 million) to reduce the actuarial deficit. There were contributions of £1.0 million outstanding at the end of the year (2020: £0.9 million).

The actual return on plan assets in the period was £21.0 million (2020: £39.5 million).

Remeasurement gains on the Defined benefit pension scheme of £30.7 million (2020: £1.4 million) were recognised in the Consolidated statement of comprehensive income. This is made up as follows:

	Years ended 31 December	
	2021 £m	2020 £m
Actuarial gains/(losses) on Defined benefit obligation	15.4	(30.5)
Remeasurement gains on fair value of plan assets	15.3	32.3
Cost of managing plan assets	-	(0.4)
<b>Remeasurement gains recognised in other comprehensive income</b>	<b>30.7</b>	1.4

## Section 6: Our people continued

### 6.3 Retirement benefit obligations continued

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2021 £m	2020 £m
Gilts	150.0	160.7
Equities <sup>(1)</sup>	26.5	26.8
Fixed interest bonds <sup>(2)</sup>	30.3	35.6
Property	32.1	38.3
Investment funds	25.0	27.2
Cash and other assets <sup>(3)</sup>	105.9	97.7
<b>Fair value of total plan assets</b>	<b>369.8</b>	<b>386.3</b>

Notes:

- (1) At 31 December 2021 the ESPS scheme's long-term asset strategy was: diversified growth funds (37%), direct lending (10%), absolute return bonds (3%), liability driven investing (40%) and long lease property (10%). The 2019 scheme's long term investment strategy is to move gradually towards a fully hedged position but to maintain assets which generate returns such as equity options, swaptions and credit strategy.
- (2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds.
- (3) Other assets include £27.1 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2020: £24.2 million). The fair value of these investments is derived in accordance with International Private Equity and Venture Capital Valuation (IPEV) Guidelines. All other assets are quoted in an active market.

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

The assumptions for discount rate, inflation rate (and related inflation linked benefits) and life expectancy have a potentially significant effect on the measurement of the scheme surplus. The following table provides an indication of the sensitivity of the pension surplus at 31 December 2021 to changes in these assumptions, considering the impact on the defined benefit obligation only:

			Increase/(decrease) in net surplus	
			2021 £m	2020 £m
Discount rate	– Increase	0.25%	17.3	37.6
	– Decrease	0.25%	(19.5)	(41.6)
Inflation rate <sup>(1)</sup>	– Increase	0.25%	(15.1)	(33.2)
	– Decrease	0.25%	13.8	30.2
Life expectancy	– Increase	1 year	(13.2)	(14.6)
	– Decrease	1 year	12.7	14.6

Note:

- (1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation.

The Group is exposed to investment and other risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income. However, this risk is mitigated by the Schemes being around 85% hedged. This means from a discount rate perspective that the Schemes are broadly only exposed to changes in credit spreads plus around 15% of changes in underlying gilt yields and, for inflation, the Schemes' exposure is around 15% of any actual changes.

## 6.3 Retirement benefit obligations continued

### Future contributions

UK legislation requires that pension schemes are funded prudently (i.e. to a level in excess of the current expected cost of providing benefits). This funding is carried out through actuarial valuations which are required by law to take place at intervals of no more than three years. Following each valuation, the Trustees and the Group must agree the contributions required (if any) such that the Schemes are fully funded over time on the basis of suitably prudent assumptions.

The Group expects to make total contributions of £12.2 million to the Schemes during the 12 months ended 31 December 2022.

The latest actuarial valuation of the 2019 Scheme which was completed this year resulted in a funding surplus of £1.3m and so no deficit recovery plan was required. The last actuarial valuation of the DPG section of the ESPS was carried out by the Trustee's actuarial advisers, Aon, as at 31 March 2019. Following this actuarial valuation, the Group agreed to repair the funding deficit of £35.9 million as at 31 March 2019 over the period to 30 June 2024, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2019 being borne out in practice. The agreement includes payments of £7.2 million per annum (indexed with RPI) to be paid until 30 June 2024.

The Group has also agreed to make additional contributions to the DPG section of the ESPS over the period to 31 December 2025 to eliminate the self-sufficiency deficit. At this point the DPG section of the ESPS is expected to be self-sufficient and fully funded, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is confident that the additional contributions are manageable within the Group's business plan.

The Trust Deeds of the DPG section of the ESPS and the 2019 Scheme provide the sponsors of these schemes with an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time. Furthermore, in the ordinary course of business the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to members of the DPG section of the ESPS. Based on these rights, any net surplus in the plan is recognised in full.

## Section 7: Risk management

This section provides disclosures around financial risk management, including the financial instruments the Group uses to mitigate such risks.

### 7.1 Financial instruments and their fair values

The Group hold a variety of derivatives and non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

#### Accounting classifications and fair values

The table below shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for leases or for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Cash and cash equivalents (note 4.1), trade and other receivables (note 3.5) and trade and other payables (note 3.7) generally have a short time to maturity. For this reason, their carrying values, on the historical cost basis, is approximate to their fair value. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn against term loans (note 4.2). These financial liabilities have been measured at amortised cost.

31 December 2021 £m	Carrying amount					Total	Fair value			Total
	Fair value- hedging instruments	Mandatorily at FVTPL- others	FVOCI- equity instruments	Financial assets at amortised cost	Other financial liabilities		Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>										
Commodity contracts	877.5	121.3	-	-	-	998.8	-	998.8	-	998.8
Financial contracts	-	143.9	-	-	-	143.9	-	143.9	-	143.9
Foreign currency exchange contracts	56.9	40.6	-	-	-	97.5	-	97.5	-	97.5
Interest rate and cross-currency contracts	4.6	-	-	-	-	4.6	-	4.6	-	4.6
Inflation rate contracts	1.3	-	-	-	-	1.3	-	1.3 <sup>(1)</sup>	-	1.3
Contingent consideration	-	27.7	-	-	-	27.7	-	-	27.7	27.7
Equity investments	-	-	1.5	-	-	1.5	-	-	1.5	1.5
<b>Financial assets not measured at fair value</b>										
Trade and other receivables	-	-	-	516.8	-	516.8	-	-	-	-
Cash and cash equivalents	-	-	-	317.4	-	317.4	-	-	-	-
<b>Financial liabilities measured at fair value</b>										
Commodity contracts	(1,054.8)	(33.1)	-	-	-	(1,087.9)	-	(1,087.9)	-	(1,087.9)
Financial contracts	-	(90.2)	-	-	-	(90.2)	-	(90.2)	-	(90.2)
Foreign currency exchange contracts	(29.3)	(108.4)	-	-	-	(137.7)	-	(137.7)	-	(137.7)
Interest rate and cross-currency contracts	(48.4)	-	-	-	-	(48.4)	-	(48.4)	-	(48.4)
Inflation rate contracts	(93.7)	(46.6)	-	-	-	(140.3)	-	(140.3) <sup>(1)</sup>	-	(140.3)
<b>Financial liabilities not measured at fair value</b>										
Secured bank loans	-	-	-	-	(786.8)	(786.8)	-	(805.9)	-	(805.9)
Secured bond issues	-	-	-	-	(574.2)	(574.2)	(598.3)	-	-	(598.3)
Lease liabilities	-	-	-	-	(125.9)	(125.9)	-	-	-	-
Trade and other payables	-	-	-	-	(869.5)	(869.5)	-	-	-	-

Note:

(1) The UK CPI inflation rate contracts contain unobservable inputs in their fair value valuation techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13. Inflation rate contracts contains £1.3 million of derivative assets and £11.5 million of derivative liabilities relating to UK CPI inflation rate contracts.

## 7.1 Financial instruments and their fair values continued

31 December 2020 £m	Carrying amount					Fair value				
	Fair value- hedging instruments	Mandatorily at FVTPL- others	FVOCI- equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>										
Commodity contracts	102.1	60.5	–	–	–	162.6	–	162.6	–	162.6
Financial contracts	–	20.0	–	–	–	20.0	–	20.0	–	20.0
Foreign currency exchange contracts	40.3	41.9	–	–	–	82.2	–	82.2	–	82.2
Interest rate and cross-currency contracts	0.1	–	–	–	–	0.1	–	0.1	–	0.1
Inflation rate contracts	6.2 <sup>(1)</sup>	12.2	–	–	–	18.4	–	18.4	–	18.4
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
<b>Financial assets not measured at fair value</b>										
Trade and other receivables	–	–	–	432.8	–	432.8				
Cash and cash equivalents	–	–	–	289.8	–	289.8				
<b>Financial liabilities measured at fair value</b>										
Commodity contracts	(106.4)	(49.6)	–	–	–	(156.0)	–	(156.0)	–	(156.0)
Financial contracts	–	(36.8)	–	–	–	(36.8)	–	(36.8)	–	(36.8)
Foreign currency exchange contracts	(57.0)	(136.8)	–	–	–	(193.8)	–	(193.8)	–	(193.8)
Interest rate and cross-currency contracts	(67.0)	–	–	–	–	(67.0)	–	(67.0)	–	(67.0)
<b>Financial liabilities not measured at fair value</b>										
Secured bank loans	–	–	–	–	(483.2)	(483.2)	–	(500.2)	–	(500.2)
Secured bond issues	–	–	–	–	(582.5)	(582.5)	(614.5)	–	–	(614.5)
Lease liabilities	–	–	–	–	(30.2)	(30.2)				
Trade and other payables	–	–	–	–	(619.4)	(619.4)				

Note:

(1) The UK CPI inflation rate contracts contain unobservable inputs in their fair value valuation techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13.

The derivative financial instruments used by the Group and not subject to the own-use exemption have been categorised as follows:

- **Commodity contracts** – forward contracts for the sale or purchase of a physical commodity which is expected to be settled through physical delivery of the commodity.
- **Financial contracts** – freight and weather-related contracts, as well as contracts for commodities that are not expected to be settled through physical delivery of the commodity.
- **Foreign currency exchange contracts** – currency related contracts including forwards, vanilla options and structured option products.
- **Interest rate and cross-currency contracts** – contracts which swap one interest rate for another in a single currency, including floating-to-fixed interest rate swaps, and contracts which swap interest and principal cash flows in one currency for another currency, including fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps.
- **Inflation rate contracts** – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as RPI or CPI, and inflation swaptions.

### 7.1 Financial instruments and their fair values continued

#### Fair value measurement

- **Commodity contracts fair value** – The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date.
- **Financial contracts fair value** – The fair value of financial contracts that do not qualify for the own-use exemption, is calculated by reference to forward market prices at the balance sheet date.
- **Foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Interest rate and cross-currency contracts** – The fair value of interest rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant interest index. The fair value of cross-currency interest rate swaps is calculated using the relevant forward currency exchange market rates for fixed-to-fixed swaps and by using the relevant forward currency exchange market rates and interest index for floating-to-fixed swaps.
- **Inflation rate contracts** – The fair value of inflation rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant inflation index.

Given the maturity profile of all these contracts, liquid forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The Group has reviewed all significant contracts for the presence of embedded derivatives. The 2025 USD loan notes, the 2025 EUR loan notes, and the infrastructure term loan facilities, all contain early repayment options that meet the definition of embedded derivatives. However, in all cases, these do not require separate valuation as they are deemed to be closely related to the host contract.

IFRS 13 requires categorisation of the Group's financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- **Level 1** – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** – Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- **Level 3** – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The fair value of commodity contracts, financial contracts, foreign currency exchange contracts, interest rate and cross-currency contracts, and US inflation swaps are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2.

Given all inputs, other than an immaterial CPI component of the UK CPI inflation swaps (see details below) are Level 2 in the fair value hierarchy, derivatives have not been considered to be a key source of estimation uncertainty as there is not believed to be any more reliable methodologies or inputs that would result in a material adjustment to the carrying value.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

The Group finance team is responsible for determining the policies and approach to valuations required for financial reporting purposes, including Level 3 fair values. Internal or external specialists will be utilised where necessary. Valuation policies, approaches and the results are discussed with and approved by the CFO and the Audit Committee as required, based on the size, complexity and judgement required with each valuation.

## 7.1 Financial instruments and their fair values continued

### Level 3 fair values

The fair value of the UK CPI inflation swaps comprises an RPI and CPI component. Whilst the RPI component is based on observable market rates, CPI is based on unobservable rates and therefore deemed to be Level 3 in the fair value hierarchy. However, this component is not material to the overall valuation and therefore the instruments as a whole are determined to be Level 2 in line with IFRS 13.

The valuation technique used for non-listed equity investments comprises unobservable inputs and are therefore classified as Level 3. However, given the valuations as a whole for Level 3 equity investments are immaterial, it is not deemed necessary to include all Level 3 disclosures.

The consideration receivable by the Group for the sale of the CCGT portfolio in 2021 includes £29.0 million that is contingent on certain triggers in respect of the option to develop the Damhead Creek land disposed of as part of the sale of these assets. The fair value measurements for the contingent consideration has been categorised as Level 3 based on the inputs to the valuation techniques used.

	Valuation approach	Significant unobservable inputs and range of inputs (probability weighted)	Relationship between significant unobservable input and fair value measurement
Contingent consideration	The fair value of the contingent consideration is determined using a discounted cash flow model. The valuation approach is based on a calculation of the probability of the option to develop the Damhead Creek land being exercised. This probability is calculated using a range of forecasts for future Capacity Market auctions and the assumption that the option to develop the land would be exercised if the Capacity Market price were to clear above a certain level, providing sufficient certainty of the economics of the development.	Forecasted future Capacity Market clearing prices: £4.80/kW – £75.00/kW (£21.50/kW)  Required internal rate of return for the Damhead Creek development to proceed: 15.0% (15.0%)	The fair value measurement would increase (decrease) with: – higher/(lower) forecasted Capacity Market clearing prices causing a higher (lower) probability of the option over the Damhead Creek land being exercised – a reduction/(increase) in the internal rate of return required for the Damhead Creek development to proceed causing a higher/(lower) probability of the option over the Damhead Creek land being exercised

A reconciliation of the contingent consideration is detailed below:

	2021 Contingent consideration £m
Balance at 1 January	–
Contingent consideration receivable recognised on the sale of the CCGT portfolio	27.7
Net change in fair value (unrealised)	–
<b>Balance at 31 December</b>	<b>27.7</b>

Sensitivities are disclosed below for reasonably possible changes to the unobservable inputs that would have a significant impact on the fair value measurement:

	Impact on profit after tax	
	Decrease £m	Increase £m
<b>31 December 2021</b>		
Forecasted future Capacity Market clearing prices (75%)	(15.4)	1.8
Required internal rate of return for the Damhead Creek development to proceed (4%)	2.2	(6.8)

### Accounting for derivatives

Derivatives (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price the Group has secured in the contract, and the price the Group could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve and cost of hedging reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS 9 (see note 7.2).

Where applicable the Group has applied the own-use exemption which allows qualifying contracts to be excluded from fair value marked-to-market accounting. This applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements.

## Section 7: Risk management continued

### 7.1 Financial instruments and their fair values continued

Contracts for non-financial assets which do not qualify for the own-use exemption – principally power, gas, financial oil, financial coal and carbon emissions allowances – are accounted for as derivatives in accordance with IFRS 9 and are recorded in the balance sheet at fair value. Changes in fair value are reflected through the hedge reserve (note 7.3) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the Consolidated income statement where the hedge accounting requirements are not met. To ensure these derivatives are not reflected in the underlying performance of the Group, they are excluded from the Adjusted results in the Consolidated income statement until the contract matures (see note 2.7 for further details).

The Group's biomass risk management policy permits some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. As such the own-use exemption would likely not apply to these biomass contracts. However, the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9.

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

	As at 31 December	
	2021 £m	2020 £m
Non-current derivative financial instrument assets	357.5	103.8
Current derivative financial instrument assets	888.6	179.5
<b>Total derivative financial instrument assets</b>	<b>1,246.1</b>	<b>283.3</b>
Non-current derivative financial instrument liabilities	(541.8)	(142.1)
Current derivative financial instrument liabilities	(962.7)	(311.5)
<b>Total derivative financial instrument liabilities</b>	<b>(1,504.5)</b>	<b>(453.6)</b>
<b>Total net derivative financial instruments</b>	<b>(258.4)</b>	<b>(170.3)</b>

The gains and losses recognised in the period relating to derivative financial instruments mandatorily measured at fair value through profit or loss are detailed below. The Group had no financial assets or financial liabilities voluntarily designated at fair value through profit or loss. In addition to the amounts disclosed below, gains and losses relating to derivatives qualifying for hedge accounting are disclosed in notes 7.2 to 7.4.

	Gains/(losses) recognised	
	2021 £m	2020 £m
(Losses)/gains on derivative financial instruments not qualifying for hedge accounting – recognised in revenue	(77.0)	8.7
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in cost of sales	36.6	(46.6)
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in interest payable and similar charges	(0.3)	–
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in foreign exchange gains/(losses)	(5.1)	(0.6)
<b>Total losses on derivative financial instruments not qualifying for hedge accounting</b>	<b>(45.8)</b>	<b>(38.5)</b>

When the Group rebases derivative contracts, the Group retains the contractual rights to the cash flows, the risks and rewards, and control of the derivative asset. The Group does not assume any obligation to pay the cash flows to another recipient. Accordingly, the derivative asset is not derecognised.

The cash flows received at the point of rebasing reduce the cash flows to be received on maturity, and as such the cash flows over the life of the instrument are the same whether a trade is rebased or not, minus fees.

At the point of rebasing, the Group recognises a reduction in the fair value of the derivative asset, equivalent to the fair value difference between the original rate per the contract and the rebased rate. The Group also recognises the cash received, or due, as a result of the rebasing. Any difference between the reduction in the fair value of the derivative asset, and the cash received, is recognised as a fee charged for rebasing and is recognised within operating and administrative expenses.

The total gain or loss recognised in the period on the derivative contract, including rebased amounts, is included within Total results. No amounts are recognised in Adjusted results at the point of rebasing. The total gain or loss on the derivative contract, including the amount rebased, is recognised in Adjusted results on the contractual maturity date of the contract. If a rebased trade is hedge accounted, the rebased amount is deferred or released from the hedge reserve in line with the hedge accounting requirements of IFRS 9.



## 7.2 Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, foreign currency risk, interest rate risk, inflation risk, liquidity risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by the risk management committees as explained in the principal risks and uncertainties section (page 76) which identify, evaluate and hedge financial risks in close co-ordination with the Group's trading and treasury functions under policies approved by the Board of directors.

### 7.2.1 Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of power, gas, sustainable wood fibre and pellets, other fuels and the price of carbon emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

#### Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices and the impact on profit after tax and other components of equity of reasonably possible increases/decreases in commodity prices. The analysis assumes all other variables were held constant.

In the current year there has been increased volatility, predominantly due to low gas stocks and lower levels of intermittent renewables generation causing significant increases in gas and power prices. Sensitivities for a 10% change in prices have been included in the current year. The impact of smaller and larger price changes can be interpolated and extrapolated from the below table as changes in prices have a relatively linear relationship with the impact on profit after tax and on other components of equity.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
<b>31 December 2021</b>				
Power	-	-	27.8	(27.8)
Carbon	-	-	(0.2)	0.2
Gas	(7.4)	7.4	-	-
Oil	(9.8)	9.8	-	-
	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% decrease £m	10% increase £m	10% decrease £m	10% increase £m
<b>31 December 2020</b>				
Power	6.8	(6.8)	5.7	(5.7)
Carbon	(2.7)	2.7	-	-
Gas	(11.0)	11.0	-	-
Oil	(7.6)	7.6	-	-

Profit after tax is sensitive to increases/decreases in commodity prices as a result of the impact on the fair value of derivative financial instruments not designated as hedging instruments under cash flow hedge accounting. The Group designates certain derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to increases/decreases in commodity price risk in relation to the impact on the hedge reserve of these movements.

Profit after tax was sensitive to power and carbon price changes in the prior year due to the discontinuance of hedge accounting relating to certain power trades entered for the CCGT assets disposed of and carbon EU allowance (EUA) trades (see the hedge accounting section below for further details). During the year positions relating to the CCGT power trades were closed out and therefore profit after tax is no longer sensitive to power price movements. All trades for carbon EUAs matured in December and therefore profit after tax is no longer sensitive to carbon price movements.

## Section 7: Risk management continued

### 7.2 Financial risk management continued

#### Commodity risk management

The Group has a policy of securing forward power sales, purchases of fuel and carbon emissions allowances when profitable to do so and in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years out. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of power.

The Group purchases sustainable biomass and other fuels under either fixed or variable priced contracts with different maturities principally from a number of international sources. The Group considers all such contracts to be economic hedges. If these contracts are within the scope of IFRS 9, the Group, where possible, either applies the own-use exemption or hedge accounting in accordance with IFRS 9. If the own-use exemption or hedge accounting are not applicable then the contracts are recognised at fair value through profit or loss.

Where forward power curves are less liquid, the Group uses financially settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group also purchases gas under fixed-price contracts to meet the demand of the Customers' business and for its Daldowie fuel plant.

The Group purchases carbon emissions allowances under fixed price contracts with different maturity dates. All commitments to purchase carbon emissions allowances under fixed price contracts were previously designated as cash flow hedges as they reduced the Group's cash flow exposure resulting from fluctuations in the price of carbon emissions allowances. However, in 2020, as a result of the UK leaving the EU and the EU emissions trading scheme (ETS) no longer applying to the Group, hedge accounting of carbon EUAs was discontinued in the year. The Group continued to hold carbon EUAs as a proxy hedge for carbon UK allowances (UKAs) prior to the establishment of the scheme and ability to trade UKAs. Once the UK scheme was set up and the Group was able to contract for UKAs the Group sold out of the EUA proxy hedges and replaced these with UKAs. The Group therefore no longer has any contracts for EUAs and has applied hedge accounting to UKAs. See the hedge accounting section below for further details.

#### Hedge accounting

The Group has cash flow hedges relating to commodity contracts (principally commitments to sell power and purchase carbon). Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is at the point when the underlying power is delivered.

Included in amounts released from equity are gains and losses on financial instruments that matured in a previous period, released to the Consolidated income statement in the period the hedged transaction occurs. No ineffectiveness was recognised in the Consolidated income statement on continuing commodity or financial hedges in the year (2020: £nil). Due to the use of 'all-in-one' hedges, this results in the movement in fair value for the hedged items and hedging instruments being identical.

The only source of ineffectiveness regarding the "all-in-one" hedges would be if delivery of the commodities was no longer expected to occur, which would result in hedge accounting being discontinued. The main sources of ineffectiveness regarding financial contracts would be as a result of timing differences and credit risk.

In the prior year, the Group announced its decision to cease commercial coal generation in March 2021, ahead of the 2025 deadline. This resulted in the cash flows for the purchase of coal, that a number of financial coal contracts were hedging, no longer being expected to occur. The hedges therefore no longer met the hedge accounting requirements, and accordingly, all gains or losses relating to these hedges were reclassified to the income statement. This resulted in a loss of £5.6 million being reclassified to the Consolidated income statement in the prior year. No financial coal contracts were designated as hedges in the current year.

The Group had a number of forward purchase contracts for carbon EUAs to hedge its exposure to carbon prices under the EU ETS. During the prior year it became clear that the UK was intending to set up a separate ETS once the UK had left the EU. As a result, the purchases of EUAs in the period post the UK leaving the EU (from 1 January 2021 onwards), that were hedge accounted, were no longer expected to occur. At this point hedge accounting was discontinued and any gains or losses accumulated in the hedge reserve were reclassified to the Consolidated income statement. This resulted in a gain of £1.7 million being reclassified to the Consolidated income statement in the prior year, of which £0.7 million related to discontinued operations. From this point onwards, hedge accounting has no longer been applied to any EUAs.

During 2021, the UK ETS scheme was set up and the trading of UKAs began. The contracts the Group enters to purchase UKAs are hedges of forecast future cash flows to purchase the UKAs required to cover the Group's carbon emissions under the UK ETS. As such, the Group applies cash flow hedge accounting to UKAs.

## 7.2 Financial risk management continued

In the prior year the Group had a number of forward sale contracts for power relating to forecast generation from the CCGT assets that were designated as cash flow hedges. As a result of the sale of the CCGT assets on 31 January 2021, the cash flow hedges in relation to forecast generation of the CCGT assets in the period post 31 January 2021 no longer met the hedge accounting requirements due to the forecast transactions no longer being expected to occur from the Group's perspective. As such, in the prior year, hedge accounting for these transactions was discontinued. This resulted in a £25.3 million loss on forward power contracts being reclassified to the Consolidated income statement within discontinued operations. All other power contracts continued to meet the requirements of hedge accounting and therefore continued to be accounted for as cash flow hedges.

A net £2.6 million loss was recognised in the prior year on derivative contracts relating to the period after disposal of the CCGT assets on 31 January 2021. This included the above £25.3 million loss on power trades, a gain of £17.5 million relating to gas trades, and a gain of £5.2 million relating to carbon trades.

By January 2021 the Group had closed out all derivative positions in relation to the CCGT assets. As such, from this point, no further gains or losses would occur in relation to these trades. Most trades originally relating to the CCGTs have matured. The remaining CCGT trades will mature in the first half of 2022. Current and prior year amounts relating to these trades are included within discontinued operations.

All subsequent fair value movements on hedges that have been discontinued are recognised in the Consolidated income statement.

The reconciliation of the reserves and time period when the hedge will affect the profit or loss are disclosed in note 7.3.

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's commodity and financial contracts that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of commodity and financial contracts that are used to protect the value of future cash flows.

31 December 2021							
Exposure	Notional value of contracts (MWh, allowances)	Average fixed price (£)	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness (£m)	Fair value recognised in balance sheet (assets) (£m)	Fair value recognised in balance sheet (liabilities) (£m)	Balance in the hedge reserve for continuing hedges net of deferred tax (£m)	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax (£m)
<b>Commodity contracts</b>							
Sale of power	2,585,113	72.83	(181.0)	874.1	(1,052.0)	(138.6)	–
Purchase of carbon emissions allowances	161,000	57.79	17.7	3.4	(2.8)	0.4	–

31 December 2021								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness (£m)	Hedging gains/(losses) recognised in OCI in the period (£m)	Hedge ineffectiveness recognised in the income statement in the period (£m)	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability (£m)	Amount reclassified due to the hedged item affecting profit or loss (£m)	Amount reclassified due to the hedged future cash flows being no longer expected to occur (£m)	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Commodity contracts</b>								
Sale of power	181.0	(181.0)	–	Revenue	–	6.3	–	Revenue
Purchase of carbon emissions allowances	(17.7)	17.7	–	Cost of sales	–	(17.2)	–	Cost of sales

## Section 7: Risk management continued

### 7.2 Financial risk management continued

31 December 2020							
Exposure	Notional value of contracts (MWh, allowances)	Average fixed price £	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (assets) £m	Fair value recognised in balance sheet (liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Commodity contracts</b>							
Sale of power	1,203,257	52.32	(36.6)	102.1	(106.4)	(3.4)	–
Purchase of carbon emissions allowances	–	n/a	16.5	–	–	–	–
<b>Financial contracts</b>							
Financial coal	–	n/a	(1.6)	–	–	–	–

31 December 2020								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the reclassification/transfer
<b>Commodity contracts</b>								
Sale of power	36.6	(36.6)	–	Revenue	–	(65.2)	25.3	Revenue
Purchase of carbon emissions allowances	(16.5)	16.5	–	Cost of sales	(28.8)	–	(1.7)	Cost of sales
<b>Financial contracts</b>								
Financial coal	1.6	(1.6)	–	Cost of sales	–	–	5.6	Cost of sales

#### 7.2.2 Foreign currency risk

The Group is exposed to fluctuations in foreign currency rates as a result of committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business and principal and interest payments relating to foreign currency denominated debt. These fuel purchases are typically denominated in US dollars (USD), Canadian dollars (CAD) or euros (EUR), and the foreign currency debt is denominated in USD, CAD and EUR (see note 4.2 for further details on the Group's borrowings).

The Group also has an exposure to translation risk in relation to its net investment in its US subsidiaries that are part of Drax Biomass Inc. and Pinnacle Renewable Holdings USA, and its Canadian subsidiaries that are part of Pinnacle Renewable Energy Inc..

#### Foreign currency sensitivity

The analysis below shows the impact on profit after tax and other components of equity of reasonably possible strengthening/weakening of currencies against GBP. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	10% strengthening £m	10% weakening £m	10% strengthening £m	10% weakening £m
<b>31 December 2021</b>				
USD	592.9	(227.4)	177.2	(144.8)
EUR	28.4	(25.8)	33.9	(27.8)
CAD	35.8	(25.0)	22.4	(18.2)
<b>31 December 2020</b>				
USD	159.3	(58.7)	249.2	(204.1)
EUR	36.3	(22.8)	10.1	(8.3)
CAD	27.7	(17.8)	25.6	(21.0)

## 7.2 Financial risk management continued

Profit after tax is sensitive to the strengthening/weakening of other currencies as a result of the impact on the fair value of foreign currency derivatives not designated as hedging instruments under cash flow hedge accounting. The Group designates certain foreign currency derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to the strengthening/weakening of other currencies in relation to the impact on the hedge reserve of these movements.

### Foreign currency risk management

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to protect the sterling values of foreign currency cash flows, except where there is an economic hedge inherent in the transaction. The Group enters into derivative contracts in line with the currency risk management policy, including forwards and options, to manage the risks associated with its anticipated foreign currency requirements over a rolling five-year period, covering contracted exposures and a proportion of highly probable forecast transactions.

In addition, in order to optimise the cost of funding, the Group has issued foreign currency denominated debt in USD, CAD and EUR (see note 4.2). The Group utilises derivative contracts, including cross-currency interest rate swaps, to manage exchange risk on foreign currency debt.

### Hedge accounting

The Group designates certain foreign currency exchange contracts as hedging instruments. Foreign currency exchange contracts that are designated as hedges are transferred from equity to inventory for hedges of fuel purchases.

Cross-currency interest rate swap gains and losses that are effective at hedging the foreign exchange risk on the interest payments are released to interest payable and similar charges. Gains and losses that are effective at hedging the foreign exchange risk on the USD or EUR principal are released to foreign exchange gains/(losses) to offset gains and losses on retranslating the USD and EUR denominated hedged borrowings.

The Group has taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with \$500 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has also taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with €250 million 2025 fixed rate loan notes to again fix the sterling cash flows payable on the debt. On the EUR denominated facilities agreed as part of the 2020 infrastructure term loan, the Group has fixed the sterling cash flows payable on this debt through a combination of fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps.

The main sources of ineffectiveness relating to foreign currency exchange contracts are timing differences and credit risk. The main sources of ineffectiveness relating to cross-currency interest rate swaps are differences in the critical terms, differences in repricing dates and credit risk.

The reconciliation of the reserves and when the amount will affect the Consolidated income statement or will be removed from equity and included in the initial cost of the non-financial item are disclosed in notes 7.3 and 7.4.

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below. Ineffectiveness on foreign currency exchange contracts is recognised in cost of sales if it relates to hedges of fuel purchases. Ineffectiveness on cross-currency interest rate swaps that are hedging principal and interest payments are recognised in interest payable and similar charges if the ineffectiveness relates to interest payments, and foreign exchange losses/(gains) if it relates to the principal repayment.

There are €95 million of floating-to-fixed cross-currency interest rate swaps that are hedging both foreign currency risk and interest rate risk. These swaps have been separated into synthetic floating-to-floating cross-currency interest rate swaps, that are hedging foreign currency risk, and synthetic floating-to-fixed GBP interest rate swaps, that are hedging interest rate risk. The synthetic floating-to-floating cross-currency interest rate swaps are disclosed in this section, and the synthetic floating-to-fixed GBP interest rate swaps are disclosed in note 7.2.3 relating to interest rate risk.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's foreign currency hedging instruments that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of currency derivatives that are used to protect the sterling value of future cash flows.

## Section 7: Risk management continued

### 7.2 Financial risk management continued

31 December 2021							
Exposure	Notional value of contracts (\$m, €m, C\$m)	Average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Foreign currency purchase contracts</b>							
Purchases in foreign currency – USD	2,231.4	\$1.38	16.3	50.9	(11.7)	(40.5)	–
Purchases in foreign currency – EUR	320.0	€1.11	(19.4)	–	(17.0)	(15.0)	–
Purchases in foreign currency – CAD	447.6	C\$1.76	4.2	6.0	(0.6)	(1.6)	–
<b>Foreign currency denominated debt</b>							
Interest and principal repayments – USD	500.0	4.9%	7.6	–	(39.0)	5.8	–
Interest and principal repayments – EUR	376.5	3.32%/3M LIBOR + 125.3bps	(10.4)	–	(9.4)	12.0	–

31 December 2021								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Foreign currency purchase contracts</b>								
Purchases in foreign currency – USD	(16.3)	16.3	–	Cost of sales	32.9	–	–	Inventory
Purchases in foreign currency – EUR	19.4	(19.4)	–	Cost of sales	0.3	–	–	Inventory
Purchases in foreign currency – CAD	(4.2)	4.2	–	Cost of sales	–	–	–	Inventory
<b>Foreign currency denominated debt</b>								
Interest and principal repayments – USD	(7.6)	7.6	–	Interest payable and similar charges	–	(6.2)	–	Interest payable and similar charges
			–	Foreign exchange (losses)/gains	–	1.7	–	Foreign exchange (losses)/gains
Interest and principal repayments – EUR	10.4	(10.4)	–	Interest payable and similar charges	–	2.6	–	Interest payable and similar charges
			–	Foreign exchange (losses)/gains	–	24.3	–	Foreign exchange (losses)/gains

## 7.2 Financial risk management continued

31 December 2020

Exposure	Notional value of contracts (\$m, €m, C\$m)	Average fixed/variable rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Foreign currency purchase contracts</b>							
Purchases in foreign currency – USD	3,229.4	\$1.38	(44.2)	36.6	(51.7)	(82.3)	–
Purchases in foreign currency – EUR	67.0	€1.11	(0.3)	–	(2.2)	(0.2)	–
Purchases in foreign currency – CAD	499.6	C\$1.76	(3.4)	3.7	(3.1)	(5.1)	–
<b>Foreign currency denominated debt</b>							
Interest and principal repayments – USD	500.0	4.9%	(1.4)	–	(47.2)	3.6	–
Interest and principal repayments – EUR	376.5	3.32%/3M LIBOR + 125.3bps	(1.5)	0.1	(1.5)	(0.8)	–

31 December 2020

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Foreign currency purchase contracts</b>								
Purchases in foreign currency – USD	44.2	(44.2)	–	Cost of sales	(102.2)	–	–	Inventory
Purchases in foreign currency – EUR	0.3	(0.3)	–	Cost of sales	6.5	–	–	Inventory
Purchases in foreign currency – CAD	3.4	(3.4)	–	Cost of sales	(12.5)	–	–	Inventory
<b>Foreign currency denominated debt</b>								
Interest and principal repayments – USD	1.4	(1.4)	–	Interest payable and similar charges	–	(9.9)	–	Interest payable and similar charges
				Foreign exchange (losses)/gains	–	11.8	–	Foreign exchange (losses)/gains
Interest and principal repayments – EUR	1.5	(1.5)	–	Interest payable and similar charges	–	0.3	–	Interest payable and similar charges
				Foreign exchange (losses)/gains		0.3	–	Foreign exchange (losses)/gains

## Section 7: Risk management continued

### 7.2 Financial risk management continued

#### 7.2.3 Interest rate risk

The Group has exposure to interest rate risk, principally in relation to variable rate debt, cash and cash equivalents and the RCF, should it be drawn. The Group has taken out GBP LIBOR floating-to-fixed interest rate swaps to fix the interest payments on the £375 million private placement issued in 2019. On the 2020 infrastructure term loan facilities the Group has fixed the interest rate payable on the £98 million of GBP denominated facilities through floating-to-fixed GBP LIBOR interest rate swaps. The Group has also fixed the interest rate payable on the variable rate euro denominated debt through floating-to-fixed cross-currency interest rate swaps. As detailed in section 7.2.2 above, the floating-to-fixed cross-currency interest rate swaps are hedging both interest rate risk and foreign currency risk, as such the disclosures relating to interest rate risk are included in this section. See note 7.2.2 for the foreign currency risk disclosures relating to the floating-to-fixed cross-currency interest rate swaps.

At 31 December 2021, the Group has fixed interest rate payments on the majority of its debt instruments through the use of swaps. The Group acquired Pinnacle in the year and as part of this acquired CAD denominated debt. The Group refinanced this debt during the year (see note 4.2 for further details). This CAD debt has a variable rate based on Canadian Dollar Offered Rate (CDOR). There are currently no swaps in place in relation to the debt and therefore it remains variable.

When including the impact of swaps the Group's CAD denominated debt is the only debt that remains variable and therefore interest rate payments are not fixed. All of the remaining Group's debt has fixed interest rate payments in GBP.

The return generated on the Group's cash balance, or on amounts drawn on the RCF are exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

Further information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided in note 4.2.

#### Interest rate benchmark reform

The only interest rate benchmark to which the Group is exposed to, that is subject to interest rate benchmark reform, is GBP LIBOR. These exposures relate to derivative and non-derivative financial instruments. All of the Group's USD borrowings are at fixed rates so are not impacted by IBOR reform. The group does have some floating rate EURIBOR-linked borrowings and related cross-currency interest rate swaps, however as EURIBOR is not being replaced, these financial instruments are not impacted by IBOR reform unless further reform to EURIBOR will be made in future. The Group's RCF facility could be drawn in USD. Any USD drawings referenced USD LIBOR, however the Group has had no cash drawings under the RCF for a number of years.

In response to the IBOR reform, the Group engaged the following work streams: risk management, tax, treasury, legal and accounting. The aim of the programme was to identify any IBOR exposures within the business that are impacted by the reform, and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates.

The Group had a number of GBP LIBOR-linked derivative and non-derivative financial instruments with maturity dates beyond 31 December 2021, the date LIBOR is due to cease publication. As such, during the year the Group's IBOR programme has transitioned, or agreed to transition in 2022, these financial instruments away from GBP LIBOR. Further details of this are provided below.

#### Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Phase 2 of IBOR Reform provides reliefs from financial reporting impacts of the replacement of an existing interest rate benchmark with an alternative benchmark rate as a result of IBOR Reform. IBOR Reform Phase 2 provides key reliefs regarding a practical expedient for changes to contractual cash flows as a direct consequence of IBOR Reform and hedge accounting reliefs for hedging relationships directly affected by IBOR Reform.

#### Changes in contractual cash flows

IBOR Reform Phase 2 provides a practical expedient that avoids the recognition of a modification gain or loss in the Consolidated income statement, or the derecognition of the financial instrument, as a result of changes caused directly as a result of IBOR Reform. This practical expedient is required to be applied when both of the following conditions are met:

- the change in the basis for determining contractual cash flows must be necessary as a direct consequence of IBOR Reform
- the new basis for determining the contractual cash flows must be economically equivalent to the previous basis immediately preceding the change

If the practical expedient applies, then the effective interest rate of the financial instrument is updated without adjusting the carrying value, consistent with the requirements of IFRS 9 in relation to movements in market rates of interest for floating-rate financial instruments.

Subsequent to the application of the practical expedient, if there are also any additional changes to the contractual cash flows to which the practical expedient does not apply, if they would result in derecognition under IFRS 9, then the financial instrument is derecognised and a new financial instrument is recognised. If there are any additional changes to the contractual cash flows to which the practical expedient does not apply, that would not result in derecognition under IFRS 9, a modification gain or loss is recognised to adjust the carrying value of the financial instrument based on the updated effective interest rate.



## 7.2 Financial risk management continued

### Hedge relationships

IBOR Reform Phase 2 also provides reliefs to allow hedge accounting to continue where amendments are required to be made to the hedge documentation. Consistent with the changes to the contractual cash flow explained above, this relief only applies if the changes to the hedge documentation are necessary as a direct consequence of IBOR Reform and the new basis for determining the contractual cash flows must be economically equivalent to the previous basis. The relief provides a temporary exemption that requires the formal designation of the hedging relationship to be amended (e.g. designating the alternative benchmark as the hedged risk and amending the description of the hedged item and hedging instrument), which without the relief would normally result in the discontinuation of hedge accounting. The relief allows these amendments to be made to the hedge documentation without discontinuing hedge accounting.

If there are any additional changes to which the practical expedient does not apply, these changes are first assessed against the IFRS 9 requirements for hedge accounting to determine if the change should result in the discontinuance of hedge accounting. If the change does not result in the discontinuance of hedge accounting, the formal designation of the hedge relationship is amended in line with the Phase 2 relief explained above.

At the point the hedge documentation is amended under the Phase 2 relief, any amounts accumulated in the cash flow hedge reserve are deemed to be based on the alternative benchmark.

The Group has a number of hedging relationship or financial instruments to which the Phase 2 amendments are relevant, principally:

- cash flow hedges where IBOR-linked derivatives are designated as a cash flow hedge of IBOR-linked cash flows (GBP LIBOR)
- floating rate borrowings which reference IBORs that are subject to the reform (GBP LIBOR)

If the Group had not applied the Phase 2 amendments, due to the Group agreeing to transition GBP LIBOR linked interest rate swaps and borrowings to SONIA in the year, the Group's cash flow hedge accounting for the GBP LIBOR-linked cash flows that the swaps were hedging would have had to be discontinued and the amounts accumulated in the hedge reserve relating to these hedges would have had to have been reclassified to the Consolidated income statement. As a result of applying the Phase 2 amendments, hedge accounting has not been discontinued and the amounts accumulated in the hedge reserve relating to these hedges were deemed to be based on the new SONIA benchmark.

Phase 2 amendments has also meant that the Group has amended the effective interest rate in the floating rate GBP LIBOR-linked borrowings that have been transitioned to SONIA. Had the Phase 2 amendments not been applied the Group would have had to derecognise the borrowings and recognise a new financial liability for the borrowings, with any gain or loss as a result of this being recognised in the Consolidated income statement.

### Financial instruments directly impacted by IBOR reform

Detailed below are the financial instruments directly impacted by IBOR reform and the transition progress made on each of these financial instruments.

#### GBP LIBOR-linked borrowings

The Group has a £375 million private placement (2019) and has £98 million of the 2020 infrastructure term loan facilities that are linked to a floating rate GBP LIBOR benchmark. The maturity dates for all of these borrowings is beyond 31 December 2021. These contracts did not include adequate fallback provisions to cope with the cessation of GBP LIBOR. As such, the Group has engaged with the relevant counterparties during the year and agreed to amend the agreements to transition from GBP LIBOR to SONIA plus a credit adjustment spread (CAS) at the start of the first interest period subsequent to 31 December 2021. The amendments were all agreed pre 31 December 2021. The CAS per the amended agreements is consistent with the ISDA spread adjustments as calculated and published by Bloomberg. No other terms were amended as part of the transition.

The Group applied the practical expedient established by the Phase 2 amendments, meaning the change in basis for determining the contractual cash flows resulted in the Group revising the effective interest rate with no immediate gain or loss recognised, and did not result in derecognition of the financial liability (See the Accounting policies section on page 179 for further details on the Phase 2 amendments).

## Section 7: Risk management continued

### 7.2 Financial risk management continued

#### Derivatives

The Group has a number of GBP LIBOR floating-to-fixed interest rate swaps, which fix the value of interest payable on the GBP LIBOR-linked borrowings discussed above. The transition from GBP LIBOR to SONIA was agreed at the same time as the transition agreements for the related borrowings. The Group has engaged with the relevant counterparties during the year and agreed to amend the swaps to transition from GBP LIBOR to SONIA plus a CAS. Consistent with the GBP LIBOR-linked borrowings, the new benchmark rates will be applicable from the start of the next interest period subsequent to 31 December 2021 and the CAS per the transitioned swaps is consistent with the ISDA spread adjustments as calculated and published by Bloomberg.

The Group has applied the practical expedient established by the Phase 2 amendments, meaning the transition to a SONIA benchmark rate from GBP LIBOR for these interest rate swaps has not resulted in the discontinuance of hedge accounting, and the amounts accumulated in the hedge reserve at transition were deemed to be based on the SONIA benchmark rate.

#### GBP LIBOR-linked facilities

The Group has a number of committed and uncommitted facilities that referenced LIBOR that have either already transitioned to new benchmark rates or the LIBOR exposures will have matured prior to the cessation of LIBOR and new amounts utilised under these facilities will reference the new benchmark rates.

#### RCF

The Group has an RCF facility under which cash drawings are able to be drawn in GBP and USD. Cash drawings under these facilities were linked to GBP LIBOR and USD LIBOR. The Group has agreed to transition this facility to SONIA from GBP LIBOR and Secured Overnight Financing Rate (SOFR) from USD LIBOR. Any new drawings from September 2021 would be based on the new benchmark rates. No cash amounts were utilised under the RCF at the transition date in September 2021.

#### Receivables monetisation facility

The Group's receivables monetisation facility references GBP LIBOR. The Group transitioned this facility to SONIA from GBP LIBOR in December 2021. Amounts utilised under these facilities referencing GBP LIBOR will mature and then any new drawings from the December transition date will reference the new benchmark rate.

#### Uncommitted facilities

The Group has access to certain payment facilities, including deferred letters of credits, that reference GBP LIBOR. The Group transitioned these facilities to SONIA from GBP LIBOR in December 2021. Amounts utilised under these facilities referencing GBP LIBOR will mature and then any new drawings from the agreed transition date will reference the new benchmark rate.

The tables below detail the derivative and non-derivative financial instruments impacted by IBOR reform where the transition to a new benchmark rate occurs after 31 December 2021. The quantitative information provided below for non-derivative financial assets and liabilities is based on the contractual par amount. The derivative financial instruments information provided below is based on the nominal amounts per the contracts:

Non-derivative financial instrument	Pre-transition benchmark rate	Nominal value £m	Maturity date	Hedge accounting applied	Transition progress	New benchmark rate
Borrowings – 2019 private placement	GBP LIBOR	375	2024 – 2029	Cash flow hedge	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA
Borrowings – 2020 infrastructure term loan facilities	GBP LIBOR	98	2026 – 2028	Cash flow hedge	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA

Derivative financial instrument	Pre-transition benchmark rate	Nominal value £m	Maturity date	Hedge accounting applied	Hedged item	Transition progress	New benchmark rate
Pay 3-month GBP LIBOR received GBP fixed interest rate swap	GBP LIBOR	375	2024 – 2026	Cash flow hedge	Floating rate GBP LIBOR borrowings – 2019 private placement	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA
Pay 3-month GBP LIBOR received GBP fixed interest rate swap	GBP LIBOR	98	2026	Cash flow hedge	Floating rate GBP LIBOR infrastructure term loan facilities	Agreed transition to SONIA from the start of the first interest period post 31 December 2021	SONIA

The Group had agreed to transition all derivative and non-derivative financial instruments it expects to be impacted by IBOR reform to alternative benchmark rates by 31 December 2021. Certain agreements were signed after 31 December 2021, but had been agreed pre 31 December 2021.

## 7.2 Financial risk management continued

### Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in interest rates. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
<b>31 December 2021</b>				
Variable rate debt – unhedged	(1.4)	1.4	-	-
Variable rate debt – hedged	(4.0)	0.7	-	-
Interest rate swaps	4.0	(0.7)	14.6	(11.3)
Net	(1.4)	1.4	14.6	(11.3)
<b>31 December 2020</b>				
Variable rate debt – hedged	(3.5)	0.1	-	-
Interest rate swaps	4.1	(0.1)	17.8	(0.4)
Net	0.6	-	17.8	(0.4)

Profit after tax is sensitive to an increase/decrease in interest rates as a result of the impact on the interest payable in the period on any floating rate debt. The Group has reduced its exposure to interest rate risk on variable rate debt through the use of floating-to-fixed interest rate swaps and therefore a change in interest rates would not have a significant effect on profit after tax. The Group designates certain floating-to-fixed interest rate swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase/decrease in interest rates in relation to the impact on the hedge reserve of these movements.

Certain of the Group's variable rate debt and interest rate swaps have a floor of 0% for the benchmark interest rate. As a result of very low or negative benchmark interest rates, a 100 basis points increase has a larger impact on profit after tax and other components of equity, than a 100 basis points decrease. The Group also has CAD denominated debt that has a variable rate based on CDOR. At 31 December 2021 no swaps were in place to hedge the CAD denominated debt. Therefore in relation to this debt a change in interest rates has an impact on profit after tax but not on other components of equity.

Additionally, in the prior year the group had hedges in place for debt that was committed but not yet drawn. As a result, in the prior year, a change in basis points has a larger impact on profit after tax for interest rate swaps than the variable rate debt due to the impact of the undrawn borrowings not being included. These borrowings were drawn down on 18 February 2021 and therefore in the current year the impact of a change in basis points on profit after tax of these new borrowings is included within the variable rate debt.

### Interest rate risk management

The Group has a risk management policy in place relating to interest rate risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast interest rate exposure.

### Hedge accounting

The Group designates the floating-to-fixed GBP interest rate swaps and the floating-to-fixed cross-currency interest rate swaps as hedging instruments against interest rate risk. The GBP interest rate swaps are hedges of the interest payments relating to the £375 million private placement (2019) and the £98 million of facilities as part of the 2020 infrastructure term loan. The cross-currency interest rate swaps are hedges of both interest rate risk and foreign currency risk relating to the variable rate €95 million of facilities that were drawn as part of the 2020 infrastructure term loan. As such this has been separated into synthetic floating-to-floating cross-currency interest rate swaps and synthetic floating-to-fixed GBP interest rate swaps. The synthetic floating-to-floating cross-currency interest rate swaps swap the €95 million variable rate EURIBOR linked debt to variable rate LIBOR linked GBP debt with a principal of £85.8 million. The synthetic floating-to-fixed GBP interest rate swaps then swaps the variable interest rate for a fixed GBP interest rate. Details of the floating-to-fixed GBP interest rate swaps are included in the disclosures below.

Gains and losses on the interest payments on interest rate swaps are released to interest payable and similar charges at the same time as the interest expense on the hedged borrowings.

The main sources of ineffectiveness relating to interest rate risk hedges are differences in the critical terms, differences in repricing dates and credit risk.

## Section 7: Risk management continued

### 7.2 Financial risk management continued

The summary of the amounts relating to the sterling interest rate hedging instruments and any related ineffectiveness in the period is presented in the table below.

31 December 2021							
Exposure	Notional value of contracts £m	Average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Interest rate</b>							
Variable rate GBP debt	558.8	1.06%	19.3	4.6	–	4.2	–

31 December 2021								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Interest rate</b>								
Variable rate GBP debt	(21.0)	19.3	–	Interest payable and similar charges	–	3.3	–	Interest payable and similar charges

31 December 2020							
Exposure	Notional value of contracts £m	Average % fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Interest rate</b>							
Variable rate GBP debt	558.8	1.06%	(15.9)	–	(18.3)	(13.8)	–

31 December 2020								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Interest rate</b>								
Variable rate GBP debt	17.5	(15.9)	–	Interest payable and similar charges	–	3.0	–	Interest payable and similar charges

#### 7.2.4 Inflation risk

The Group is exposed to inflation risk on elements of its revenues and cost base. The Group's ROC revenue is linked to UK RPI and its Contract for Difference (Cfd) revenue is linked to UK CPI. In addition, a proportion of the Group's fuel costs are linked to either US or CAD CPI. The Group has entered UK CPI and RPI swaps. US CPI swaps were used in the year to hedge the future cash flows relating to a proportion of its exposures, however these swaps were closed out during the year. The Group also benefits from a natural hedge arising from its inflation-linked borrowings.

## 7.2 Financial risk management continued

### Inflation risk sensitivity

The sensitivity analysis below has been determined based on the exposure to inflation rates for both derivatives and non-derivative instruments at the balance sheet date.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in inflation rates. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	200 basis points increase £m	200 basis points decrease £m	200 basis points increase £m	200 basis points decrease £m
<b>31 December 2021</b>				
UK CPI inflation swaps	-	-	(6.0)	6.0
UK RPI inflation swaps	(38.9)	37.2	(48.5)	46.6
	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
<b>31 December 2020</b>				
UK CPI inflation swaps	-	-	(1.6)	1.6
US CPI inflation swaps	4.9	(4.9)	-	-

The Group designates the UK CPI and RPI inflation swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase/decrease in UK inflation rates in relation to the impact on the hedge reserve of these movements. Profit after tax is sensitive to an increase/decrease in UK inflation rates due to the impact these rate changes would have on the amount reclassified to the Consolidated income statement. Profit after tax is also sensitive to an increase/decrease in UK inflation rates due to the impact this would have on the fair value of the unhedged UK RPI inflation swaptions.

### Inflation risk management

The Group has a risk management policy in place relating to inflation risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast inflation exposure.

### Hedge accounting

The Group has contracts for which the revenue is contractually linked to UK CPI inflation. The Group has designated this risk component as a hedged item. UK CPI and UK RPI inflation swaps are utilised as the hedging instruments for these inflation risks.

Gains and losses on the inflation swaps are held in the hedge reserve and reclassified to the Consolidated income statement within the revenue line at the same time the revenue from the inflation linked contracts impacts on the Consolidated income statement.

During the prior year the Group crystallised the gains on a number of UK CPI inflation swaps. The forecast cash flows that these inflation swaps were hedging are still expected to occur. Therefore the gain of £24.4 million that was crystallised relating to these contracts is being deferred in the hedge reserve and reclassified to the income statement when the hedged item impacts the income statement. At 31 December 2021 there is £22.0 million (2020: £24.4 million) still deferred in the hedge reserve.

The main sources of ineffectiveness relating to the inflation swaps are the basis difference between the RPI swaps and the CPI-linked revenues they are hedging, and calculation differences. Calculation differences occur due to differences between the reference months used to calculate the inflationary increase per the swaps and the reference months used to calculate the inflationary increase for the CPI-linked revenues

## Section 7: Risk management continued

### 7.2 Financial risk management continued

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below.

31 December 2021							
Exposure	Notional value of contracts (GBP)	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Inflation</b>							
Inflation linked sales contracts – CPI	30.3	CPI – 2.72%	(15.7)	1.3	(11.5)	(10.9)	22.0
	495.0	RPI – 3.42%	(19.5)	–	(82.2)	(15.2)	–

31 December 2021								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Inflation</b>								
Inflation linked sales contracts – CPI	15.7	(15.7)	–	Revenue	–	(2.2)	–	Revenue
	21.7	(19.5)	–	Revenue	–	–	–	Revenue

31 December 2020							
Exposure	Notional value of contracts (GBP)	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
<b>Inflation</b>							
Inflation linked sales contracts – CPI	15.0	2.44%	17.0	6.2	–	1.6	24.4

31 December 2020								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness	Amount transferred to the cost or carrying value of a non-financial asset/liability £m	Amount reclassified due to the hedged item affecting profit or loss £m	Amount reclassified due to the hedged future cash flows being no longer expected to occur £m	Line item in the income statement/balance sheet affected by the transfer/reclassification
<b>Inflation</b>								
Inflation linked sales contracts – CPI	(17.0)	17.0	–	Revenue	–	(1.3)	–	Revenue

## 7.2 Financial risk management continued

### 7.2.5 Liquidity risk

The Treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, committed facilities and uncommitted facilities in order to ensure sufficient funding for business requirements.

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items (principally those related to ROC sales and Customers power sales). In each case this is undertaken on a non-recourse basis and accordingly, the ROCs and other items are derecognised from the balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.4.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2021					Total £m
	Within 3 months £m	3 months– 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	
Term loans, gross value	46.4	14.7	17.5	650.9	138.7	868.2
Loan notes, gross value	–	30.0	30.0	639.6	–	699.6
<b>Borrowings, contractual maturity</b>	<b>46.4</b>	<b>44.7</b>	<b>47.5</b>	<b>1,290.5</b>	<b>138.7</b>	<b>1,567.8</b>
Trade and other payables	826.9	40.1	0.6	0.7	1.2	869.5
Lease liabilities	5.5	15.7	18.9	46.4	78.4	164.9
	<b>878.8</b>	<b>100.5</b>	<b>67.0</b>	<b>1,337.6</b>	<b>218.3</b>	<b>2,602.2</b>

Trade and other payables of £869.5 million (2020: £619.4 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

	As at 31 December 2020					Total £m
	Within 3 months £m	3 months– 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	
Term loans, gross value	2.5	10.4	49.7	270.5	222.8	555.9
Loan notes, gross value	–	30.1	30.1	679.5	–	739.7
<b>Borrowings, contractual maturity</b>	<b>2.5</b>	<b>40.5</b>	<b>79.8</b>	<b>950.0</b>	<b>222.8</b>	<b>1,295.6</b>
Trade and other payables	576.0	40.9	0.4	2.1	–	619.4
Lease liabilities	2.1	5.8	5.9	12.6	8.4	34.8
	<b>580.6</b>	<b>87.2</b>	<b>86.1</b>	<b>964.7</b>	<b>231.2</b>	<b>1,949.8</b>

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.49% (2020: 3.88%).

The following tables set out details of the expected contractual maturity of derivative financial liabilities which are marked-to-market based on the undiscounted cash flows. Where the amount payable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date. Where derivatives are expected to be gross settled the gross cash flows have been presented. Commodity contracts and vanilla foreign currency exchange contracts are expected to be gross settled. Where derivatives are expected to be net settled, the net cash flows expected to occur based on the current fair value have been disclosed. Financial contracts and other foreign exchange contracts (excluding forwards) are expected to be net settled. Interest rate contracts and inflation rate contracts are presented based on net settlement of the interest rate and inflation rate differentials. Gross settlement of the principal on cross-currency interest rate swaps is expected and as such this element of the swap is presented gross.

## Section 7: Risk management continued

### 7.2 Financial risk management continued

	As at 31 December 2021			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	175.9	27.4	2.1	205.4
Financial contracts	45.1	55.8	1.5	102.4
Foreign currency exchange contracts	2,306.9	148.7	705.3	3,160.9
Interest rate and cross-currency contracts	3.1	43.9	1.0	48.0
Inflation contracts	52.0	10.1	78.2	140.3
	<b>2,583.0</b>	<b>285.9</b>	<b>788.1</b>	<b>3,657.0</b>

	As at 31 December 2020			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	13.5	17.3	7.7	38.5
Financial contracts	25.8	9.4	1.8	37.0
Foreign currency exchange contracts	2,409.6	381.3	767.7	3,558.6
Interest rate and cross-currency contracts	7.0	10.9	53.5	71.4
	<b>2,455.9</b>	<b>418.9</b>	<b>830.7</b>	<b>3,705.5</b>

#### 7.2.6 Counterparty risk

As the Group relies on third party suppliers and counterparties for the delivery of currency, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of power to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

#### 7.2.7 Credit risk

The Group's gross exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December	
	2021 £m	2020 £m
<b>Financial assets:</b>		
Cash and cash equivalents (note 4.1)	317.4	289.8
Trade and other receivables (note 3.5)	572.0	492.7
Derivative financial instruments (note 7.1)	1,246.1	283.3
	<b>2,135.5</b>	<b>1,065.8</b>

Trade and other receivables are stated gross of the provision for expected credit losses on trade receivables of £46.6 million (2020: £56.4 million) and expected credit losses on accrued income of £8.6 million (2020: £3.5 million). The balance excludes non-financial receivables such as prepayments.

The Group's three operating segments (Generation, Customers and Pellet Production segments) are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers.

The highest risk is in the Customers segment, with a high number of customers of varying sizes operating in a variety of markets. In particular, its SME customers carry lower concentrations but higher levels of credit risk, owing to a customer base comprised largely of smaller retail and commercial entities.

In the Customers segment, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector.



## 7.2 Financial risk management continued

For the Generation segment, the risk arises from treasury, trading and energy procurement activities, as well as the sale of by-products from generation activities. Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating. Counterparty credit exposures are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of parent company guarantee, deed of charge, cash collateral, letters of credit and surety bonds. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

The Pellet Production segment sells biomass pellets both intra-group and with external parties. Credit risk for the Group relates to the sales made to external parties. The majority of the Pellet Production segment's external sales are with large utility customers in Europe and Asia. The Pellet Production segment manages its credit risk by reviewing individual sales contracts, considering the length of the contract and assessing the credit quality of counterparties prior to signing contracts and throughout the duration of contracts.

Further details on the impact of credit risk on trade and other receivables is disclosed in note 3.5.

The investment of surplus cash is undertaken with the objective of ensuring that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty based on their rating, and the maturity profile.

Whilst cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group is exposed to credit risk on derivative contracts, to which the impairment requirements of IFRS 9 are not applied. The carrying amount of these financial assets, disclosed above, represents the Group's maximum credit risk exposure.

### Capital management

The Group is disciplined in its management of capital to ensure it is able to continue as a going concern; maintaining a strong credit rating underpinned by robust financial metrics; investing in its core business and pay a sustainable and growing dividend while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus net debt. Net debt is comprised of borrowings and cash and cash equivalents as disclosed in note 4.2 and 4.1 respectively.

See note 2.10 for details on dividend restrictions, note 4.2 for details of covenants, and the Viability statement on page 74 for details of scenario analysis performed on covenant restrictions of the Group's financing facilities.

	As at 31 December	
	2021 £m	2020 £m
Borrowings (note 4.2)	1,361.0	1,065.7
Cash and cash equivalents (note 4.1)	(317.4)	(289.8)
<b>Net debt (note 4.3)</b>	<b>1,043.6</b>	<b>775.9</b>
<b>Total shareholders' equity, excluding hedge and cost of hedging reserves</b>	<b>1,405.7</b>	<b>1,328.2</b>

## Section 7: Risk management continued

### 7.3 Hedge reserve

The Group designates certain hedging instruments that are used to address commodity price risk, foreign exchange risk, interest rate risk and inflation rate risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are effective in offsetting changes in cash flows of the hedged items. Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective.

The table below details the gains/(losses) recognised in the year on hedging instruments, the amounts reclassified from equity due to the hedged item affecting profit or loss, and the amounts reclassified due to the hedged future cash flows no longer being expected to occur. See section 7.2 for further details on these amounts.

	Hedge reserve				Total £m
	Commodity price risk £m	Foreign currency exchange risk £m	Interest rate risk £m	Inflation rate risk £m	
<b>At 1 January 2020</b>	<b>68.3</b>	<b>43.1</b>	<b>(3.5)</b>	<b>13.6</b>	<b>121.5</b>
<b>Gains/(losses) recognised:</b>					
– Change in fair value of hedging instrument recognised in OCI	(21.7)	(50.8)	(15.9)	17.0	(71.4)
<b>Reclassified from equity as the hedged item has affected profit or loss:</b>					
– Reclassified to cost of inventory	–	(108.2)	–	–	(108.2)
– Reclassified to the income statement – included in cost of sales	(28.8)	–	–	–	(28.8)
– Reclassified to the income statement – included in revenue	(65.2)	–	–	(1.3)	(66.5)
– Reclassified to the income statement – included in interest payable and similar charges	–	(9.6)	3.0	–	(6.6)
– Reclassified to the income statement – included in foreign exchange gains/(losses)	–	12.1	–	–	12.1
<b>Reclassified from equity as the hedged future cash flows are no longer expected to occur</b>					
– Reclassified to the income statement – included in cost of sales	3.9	–	–	–	3.9
– Reclassified to the income statement – included in revenue	25.3	–	–	–	25.3
Related deferred tax, net (note 2.6)	14.8	28.6	2.6	(3.3)	42.7
<b>At 31 December 2020</b>	<b>(3.4)</b>	<b>(84.8)</b>	<b>(13.8)</b>	<b>26.0</b>	<b>(76.0)</b>
<b>Gains/(losses) recognised:</b>					
– Change in fair value of hedging instrument recognised in OCI	(163.3)	(1.7)	19.3	(35.2)	(180.9)
<b>Reclassified from equity as the hedged item has affected profit or loss:</b>					
– Reclassified to cost of inventory	–	33.2	–	–	33.2
– Reclassified to the income statement – included in cost of sales	(17.2)	–	–	–	(17.2)
– Reclassified to the income statement – included in revenue	6.3	–	–	(2.2)	4.1
– Reclassified to the income statement – included in interest payable and similar charges	–	(3.6)	3.3	–	(0.3)
– Reclassified to the income statement – included in foreign exchange gains/(losses)	–	26.0	–	–	26.0
Related deferred tax, net (note 2.6)	39.4	(8.4)	(4.6)	7.3	33.7
<b>At 31 December 2021</b>	<b>(138.2)</b>	<b>(39.3)</b>	<b>4.2</b>	<b>(4.1)</b>	<b>(177.4)</b>

### 7.3 Hedge reserve continued

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 31 December 2021			Total £m
	Within 1 year £m	1–2 years £m	>2 years £m	
Commodity risk	(20.9)	(110.2)	(7.1)	(138.2)
Foreign currency exchange risk	(28.0)	(9.0)	(2.3)	(39.3)
Interest rate risk	(0.6)	1.2	3.6	4.2
Inflation risk	(0.5)	(0.4)	(3.2)	(4.1)
	(50.0)	(118.4)	(9.0)	(177.4)

	As at 31 December 2020			Total £m
	Within 1 year £m	1–2 years £m	>2 years £m	
Commodity risk	(9.6)	7.7	(1.5)	(3.4)
Foreign currency exchange risk	(21.9)	(21.6)	(41.3)	(84.8)
Interest rate risk	(4.1)	(4.1)	(5.6)	(13.8)
Inflation risk	1.8	2.6	21.6	26.0
	(33.8)	(15.4)	(26.8)	(76.0)

### 7.4 Cost of hedging reserve

The Group allocates unrealised gains and losses on the forward rate of foreign currency derivative contracts to a cost of hedging reserve in accordance with IFRS 9.

A large proportion of the derivative contracts held relate to foreign exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, the Group has continued to designate the change in fair value of the spot rate in the Group's cash flow hedge relationships. The Group designates the cost of hedging – being the change in fair value associated with forward points including currency basis – to equity. All amounts within the cost of hedging reserve relate to foreign currency exchange risk.

The table below details the cost of hedging gains/(losses) recognised in the year on hedging instruments and the amounts reclassified from equity due to the hedged item affecting profit or loss:

	Cost of hedging	
	2021 £m	2020 £m
<b>At 1 January</b>	<b>87.2</b>	40.8
<b>Gains recognised:</b>		
– Change in fair value of hedging instrument recognised in OCI	17.3	53.3
<b>Reclassified from equity as the hedged item has affected profit or loss:</b>		
– Reclassified to the income statement – included in cost of sales	(23.7)	5.2
Related deferred tax, net (note 2.6)	(2.3)	(12.1)
<b>At 31 December</b>	<b>78.5</b>	87.2

The expected release profile from equity of post-tax cost of hedging gains and losses is as follows:

	As at 31 December 2021			Total £m
	Within 1 year £m	1–2 years £m	>2 years £m	
Foreign currency exchange risk	25.5	28.3	24.7	78.5

	As at 31 December 2020			Total £m
	Within 1 year £m	1–2 years £m	>2 years £m	
Foreign currency exchange risk	34.5	20.8	31.9	87.2

### 7.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group also has financial asset and liabilities with certain counterparties that are subject to master netting agreements. Some financial assets and liabilities do not meet the criteria for offsetting at the balance sheet date but are subject to an enforceable master netting agreement that in certain circumstances, such as a bankruptcy, would allow for the amounts to be offset and a single net amount payable.

The table below shows the impact if the carrying amounts that are subject to these master netting agreements were offset:

	As at 31 December 2021				As at 31 December 2020			
	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Cash collateral assets/(liabilities) £m	Net amount £m	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Cash collateral assets/(liabilities) £m	Net amount £m
<b>Financial assets</b>								
Derivative financial instruments	1,246.1	(1,008.3)	(183.0)	54.8	283.3	(229.4)	(6.6)	47.3
<b>Financial liabilities</b>								
Derivative financial instruments	(1,504.5)	1,008.3	10.2	(486.0)	(453.6)	229.4	2.1	(222.1)

The aforementioned collateral balances are recorded in other receivables or other payables respectively.

### 7.6 Contingent assets and liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any payment is uncertain and cannot be measured reliably.

#### Guarantees

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2021, the Group's contingent liability in respect of letters of credit issued under the RCF amounted to £74.4 million (2020: £67.8 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £142.1 million (2020: £86.7 million).

Collateral is sometimes required to be provided in relation to the Group's commodity and treasury trading activities. When derivative positions are out of the money for the Group, collateral may be required to be provided to the counterparty. These positions reverse when contracts are settled, and the collateral is returned. The Group has access to certain facilities to enable it to cover collateral requirements to counterparties through letters of credit or surety bonds.

The letters of credit and surety bond amounts above include amounts utilised to cover commodity trading collateral requirements of £42.5 million (2020: £10.5 million) and £107.1 million (2020: £45.0 million) respectively. See note 4.1 for details on net cash collateral the Group has received from counterparties.

#### HSE legal action

During the year the Group received notice of legal action from the Health and Safety Executive (HSE) in relation to wood dust at Drax Power Station regarding operations prior to 2017. No amount has been provided in respect of this legal action as, supported by legal advice, the Group believes it is in a strong position to be able to defend this claim.

## 7.7 Commitments

The Group has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in the balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of biomass, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2021 £m	2020 £m
Contracts placed for future capital expenditure not provided in the financial statements	<b>28.6</b>	49.8
Future support contracts not provided in the financial statements	<b>51.2</b>	53.6
Future commitments to purchase ROCs	<b>200.5</b>	221.1
Future commitments to purchase biomass under fixed and variable priced contracts	<b>2,969.4</b>	3,541.6
Future commitments to purchase fibre under fixed and variable priced contracts	<b>356.8</b>	125.8

The contractual maturities of the future commitments to purchase biomass are as follows:

	As at 31 December	
	2021 £m	2020 £m
Within one year	<b>738.0</b>	731.2
Within one to five years	<b>2,216.6</b>	2,357.5
After five years	<b>14.8</b>	452.9
	<b>2,969.4</b>	3,541.6

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in the financial statements owing to them not being within the scope of IFRS 9 and therefore not required to be measured at fair value (see note 7.1).

Previously, the Group had a secured commodity trading line, which allowed it to transact prescribed volumes of commodity trades without the requirement to post collateral and FX trading lines with certain banks. Counterparties to these arrangements were entitled to share in the security as described above. During the prior year the Group opted to close the secured commodity trading line due to its limited utilisation and as such no further trades were able to utilise the line. The final trades utilising the line matured in March 2021.

## Section 8: Reference information

This section details reference information relevant to the compiling of the financial statements and provides the general information about the Group (e.g. operations and registered office). The Group also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

### 8.1 General information

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

- Power generation;
- Gas and electricity supply to business customers; and
- Manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK and North America.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 5 to the Company's separate financial statements, which follow these consolidated financial statements.

### 8.2 Basis of preparation

#### Adoption of new and revised accounting standards

One amendment became effective for the first time in 2021. The Group adopted the following from 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

See page 179 in the Basis of Preparation and note 7.2.3 for details of this amendment and its impact on the Group's financial statements.

In April 2021, the IFRS Interpretations Committee's published its agenda decision that clarified the accounting for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. See page 179 in the Basis of Preparation for details of the expected impact and application of this policy change by the Group.

From 1 January 2021, IFRS (in the context of company law) means international standards and interpretations that have been endorsed by the UK. UK Endorsement Board (UKEB) is the body responsible for the endorsement process.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective. All were pending endorsement by the UKEB:

- IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.
- IFRS 17 Insurance contracts – effective from 1 January 2023.
- IAS 1 (amended) – Classification of Liabilities as Current and Non-current – effective date to be confirmed.
- IAS 1 (amended) – Disclosure of Accounting Policies – effective from 1 January 2023.
- IAS 8 (amended) – Definition of Accounting Estimates – effective from 1 January 2023.
- IAS 12 (amended) – Deferred Tax related to Assets and Liabilities arising from a single Transaction – effective from 1 January 2023
- IAS 12 (amended) – Income Taxes – Assets and Liabilities arising from a Single Transaction – effective from 1 January 2023.
- IAS 16 (amended) – Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022.
- IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract – effective from 1 January 2022.
- IFRS 3 – Reference to the Conceptual Framework – effective from 1 January 2022.
- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.

The following standard was issued and effective but had not yet been endorsed by the UK and as such has not been applied in these financial statements:

IFRS 16 (amended) – Covid-19 related Rent Concessions beyond 30 June 2021 – effective from 1 April 2021.

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the financial statements of the Group. Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group. The Group will continue to monitor the developments of these new or amended standards as and when they are endorsed for use in the United Kingdom.

## 8.2 Basis of preparation continued

### Updated guidance

In April 2021, the IFRS Interpretations Committee published its agenda decision that clarified the accounting for costs of configuring or customising a supplier's application software in a Software as a Service (SaaS) arrangement. See page 179 in the Basis of Preparation for details of the Group's progress in implementing any changes required as a result of the agenda decision.

## 8.3 Related party transactions

A related party is either an individual or entity with control or significant influence over the Group, or a company that is linked to the Group by investment (such as an associated company or joint venture). The Group's related parties are primarily its associate and its key management personnel. Amounts below are the total amount of transactions that have been entered into with any related parties in the year.

### Houston Pellet Limited Partnership ("HPLP")

HPLP is owned 30% by the Drax Group and 70% by non-related third parties. The Drax Group purchases industrial biomass pellets from HPLP. The Drax Group manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Drax Group and the non-related third parties.

The transactions from the acquisition date to 31 December 2021 and the balances at the end of the period with the related party are summarised below:

		Drax Ownership	Transactions in the period			Balances as at 31 December 2021 <sup>(1)</sup>	
			Revenue £m	Purchases £m	Management fee £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.2	10.3	–	1.4	0.6

(1) The amounts receivable and payable to the Company are unsecured and non-interest bearing

### Remuneration of key management personnel

The remuneration of the directors and Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2021 £'000	2020 £'000
Salaries and short-term benefits	6,755	5,101
Aggregate amounts receivable under share-based incentive schemes	2,826	1,381
Company contributions to money purchase pension schemes	635	562
	<b>10,216</b>	<b>7,044</b>

Amounts included in the table above reflect the remuneration of the 17 (2020: 14) members of the Board and Executive Committee as described on page 130.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the Consolidated income statement, determined based on the fair value of the related awards at the date of grant (see note 6.2), as adjusted for non-market-related vesting conditions.

There were no other transactions with directors for the periods covered by these Consolidated financial statements.

# Company financial statements

## Company balance sheet

	Notes	As at 31 December	
		2021 £000	2020 £000
<b>Non-current assets</b>			
Investment in subsidiaries	5	732,400	724,911
Deferred tax asset		1	1
		<b>732,401</b>	<b>724,912</b>
<b>Current assets</b>			
Other debtors		114	94
Amounts due from other Group companies		3,638	5,585
Cash at bank and in hand		3,939	2,375
		<b>7,691</b>	<b>8,054</b>
<b>Current liabilities</b>			
Amounts due to other Group companies		(4,248)	(14,187)
		<b>3,443</b>	<b>(6,133)</b>
<b>Net current assets/(liabilities)</b>		<b>3,443</b>	<b>(6,133)</b>
<b>Net assets</b>		<b>735,844</b>	<b>718,779</b>
<b>Capital and reserves</b>			
Called-up share capital	6	47,716	47,460
Share premium account		432,191	429,974
Treasury shares		(50,440)	(50,440)
Capital redemption reserve		1,502	1,502
Retained profits		304,875	290,283
<b>Total equity shareholders' funds</b>		<b>735,844</b>	<b>718,779</b>

The Company reported a profit for the financial year ended 31 December 2021 of £78.1 million (2020: £68.0 million).

These financial statements were approved by the Board of directors on 23 February 2022.

Signed on behalf of the Board of directors:

**Andy Skelton**  
CFO



## Company statement of changes in equity

	Share capital £000	Share premium £000	Treasury shares <sup>(1)</sup> £000	Capital redemption reserve £000	Retained profits £000	Total £000
<b>At 1 January 2020</b>	47,417	429,646	(50,440)	1,502	281,729	709,854
Share capital issued (note 6)	43	328	–	–	–	371
Profit and total comprehensive income for the year	–	–	–	–	68,008	68,008
Credited to equity for share-based payments	–	–	–	–	5,225	5,225
Equity dividends paid (note 8)	–	–	–	–	(64,679)	(64,679)
<b>At 1 January 2021</b>	<b>47,460</b>	<b>429,974</b>	<b>(50,440)</b>	<b>1,502</b>	<b>290,283</b>	<b>718,779</b>
Share capital issued (note 6)	256	2,217	–	–	–	2,473
Profit and total comprehensive income for the year	–	–	–	–	78,103	78,103
Credited to equity for share-based payments	–	–	–	–	7,388	7,388
Equity dividends paid (note 8)	–	–	–	–	(70,899)	(70,899)
<b>At 31 December 2021</b>	<b>47,716</b>	<b>432,191</b>	<b>(50,440)</b>	<b>1,502</b>	<b>304,875</b>	<b>735,844</b>

(1) The 13.8 million shares held in this reserve have no voting rights attached to them.

# Notes to the Company financial statements

## 1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

The financial statements have been prepared in accordance with FRS 101, 'Reduced Disclosure Framework'.

The Company applied certain new and amended standards for the first time in 2021. The full list of standards adopted is set out in the Consolidated financial statements in note 8.2. These updates and amendments have not had a material impact on the financial statements of the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, share-based payments, capital risk management, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the Consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are summarised below and have been consistently applied to both years presented.

## 2. Summary of significant accounting policies

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

### Financial instruments

**Issued equity** – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act 2006 are met, in which case the difference is recorded in retained earnings.

**Cash and cash equivalents** – Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

## 3. Critical accounting judgements and key sources of estimation uncertainty

### Critical judgements in applying the Company's accounting policies

There were no critical accounting judgements made in preparation of the Company's financial statements.

### Key sources of estimation uncertainty

There were no areas of significant estimation uncertainty within these accounts.

## 4. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 23 February 2022. The net profit attributable to the Company is £78.1 million (2020: £68.0 million).

The Company received dividend income from its subsidiary undertakings totalling £80.0 million in 2021 (2020: £70.0 million).

The Company has no employees other than the directors, whose remuneration was paid by a subsidiary undertaking and a proportion was recharged to the Company.

The auditor's remuneration for audit services provided to the Company for the year ended 31 December 2021 was £23,774 (2020: £23,153).

## 5. Fixed asset investments

Years ended 31 December

2021  
£000

2020  
£000

### Carrying amount:

<b>At 1 January</b>	<b>724,911</b>	719,654
Capital contribution	<b>7,489</b>	5,257
<b>At 31 December</b>	<b>732,400</b>	724,911

### Investments in subsidiary undertakings

The capital contribution in 2021 and 2020 relates to the share-based payment charge associated with the Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 6.2 to the Consolidated financial statements.

### Full list of related undertakings

The table below lists the Company's direct and indirect related undertakings as at 31 December 2021:

Name and nature of business		Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Abergelli Power Limited***	Power generation	England and Wales	Ordinary	08190497	100
Abbott Debt Recovery Limited***	Non-trading company	England and Wales	Ordinary	05355799	100
Amite BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	5128116	100
Arkansas Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881707	100
Baton Rouge transit LLC*	Trading company, fuel supply	Delaware, USA	Common	5128759	100
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	5305470	100
Donnington Energy Limited	Dormant	England and Wales	Ordinary	07109298	100
Drax Biomass Acquisitions LLC*	Non-trading company	Delaware, USA	Common	7897331	100
Drax Biomass Inc.*	Wood pellet manufacturing	Delaware, USA	Common	5068290	100
Drax Biomass Holdings Limited	Holding company	England and Wales	Ordinary	08322715	100
Drax Biomass Holdings LLC*	Dormant	Delaware, USA	Common	5128115	100
Drax Biomass International Holdings LLC*	Holding company	Delaware, USA	Common	5250168	100
Drax Biomass Transit LLC*	Holding company	Delaware, USA	Common	5128118	100
Drax CCS Limited	Dormant	England and Wales	Ordinary	07885329	100
Drax Corporate Limited	Group-wide Corporate Services	England and Wales	Ordinary	05562058	100
Drax Finco plc	Finance company	England and Wales	Ordinary	10664639	100
Drax Fuel Supply Limited***	Non-trading company	England and Wales	Ordinary	05299523	100
Drax Netherlands B.V.~	Dormant	Netherlands	Ordinary	81848455	100
Drax Generation Developments Limited***	Development company	England and Wales	Ordinary	07821368	100
Drax Cruachan Expansion Limited (formerly Drax Generation (Selby) Limited)***	Non-trading company	England and Wales	Ordinary	06657393	100
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	09887429	100
Drax Holdings Limited+	Holding company	Cayman Islands	Ordinary	92144	100
Drax Hydro Limited (formerly Domus Energy Limited)	Holding company	England and Wales	Ordinary	08654218	100
Drax Innovation Limited***	Development company	England and Wales	Ordinary	10664715	100
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	09824989	100
Drax Power Limited	Trading company, power generation	England and Wales	Ordinary	04883589	100
Drax Pumped Storage Limited (formerly Drax Corporate Developments Limited)	Trading company, power generation	England and Wales	Ordinary	06657336	100
Drax Retail Developments Limited	Dormant	England and Wales	Ordinary	10711130	100
Drax Research and Innovation Holdco Limited***	Holding company	England and Wales	Ordinary	06657454	100
Drax River Hydro Limited (formerly Damhead Creek II Limited)	Trading company, power generation	England and Wales	Ordinary	05956747	100
Drax Smart Generation Holdco Limited	Holding company	England and Wales	Ordinary	07821911	100
Drax Smart Sourcing Holdco Limited	Holding company	England and Wales	Ordinary	07821375	100
Drax Smart Supply Holdco Limited	Holding company	England and Wales	Ordinary	10664625	100
Farmoor Energy Limited***	Trading company, power retail	England and Wales	Ordinary	07111074	100
Haven Heat Limited	Dormant	England and Wales	Ordinary	06657428	100
Drax Energy Solutions Limited (formerly Haven Power Limited)	Trading company, power retail	England and Wales	Ordinary	05893966	100
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	07352734	100
Hirwaun Power Limited***	Power generation	England and Wales	Ordinary	08190283	100

## 5. Fixed asset investments continued

Name and nature of business		Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Iberia Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881704	100
Jefferson Transit LLC*	Dormant	Delaware, USA	Common	6297176	100
LaSalle Bioenergy LLC*	Trading company, fuel supply	Delaware, USA	Common	6297174	100
Millbrook Power Limited***	Power generation	England and Wales	Ordinary	08920458	100
Morehouse BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	5128117	100
Opus Energy (Corporate) Limited	Trading company, power retail	England and Wales	Ordinary	05199937	100
Opus Energy Limited	Trading company, power retail	England and Wales	Ordinary	04382246	100
Opus Energy Group Limited	Holding company, power retail	England and Wales	Ordinary	04409377	100
Opus Energy Marketing Limited***	Non-trading company	England and Wales	Ordinary	05030694	100
Opus Energy Renewables Limited	Trading company, power retail	England and Wales	Ordinary	07126582	100
Opus Gas Limited***	Non-trading company	England and Wales	Ordinary	05680956	100
Opus Gas Supply Limited	Trading company, power retail	England and Wales	Ordinary	06874709	100
Opus Water Limited	Dormant	England and Wales	Ordinary	09425319	100
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	10769036	100
Progress Power Limited***	Power generation	England and Wales	Ordinary	08421833	100
SMW Limited^	Trading company, fuel supply	Scotland	Ordinary	SC165988	100
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	09735929	100
Tyler Bioenergy LLC*	Dormant	Delaware, USA	Common	6297175	100
Pinnacle Renewable Holdings (USA) Inc*	Holding company	Delaware, USA	Common	7043656	100
Alabama Pellets LLC*	Trading company, fuel supply	Delaware, USA	Common	7064679	90
Pinnacle Renewable Energy Inc**	Trading company, fuel supply	Richmond, Canada	Common	BC1300366	100
Lavington Pellet Inc.**	General partner	Richmond, Canada	Common	BC1022038	75
Lavington Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Units	LP0649393	75
Smithers Pellet Inc.**	General partner	Richmond, Canada	Common	BC1135983	70
Smithers Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Units	LP730047	70
Northern Pellet Inc.**	General partner	Richmond, Canada	Common	BC1213828	50
Northern Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Class A and Class C	LP781774	50
Houston Pellet Inc.**	General partner	Richmond, Canada	Common	BC0730544	33
Houston Pellet Limited Partnership**	Trading company, fuel supply	Richmond, Canada	Units	428310-06	30

## Registered Office

## Incorporated in the UK

The registered address of all the companies incorporated in England and Wales is Drax Power Station, Selby, North Yorkshire, YO8 8PH.

## \*Incorporated in the USA

The registered address for all subsidiaries incorporated in the USA is 850 New Burton Road, Suite 201, Dover DE 19904.

## \*\*Incorporated in Canada

The registered address of all companies incorporated in Canada is 2800 Park Place, 666 Burrard Street, Vancouver, British Columbia, Canada, V6C 2Z7.

## ^Incorporated in Scotland

The registered address of all subsidiaries incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

## \*\*\*Exempt from audit

These subsidiaries have taken advantage of the exemption from audit available under section 479A of the Companies Act 2006 for the 2021 statutory accounts. These companies are all incorporated in England and Wales.

## +Registered in Cayman Islands

The registered address of Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1 9007, Cayman Islands.

## ~Registered in Netherlands

The address of Drax Netherlands B.V incorporated in Netherlands. is Barbara Strozilaan 101, Amsterdam, 1083HN.

Abbott Debt Recovery Limited and Opus Energy Marketing Limited have 30 December 2021 year ends. All other related undertakings have 31 December year ends.

The Group consolidates all of the related undertakings disclosed above apart from:

- Northern Pellet Inc. and Northern Pellet Limited Partnership which are proportionately consolidated
- Houston Pellet Inc. and Houston Pellet Limited Partnership which are equity accounted

## 6. Called-up share capital

	As at 31 December	
	2021 £000	2020 £000
<b>Authorised:</b>		
865,238,823 ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	<b>99,950</b>	99,950
<b>Issued and fully paid:</b>		
2021: 413,068,027 (2020: 410,848,934) ordinary shares of 11 <sup>16</sup> / <sub>29</sub> pence each	<b>47,716</b>	47,460

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2021 (number)	2020 (number)
<b>At 1 January</b>	<b>410,848,934</b>	410,475,731
Issued under employee share schemes	<b>2,219,093</b>	373,203
<b>At 31 December</b>	<b>413,068,027</b>	410,848,934

The Company has only one class of shares, which are ordinary shares of 11 <sup>16</sup>/<sub>29</sub> pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends.

### Issued under employee share schemes

From January to December 2021 a total of 2,219,093 shares (2020: 373,203 shares) were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan.

The total cash received, split between nominal value and share premium, is shown in the Statement of changes in equity on page 277.

Full details of share options outstanding are included in note 6.2 to the Consolidated financial statements.

## 7. Distributable reserves

The Company considers its distributable reserves to be comprised of the profit and loss account, less credits in respect of share schemes, less treasury shares, with a total value of £198.7 million (2020: £191.5 million). Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current proposed final dividend of £45 million. Based on a total dividend for 2021 of £75 million, the Company has sufficient distributable reserves to pay two years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded (see note 2.10 to the Consolidated financial statements for additional information).

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. The Group has sufficient cash resources with which to meet the proposed dividend (see note 4.1 to the Consolidated financial statements for additional information).

## 8. Dividends

	Years ended 31 December	
	2021 £m	2020 £m
<b>Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):</b>		
Interim dividend for the year ended 31 December 2021 of 7.5 pence per share paid on 08 October 2021 (2020: 6.8 pence per share paid on 2 October 2020)	<b>29.9</b>	27.0
Final dividend for the year ended 31 December 2020 of 10.3 pence per share paid on 14 May 2021 (2019: 9.5 pence per share paid on 15 May 2020)	<b>41.0</b>	37.7
	<b>70.9</b>	64.7

At the forthcoming Annual General Meeting 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 (equivalent to approximately £45 million) payable on or before 13 May 2022. The final dividend has not been included as a liability as at 31 December 2021.

## 9. Contingent liabilities

The Company has provided unsecured guarantees to third-parties in respect of contracts held by a subsidiary company. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has provided guarantees over the liabilities of its subsidiaries that have taken the advantage of the audit exemption available in section 479A of the Companies Act 2006. The list of subsidiaries who have taken this exemption can be found in note 5.

The possibility of an outflow in relation to the above guarantees is considered remote.

The Company has granted a charge over the assets of certain subsidiaries, in respect of the Group's debt (detailed in note 4.2 to the Consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that is party to the security arrangement. The Company itself is not a guarantor of the Group's debt.

## Shareholder information

### Key dates for 2022

At the date of publication of this document, the following are the proposed key dates in the 2022 financial calendar:

Annual General Meeting	27 April
Ordinary shares marked ex-dividend	28 April
Record date for entitlement to the final dividend	29 April
Payment of final dividend	13 May
Financial half year end	30 June
Announcement of half year results	26 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

### Results announcements

Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

### Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on our website at [www.drax.com](http://www.drax.com). During London Stock Exchange trading hours the price shown on the website is subject to a delay of approximately 15 minutes and outside trading hours it is the last available price.

The table below provides an indication of the fluctuations in the Drax Group plc share price during the course of 2021, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2020	Low during the year (5 March 2021)	High during the year (30 December 2021)	Closing price on 31 December 2021
375.0 pence	358.4 pence	611.5 pence	605.0 pence

### Share price chart

Share price (GBX)

Trade Volume



Note:

The share prices given are the middle market closing prices as derived from the London Stock Exchange Daily Official List.

### Market capitalisation

The market capitalisation, based on the number of shares in issue and the closing price at 31 December 2021 was approximately £2,499 million (2020: £1,541 million).

### Financial reports

Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to [Drax.Enq@drax.com](mailto:Drax.Enq@drax.com).

### Drax shareholder queries

The Company's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, (excluding Bank Holidays) or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

### Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website [www.shareview.co.uk](http://www.shareview.co.uk).

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on our website at [www.drax.com/investors/investor-resources/equity-investors-faq/](http://www.drax.com/investors/investor-resources/equity-investors-faq/).

### Tax on dividends

The way that dividends are taxed changed in 2017. Below is a brief summary of the guidance provided by HMRC as it relates to the current tax year. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

There is a tax-free Dividend Allowance of £2,000 per annum in the 2021-2022 tax year (2020-2021: £2,000) This means that there is no tax to pay on the first £2,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs are unaffected and remain tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £2,001 but less than £10,000 are required to notify HMRC that they have this source of income.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £10,001 are required to file a self-assessment return with HMRC.

The above requirements apply to Share Incentive Plan participants receiving cash dividends on their plan shares.

Further information and updates on tax on dividends can be found on the Gov.UK website at [www.gov.uk/tax-on-dividends](http://www.gov.uk/tax-on-dividends)



### Beneficial owners and “information rights”

If your shares are registered in the name of a third party (i.e. an ISA provider or other nominee company) you may, if you wish, receive information rights under Section 146 of the Companies Act 2006. In order for this to happen, you must contact the third party registered holder, who will then nominate you. All communications by beneficial owners of shares where the shares are held by third party registered holders must be directed to that registered holder and not to Drax or Equiniti.

### ShareGift

ShareGift (registered charity No. 1052686) is an independent charity which provides a free service for shareholders wishing to dispose charitably of small parcels of shares, which would most likely cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is possible to obtain income tax relief. Further information can be obtained directly from the charity at [www.sharegift.org](http://www.sharegift.org).

### Share frauds (“boiler room scams”)

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (the “FCA”).

### Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm’s contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.

Remember, if it sounds too good to be true, it probably is!

### Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

## Alternative performance measures (APMs) glossary table

The measures described below are used throughout the Annual report and accounts and are measures that are not defined within IFRS but provide additional information about financial performance and position that is used by the Board to evaluate the Group's trading performance. These measures have been defined internally and may therefore not be comparable to APMs presented by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself a measure defined under IFRS. Such measures should not be viewed in isolation or as an alternative to the equivalent IFRS measure.

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted results	Total results	<p>The Group's Adjusted results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted Results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives on a consistent basis.</p> <p>Adjusted results excludes exceptional items and certain remeasurements.</p> <p>Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period.</p> <p>Certain remeasurements comprise fair value gains and losses that do not qualify for hedge accounting. The Group regards all of its forward contracting activity to represent economic hedges and therefore by excluding the volatility caused by recognising fair value gains and losses prior to maturity of the contracts, the Group can reflect these contracts at the contracted prices on maturity, reflecting the intended purpose of entering these contracts and the Group's underlying performance.</p> <p>Adjusted results are the metrics used in the calculation of adjusted basic earnings per share.</p>	Total results measured in accordance with IFRS excluding the impact of exceptional items and certain remeasurements (defined in note 2.7).
Adjusted EBITDA	Operating profit*	Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year-on-year trading performance. It is also a key metric used by the investor community to assess performance of the Group's operations.	<p>Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA attributable to non-controlling interests is excluded.</p> <p>Adjusted EBITDA is stated from both continuing operations and discontinued operations.</p>

Net debt	Borrowings less cash and cash equivalents	<p>Net debt is the prominent metric used by debt rating agencies and the investor community to assess the strength of a company and its balance sheet.</p> <p>Net debt is used in the calculation of the Group's financial covenant requirements.</p>	<p>Total borrowings less cash and cash equivalents. Total borrowings include external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (see note 4.3) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations and trade and other payables.</p> <p>Net debt adjusted for the impact of hedging instruments which deducts the value of hedging instruments attributed to the Group's borrowings which are hedged from net debt.</p>
Cash and committed facilities	Cash and cash equivalents	<p>This is a key measure of the Group's liquidity and the Group's ability to manage its current obligations.</p> <p>It shows the value of cash available to the group in a short period of time</p>	Total cash and cash equivalents plus the value of the Group's undrawn RCF facility, loan facilities and Customers trade receivable factoring facility.
Debt service	Finance costs	This is a measure showing the cost of the Group's external borrowings (bonds and bank loans).	Interest payable and similar charges less any charges unrelated to external borrowings.
Net debt to Adjusted EBITDA ratio	Borrowings less cash and cash equivalents divided by operating profit	<p>The net debt to Adjusted EBITDA ratio is a debt ratio that gives an indication of how many years it would take the group to pay back its debt if net debt and EBITDA are held constant.</p> <p>The Group has a long-term target for net debt to Adjusted EBITDA of around 2.0x.</p>	Net debt divided by Adjusted EBITDA. Expressed as a ratio to 1.
Cost of production	Cost of sales	<p>A key metric showing the cost of produced biomass.</p> <p>This has been part of the Group's strategy to reduce biomass costs.</p>	<p>Cost of sales attributable to biomass production divided by tonnes of biomass produced.</p> <p>Expressed as a cost per tonne produced.</p>
Capital expenditure	Plant, Property and Equipment (PPE) additions and Intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	Plant, Property and Equipment (PPE) additions plus Intangible asset additions less any additions to decommissioning assets.

\* Operating profit is presented on the Group income statement; however, it is not defined per IFRS. It is a generally accepted profit measure.

# Glossary

## Adjusted EBITDA

Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is typically stated as the combined value from both continuing and discontinued operations.

## Adjusted results

Financial performance measures prefixed with "Adjusted" are stated after adjusting for material, one-off exceptional items (such as asset obsolescence charges, acquisition and restructuring costs or debt restructuring costs), and certain remeasurements on derivative contracts.

## Ancillary services

Services provided to national grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits, for example Black Start contracts. They are described in Connection Condition 8 of the Grid Code.

## Availability

Average percentage of time the units were available for generation.

## BECCS

Bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored.

## BEIS

The Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change.

## Black start

Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

## Biomass

Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. Drax uses woody biomass from low grade wood, sawmill residues and forest residues, in the form of compressed wood pellets, to generate electricity at Drax Power station.

## Capacity market

Part of the Government's Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

## Carbon capture and storage (CCS)

The process of trapping or collecting carbon emissions from a large-scale source and then permanently storing them.

## Carbon price support

A tax upon fossil fuels (including coal) used to generate electricity. It is charged as a levy on coal delivered to Drax Power station.

## CCC

The UK's Climate Change Committee.

## Contracts for difference (CfD)

A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the "strike price". Generators will receive revenue from selling their electricity into the market as usual. However, when the market reference price is below the strike price they will also receive a top-up payment for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.

## Combined Cycle Gas Turbines (CCGT)

A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

## ESG

Environmental, Social and Governance.

## EU ETS

The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

## Forced outage

Any reduction in plant availability, excluding planned outages.

## Frequency response

The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz.

## Grid charges

Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).

## Headroom and footroom

Positive "reserve" (see below) may be termed headroom and negative reserve as footroom.

## IFRS

International Financial Reporting Standards.

## Inertia

The stored energy in the large rotating mass of a generator, which assists in maintaining system stability. Wind and solar power sources have no inertia.

## Lost time incident rate (LTIR)

The frequency rate is calculated on the following basis: (fatalities and lost time injuries)/hours worked x 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

**Net debt**

Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

**Net debt to Adjusted EBITDA ratio**

The value of Net debt divided by Adjusted EBITDA (both as defined above), expressed as the number of times the value of Net debt exceeds the value of Adjusted EBITDA. The Group has a long-term target of around 2.0x Net debt to Adjusted EBITDA.

**NGO**

Non-governmental organisation.

**Open Cycle Gas Turbine (OCGT)**

A free-standing gas turbine, using compressed air, to generate electricity.

**Planned outage**

A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

**Rebasing**

Rebasing is when the Group releases cash from an open derivative contract that is in a mark-to-market asset position by modifying the rate per the contract. A cash payment equivalent to the reduction in the mark-to-market asset is received by the Group from the counterparty, less any applicable fees.

**Reserve**

Generation or demand available to be dispatched by the System Operator to correct a generation/demand imbalance, normally at two or more minutes' notice.

**Response**

Automatic change in generator output aimed at maintaining a system frequency of 50Hz. Frequency response is required in every second of the day.

**RIDDOR**

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

**ROCs**

A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

**Summer**

The calendar months April to September.

**System operator**

National Grid Electricity Transmission. Responsible for the co-ordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

**TCFD**

Task Force on Climate-related Financial Disclosures.

**Total recordable incident rate (TRIR)**

The frequency rate is calculated on the following basis: (fatalities, lost time injuries + worse than first aid injuries)/hours worked x 100,000.

**Total results**

Financial performance measures prefixed with "Total" are calculated in accordance with IFRS.

**UK ETS**

The UK Emissions Trading System is a mechanism introduced across the UK to reduce emissions of CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

**Voltage control/reactive power**

Maintenance of voltage within specified limits in order to "push" power around the system to maintain safety and stability.

**Winter**

The calendar months October to March.

## Company information

### Drax Group plc

#### Registered office and trading address

Drax Power Station  
Selby  
North Yorkshire YO8 8PH  
Telephone +44 (0)1757 618381  
www.drax.com

### Registration details

Registered in England and Wales  
Company Number: 5562053

### Group Company Secretary

Brett Gladden

### Enquiry e-mail address

Drax.Enq@drax.com

## Professional advisers and service providers

### Auditor

#### Deloitte LLP

2 New Street Square, London EC4A 3BZ

### Bankers

#### Barclays Bank PLC

1 Churchill Place, Canary Wharf, London E14 5HP

### Brokers

#### Royal Bank of Canada

100 Bishopgate, London EC2N 4AA

### Brokers

#### J.P. Morgan Cazenove

25 Bank Street, Canary Wharf, London E14 5JP

### Financial PR

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200 Aldersgate, Aldersgate Street, London EC1A 4HD

### Registrars

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### Remuneration advisers

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### Solicitors

#### Slaughter and May

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#### **Cautionary note regarding forward looking statements**

This annual report may contain certain statements, expectations, statistics, projections and other information that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

