

Delivering dispatchable, renewable power

Drax Group plc Annual report and accounts 2022



Financial/ESG highlights

Adjusted revenue ⁽¹⁾	Total revenue
£8,159m (2021: £5,174m)	£7,775m (2021: £5,088m)
Percentage of total UK renewable electricity generated	Dividend per share
11% (2021: 12%)	21.0 pence (2021: 18.8 pence)
Earnings per share	Net debt ⁽²⁾
21.3 pence (2021: 20.0 pence)	£1,206m (2021: £1,108m)
Adjusted EBITDA from continuing and discontinued operations ⁽¹⁾	Total operating profit ⁽¹⁾
£731m (2021: £398m)	£146m (2021: £197m)
Total recordable incident rate	Employee engagement score
0.44 (2021: 0.22)	79% (2021: 79%)
Group carbon intensity	Wood pellets produced
49 tCO ₂ e/GWh (2021: 78 tCO ₂ e/GWh)	3.9Mt (2021: 3.1Mt)
Group carbon emissions Scope 1 and 2	Group carbon emissions Scope 3
669 ktCO ₂ e (2021: 1,255 ktCO ₂ e)	3,123 ktCO ₂ e (2021: 3,121 ktCO ₂ e)

(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 179, with a reconciliation to their statutory equivalents in note 2.7 to the Consolidated financial statements on page 205. Throughout this document we distinguish between Adjusted measures and Total measures, which are calculated in accordance with International Financial Reporting Standards (IFRS).

References to financial performance measures throughout this Annual Report and Accounts 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 240.

(2) We define Net debt as borrowings, including the impact of hedging instruments, less cash and cash equivalents. Net debt is more fully described on page 180. A reconciliation of Net debt is provided on page 207. Borrowings is defined as per the Group's Consolidated balance sheet on page 183 and does not include lease liabilities, pension obligations or other financial liabilities.



Played a critical role providing stability and security to the UK power system

 [Read the CEO's Review page 12](#)



Adding pellet production capacity

 [Read the CEO's Review page 12](#)



Developing opportunities for bioenergy with carbon capture and storage (BECCS)

 [Read the CEO's Review page 12](#)



UK's largest source of renewable electricity by output

 [Read the CEO's Review page 12](#)

Further reading:


-  [Links within this report](#)
-  [External sources](#)
-  [Supporting data, statistics and insights](#)

Delivering dispatchable, renewable power

An electricity generator produces **Dispatchable Power** when the power can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand. Biomass, pumped storage, coal, oil, and gas electricity generation can meet these criteria and hence can be Dispatchable Power sources. Nuclear can be dispatched against an agreed schedule but is not flexible. Wind and solar electricity cannot be scheduled and hence are not Dispatchable. An electricity system requires sufficient Dispatchable Power to operate and remain safe. **Renewable power** is derived from natural sources that are replenished at a higher rate than they are consumed.



Sustainability is integral to our purpose and success.

 [Read Sustainable Development on page 36](#)

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

If we are to avert a climate catastrophe, more urgent action must be taken to get to net zero. As an integral part of the energy sector, I believe Drax has a pivotal role to play in driving the transition to renewable electricity by enabling a more flexible energy system which can deliver secure, renewable power when the sun doesn't shine and the wind doesn't blow and, in 2022, Drax continued to play an important role in supporting the security of energy supply in the UK.

Carbon dioxide removal technology is widely regarded as being essential to global efforts to reach net zero. We have ambitions to lead the world with our bioenergy with carbon capture and storage (BECCS) technology, which can generate secure, renewable electricity and permanently remove CO₂ from the atmosphere.

Sustainable biomass is recognised as having the potential to play an important role in tackling the climate crisis and displacing fossil fuels. As the world's leading sustainable biomass generation, production, and supply business, Drax is committed to ensuring the biomass we use delivers positive outcomes for the forests we source from and the people living in and around them.

I passionately believe that a thriving biomass industry, which sources the right biomass in a sustainable way, contributes to healthy forests: whether by providing an outlet for sawmill residuals or by using low quality wood that is unsuitable for use in a sawmill. We work closely with rural communities, providing and supporting jobs for people from different backgrounds in Canada and the southeast of the US.

Our commitment to sustainability sits at the heart of everything we do, helping to ensure we have a positive impact on the climate, nature, and people. In this report we'll explain how we are delivering our purpose to enable a zero carbon, lower cost energy future.

Will Gardiner, CEO

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Our strategic objectives are aligned to net zero targets:



To be a global leader in sustainable biomass pellets



To be a global leader in carbon removals



To be a UK leader in dispatchable, renewable generation

 Read more in our business model on page 8

Our role in the transition to net zero

To address the climate crisis and limit global warming to 1.5°C, we need more renewable energy, and more flexible energy systems to make the best use of wind and solar.

How Drax is enabling the transition to net zero:



How do we reduce carbon in a sustainable way?

By being a global leader in sustainable biomass pellets

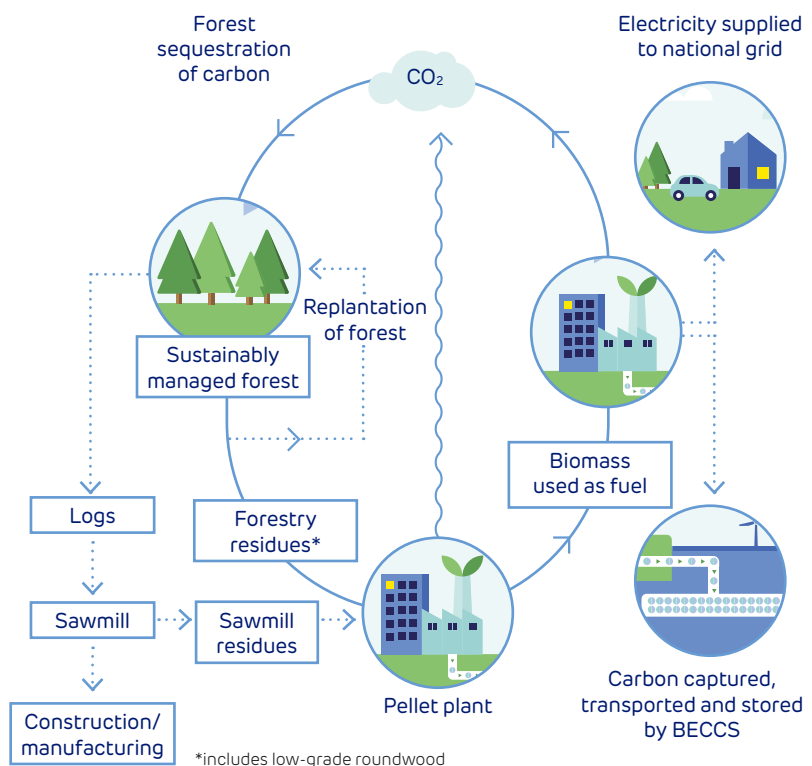
Sustainably sourced biomass is a renewable, low carbon source of energy and a key element in the road to net zero. This is at the heart of our purpose. Sustainable biomass can play an important role in supporting forest health. Well-managed forests are effective at absorbing and storing carbon dioxide (CO₂) from the atmosphere.

We are committed to sourcing sustainable biomass that achieves both decarbonisation and positive forest outcomes. Drax forms part of a wider forest industry where forest management and felling is used primarily for producing material for construction and manufacturing. The material we use to make pellets includes sawmill and forest residuals, and low-grade roundwood – material of a lower grade which is unsuitable for use in a sawmill. Using these materials can also help prevent the spread of fire, pests, and disease by reducing stand density to healthier levels and removing deadwood which can attract insects and pathogens.

By diligent sourcing of these materials to make pellets, our activity can help forest owners, and the larger forest industry, make the best use of forests, achieving both decarbonisation and positive forest outcomes.



Find out more about sustainably sourced biomass on page 40



“Without biomass, we’re not going to make it. We need biomass in the mix, but the right biomass in the mix.”




Source: Frans Timmermans, the executive vice-president of the European Commission in charge of the European Green Deal, May 2021

Our ambition:

However, wind and solar are intermittent and when the wind isn't blowing and the sun isn't shining, we need to look to other sources of power.

Our ambition is to become carbon negative by 2030. This 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 8**



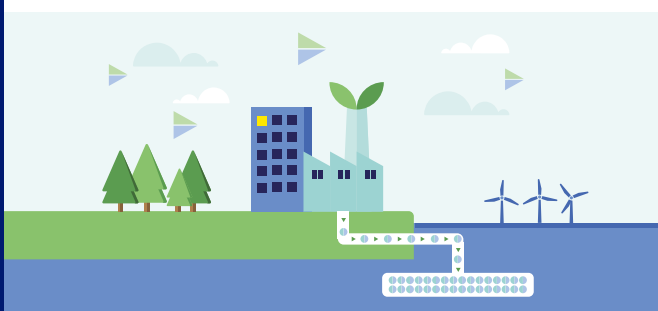
How can we permanently remove carbon from the atmosphere?



How do we keep the lights on during the transition to more intermittent renewable energy?

By being a global leader in carbon removals

Alongside carbon emission reductions, carbon removal technologies are needed to remove carbon from the atmosphere. With an effective carbon removals policy and the right investment framework from the UK Government, we could deploy bioenergy with carbon capture and storage (BECCS) on two of our existing biomass generating units in the UK to remove 8Mt of CO₂ each year by 2030. And we are targeting 12Mt of carbon removals globally by 2030.



 **Read more about BECCS in the CEO Review on page 12**



Up to 9.5bn tonnes of carbon removals, via BECCS, could be required annually by 2050 to reach global net zero targets.

 **Source: Intergovernmental Panel on Climate Change (IPCC), April 2022**

By being a UK leader in dispatchable, renewable power

Moving away from fossil fuels means building an electricity system that is primarily based on renewables. Supporting wind and solar, by providing electricity at times of low sunlight or wind levels, will require flexible sources of generation, such as biomass. Our pumped storage and run-of-river hydro stations also help to reinforce the UK's renewable energy mix.

The dispatchable generating assets at Drax remain critical to providing UK power system stability and security as the war in Ukraine continues to put global energy markets under considerable pressure. Over the 2022-23 winter, our assets generated renewable power when the country needed it most. This has helped the UK to provide energy to consumers and businesses while maintaining its target of net zero by 2050.



Read about our planned expansion of Cruachan power station on page 17



Ensuring the electricity system is reliable means intermittent renewables need to be complemented by technologies which can provide dispatchable power, such as bioenergy.



Source: UK Government, Biomass Policy Statement, November 2021

Market context

Our role in delivering a secure and renewable energy system, tackling climate change, sustaining healthy forests and habitats, and promoting socio-economic growth

2022 was a challenging year for the global community. The after-effects of Covid-19 and the continuing effect of Russia's invasion of Ukraine combined to have an impact on the social, economic, and political fabric of most countries around the world. Developed economies experienced rising demand, high energy costs, and supply chain issues, driving inflation and resulting in a cost of living crisis for many people.

In the UK, sterling's weakness and 12 months of unprecedented political and economic challenge compounded these issues. Despite this, governments in the UK, North America, mainland Europe and Asia continue to remain focused on delivering a decarbonisation agenda, both domestically and globally. Together, they aim to reduce the energy system's reliance on fossil fuels and help tackle climate change.

Bolstering energy security

In 2022, Drax generated 11% of the UK's renewable electricity – more than any other generator. This electricity comes from Drax Power Station – fuelled by sustainable biomass – in North Yorkshire and our pumped storage and hydro sites in Scotland.

We continue to play a critical role in ensuring the UK's security of energy supply, whilst also supporting thousands of jobs across the UK, both directly and through our supply chain. Drax helps to keep the lights on when the wind doesn't blow and the sun doesn't shine. Unlike wind or solar, our sites provide secure, dispatchable, renewable power whatever the weather – supporting grid stability.

Now more than ever, the UK needs to invest in domestic security of supply while also decarbonising the grid and meeting

climate targets. There is only one technology that can generate reliable and renewable electricity while removing carbon dioxide from the earth's atmosphere: bioenergy with carbon capture and storage (BECCS).

The project is well-developed, the technology is proven within the industry, and an investment decision could be taken in 2024, subject to the right investment framework, with a first BECCS unit operational in 2027 and a second in 2030. BECCS could remove millions of tonnes of carbon from the atmosphere and create local, national, and global opportunities.

Scaling up BECCS could help get the UK to net zero faster and kickstart a new green economy in the Humber, supporting thousands of jobs and creating opportunities across the North of England. And it could allow the UK to lead the world in carbon removals.

Rising global acceptance of BECCS

The Intergovernmental Panel on Climate Change (IPCC) is the world's leading authority on climate science. It states that carbon dioxide removal (CDR) methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5°C.

The illustrative mitigation pathways assessed in the IPCC's latest report use significant volumes of CDRs, including BECCS, as a tool for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero targets. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

In 2022, progress was made in global policies relating to carbon removal technologies. Despite the significant political uncertainty in the UK, the Government published several consultations and bills that demonstrated support for BECCS. These included publishing the Power BECCS Business Model Consultation, the GGR Business Model Consultation and the Energy Bill. Zero Carbon Humber, of which Drax is a member, supports the ambitions of the East Coast Cluster consortium which was chosen as a priority cluster. In addition, Drax awaits the outcome of its bid into the "Track 1" Power BECCS submission process and publication of the Government's Biomass Strategy.

Over a trillion dollars

The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

11%

In 2022 Drax generated 11% of the UK's renewable electricity



The international environment for BECCS continued to develop favourably in 2022. A growing number of governments and key stakeholders around the world recognise that deploying BECCS at scale will be critical to delivering on climate targets. At COP27, the IPCC released a synthesis of long-term low emission development strategies of 53 countries. Over a quarter of these strategies mention BECCS as part of their plans to limit global temperatures. As a result, we have seen significant developments to support BECCS deployment. In the US, the landmark climate bill – known as the Inflation Reduction Act – includes an uplift in funding and tax credits for carbon removal technologies.

The US Department of Energy included BECCS as an eligible technology in various funding schemes. Likewise, a National Renewable Energy Laboratory report states, by 2035, the US could need around 100Mt of carbon removals from BECCS to offset remaining carbon emissions in the power sector. State-level developments also support the deployment of BECCS. California's net zero strategy, for example, identifies carbon removal technologies as an important tool to deliver its climate targets.

The California Air Resources Board (CARB), which is responsible for climate policy, has stated its intention to deploy 75Mt of carbon removals, including BECCS, by 2045.

Canada launched an investment tax credit for carbon capture technologies to support carbon capture and storage (CCS) development. The country has set a target to capture 15Mt of carbon removals a year by 2030 and the government is working on a clean energy standard. This cites carbon capture and storage as being central to achieving net zero due to its potential to deliver carbon removals and to enable further reductions attributable to the electricity sector.

Meanwhile, the European Commission adopted a proposal for an EU-wide framework to reliably certify high-quality carbon removals. The proposal includes BECCS and classifies it as a permanent storage solution. The EU Energy Commissioner will also be working on a strategic vision for CCS in 2023, and EU Member States continue developing programmes to enable BECCS deployment. Several governments have announced research and development funding schemes and grants to support Front-End Engineering Design.

We expect the growing momentum for BECCS to continue in 2023. This is likely to include the development of detailed roadmaps to deliver net zero targets, and international negotiations on carbon markets will progress in the run up to COP28.

Delivering a future positive outcome

To tackle the climate crisis, the world needs secure, renewable energy – and to remove carbon from the atmosphere.

The IPCC and a number of governments agree that CDR methods, including BECCS, are necessary elements in achieving this goal. Drax is the world's leading sustainable biomass generation, production, and supply business, and is now developing options for BECCS in the UK and North America. Our Responsible Sourcing Policy is informed by science, and the biomass we use to generate electricity is assessed against sustainable forest management principles.

The material we use to make pellets includes sawmill and forest residuals, and low-grade roundwood, material of a lower grade which is unsuitable for use in a sawmill. Strong markets for lower quality material can help support good forest management in the US and Canada, and we take our wood from responsibly managed working forests. As the demand for bioenergy and BECCS increases, we are exploring opportunities to generate bioenergy from other sustainable fibre sources.

Bioenergy and BECCS can remove carbon from the atmosphere while sustaining healthy forests and habitats. In turn, this can protect and create jobs – particularly in some of those communities most at risk of decline in the transition to net zero.




BECCS

Over a quarter of IPCC strategies mention BECCS as part of their plans to limit global temperatures.



"Our commitment to sustainability sits at the heart of everything we do, helping to ensure we have a positive impact on the climate, nature, and people."

 Read more about our commitment to sustainability on page 36

At a glance

Drax is the second largest producer of sustainable biomass 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

The material we use to make pellets includes sawmill and forest residuals, and low-grade roundwood, material of a lower grade which is unsuitable for use in a sawmill. They provide a sustainable, low carbon fuel source that can be safely and efficiently delivered through our global supply chain.

The forests we source our biomass from are managed in accordance with standards designed to support the health and growth of these forests over the long term. Based in the US south and in Western Canada, we have 18 operational and development sites with nameplate capacity of around 5Mt once expansions are complete.

We have US\$4.1 billion of long-term contracted sales to third parties across Asia and Europe. Our Generation business also uses pellets sourced from our Pellet Production sites to make flexible, renewable electricity for the UK.

Employees

733

Adjusted EBITDA

£134m

(2021: £86m)

Pellets produced

3.9Mt

(2021: 3.1Mt)

Production cost

\$152/t

(2021: \$143/t)

Generation

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

Our dispatchable power – which can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand – has a vital role to play in enabling the transition to more renewable energy and a more flexible energy system: generating renewable electricity when the sun doesn't shine and the wind doesn't blow.

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 in the UK and exploring options for global BECCS.

Employees

666

Adjusted EBITDA

£696m

(2021: £372m)

Percentage of total UK renewable electricity generated

11%

(2021: 12%)

Customers

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

The business also offers non-generation system support and energy management services, such as the provision of decarbonisation services, including vehicle fleet electrification. It also provides a route to market for many smaller embedded renewable generators.

Employees

887

Adjusted EBITDA

£26m

(2021: £6m)

Where we operate

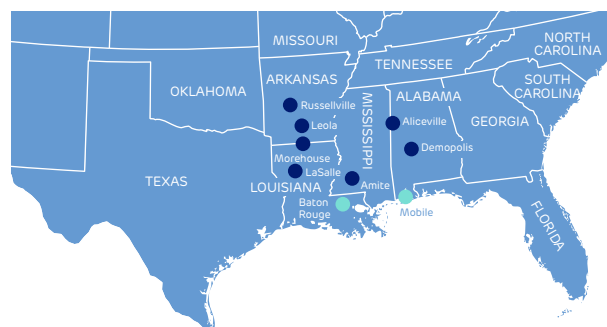
Canada



- Ports
- Developments
- Operational plants

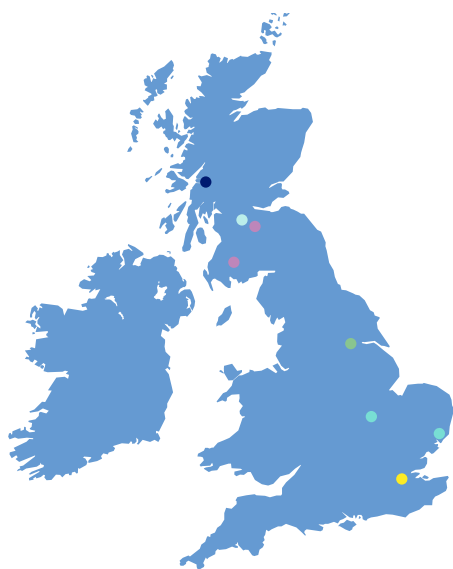
18 operational and development sites, with nameplate capacity of around 5Mt once expansions are complete.

US



Five deep water ports, accessing Asian and European markets.

UK



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

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

Japan



Development of carbon removals technology – BECCS.

Business model

A leading UK-based 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 carbon removals
- 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 carbon removals



To be a UK leader in 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 will be supported by the expansion of the Group's biomass pellet production capacity.

The Group has 18 operational and development sites with nameplate capacity of around 4.8Mt p.a. which will increase once expansions are complete. Drax is targeting 8Mt p.a. of production capacity by 2030, which will require the addition of around 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.

c.5Mt

Pellet production capacity
(2021: c.5Mt)

\$152/t

Production costs
(2021: \$143/t)

Carbon removals

Post-combustion removal of carbon from the atmosphere (such as BECCS) and afforestation (planting trees in new areas) are recognised as important sources of carbon removals – removing CO₂ from the atmosphere⁽¹⁾.

Building on its biomass expertise, Drax is developing options for BECCS.

Subject to the right regulatory environment, and support from the UK Government, Drax has plans to transform Drax Power Station into one of the world's leading carbon capture projects using BECCS to permanently remove 8Mt of CO₂ emissions from the atmosphere each year by 2030. The project is well developed, and an investment decision could be taken by Drax in 2024, with the first BECCS unit operational in 2027 and a second in 2030, subject to the right investment framework.

The Group is also developing options to complement this innovation with a target to deliver 4Mt of negative CO₂ emissions p.a. from new-build BECCS outside of the UK by 2030.

2030

Carbon negative by 2030

12Mt

Aiming for 12Mt of carbon removals globally by 2030

Compelling investment case

Dispatchable, renewable generation

Drax Power Station is the UK's largest source of renewable power by output and the UK's 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 the expansion of our pumped storage power station at Cruachan, 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.

Capacity:

2.6GW

biomass

0.6GW

pumped storage and hydro

- Geographically diversified biomass supply chain with opportunities for growth, innovation and cost reduction
- Developing options for large-scale carbon removals technology, both in the UK and globally
- UK's largest source of renewable power by output
- A leading provider of secure, dispatchable, UK generation, offering the flexibility that other renewables (such as wind and solar) cannot
- All underpinned by a culture of safety, sustainability, and a focus on 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 carbon removals 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 0.5 and 9.5 billion tonnes of carbon dioxide removal globally

Creating value for stakeholders

We engage with a broad range of stakeholders, including: shareholders and investors; our workforce; local communities; governments; network operators and regulators; NGOs; customers; and suppliers. You can read more about our stakeholders, together with our section 172 Statement, on pages 26 to 33.

- 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
- Ambition to lead the world in carbon removal technologies
- c. 99% reduction in generation Scope 1 and 2 carbon emissions since 2012
- Ambition to be carbon negative by 2030
- Supporting the transition to net zero
- Sustainable development framework
- 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

Drax contributes particularly to the following Sustainable Development Goals:



Chair's statement

An important role to play

Philip Cox CBE, Chair

Through 2022, Drax continued to make progress towards our purpose (to enable a zero carbon, lower cost energy future) and our aim (to be a carbon negative company by 2030). At the same time, we have supported energy security in the UK.

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

Through 2022, Drax continued to make progress towards our purpose – to enable a zero carbon lower cost energy future – and our aim: to be a carbon negative company by 2030. At the same time, we have supported energy security in the UK.

The Group's three strategic objectives – to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power – are aligned with a number of global energy policies. Such policies increasingly recognise the important role that sustainable biomass and carbon removals can play in the fight against climate change.

Since 2012, we have reduced our generation Scope 1 and 2 carbon emissions by approximately 99%, principally reflecting our long-term investment in sustainable biomass. And 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 North America.

While progressing our strategy, we also play an important role in supporting UK energy security. Using our biomass, pumped storage, and hydro assets, we generate large amounts of reliable, renewable electricity and provide important system support services to the UK power system. This reduces the UK's reliance on expensive fossil fuels like gas and complements the greater use of intermittent renewables such as wind.

In the future, biomass could offer a route to carbon removal using BECCS. But, it must be the right biomass. The Group is committed to this principle, in order to deliver positive outcomes for the climate, nature, and people.

On a personal note, this will be my final year as Chair since I plan to step down

by 31 December 2023. By then, I will have served as a director for nine years, having joined the Board in January 2015. In that time, I have seen the continued transition of Drax from coal to biomass generation, the growth of our Pellet Production business and supply chain, the development of opportunities for BECCS, and the growth of the Group internationally. These actions have all been undertaken alongside our continuing commitment to deliver our purpose and contribute to the fight against climate change.

Operations

In North America, our Pellet Production business has continued to support efforts to optimise biomass power generation and safeguard security of supply in the UK. At the same time, the Pellet Production business has added over 500kt of extra production capacity.

In the UK, our generation portfolio has continued to support the UK power system and deliver high levels of flexible, dispatchable, renewable electricity. In 2022, the Group was once again the UK's largest source of renewable electricity by output, providing 11% of the total from its biomass, pumped storage, and hydro generation assets. At the UK Government's request, we agreed to make available our two coal-fired units for the winter of 2022-2023, if required, as a response to the European energy crisis following Russia's invasion of Ukraine.

Our Customers business, which supplies electricity to businesses and other organisations in the UK, has continued its recovery from the impact of Covid-19.

Results and dividend

Adjusted EBITDA in 2022 was £731 million. This was significantly higher than 2021 (£398 million), reflecting a strong performance across the Group.

Our investment case

Further reading

Long-term global growth opportunities aligned with global net zero strategies



[Read CEO Report on page 12](#)

Differentiated position with operations across the biomass value chain



[Read CEO Report on page 12](#)

Positive impact on the climate, nature, and people



[Read Sustainable Development on page 36](#)

High-quality, strategic asset base



[Read CEO Report on page 12](#)

Strong operational and financial performance



[Read Financial Review on page 20](#)

Sustainable and growing dividend



[Read Financial Review on page 20](#)

Technological changes mean that biomass usage can now go beyond carbon-neutral and deliver negative emissions by combining it with carbon capture and storage (BECCS)



Source: UK Government Net Zero Strategy: Build Back Greener Publication. October 2021

The balance sheet also remains strong, with Net debt at £1,206 million significantly below our target ratio of 2.0 times Net debt to Adjusted EBITDA.

At the 2022 Half Year Results, we confirmed an interim dividend of £34 million (8.4 pence per share). The Board proposes to pay a final dividend in respect of 2022 of £50 million, equivalent to 12.6 pence per share. This will make the full year 2022 dividend £84 million (21.0 pence per share) (2021: £75 million, 18.8 pence per share). This represents an 11.7% increase on 2021. It is also consistent with our policy to pay a dividend that is sustainable and expected to rise as the strategy delivers stable earnings, and cash flows and opportunities for growth.

The Group has a clear capital allocation policy. 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. This includes new biomass pellet plants, the development of options for BECCS in the UK and North America, and the expansion of our pumped storage power station at Cruachan. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

Safety and sustainability

The safety, health and wellbeing of our colleagues and contractors, together with our environmental impact, remain priorities for the Group and the Board. We believe that safe, compliant, and sustainable operations are integral to the delivery of our strategy and crucial for sustained long-term performance. These fundamentally underpin the continued success of the Group. Safety and sustainability underpin our operational philosophy. We continue to work across the Group to identify,

implement, and maintain high standards supported by a positive safety culture.

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 2022, we have continued our work as a Taskforce on Climate-Related Financial Disclosures (TCFD) supporter. For example, we have submitted science-based targets and identified opportunities for further reductions of carbon emissions in our supply chain.

Delivering positive outcomes for climate, nature, and people are at the core of the Group's business model, and ensuring that Drax only uses biomass which is sourced sustainably in the generation of electricity is central to this ambition.

Biomass, when sustainably sourced, supports good forestry, is a renewable source of energy, and we believe, is an important part of both UK and international renewable energy policies. The Group sources its biomass from well-established forestry markets, primarily in the US and Canada.

We support responsible forestry practices by providing incremental, secondary revenues to forest landowners through the purchase of material which is not otherwise merchantable to a sawmill. These materials are principally sawdust and sawmill residues, bark, branches, low-grade roundwood, and woody material from forest management activities. In addition, the markets we source from are subject to national and regional regulation. We supplement this regulation through our own biomass Responsible Sourcing Policy and supply chain checks, with third-party verification under the Sustainable Biomass Program in respect of woody biomass used at Drax Power Station.

People and values

The Board remains 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. Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums during 2022, and we will continue to do so in 2023. These meetings provide valuable ongoing insights and feedback for the Board.

We monitor and challenge management on the steps being taken to address diversity, and the Board receives regular updates at Board meetings on the work being done. In recent years, we have made progress on diversity, particularly in senior roles. By the end of 2022, our female representation at Board level was 44% and 40% for the Executive Committee.

Summary

In 2022, we used our generation assets and our supply chain to provide large volume, reliable and flexible power; we enhanced security of supply in the UK; and we continued to deliver strong financial performance with a sustainable and growing dividend.

At the same time, we have made good progress with our strategic objectives. Our biomass growth strategy is clear and underpins our plans for biomass sales, opportunities for BECCS, and renewable power generation. 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 Review

Our purpose and ambition drive our commitment to address climate change



Will Gardiner, Chief Executive Officer

2022 saw a significant increase in gas prices, leading to concerns about energy costs and security in the UK and beyond. At Drax we have continued to play our part. We are the UK's largest source of renewable power by output, a leading source of reliable and flexible generation, and our ambition is to become a carbon negative company by 2030.

Our portfolio generated over 4% of the UK's electricity between October 2021 and October 2022 (the most recent period for which data is available). We also generated 11% of the UK's renewable electricity over the same period, making Drax the largest renewable generator by output. In addition, our assets produced on average 19% of the UK's renewables at times of peak demand across the year and up to 70% on certain days. This underlines the important role that Drax plays in security of supply in the UK.

At the same time, we remain focused on our purpose – to enable a zero carbon, lower cost energy future – and our ambition to become a carbon negative company by 2030.

This purpose and ambition drive our commitment to address climate change. Since 2012, the Group's actions have reduced our generation Scope 1 and 2 carbon emissions by approximately 99%.

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

We believe that Drax is a world leader in sustainable biomass and that BECCS can become a world leading, UK-led, exportable solution for large-scale carbon removals, subject to the right regulatory and investment framework. Reflecting this belief, we are continuing to develop an option for our UK BECCS project and opportunities to invest in BECCS in North America. We believe this could be the world's leading market for these types of technologies.



We need more renewable energy, more flexible energy systems to make the best use of intermittent wind and solar energy, and crucially, carbon removal technologies, like BECCS, to remove carbon from the atmosphere



Read more about our sustainability activities on pages 36 to 74

These benefits will only be possible with the right biomass – biomass that is sourced sustainably. At Drax we are committed to using the right biomass, that can deliver positive outcomes for the climate, nature, and people, and we have put in place policies, controls, and reviews to support this.

Through our strategy we are creating exciting opportunities for growth aligned to global decarbonisation efforts. Our investments in these areas are underpinned by high quality earnings and cash flows, which continue to support our commitment to a sustainable and growing dividend.

Summary of 2022

Safety remains a primary focus and, in 2022, the Total Recordable Incident Rate was 0.44 (2021: 0.22). This is not where we want our safety performance to be. However, as reported at the half year, the increase is explained in part by two developments. Firstly, a widening of the scope to include contractor incidents. Secondly, improvements in the recording of incidents in our Pellet Production business, including the Pinnacle sites we acquired in 2021.

Since the acquisition we have implemented a health, safety and environmental (HSE) improvement plan across our North American operations and invested in training, human resource, and capital projects to deliver improved performance. We are committed to a strong safety culture across the Group and remain focused on embedding these improvements to uplift performance accordingly.

Adjusted EBITDA of £731 million represents an 84% increase compared to 2021 (£398 million). This reflects increased pellet sales, a strong system support and renewable power generation performance across the portfolio, and improved profitability in our Customers business.

Our balance sheet is strong, with total cash and committed facilities of £698 million and Net debt of £1,206 million.

Operationally, the Group's biomass, pumped storage, and hydro assets have continued to support UK security of supply, providing power system stability at a time of higher gas prices and volatility on the power system.

We have used our pellet production and international supply chain to reprofile biomass from the summer to winter, maximising generation when it is most needed, based on system need and sustainable biomass supply.

While supporting UK security of supply, we have also progressed our options for BECCS in the UK and continued developing new opportunities for the technology in North America.

Drax is a signatory to the UN Global Compact (UNGC) and we are committed to promoting the UNGC principles concerning respect for human rights, labour rights, the environment, and anti-corruption.

Electricity Generator Levy

In December 2022, the UK Government confirmed the details of a windfall tax – the Electricity Generator Levy (EGL) – on renewable and low-carbon generators, due for implementation in 2023. The levy will apply to the three biomass units operating under the Renewables Obligation (RO) scheme and our run-of-river hydro operations. However, it does not apply to the Contract for Difference (CfD) biomass unit, pumped storage hydro, or coal generation.

Through the second half of 2022, we engaged with the UK Government on the issue of windfall taxes, and their impact on the industry, to ensure a balanced approach. While we do not believe a levy on renewables is appropriate, we welcome clarity and the recognition that the cost base for biomass is different to intermittent renewables such as wind. This is an important distinction, as it means the EGL should not have an adverse impact on biomass generation.

Operational performance

Pellet Production

In North America, our Pellet Production business reported Adjusted EBITDA of £134 million, up 56% (2021: £86 million). This primarily reflects higher levels of production and sales, as well as revised transfer pricing in the second half of 2022.

Pellet production was 3.9 million tonnes (Mt), an increase of 27% (2021: 3.1Mt). This reflects a full 12 months' worth of production from Pinnacle's plants following the acquisition in April 2021. It also reflects increased capacity at Morehouse and LaSalle, both in Louisiana, following their expansion.

In addition, we commissioned three new plants during 2022: Demopolis in Alabama, plus Leola and Russellville (both in Arkansas). In September 2022, we acquired a 90 kiloton (kt) pellet plant in Princeton (British Columbia) from Princeton Standard Pellet Corporation. These four plants combined will add over 500kt of production when at full capacity.

In December 2022, the Group took a Final Investment Decision (FID) to develop two new pellet production projects. The first is a 450kt new-build pellet plant at Longview (Washington State) that includes the development of a new port facility at the location. The second is a 130kt expansion of our Aliceville site (Alabama). The combined investment in these projects is expected to be in the region of \$300 million, inclusive of the effect of inflation on construction costs.

The development of the new plant at Longview will provide the Group with access to a new fibre basket and we will also develop port infrastructure at the Port of Longview, adding a fifth port to the Group's North American supply chain, with the opportunity to consolidate additional capacity in the future.

The US Pacific North-West will be the Group's fourth major area of fibre supply alongside the US South; British Columbia; and Alberta. The new facility is expected to support further diversification of the Group's fibre sourcing production and export capacity, supporting sales into Asian and European markets, as well as own-use.

Taken together, existing operations and developments will give Drax a network of 18 pellet plants, with access to five deep-water ports on the East Coast and West Coast of North America.

In addition to our own-use of biomass, the Group also has contracts to supply 22Mt of biomass to Asian and European counterparties. These contracts extend into the 2030s, with total revenues of over \$4.1 billion.

Inflationary pressures, primarily in transportation and utilities in North America during 2022, contributed to an increase in our pellet production costs. Together with costs incurred in providing supply-side flexibility, production costs for the Pellet Production business are expected to be higher in 2023. These increased costs have been considered in an adjusted transfer price implemented in the second half of 2022.

We remain focused on opportunities to reduce the cost of biomass but will balance this against the need to optimise our supply chain to deliver value for the Group.

Chief Executive's Review continued

Generation

Adjusted EBITDA of £696 million from continuing operations was an increase of 87% on 2021 (£372 million, inclusive of £20 million from discontinued CCGT operations). This reflects a strong system support and renewable power generation performance across the portfolio, providing high levels of dispatchable renewable and low-carbon electricity and system support services, more than offsetting incrementally higher biomass costs and grid charges. In addition, there was no major planned outage undertaken in 2022, compared to one in 2021.

Against the backdrop of increasing concern around European energy security, we have optimised our biomass generation and logistics, buying back positions in the first half of the year and reprofiling to the second half. These actions provided additional security of supply to the UK at times of expected higher demand.

The process of moving generation between lower and higher demand periods has resulted in an incremental increase in achieved power prices – although this has not been without cost.

We have incurred direct logistics costs associated with changing our delivery programme and managed an increased number of rail delivery cancellations in the UK due to driver availability.

Over the past 12 months, the cost of biomass in the European spot market has increased significantly, making it more challenging to procure and generate additional power with a margin. As a result of higher biomass prices, this created opportunities for the sale of biomass in addition to generation.

Most of the biomass we use is under long-term contracts. However, as we flagged during 2022, inflationary pressures in certain aspects of our supply chain have led to some cost increases and we expect this to continue in 2023.

Our pumped storage and hydro operations – Cruachan Pumped Storage Power Station and the Lanark and Galloway hydro assets – performed strongly helping to provide system stability. Together with the Daldowie energy from waste plant, Adjusted EBITDA was £171 million (2021: £68 million).

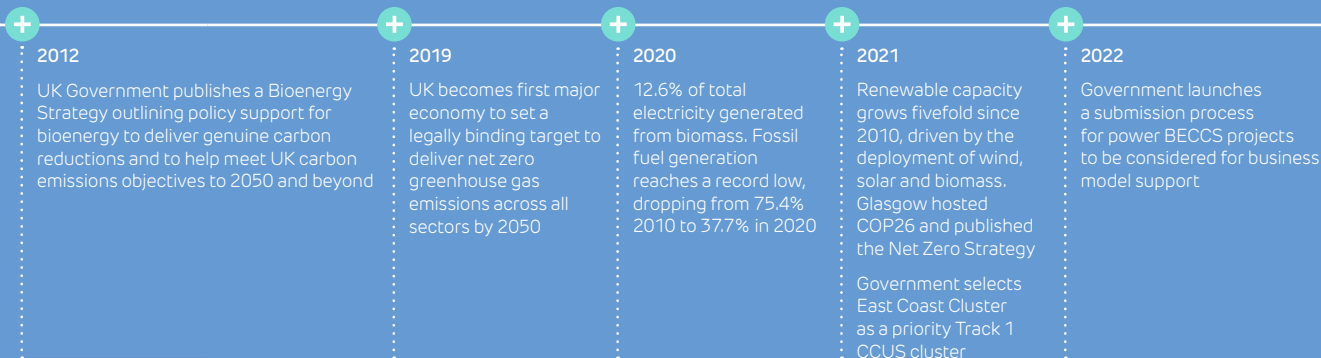
To move towards net zero, the UK needs to reduce its reliance on fossil fuel generation from unabated gas. It also needs to increase the amount of renewables, likely from intermittent wind and solar. In this context, the role of flexible, dispatchable renewables like biomass, pumped storage, and hydro has never been more important. They are dispatchable and dependent on neither the weather nor the price of gas. As such, we believe they represent a long-term part of the UK power mix.

This underpins our plans for a potential investment in the expansion of Cruachan Pumped Storage Power Station, and we continue to expect to take a FID in 2024. You can read more about this opportunity on page 32.

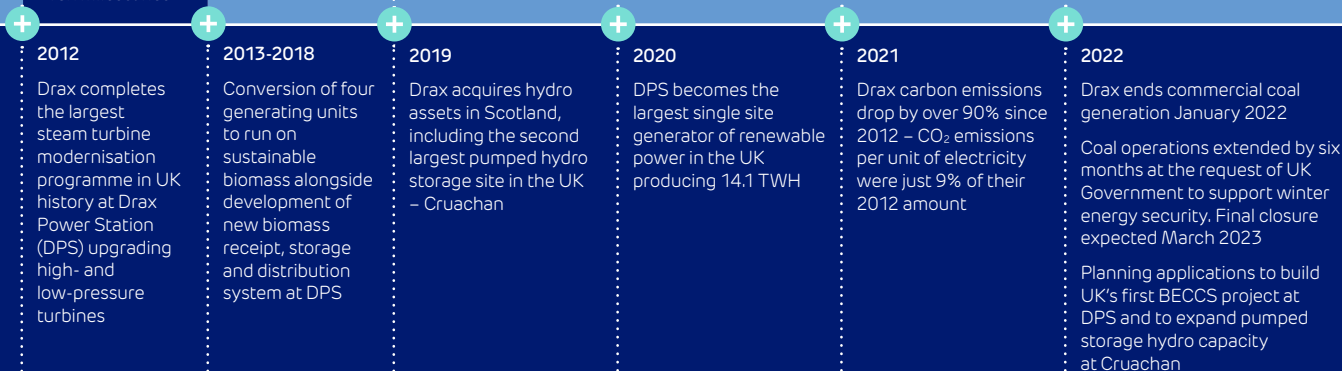
In July 2022, at the request of the UK Government, Drax entered into an agreement with National Grid, to provide a “winter contingency” service to support the UK power system via its legacy coal units. The units will not generate commercially for the duration of the agreement and will only operate if, and when, instructed to do so by National Grid.

How does Drax support Government Net Zero Strategy?

Government milestones



Drax milestones



To date National Grid has not instructed the units to run, other than for testing. The contract, which covers the period October 2022 to March 2023, provides a fixed fee for the provision of the units with National Grid remunerating Drax for costs, including the coal and carbon associated with any generation.

The winter contingency service agreement is not expected to interfere with our plans for developing BECCS at Drax Power Station. Site preparation works for BECCS are ongoing and will continue following formal closure of the coal units at the end of March 2023 on conclusion of the contract with National Grid.

In March 2022, the Group signed a development agreement with Engineering, Procurement and Construction (EPC) contractor Mytilineos for the development of three 299MW Open Cycle Gas Turbines (OCGTs). Each plant is expected to require investment in the region of £100 million across the period 2022 to 2024. This investment is underpinned by a 15-year Capacity Market agreement for delivery between 2024 and 2039. We are continuing to evaluate options for these projects, including their potential sale.

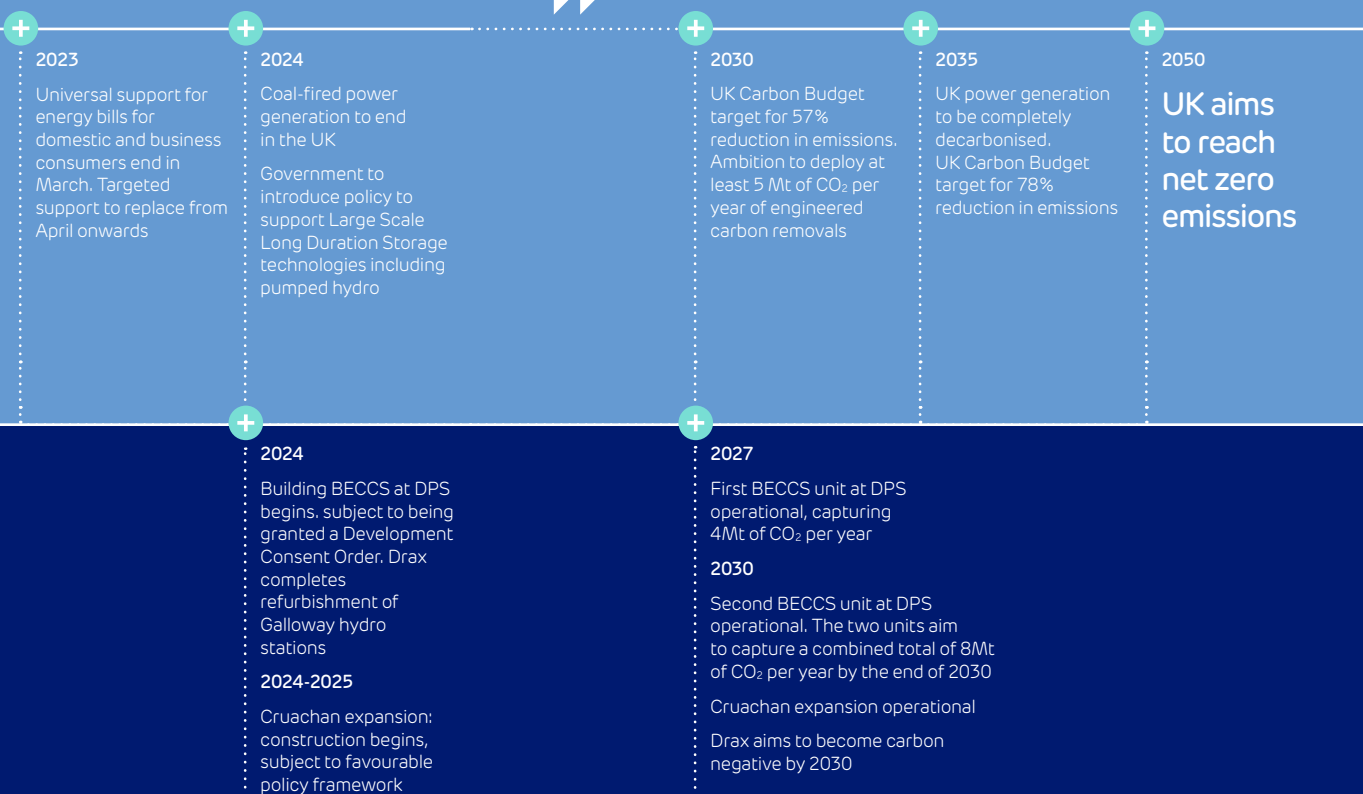
Customers

Our Customers business has performed well in 2022 with Adjusted EBITDA of £26 million (2021: £6 million). The performance is an improvement on 2021, when Covid-19 had an impact – principally in the area of the business working with small or medium-sized enterprise (SME) customers.

Over the past two years, we have restructured the Customers business. This has included streamlining operations, with the closure of offices in Oxford and Cardiff, and rebranding the Haven Power Industrial & Commercial (I&C) business to Drax Energy Solutions. These changes will support the development of our core I&C supply business, which has performed well with growth in the contracted sales position to high-quality customers.

We see an important role in supporting the decarbonisation of 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 carbon removals.

Our assets produced on average 19% of the UK's renewables at times of peak demand across the year and up to 70% on certain days. This underlines the important role that Drax plays in security of supply in the UK.



Chief Executive's Review continued

Our Customers business has seen some increase in bad debt, reflecting the impacts of higher prices. We have robust processes in place to manage this.

Strategy

Our strategy 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. These pillars are to be a global leader in sustainable biomass pellets; to be a global leader in carbon removals; and to be a UK leader in dispatchable, renewable power.

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.

To support this expected growth in demand for biomass products, Drax is targeting 8Mt of pellet production capacity by 2030. This will require the development of over 3Mt of new biomass pellet production capacity to supplement existing capacity and developments. We are developing a pipeline of organic projects, principally focused on North America, which includes the recently announced Longview project. We will also look at other opportunities where appropriate.

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 20 years of experience in biomass operations. The Group's innovation in coal-to-biomass engineering, together with the development of a leading position in carbon removals, 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 under long-term contracts.

A global leader in carbon removals

BECCS – UK

We continue to develop options for BECCS. We plan to transform Drax Power Station, through the addition of post combustion carbon capture to two of the existing biomass units, using sustainable biomass and technology from Drax's technology partner, Mitsubishi Heavy Industries (MHI). Captured carbon dioxide (CO₂) will be transported and stored by the Group's partners in the East Coast Cluster. By 2030 the project aims to permanently remove 8Mt of CO₂ per annum. An investment decision could be taken in 2024, subject to the right investment framework.

In addition, Drax awaits the outcome of its bid into the "Track 1" Power BECCS submission process and publication of the Government's Biomass Strategy.

Alongside MHI's technology, we are supporting other innovative options for carbon capture. For example, Drax is an equity shareholder in C-Capture Limited, which is developing a solvent technology that could be used for BECCS and other applications. We believe this could deliver significant long-term cost savings for future projects.

BECCS – North America

We want to capitalise on our belief in the global need for BECCS and the technical expertise gained from our Drax Power Station project. Our ambition is to deliver 4Mt of carbon removals each year from BECCS outside of the UK by 2030. Accordingly, we are developing models and locational preferences for global BECCS developments, with a primary focus on North America.

Opportunities under consideration include new-build BECCS power stations, as well as developing options for a pellet plant with carbon capture, and using BECCS as an exportable solution, for example in coal-to-biomass-to-BECCS on non-Drax assets.

Key considerations for these opportunities include proximity to sustainable biomass fibre, carbon capture and storage (CCS) infrastructure, regulatory support, commercial potential, and technology.

We are currently evaluating a range of potential financial models for these projects. These could include long-term Power Purchase Agreements (PPAs), long-term Carbon Dioxide Removal (CDR) offtake agreements, and government investment frameworks. In September

2022, we announced a Memorandum of Understanding (MoU) with Respira, which could see the largest volume of carbon dioxide removals (CDRs) traded so far globally. Under the MoU, Respira could purchase up to 2Mt of CDRs over a five-year period from our North American BECCS projects.

The regulatory environment for BECCS in the US continued to develop in 2022, with the inclusion of BECCS as an eligible technology under the Department of Energy climate goals funding scheme and the increase in 45Q support to \$85 per tonne of CO₂ captured, under the Inflation Reduction Act (2022).

Furthermore, a recent National Renewable Energy Laboratory report highlights that, by 2035, the US could need around 100Mt of carbon removals from BECCS to offset remaining carbon emissions in the power sector. In addition, recent State level developments in Louisiana and California have both been supportive of the development of BECCS.

Research by the Intergovernmental Panel on Climate Change (IPCC), the world's leading authority on climate science, is also supportive. The IPCC's research states that CDR methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5°C.

The illustrative mitigation pathways assessed by the IPCC use significant volumes of CDRs, including BECCS, as a tool for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

We believe there are significant growth opportunities linked to BECCS in North America. To progress these opportunities in 2023, the Group expects to invest in development expenditure in the region of £30 million with a view to advancing these opportunities to a FID. We expect to update on progress with these opportunities in 2023.

A UK leader in dispatchable, renewable generation

The UK's plans to achieve net zero by 2050 will require the electrification of sectors such as heating and transport systems, resulting in a significant increase in demand for electricity. We believe that intermittent renewable and inflexible low-carbon energy sources – wind, solar and nuclear – could help meet 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 of supply and to limit the cost to the consumer.

Long-term biomass generation and pumped storage hydro can provide these increasingly important services and we are developing an option for new pumped storage – the expansion of Cruachan Power Station – to provide an additional 600MW of dispatchable long-duration storage to the power system. A planning application was submitted in May 2022, and any investment remains subject to the right investment infrastructure and support.

The location, flexibility and range of services Cruachan can provide makes it strategically important to the UK power system. A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory framework.

Biomass sustainability

Delivering positive outcomes for the climate, nature, and people are central to our plans. Ensuring that we only use biomass that is sourced sustainably is key to this ambition. You can read more about biomass sourcing in Sustainable Development on pages 36 to 74.

Biomass, when sustainably sourced, supports good forestry, is a renewable source of energy, and we believe represents an important part of both UK and international renewable energy policy.

Drax sources its biomass from well-established forestry markets mainly in the US and Canada, as well as Europe. The main output from these markets is sawlogs, which are processed for use in construction and manufacturing. When used in this way, these materials represent a source of long-term carbon storage and, when the forest regenerates or is replanted, the growing trees absorb carbon from the atmosphere.

Drax supports these forest economies by providing incremental secondary revenues to forest landowners through the purchase of material which is not otherwise merchantable to a sawmill and has limited alternative uses. These materials include bark, branches, low-grade wood and woody matter from forest management activities (thinning), in addition to purchasing sawmill residues. This reduces the risk of wildfire and the spread of disease, and allows for replanting of the forest. Where there would otherwise be no demand for these materials, they are sometimes burned at the roadside, as happens in British Columbia.

In the US South, the periodic thinning of a forest helps improve the size and quality of sawlogs when the trees reach maturity, the economic value of the timber produced and the carbon absorbed and stored, as well as forest health and biodiversity.

If forests were not thinned, the revenue from sawlogs would be reduced and landowners may consider other uses for their land, such as agricultural crops and livestock farming. The management of forestland to produce sawlogs ensures forests are growing vigorously and absorbing carbon, which means forests remain a carbon sink.

Forests in the areas where Drax sources material are subject to national and regional regulation and typically supported by, and independently monitored for compliance by, forest certification schemes. These include the Forestry Stewardship Council (FSC® C119787), the Sustainable Forestry Initiative (SFI), and the Programme for the Endorsement of Forest Certification (PEFC) (PEFC/16-37-1769).

We supplement this regulation through our own Responsible Sourcing Policy and supply chain checks, with third-party verification under the Sustainable Biomass Program (SBP), in respect of woody biomass used at Drax Power Station.

Outlook

The Group is continuing to play an important role in supporting energy security of supply in the UK, using our supply chain and flexible, renewable generation portfolio to provide large volumes of reliable renewable power and system stability at a time of higher gas prices.

Our long-term focus remains on progressing our strategy and our ambition to become a carbon negative company by 2030, underpinned by the development of BECCS. The potential for the growth in carbon removals, and the opportunity this could afford BECCS in the UK and our plans for North America, is significant and we expect to make further progress on these options during 2023.

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.

Will Gardiner,
Chief Executive Officer

Key performance indicators

Our Strategic Pillars:



To be a global leader in sustainable biomass pellets





To be a global leader in carbon removals



To be a UK leader in dispatchable, renewable generation




















Measure	Definition/why it matters	Performance
Adjusted EBITDA (£million)	This is our principal financial performance metric, combining the earnings of each business to give a Group outcome. The reconciliation of statutory earnings to Adjusted EBITDA is on page 206.	2022 731 2021 398 2020 412
Adjusted basic EPS (pence)	This is an important measure of our profitability – showing adjusted earnings on a per share basis. The calculation of Adjusted basic EPS is on page 208.	2022 85.1 2021 26.5 2020 29.6
Average Net debt (£million)	This is a key measure of our liquidity and our ability to manage our current obligations.	2022 1,117 2021 1,002 2020 849
Dividends (pence per share)	This is a primary measure of our value creation for our shareholders.	2022 21.0 2021 18.8 2020 17.1
Total recordable incident rate (TRIR)	Keeping our people safe is a core principle. TRIR is an industry standard measure of fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. You can read more about health, safety, and wellbeing in People Positive on page 68.	2022 0.44 2021 0.22 2020 0.29
Biomass generation availability	This is an important measure of the amount of time our biomass generation assets are available to generate electricity or provide system support services. This is calculated as the full capacity of the biomass units, less planned outages and unplanned outages, as a percentage of full capacity.	2022 87% 2021 88% 2020 87%
Group carbon emissions Scope 1, 2 and 3 (ktCO₂e)	We are focused on reducing carbon emissions – as measured by Scope 1, 2 and 3 – which enables us to track progress towards our carbon negative ambition. You can read more about this in Climate Positive on page 61.	2022 669 3,123 2021 1,255 3,121 2020 3,080 3,135 <small>Scope 1 and 2 Scope 3</small>
Pellets produced (Mt)	This measures a key part of our strategy – to increase our pellet production capacity and output. This represents the number of pellets produced in millions of tonnes.	2022 3.9 2021 3.1 2020 1.5
Cost of production (\$/t)	This measures a key part of our strategy – to reduce the cost of biomass produced. This is calculated as the weighted average of the cost per tonne of pellets produced.	2022 152 2021 143 2020 153* <small>* Excludes Pinnacle</small>
Employee engagement score (%)	An engaged and motivated workforce is a critical component in delivering our strategy. This is measured through our annual engagement survey. You can read more about employee engagement in People Positive on page 66.	2022 79 2021 79 2020 82

Type:

	Financial
	Non-Financial

Our Risks:

- | | | | | |
|---------------------------------------|---|-------------------------|--------------------------------|---------------------------|
| 1 Environment, Health & Safety | 2 Political & Regulatory | 3 Strategic | 4 Biomass Acceptability | 5 Plant Operations |
| 6 Trading & Commodity | 7 Information Systems & Security | 8 Climate Change | 9 People | |

Target	Strategic link	Link to risks	Link to remuneration
To grow the Adjusted EBITDA of the Group to support investment in the strategy.	 	2 3 4 5 6 7 8	The Adjusted EBITDA performance measure has a 40% weighting on the bonus scorecard. See page 147
To grow Adjusted basic EPS of the Group.	 	2 3 4 5 6 7 8	Cumulative Adjusted basic EPS is a performance condition of the LTIP and has a 50% weighting and is measured over a three-year period. See page 132
Long-term target of Net debt to EBITDA of around 2.0 times.	  	3 4 5 6 8	The leverage (Average Net debt) performance measure has a 20% weighting on the bonus scorecard. See pages 147 and 148
To pay a growing and sustainable dividend.	  	2 3 4 6 8	Dividends are a strong indicator of total shareholder return (TSR). TSR is a performance condition of the LTIP and has a 50% weighting over three years relative to the FTSE 350. See page 132
TRIR of 0.20 per 100,000 hours worked.	 	1 9	Safety acts as a bonus modifier for the 2022 scorecard, underpinning the overall bonus award for all employees. See page 147
High level of biomass availability when required.	 	2 3 4 5 6 8	The availability of the biomass generation assets has a direct impact on Adjusted EBITDA and Adjusted basic EPS.
To be carbon negative by 2030 across our direct business operations globally.	 	2 3 4 5 6 8	The 2022 bonus scorecard has a 13.3% weighting on measures focused on reducing Drax's carbon emissions, including the development of a low carbon pellet mill and UK BECCS. See pages 147 and 148
8Mt p.a. of production capacity by 2030.		3 4 5 6 8	Increasing the pellet production capacity is a key component in growing reported Adjusted EBITDA results. In addition, the 2022 bonus scorecard includes a 6.7% weighting on the development of a low carbon pellet mill.
Continue to identify opportunities to reduce the cost of biomass produced.		3 4 5 6	This metric is a key driver of Adjusted EBITDA and Adjusted basic EPS performance measures, which impact the overall bonus award and LTIP.
Maintain employee engagement year-on-year.		1 9	The Inclusion Index, which forms part of the employee engagement score and measures how included colleagues feel about working at Drax, is a KPI in the bonus scorecard and has a 6.7% weighting. See pages 147 and 148

Financial Review

We benefited from the integrated nature of our business model

Andy Skelton, Chief Financial Officer



2022 financial highlights

- Strong financial performance – Adjusted EBITDA from continuing and discontinued operations of £731 million (2021: £398 million)
- Closing Net debt to Adjusted EBITDA of 1.6 times (2021: 2.8 times), reducing to 1.3 times excluding cash collateral posted (2021: 3.2 times)
- Total operating profit from continuing operations of £146 million (2021: £197 million)
- Cash generated from operations of £320 million (2021: £354 million)
- Strong liquidity – cash and committed facilities of £698 million (2021: £549 million)
- 12% increase in total dividend to 21.0 pence per share, a total cost of £84 million

Introduction

Consolidated Adjusted EBITDA of £731 million (2021: £398 million) reflects a strong contribution from all business units as we benefited from the integrated nature of our business model, against a backdrop of volatile macroeconomic conditions. Cash generated from operations of £320 million (2021: £354 million) is stated after cash collateral outflows of £407 million during the year, associated with forward sales of power (2021: inflows of £168 million). Excluding the impact of these cash collateral outflows, the underlying cash generated from operations grew significantly, reflecting the increase in Adjusted EBITDA.

Closing Net debt to Adjusted EBITDA of 1.6 times (2021: 2.8 times) is significantly below the Group's long-term target of 2.0 times and reduces to 1.3 times if collateral posted of £234 million is adjusted for (2021: 3.2 times, collateral held of £173 million).

Total operating profit was £146 million (2021: £197 million). Total gross profit increased by £132 million to £1,023 million (2021: £891 million) but this was offset by increases in operating and administrative expenses, impairment losses on financial assets, increased depreciation charges, and impairment of non-current assets.

Capital expenditure of £255 million grew 7% compared to £238 million in 2021, with £127 million spent on major strategic initiatives, including £90 million on the development of our OCGT projects. The proposed full year dividend of 21.0 pence per share reflects a 12% increase on the previous year (2021: 18.8 pence per share) as the Group continues to pay a sustainable and growing dividend in line with its long-standing capital allocation policy.

Financial performance

Adjusted EBITDA

Adjusted EBITDA of £731 million is an 84% increase (2021: £398 million). All business units delivered an increase in Adjusted EBITDA compared to the previous year.

Our Pellet Production business generated Adjusted EBITDA of £134 million (2021: £86 million). This reflects increased production volumes attributable to commissioning new sites and a full year of ownership of Pinnacle, an uplift in the Group's intercompany sales price between our Pellet Production and Generation businesses, and increased value achieved from sales of biomass in the spot market, partially offset by increased costs of production.

Our pellet business produced 3.9Mt of pellets and shipped 4.7Mt (2021: 3.1Mt produced and 3.2Mt shipped). Of this volume 2.2Mt was sold to third parties (2021: 1.2Mt). Increased volume produced primarily reflects the full year impact of the acquired Pinnacle sites, which were added in April 2021 and additional volumes achieved from the commissioning of new sites.

Against the background of volatile commodity prices, the Pellet Production business contributed significant value to the Group by providing flexibility in biomass supply to Drax Power Station. During 2022 we saw cost increases and inflationary pressures, particularly in relation to utilities and transportation, and incurred additional costs reprofiling biomass cargoes, both own use and third-party, to support the provision of flexible generation to the UK power system. The value achieved in the Generation business exceeded the extra costs incurred.

Financial highlights

Adjusted EBITDA from continuing and discontinued operations	Adjusted operating profit from continuing operations	Total operating profit from continuing operations	Cash generated from operations
£731m (2021: £398m)	£469m (2021: £170m)	£146m (2021: £197m)	£320m (2021: £354m)
Adjusted basic earnings per share from continuing and discontinued operations	Total basic earnings per share from continuing and discontinued operations	Net debt to Adjusted EBITDA ratio	Total dividend per share
85.1 pence (2021: 26.5 pence)	21.3 pence (2021: 20.0 pence)	1.6 times (2021: 2.8 times)	21.0 pence (2021: 18.8 pence)

		Year end 31 December	
		2022	2021
Financial performance (£m)	Total gross profit	1,023	891
	Operating and administrative expenses	(543)	(470)
	Impairment losses on financial assets	(48)	(16)
	Depreciation and amortisation	(239)	(199)
	Impairment of non-current assets	(42)	–
	Other	(6)	(10)
	Total operating profit	146	197
	Exceptional costs and certain remeasurements	323	(26)
	Adjusted operating profit	469	170
	Adjusted depreciation, amortisation, asset obsolescence charges and losses on disposal of fixed assets	261	208
	Adjusted EBITDA from continuing operations	731	378
Capital expenditure (£m)	Adjusted EBITDA from discontinued CCGT operations	–	20
	Adjusted EBITDA from continuing and discontinued operations	731	398
	Capital expenditure for the year	255	238
	Cash generated from operations	320	354
Cash and Net debt (£m unless otherwise stated)	Net debt*	1,206	1,108
	Net debt to Adjusted EBITDA (times)*	1.6	2.8
	Cash and committed facilities	698	549
Earnings (pence per share)	Adjusted basic	85.1	26.5
	Total basic	21.3	20.0
Distributions (pence per share)	Interim dividend	8.4	7.5
	Proposed final dividend	12.6	11.3
	Total dividend	21.0	18.8

We calculate Adjusted financial performance measures, which exclude income statement volatility from derivative financial instruments and the impact of exceptional items. This allows management and stakeholders to better compare the performance of the Group between the current and previous year without the effects of this volatility and one off or non-operational items. Adjusted financial performance measures are described more fully on page 179, 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 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.

*In previous years Net debt was presented on a 'before the impact of hedging' basis. However, we consider including the impact of foreign currency hedges associated with borrowings to better reflect the economic reality of the Group's indebtedness, i.e. to reflect the fixed GBP cash flows of foreign currency denominated debt. Thus, all references to 'Net debt' now refer to the position including the impact of hedging, unless otherwise stated. A reconciliation of and between these measures can be seen in note 2.7 to the Consolidated financial statements.

Financial Review continued

We also incurred commissioning costs at new sites as we continue to invest to expand capacity to support future growth opportunities in North America.

Despite these cost increases, we continue to see opportunities for cost reduction through additional production at existing plants, driving efficiencies in production and logistics, and implementing new technologies and innovation.

Our Generation business contributed £696 million of Adjusted EBITDA, all from continuing operations (2021: £372 million, inclusive of £20 million from discontinued CCGT operations). Reprofiling of generation during the year allowed Drax Power Station to support security of supply and maximise generation during the winter months, based on the needs of the UK power system.

This optimisation was underpinned by strong operational performance, which effectively mitigated the increased risk of an unplanned outage during periods of high power prices. In line with our hedging policy, we managed this increased risk by retaining a proportion of generating capacity unhedged.

The Group's hydro and pumped storage assets continued to supply renewable electricity and essential services to the UK power system and, inclusive of the results of the Daldowie energy from waste plant, contributed £171 million of Adjusted EBITDA in 2022 (2021: £68 million). This increase was achieved through higher hedged power prices, increased rainfall in 2022 against a particularly low year in 2021, and increased provision of critical services to the system operator in support of system stability. This result is net of a £6 million payment to the Voluntary Energy Redress Fund.

The extension to the availability of the coal units at Drax Power Station at the request of the UK Government, as discussed in the CEO's Review, delivered income during the final quarter of 2022.

The Customers business contributed £26 million of Adjusted EBITDA during 2022, a significant increase on the £6 million delivered in 2021. This reflects continued improvement from 2020, when the impact of Covid-19 resulted in a loss of £39 million. Volumes sold increased to 19.4TWh in 2022 (2021: 18.7TWh).

Our policy is to fully hedge power purchases for the duration of a sales contract at the point that the contract is signed, based on the customer's forecast consumption. During 2022, because of increased market prices and lower customer demand profiles, we benefited

from the resale of forward hedged power back into the merchant market above the contracted rate. Most of this benefit arose in the first half of 2022.

The total bad debt charge for 2022, net of credits, was £48 million (2021: £16 million), an increase of £32 million. This increase reflects the impact of higher commodity prices, which feeds through to increased revenues and gross profit but also to increased gross trade receivables. Before the application of credits, the bad debt charge represents 1.4% of total revenue for the Customers business (2021: 1.4%).

The overall bad debt provision at 31 December 2022 of £61 million (representing 18% of the Group's gross trade receivables balance) compares to £47 million at 31 December 2021 (20% of the Group's gross trade receivables balance). The net trade receivables balance relating to the Customers segment at 31 December 2022 was £244 million (31 December 2021: £161 million).

The bad debt provision reflects forward-looking consideration of the potential impacts of UK Government support to customers and other macroeconomic conditions. The Energy Bill Relief Scheme, introduced by the UK Government, became effective from 1 October 2022. It provides financial support for non-domestic UK energy customers by implementing a cap on their energy tariff. This scheme ends in March 2023 and will be replaced by the Energy Bill Discount Scheme, which will continue to provide support for businesses via a discount on their tariff, as opposed to a cap.

Subsequent to 31 December 2022, following a strategic review the Group decided to exit the market for supplying gas to SME business customers, leading to the end of all gas sales by the Group. Having already ceased acquiring new gas customers, no renewal contracts will be offered after May 2023. We anticipate the portfolio will reduce by over 50% by the end of 2023 and be almost entirely gone by the end of 2024.

Innovation, capital projects, and other costs of £124 million (2021: £65 million) primarily reflects increased spending to support our growth ambitions and progress opportunities on major projects which have not reached the stage where costs can be capitalised (such as global BECCS). Innovation and capital projects accounts for £12 million of this increase. The main components of the £47 million increase in other costs were insurance costs (£8 million), elimination of intra-group profits (£10 million) and additional variable pay charges (£7 million).

Total operating profit

Total operating profit from continuing operations decreased from £197 million in 2021 to £146 million in 2022. Within this is an increase in Total gross profit of £132 million to £1,023 million (2021: £891 million) and an increase in Total operating expenses of £73 million to £543 million (2021: £470 million) reflecting the factors discussed above in relation to Adjusted EBITDA.

As shown in the table on page 21, the difference between Adjusted EBITDA and Total operating profit results from adjustments for a net loss on exceptional costs and certain remeasurements of £323 million (2021: a net gain of £26 million) and charges associated with fixed assets of £261 million (2021: £208 million). These factors are discussed further below.

The net loss from remeasurements on derivative contracts of £298 million (2021: a £48 million gain), reflects adverse movements in the valuation of gas and inflation contracts, offset by favourable movements in the valuation of our foreign exchange portfolio, as sterling weakened during 2022. For more detail on the nature and valuation of our portfolio of derivative contracts, please see note 7.1 to the Consolidated financial statements. The Group excludes these certain remeasurements from Adjusted results to present a clear and consistent review of trading performance, as described in the basis of preparation and note 2.7 of the financial statements.

Exceptional costs for 2022 totalled £25 million (2021: £22 million). Of this charge, £19 million reflects the write down of previously capitalised costs in respect of a billing system where the Group has stopped development and where proceedings have been issued against the supplier to recover damages for misrepresentation and breach of contract. The Group no longer expects that any future economic benefit will be recovered as an ongoing intangible asset. In accordance with accounting standards, the previously capitalised balance has therefore been impaired. Following consideration with external professional advisers, the Group continues to believe this previously incurred expenditure will be recovered from the supplier, and there has been no change in this position during 2022. Accordingly, an associated contingent asset has been disclosed, see note 7.6 to the Consolidated financial statements.

The remaining £6 million of the 2022 charge relates to previously capitalised Software as a Service costs, which

were written off following a change in accounting policy effective 1 January 2022. For more information on this change in accounting policy see the basis of preparation of the Consolidated financial statements.

Depreciation and amortisation charges increased from £199 million in 2021 to £239 million in 2022. Of this increase, £13 million is attributable to the inclusion of Pinnacle for a full year in 2022, and £7 million to depreciation on new sites. The remainder is attributable to accelerated depreciation of certain pellet plant equipment in line with planned capital upgrades.

Adjusted impairments of non-current assets was £17 million (2021: £nil). Of this total charge £9 million relates to the impairment of the Group's fourth OCGT development opportunity, which is considered unlikely to be developed at the current time. The three projects that have already secured Capacity Market contracts remain in development, ready to meet their obligations when those contracts commence in 2024. The expected economic benefit to the Group continues to be attractive. A further £8 million relates to a partial impairment of the assets of the Daldowie energy from waste plant, due to a reduction in the forecast earnings over the remaining period of ownership to 2026, when the assets will be transferred back to Scottish Water after they triggered an option in the Private Finance Initiative agreement.

Profit after tax and earnings per share

Total net interest charges for 2022 of £68 million reduced in the year (2021: £75 million). The movement included a foreign exchange gain of £11 million (2021: £4 million loss) which resulted from the weakening of sterling during 2022, and the subsequent revaluation of intercompany loans denominated in foreign currencies (further details on this are included in note 2.5 to the Consolidated financial statements). This reduction has been offset by an increase in monetisation fees related to the facility available to accelerate cash flows associated with trade receivables in the Customers business, as that facility has increased in size from £200 million to £400 million during 2022, as discussed on page 228.

The Total tax credit of £4 million includes a charge of £67 million on Adjusted results offset by a credit of £72 million on exceptional items and certain remeasurements, the latter predominantly driven by the tax impact of the £302 million of certain remeasurements discussed on page 22.

The effective tax rate applicable to the Group's Adjusted pre-tax profits of 17% (2021: 12%) is below the standard rate of corporation tax in the UK and includes the effect of tax rates in overseas jurisdictions. This rate is lower than the standard rate in the UK because of credits attributable to Patent Box and the super-deduction for qualifying plant and machinery, announced in March 2021 and running until March 2023. The increase in effective tax rate from 2021 has been driven by growth in UK-based profits, diluting the impact of the Patent Box and super-deduction credits.

The exceptional deferred tax credit of £10 million in 2022 (2021: £49 million charge) relates to the corporation tax rate changes announced by the UK Government in 2021, being a planned increase from 19% to 25% in April 2023.

In November 2022 the UK Government announced the Electricity Generator Levy, as explained on page 13. The levy is not deductible for corporation tax purposes and therefore will result in an increase in the Group's effective tax rate for 2023. Payment of the levy will be in line with the Group's arrangements for corporation tax payments, once substantively enacted.

Adjusted and Total profit after tax attributable to the discontinued CCGT operations was £nil during 2022 (2021: £17 million and £24 million respectively). The above factors all contributed to Adjusted basic earnings per share of 85.1 pence (2021: 26.5 pence) and a Total basic earnings per share figure of 21.3 pence (2021: 20.0 pence).

Capital expenditure

Capital expenditure in the year was £255 million (2021: £238 million). £127 million was on strategic initiatives, including £90 million in respect of development of our OCGT projects and £19 million on UK BECCS, £79 million on maintenance capital, £27 million on enhancing existing assets and £22 million on Health, safety, environment and IT.

The OCGT projects are progressing in line with the requirement to be operational at the beginning of their Capacity Market contracts in 2024. Delivery of our UK BECCS project is subject to a final investment decision, which is expected in 2024 and dependent on the right regulatory and investment framework. Commissioning of certain pellet assets in North America progressed more slowly than anticipated during 2022. Our capital projects and operations teams are focused on achieving full production capacity as soon as possible during 2023.



Capital expenditure in the year was £255 million (2021: £238 million). £127 million was on strategic initiatives, including £90 million in respect of development of our OCGT projects and £19 million on UK BECCS

In September 2022 the Pellet Production business completed the acquisition of a 90kt pellet plant in Princeton, British Columbia, for consideration of C\$11.5 million. The plant will contribute to the Group's strategy to increase pellet production to 8Mt per year by 2030.

Cash and Net debt

Cash generated from operations

Operating cash flows before movements in working capital and defined benefit pension obligations for the period was £734 million (2021: £337 million), primarily reflecting the increase in Adjusted EBITDA.

Cash generated from operations in 2022, inclusive of movements in working capital, of £320 million compares to £354 million in 2021. The total outflow of £403 million on working capital includes an outflow during the year of £407 million relating to cash collateral. This has been driven by increased use of exchange traded contracts during the year, with increased commodity prices meaning that counterparty credit limits had to be managed carefully. Exchange traded contracts typically require an up-front margin payment and cash collateralisation of mark-to-market positions. Excluding the cash flows in relation to collateral during the year there was a small working capital inflow.

At 31 December 2022, the Group had posted £234 million of cash collateral (2021: held £173 million of cash collateral). When the associated trades mature in 2023 and 2024 there will be a corresponding working capital inflow, however market movements and new trades will continue to determine overall cash collateral requirements in the future.

Financial Review continued

There was a net outflow in relation to trade and other receivables during the year. Excluding movements in working capital facilities and cash collateral postings, trade receivables increased by £551 million. This was driven primarily by higher billing in the Customers business, reflecting increased commodity prices. The facility available to accelerate cash flows associated with trade receivables in the Customers business, on a non-recourse basis, was extended during 2022 from £200 million to £400 million. The extended facility was fully utilised during the year, resulting in a cash inflow of £200 million and a corresponding reduction in receivables. This reduction was offset by an outflow of £234 million on collateral posted, as described above, which is recorded within receivables.

The overall working capital inflow of £317 million from payables in 2022 was predominantly driven by increases in the Customers business, reflecting higher commodity prices on power and gas purchases. This was partially offset by the change from holding net cash collateral of £173 million at the beginning of 2022 to having posted £234 million at the end of the year, with the gross movement on collateral at the beginning of 2022 showing as a reduction in payables.

A £114 million inflow from renewable certificate assets was driven by the monetisation of ROCs using available facilities, partially offset by the increase in ROC assets attributable to generation in the year.

Cash outflows on inventories totalled £133 million during 2022, resulting in part from the reprofiling of generation from summer to winter, meaning more cash was held in inventory at 31 December 2022.

Net cash movements

Capital expenditure cash flows for 2022 totalled £171 million (2021: £209 million). Cash flows associated with capital expenditure on the three OCGT projects are significantly lower than the accounting additions recorded because of the use of letters of credit to extend payment terms. The amount outstanding under these arrangements at 31 December 2022 was £65 million (31 December 2021: £nil).

Corporation tax payments totalled £39 million in 2022 (2021: £12 million receipts), reflecting higher UK payments on account in respect of the increased profits chargeable to corporation tax.

Net debt and Net debt to Adjusted EBITDA

The Net debt to Adjusted EBITDA ratio is significantly below our target of 2.0 times at 31 December 2022, and reduces to 1.3 times when adjusted for cash collateral posted.

In previous years, Net debt was presented on the 'before impact of hedging' basis. However, we consider including the impact of foreign currency hedges associated with borrowings to better reflect the economic reality of the Group's indebtedness position. Thus, all references to 'Net debt' now refer to the position including the impact of hedging, unless otherwise stated. The impact of this change on Net debt at 31 December 2022 is to increase it by £2 million.

Liquidity

Cash and committed facilities at 31 December 2022 of £698 million (2021: £549 million) provide substantial headroom over our short-term liquidity requirements. In addition to cash-on-hand, the Group has access to a £300 million ESG Revolving Credit Facility (RCF) and a C\$10 million RCF, to manage low points in the cash cycle. The £300 million ESG RCF expires in January 2025, with a one-year extension clause. No cash has been drawn under this RCF since its inception over three years ago, but £46 million was drawn for letters of credit at 31 December 2022 (31 December 2021: £74 million drawn for letters of credit).

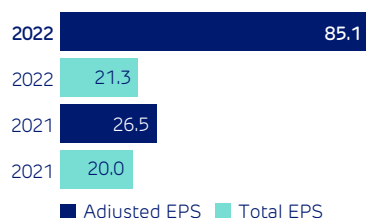
In December 2022 the Group agreed a new 12-month £200 million liquidity facility with its existing lending group. This facility provides an additional source of liquidity to the Group's £300 million RCF. The new facility was temporarily drawn during December, to support optimisation of generation and associated cash collateral postings, but was undrawn at 31 December 2022. Separately, £44 million was drawn under an uncommitted facility during the second half of 2022 and remained outstanding at 31 December 2022 also to support optimisation of generation during winter (31 December 2021: £nil).

During the first half of 2022, the Group utilised existing cash reserves to repay its index-linked term loan facility, with a total cash outflow of £41 million. Our liquidity position remains robust, having put additional measures in place during the year in response to the volatility in commodity markets. All three of our ratings agencies evaluated our outlook as stable during the year.

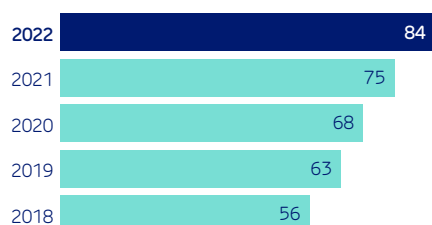
Net debt and Net debt to Adjusted EBITDA

	Year ended 31 December	
	2022 £m	2021 £m
Cash and cash equivalents	238	317
Current borrowings	(44)	(41)
Non-current borrowings	(1,397)	(1,320)
Net debt before impact of hedging instruments	(1,203)	(1,044)
Impact of hedging instruments	(2)	(64)
Net debt	(1,206)	(1,108)
Impact of collateral	234	(173)
Net debt excluding collateral	(972)	(1,281)
Adjusted EBITDA	731	398
Net debt : Adjusted EBITDA (times)	1.6	2.8
Net debt excluding collateral : Adjusted EBITDA (times)	1.3	3.2

Earnings per share (pence)



Total dividends (£m)



Derivatives

We use derivatives to hedge commodity price and foreign exchange risk. In 2022 there was significant volatility in these markets, leading to a net £302 million charge related to certain remeasurements, which we continue to adjust for when presenting Adjusted results. Increases in the value of foreign exchange related derivative contracts were more than offset by increases in liabilities in relation to gas and inflation trades.

The accounting for, and valuation of, these products is complex, and is identified in the key sources of estimation uncertainty of the Consolidated financial statements in the current year.

Rebasing is a process whereby the rates agreed in a contract 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. At the end of 2022, outstanding cash received from rebased cross-currency swap trades was £43 million (2021: £48 million).

Distributions

In line with our long-standing capital allocation policy, the Group is committed to paying a growing and sustainable dividend. On 25 July 2022, the Board approved an interim dividend for the six months ended 30 June 2022 of 8.4 pence per share. This was paid on 7 October 2022 with a record date of 26 August 2022.

At the Annual General Meeting on 26 April 2023, the Board will recommend to shareholders a resolution to pay a final dividend for the year ended 31 December 2022 of 12.6 pence per share. If approved, the final dividend will be paid on 19 May 2023, with a record date of 21 April 2023.

Taken together with the interim dividend this would give a total dividend for 2022 of 21.0 pence per share (2021: 18.8 pence per share), representing a 12% increase, in line with our policy of paying a sustainable and growing dividend.

Our capital allocation policy is unchanged and incorporates maintaining our credit rating; investing in the core business; paying a sustainable and growing dividend and then returning surplus capital beyond investment requirements.

Going concern and viability

As described on page 20, the Group's financial performance in 2022 was strong, delivering improved profitability and a decrease in the Net debt to Adjusted EBITDA ratio. Our financing platform is stable, with most of our principal debt repayments due from 2025 onwards and significant liquidity headroom available from both committed and uncommitted facilities.

The Group refreshes its business plan and forecasts throughout the year, including scenario modelling designed to test the resilience of the Group's financial position and performance to several possible downside scenarios. Based on its review of the latest forecast, the Board is satisfied that the Group has sufficient headroom

in its cash and committed facilities, combined with available mitigating actions, to be able to meet its liabilities as they fall due across a range of scenarios.

The Directors therefore have a reasonable expectation that the Group will be able to continue in operation over the five-year period of the viability assessment, as discussed further on page 75. Consequently, the Directors also have a reasonable expectation that the Group will continue in existence for a period of at least 12 months from the date of the approval of the financial statements and have therefore adopted the going concern basis when preparing the Consolidated financial statements.

Other information

Non-Controlling Interest purchase

On 30 September 2022, the Group completed the acquisition of the remaining 10% minority interest in Alabama Pellets LLC for cash consideration of \$22 million. Alabama Pellets LLC contained the two pellet plants at Aliceville and Demopolis, prior to their reorganisation into separate entities. This acquisition provided the Group with economic rights over a further 66 kt of biomass production capacity.

Pension plan merger

Historically, the Group has operated two defined benefit pension schemes, the Drax ESPS scheme and the Drax 2019 scheme, as described further in note 6.3 to the Consolidated financial statements. On 31 January 2023 these two schemes were merged. The impact of this will be to reduce levels of administrative expenses and time taken to manage the two schemes, as well as providing the ability to pool the assets of the schemes when making investment decisions. There will be no change to members' benefits as a result of the merger.

Liquidity

	Year ended 31 December	
	2022 £m	2021 £m
Cash and cash equivalents	238	317
RCF available but not utilised	260	231
Short-term liquidity facility	200	–
Total cash and committed facilities	698	549

Stakeholder engagement

Understanding the needs of our stakeholders is essential 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 them.

Many of our strategic and investment decisions have multi-year time horizons. We recognise that these decisions can have an impact far beyond our business and well into the future. This is why we seek to understand the needs and perspectives of our stakeholders; and we believe that considering these views improves the quality of our decision making.

Section 172 Statement

Under Section 172(1) of the Companies Act, the Directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board is responsible for ensuring effective engagement with stakeholders: it recognises that decisions taken today will have an impact upon stakeholders, as well as shape the longer-term performance of the business. Appropriate consideration is important in enabling Drax to deliver

positive outcomes for the climate, nature and people, and to deliver sustainable value creation.

During 2022 the Board's discussions and decision-making considered the matters contained within Section 172, and acted in good faith to promote the sustainable long-term success of the Company. The following pages explain how the Board considered those matters during 2022.

Section 172 matter

How the Board considered those matters

a. The likely consequences of any decision in the long term	<ul style="list-style-type: none"> • Business model (page 8) • Coal winter contingency (page 107) • Carbon removals (page 12) • Principal Risks (page 77)
b. The interests of the Company's employees	<ul style="list-style-type: none"> • Workforce engagement (pages 69 and 109) • Diversity and inclusion (pages 69 and 112) • Safety, health and wellbeing (page 67)
c. The need to foster the Company's business relationships with suppliers, customers and others	<ul style="list-style-type: none"> • Engagement with customers (page 29) • Engagement with suppliers (page 29) • Supplier Code (page 72)
d. The impact of the Company's operations on the community and the environment	<ul style="list-style-type: none"> • Biomass Sourcing (page 40) • Climate Positive (page 47) • Nature Positive (page 63) • People Positive (page 66) • Taskforce on Climate-related Financial Disclosures (TCFD) (page 52) • Climate change risk (page 89) • Engagement with communities, schools and colleges (page 28) • Drax Foundation (page 32)
e. The desirability of the Company maintaining a reputation for high standards of business conduct	<ul style="list-style-type: none"> • Ethics and integrity (page 71) • Culture and values (pages 72 and 105) • Speak Up (Whistleblowing) (page 73) • Corporate Governance Code (page 102)
f. The need to act fairly as between members of the Company	<ul style="list-style-type: none"> • Shareholder engagement (page 27) • Rights and obligations attaching to shares (page 159)



Workforce

Key issues

- Health, safety and wellbeing
- Cost-of-living crisis
- Diversity and inclusion
- Culture and values
- Engagement, recognition

Principal Risks

- Safety, health and wellbeing, and environment
- People

Engagement activities

We maintain regular dialogue through several workforce engagement activities. These include MyVoice Forums (involving direct dialogue between colleague representatives, and the Chair of the Board and CEO), colleague briefings run by our executive and leaders, dialogue with unions, and our annual engagement and 'pulse' surveys. The CEO also emails a weekly update with a Q&A section responding to colleague questions.

Our MyVoice Forums continue to be a key part of our listening strategy, providing us with a view of colleague sentiment and key topics of interest. We review the results of the MyVoice surveys with our Forums, inviting input on key topics such as recognition and reward, and diversity and inclusion. To learn more about the Forums, see page 69.

The Non-Executive Directors have recorded periodic video messages on a range of topics for distribution across the Group. During 2022, Erika Peterman, Non-Executive Director, spoke about diversity and inclusion; and Nicola Hodson, Chair of the Remuneration Committee, outlined the Committee's role, and explained the annual bonus plan and scorecard measures. The MyVoice Forums provided feedback on these messages to the Chair and CEO.

In 2022, we also held a Group-wide discussion on biomass sustainability and posted the video recording of the event to our intranet. The discussion involved the Plant Director at Drax Power Station posing to the Group Director of Sustainability questions received from colleagues across the business.

Shareholders and investors

Key issues

- Strategy
- Financial and operational performance
- Biomass sustainability
- BECCS delivery
- Environmental, Social and Governance (ESG)

Principal Risks

- Strategic
- Biomass acceptability
- Political and regulatory

Engagement activities

We engage through a wide range of channels including statutory reporting – full-year and half-year results, trading updates, our AGM, Capital Markets Days, and our website. We also have an ongoing programme of investor relations meetings with shareholders and prospective investors. In 2022, the CEO, CFO and Head of Investor Relations (IR) met shareholders and investors as part of full and half-year results roadshows. These events were a combination of in-person and virtual meetings.

The CEO, CFO and Head of IR also held meetings with investors in North America. In June 2022, the CFO and Head of IR participated in a US road show, meeting investors in New York, Chicago and Boston. The Head of IR also hosted a visit to the US Southeast to show investors and analysts our sustainable biomass sourcing and the associated supply chain. This included a field visit to working forests and meeting with commercial foresters with whom we partner.

The Head of IR and Group Director of Sustainability met with institutional investors and their governance teams to discuss key issues around biomass sustainability and carbon accounting. This was part of an ongoing series of engagements through the year. In November, the Chair met with some investor groups to discuss the Board's approach to biomass sustainability.

At industry conferences, we hosted one-to-one and group investor meetings with the CEO, CFO and Chief Innovation Officer, who explained our ambitions for BECCS. Reflecting growing interest in the opportunity around our planned extension of pumped storage, we hosted two investor site visits to Cruachan Power Station, and an Edinburgh roadshow.

Stakeholder engagement continued

Communities

Key issues

- That Drax is a responsible business and good neighbour
- Tackling climate change

Principal Risks

- Climate change
- Biomass acceptability
- Strategic

Engagement activities

We engage with local communities in each of the territories in which the Group is active. In Canada, in June 2022 members of the Board were pleased to meet with representatives of First Nations who, as owners of parts of the forests in British Columbia from where we source some of our biomass, partner with us in the sourcing of some of our biomass. You can read more about this on page 33.

Quarterly town and parish council liaison meetings at Drax Power Station, North Yorkshire, allow communication with local communities. There are fixed agenda items where we provide updates on our operations, and the opportunity for local councillors to ask questions and raise any issues.

We believe it is important to undertake engagement with schools and pupils from a young age. We engage directly with schools and colleges to promote interest in science, technology, engineering, and maths (STEM) subjects, and the energy sector. We seek to inspire the next generation and help develop the workforce of the future. Our five-year partnership with Selby College in North Yorkshire aims to implement projects concerned with developing skills in young people that are relevant to modern engineering and green skills. This includes our first BECCS course.

We also work with the seven Selby Cluster Schools – ranging from primary to further education – local to Drax Power Station. We deliver curriculum support and develop hands-on activities such as electric car building, STEM events, careers fairs, and work experience. Our aim is to increase the number of employer interactions over every young pupil's academic life, encouraging engagement throughout school and into early careers.

In the US, we work with several local schools and colleges. These include the University of Louisiana at Monroe (working on a recycling programme) and Delta Community College (employee training). We are also funding classroom grants in Demopolis, Alabama, as well as in Monroe and West Baton Rouge, Louisiana.

In 2023, we plan to launch a new Drax Foundation, which will be an important way for Drax to give back to the communities in which we operate. You can read more about this initiative on page 32.

We also believe our large-scale carbon removal and sustainable generation projects can create thousands of jobs, both directly in the supply chain and in the wider economy. These projects include BECCS at Drax Power Station and the expansion of Cruachan Power Station in Scotland.

Government, political bodies and regulators

Key issues

- Energy security
- Energy costs
- Tackling climate change
- System stability and flexible generation
- BECCS delivery

Principal Risks

- Climate change
- Biomass acceptability
- Political and regulatory
- Strategic

Engagement activities

We engage with government bodies in the UK, EU, US and Canada on multiple topics including energy security, 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 and their parties, policymakers, and other stakeholders.

In the UK, we engage with political stakeholders at party conferences and through All-Party Groups. We also engage proactively and reactively with political bodies, such as Parliamentary Select Committees, over issues including biomass acceptability. In addition, we engage with relevant Ministers and their teams ahead of significant political proceedings including fiscal events.

We also engage with policymakers around the world (including the EU, Canada and the US), to better understand their plans for tackling climate change, and how sustainable biomass and our plans for carbon removal can be an enabler to them in realising their own goals.

Developed in direct response to shareholder feedback, our political engagement policy is on our website: www.drax.com/about-us/drax-political-engagement-policy/. You can read more about this on page 160.

We engage with relevant teams at the UK regulator Ofgem, the Department for Business, Energy and Industrial Strategy (BEIS), and National Grid. An example in 2022 was in considering making available our coal units to operate under a winter contingency (see page 107). We emphasise the growing need for stable markets and appropriate investment mechanisms to provide enough secure, 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, and standards.

Customers and Suppliers

Key issues

- Energy costs
- Ethical business conduct
- Reducing environmental impact
- Long-term partnerships

Principal Risks

- Climate change
- Safety, health and wellbeing, and environment
- Biomass acceptability

Engagement activities

The cost of energy was a critical issue for our customers in 2022 and we implemented the UK Government's support package for businesses, the Energy Bill Relief Scheme (EBRS). We hosted a dedicated phone line for customers requiring additional support with arranging payments tailored to their needs. Where a Trustpilot review has a rating for us of two stars or lower, we assign one of our Energy Relationship Specialists who engage with the customer to identify the reasons behind the rating and try to rectify any issues. We also seek to ensure that such engagement involves the creation of enduring solutions that can improve the service experience overall.

Our internal Operational Excellence team interacts directly with customers to gain feedback about certain processes, to seek to ensure our solutions meet customer needs. Our large Industrial and Commercial (I&C) customers, as well as the Third Party Intermediaries (TPIs) we work with as partners, have dedicated account managers and service delivery managers.

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

Engagement through our biomass supply chain is a key focus for the Group. We require our suppliers to know from where they source and aim to identify, exclude, or mitigate sustainability risks. Our annual satisfaction survey asks our biomass suppliers for their views on the sustainability and compliance system we require them to use. You can read more about our biomass sourcing in the Sustainable Development section on pages 36 to 74.

Stakeholder engagement in action

Effective engagement helps us to fulfil our purpose, deliver our strategy, and create lasting value and positive outcomes for stakeholders.

Engaging stakeholders in the development of BECCS

As a key part of our long-term strategy, we are developing options for BECCS. We believe BECCS could offer significant long-term value creation opportunities, in addition to being a key part of enabling not just Drax, but the UK and other countries, to reduce carbon emissions.

In order for BECCS to progress, it is vital that there is the right regulatory and investment framework. Through consultation and engagement with stakeholders in 2022, our BECCS project at Drax Power Station has achieved several important milestones: the submission of our Development Consent Order (DCO) planning application; the submission of a project bid to the UK Government as part of the Carbon Capture, Usage and Storage (CCUS) Cluster Sequencing Process; and continued progress on front-end engineering design (FEED).

Ahead of submitting the DCO application, we engaged with statutory and non-statutory consultees on the proposals for BECCS at Drax Power Station, such as local Parish councillors, local planning authorities, the Environment Agency and the Health and Safety Executive. We also agreed a plan for information-sharing and engagement with affected communities.

We continue to engage with the business community in the region through trade unions, local businesses, and business groups such as the Confederation of British Industry (CBI), the Chambers of Commerce, and Local Enterprise Partnerships.

We also discussed policy development and industry views through trade and member associations such as the Carbon Capture and Storage Association and Coalition for Negative Emissions.

A key focus of BECCS engagement is the relationship between Drax and its partners in the East Coast Cluster. We met regularly to share progress updates.

We also engaged with new and future partners and suppliers that can support the delivery of BECCS, for example:

- The National Farmers' Union of England and Wales – to explore opportunities to scale up domestic perennial energy crop production as a potential new feedstock for BECCS
- British Steel – to identify opportunities to locally source steel for the BECCS project
- The BECCS supply chain – using online webinars and in-person 'meet the engineer' events in the Humber and Teesside with our FEED partners, Worley (each in-person event attracted interest from around 300 businesses)

The UK Government is a critical stakeholder for the BECCS project. Throughout 2022, we met with teams in BEIS, HM Treasury, the Department for Environment, Food and Rural Affairs and the Department for International Trade.

In 2023, we will continue building our community and supply chain partnerships. This will include engagement with policy-makers as they refine the power BECCS business model and market frameworks for carbon removals. We will also work with local and regional stakeholders on the planning and consenting aspects of the project.

Through consultation and engagement with stakeholders, our BECCS project at Drax Power Station achieved several critical milestones in 2022





Drax helped to provide a “winter contingency” to bolster the UK’s energy security



Decision to extend coal operations at request of UK Government

In July 2022, Drax announced it had agreed to delay the planned closure of its two coal-fired units at the request of the UK Government – a significant matter that was considered at length by the Board of Directors. This helped to bolster the UK’s energy security by providing a “winter contingency” service (October 2022 – March 2023) to the UK power system.

The Board recognised that the decision taken in 2019 to end coal generation was informed by the Group’s purpose of enabling a zero carbon, lower cost energy future and the transition to a flexible, renewable generation model. However, in assessing the UK Government’s request, the Board gave due regard to the impact of any decision on a range of stakeholders including the UK Government, National Grid, shareholders, colleagues, UK consumers more widely, and the environment, at what was a challenging time as a result of significant uncertainty and volatility across global energy markets.



You can read more about the Board’s consideration of stakeholders in this decision within the Corporate Governance Report on page 107.

Supporting colleagues with the rising cost of living

For many of our colleagues, the rising cost of living is deeply worrying and we continue to work hard to offer support during this difficult time. Through feedback from our MyVoice Forums, colleague survey and the CEO’s weekly Q&A, colleagues raised concerns about their ability to pay their energy and food bills. The Board and Executive Committee monitored the situation in each of the countries where we operate and discussed what our approach might be to best support colleagues.

Following these deliberations, the Remuneration Committee and management decided to bring forward the 2023 pay review from 1 April 2023 to 1 January 2023. The aim was to support colleagues by allowing them to benefit from changes to pay earlier in the year – specifically, during the winter period when energy bills are higher – and provide longer-term certainty. In addition, the 2023 pay review budget was significantly higher than prior years, (with average pay rises of 8% in the UK, US and Canada and 3% in Japan, reflecting inflation in each country).

With our external partners, we ran a series of Wellbeing Fairs at sites across our UK business, with the focus on mental, financial and physical wellbeing. We also offered virtual sessions with our new financial wellbeing partner, Nudge. These were available to all UK colleagues and included guidance on how to navigate the cost of living crisis.

Engaging with experts

A key part of our engagement, and governance around responsible sourcing of biomass, is the Independent Advisory Board (IAB).

This is a body of scientists, academics and forestry experts who advise Drax on sustainable biomass and its role in the transition to more intermittent renewable energy and to net zero.

The IAB provides independent scrutiny, challenge, and advice. It makes recommendations on how we can improve various initiatives within our sustainability strategy, including our responsible sourcing of sustainable biomass.

You can read more about the IAB on page 39.





Engaging stakeholders in the expansion of Cruachan Power Station

During 2022, Drax engaged with the UK Government, the Scottish Government, environmental NGOs, and a range of other stakeholders. The aim has been to help unlock investment in new long-duration, large-scale electricity storage (LLES) projects such as the extension of Cruachan Power Station.

These interactions have led to several positive steps forward, including a grid connection agreement with National Grid from October 2030, and the submission of the project's Section 36 application to gain development consent from the Scottish Government.

As part of the Section 36 process, Drax held several exhibitions about the project to engage with, inform and hear the views of the local community. These sessions resulted in potential opportunities with local businesses. One example is a quarry that was interested in using the excavated rock and spoil from the Cruachan extension in the construction of new roads and tracks for wind farms.

Following a Call for Evidence in which Drax participated, the UK Government committed to introduce a new financial stabilisation mechanism by 2024. This new policy framework will aim to de-risk investment in new-build LLES to meet the energy system's needs while also providing value for money for consumers.

During 2023, Drax will continue to work with other LLES developers and operators to engage with BEIS as it undertakes detailed design work. This work will assess the benefits and interactions of a new framework within the wider energy system.

Drax Foundation

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

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



Engaging with T̓sidel del Biomass in Canada


Six Tsilhqot'in Nations live in British Columbia, managing nearly 6,000 square miles of land. Having lived there for thousands of years, they strive toward a balance between traditional and modern uses for the land, to sustain their communities and safeguard the natural environment. Their forests provide the resources for a modern economy, especially products like timber, pulp wood, and biomass. Their understanding of the best ways to support and protect the forests represents important learning for other users, including Drax.

"We've lived here for thousands of years, and First Nations have to be involved in forest management and decision-making. It has an impact on our communities, and we rely heavily on forest industries for employment and community wellness. We manage resources in ways that protect them and are meaningful to us culturally and spiritually. Supplying Drax with forest residues for biomass production is an important part of what we do." Percy Guichon, Councillor, T̓sidel del

T̓sidel del Biomass was formed in 2018 to focus on biomass and hog fuel recovery from logging operations around Williams Lake. The company has two main clients: Drax for the biomass and Atlantic Power for the hog fuel. T̓sidel del Biomass has recovered close to one million cubic metres of fibre to date from forests destroyed by pine beetle and fire.

Drax management has worked closely with T̓sidel del Biomass to build the business-to-business relationship. In June 2022, our Board of Directors had the opportunity to tour the biomass operations in the field and to attend a reception afterwards. In October 2022, Drax Power Station hosted a visit by T̓sidel del Biomass representatives.

We hope to continue building our relationships with First Nations and to learn from local communities. This is a vital part of enabling a lasting legacy of nature positive and climate positive ways of working.

 Find out more about this on page 44



Sustainable Development



Sustainability is integral to our purpose and success

Yasuhisa Okamoto,
Managing Director,
Drax Asia Japan



Drax shares my aspiration to expand the industry in the right sustainable and ethical way, which offers significant growth potential, and that excites me.

We want to help Japan and other countries across Asia in their decarbonisation journey, sharing our company's expertise of converting a coal power plant to biomass and integrating BECCS."



Climate positive



Nature positive

Diane Nicholls,
Vice President of Sustainability
for North America

“

One of the most important factors that attracted me to the role was Drax's vision to be a world leader in clean energy, using forest residues, while creating BECCS to sequester carbon emissions.

Drax's commitment to making a positive impact on the climate, nature, and people resonates with my own values. My aim is to advance sustainability in the natural environment through continuous improvement in forest management.

It's exciting to be part of a company that's growing rapidly while focusing on helping to support the global needs of people in a sustainable way. It was a real opportunity to further my passion for sustainability and be a part of a company that is working for the greater good.”



Climate positive



Nature positive

Sustainability is at our core

At Drax, we believe that achieving positive outcomes for climate, nature, and people is key to delivering our business strategy. We are committed to creating a business model where financial performance, value creation, and sustainability outcomes are aligned.

I joined Drax seven years ago because I believe we can make a difference. Our purpose – to enable a zero carbon, lower cost energy future – has informed our achievements, sits at the heart of everything we do and underpins our commitment to sustainability. These are core values at Drax, and we will continue to implement them as we target our stated ambition to be carbon negative by 2030.

Will Gardiner, Chief Executive Officer

I have seen continued recognition and support from global leaders and policy-makers of the role that Drax can play in helping to limit global warming to 1.5° Celsius (C). That is underpinned by our objective to be a global leader in carbon removals, using our bioenergy with carbon capture and storage (BECCS) technology to help permanently remove carbon dioxide (CO₂) from the atmosphere. We continue to develop options for BECCS, which we believe could become a world leading, UK-led, exportable solution for large-scale carbon removals. The project is well developed, the technology is proven within the industry, and an investment decision could be taken in 2024, subject to the right investment framework, with a first BECCS unit operational in 2027 and a second in 2030.

Our ambitious plans are fundamentally shaped around the global sustainability agenda, whilst recognising our responsibilities to the local areas, communities, and stakeholders where we operate. Our sustainability framework: delivering positive outcomes for climate, nature and people reflects this and informs our decision-making across the business. This starts with ensuring that we use sustainable biomass that is underpinned by robust Environmental, Social and Governance (ESG) standards.

The world must act now to limit global warming to 1.5°C. Bioenergy has a vital role to play not only in generating the energy which powers our homes, schools, and businesses, while also delivering secure, dispatchable and renewable power, but also is a key contributor to achieving our climate targets.

In this section of the report, we explain how sustainability determines what we do at Drax, how it applies to our biomass sourcing and how we're progressing towards our ambition of being carbon negative by 2030.

“

The world must act now to limit global warming to 1.5°C. Bioenergy has a vital role to play not only in generating the energy which powers our homes, schools, and businesses, while also delivering secure, dispatchable and renewable power, but also is a key contributor to achieving our climate targets.



BECCS done well

In 2022, Drax commissioned an independent study by Forum for the Future to convene a panel of experts (the High Level Panel) to assess the conditions for implementing BECCS in a manner which will make a positive contribution to climate change. The High Level Panel and its chair, Jonathon Porritt, published a report outlining their 30 conditions for BECCS done well. The report has been published and can be viewed on Forum for the Future's website.

"With such high concentrations of greenhouse gases already in the atmosphere, the only sustainable way of avoiding a cataclysmic outcome for humankind will be to draw down billions of tonnes of CO₂ back out of the atmosphere. Dealing with overshoot means Carbon Dioxide Removals – with billions of tonnes of removals and storage needed every year by 2050." – The High Level Panel on BECCS done well, November 2022.

As a company with ambitions to be a global leader in carbon removal technology, we are excited about the possibilities for BECCS. But Drax is about more than power generation. Our business model includes opportunities for the forests and communities where we operate, and for the role they will play in addressing the climate crisis. Drax welcomes constructive input and challenge on BECCS, and we want to continue working with stakeholders to ensure it is done well. That means delivering it to high standards, using strict governance and forest monitoring to ensure positive outcomes.

"BECCS will need to play a significant role in the world of Negative Emissions Technologies if we are to remain under or close to that 1.5°C temperature increase threshold." – The High Level Panel on BECCS done well, November 2022.

We have committed to formally respond to the recommendations in the study and we will work with our Independent Advisory Board (IAB) to implement the findings in our sourcing strategy.

What's inside

Introduction

Sustainability is integral to our purpose and success.




 Find out more on page 38

Biomass Sourcing

Sustainably sourced biomass underpins our purpose: to enable a zero carbon, lower cost energy future.



 Find out more on page 40



Climate Positive

Our purpose means Drax is investing to play a leading role in the UK's journey to a net zero economy.



 Find out more on page 47



Nature Positive

We have put an emphasis on working in ways that respect, protect, and where possible add benefits to the natural environment.



 Find out more on page 63



People Positive

Enabling our people to achieve our strategy is key to Drax achieving its ambitions.



 Find out more on page 66



ESG Data Supplement

Please see the Drax website for our ESG supplement where you can find our ESG related disclosures

Introduction

Drax Sustainable Development Framework

By using sustainable biomass at its generation facility in Yorkshire, Drax continues to play a vital role in the UK's energy transition. Since announcing our Sustainable Development Framework in December 2021, we have made good progress against our sustainability outcomes – Climate Positive, Nature Positive and People Positive. Our progress has been underpinned by Group-wide ESG systems which sets targets, captures the required data, monitors and reports on progress and supports transparent disclosure.

Sustainability is integral to our purpose and success

Our purpose is to enable a zero carbon, lower cost energy future. We are committed to a sustainability strategy that identifies measurable and transparent objectives that have been developed by subject matter experts, scrutinised and adopted by our Board, and embedded within our wider business model. This means we adopt an integrated and sustainable business model which reflects the views and needs of stakeholders.

Sustainable Development highlights in 2022

- Continued embedding our Climate, Nature and People Positive strategy through our business
- Created our new Carbon Reduction Task Force, designed to give oversight, track our progress, and bring together all our emissions reductions plans.
- Implemented our ESG dashboard – allowing visibility of ESG metrics through the business (see below)
- Since 2006, we have hired 186 apprentices in total and have held a 91% retention rate of apprentices completing the programme (compared to a national average of 57.5% in 2020/2021).

Sustainability governance

The Board approves the Group's sustainability strategy which forms an integral part of Drax's overall strategic imperatives, and which together enable the realisation of our purpose. The CEO has overall responsibility for the implementation of that strategy. He regularly reports to the Board on progress in the delivery of key initiatives which form part of the Group's sustainability programme. The Group Director of Sustainability leads the implementation of the sustainability programme at Drax, reporting to the Group Director of Corporate Affairs, who is a member of the Executive Committee.

In 2022, a key area of focus was on establishing the ESG dashboard which ensures clarity on critical objectives, tracks the delivery and enables appropriate challenge on actual performance of the sustainability programme against those objectives. We have also worked on setting up specific groups which will have a contribution to make on aspects of our sustainability agenda. For example, we set up a new Carbon Reduction Taskforce which commenced in late 2022. The intention over 2023 is to further formalise these groups by the creation of a new Sustainability Council, chaired by our Group Director of Sustainability, which will undertake the review and challenge on progress, issues and developments in advance of reporting to the Executive Committee and Board.

Sustainability priorities

We identify the sustainability priorities that are material to our business and important to our stakeholders, as summarised in the Sustainable Development Framework below. In 2022, we commissioned a third-party to review our sustainability priorities to build and refine them. This work will be carried out and completed in 2023.

Sustainable Development Framework and our sustainability priorities

Climate Positive	Nature Positive	People Positive	Biomass Sourcing	ESG
<ul style="list-style-type: none"> • Carbon emissions • Climate risk and opportunity • Biomass supply chain emissions • Energy consumption 	<ul style="list-style-type: none"> • Environmental pollution and impact • Biodiversity 	<ul style="list-style-type: none"> • Employee turnover • Communities local to our sites • Safety, health and wellbeing • Skills and green jobs • Diversity and inclusion • Supply chain human and labour rights 	<ul style="list-style-type: none"> • Forests and biomass acceptability • Responsible sourcing 	<ul style="list-style-type: none"> • Business ethics and integrity • Executive remuneration • Fair and responsible products

Independent Advisory Board (IAB)

The IAB was established in 2019. Their primary role is to provide independent challenge, insight and advice on key aspects of the development and implementation of our sustainability strategy; provide scrutiny of our impacts on nature and climate; review and assess our sustainability-linked policies; and make recommendations on how we can improve our practices. Comprising scientists, academics, and forestry experts, the IAB is chaired by Professor Sir John Beddington, former Chief Scientific Adviser to the UK Government. Lord John Krebs, former member of the Committee of Climate Change, is the Vice Chair. The IAB's Terms of Reference and work programme were updated in 2022 to reflect their explicit focus on science.

The IAB provides the Drax Sustainability team, Executive Committee and Board with:

- Feedback on our sustainability strategy of Climate, Nature and People Positive outcomes and biomass sustainability. For example, in 2022 the IAB fed back on the structure of our new scientific evidence tracker and best practices for inclusion of scientific literature;
- Advice on feedstock options, sourcing decisions, and forest science including forest carbon accounting;
- Advice on standards, verification, and post-harvest surveys, ensuring that the science behind these projects is robust;
- Scientific advice on the role of biomass in our climate change mitigation activities and in supporting the transition to a net zero energy system.

During 2022, the IAB met five times and visited industrial and forestry sites in British Columbia, Canada, to learn more about Drax's business in the province.

The recommendations from each meeting are followed up by the Group Director of Sustainability on an agreed timeline. The IAB Chair and Vice Chair meet the Drax Board, with the most recent meeting being in September 2022. A summary of the IAB's activities and recommendations is published on the Drax website every six months.

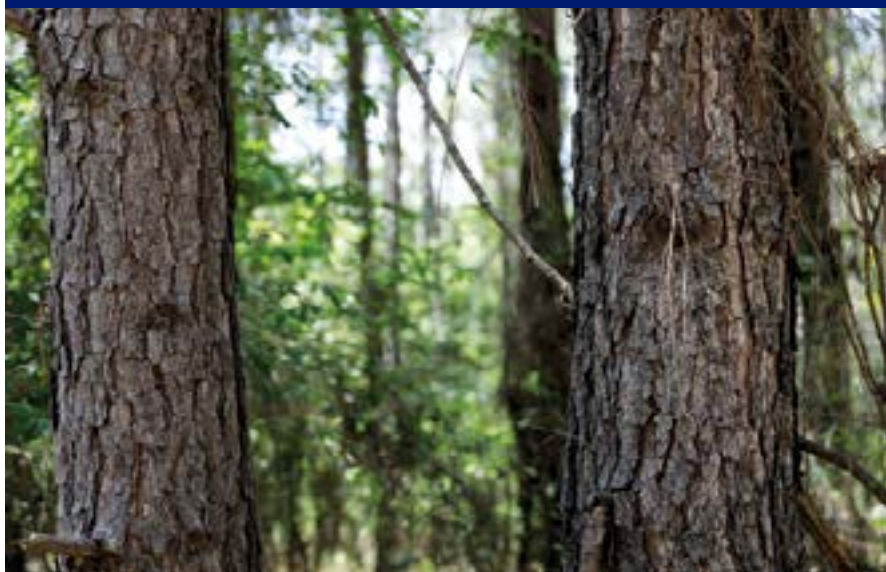
Highlight on:

IAB Chair, Sir John Beddington

"The Intergovernmental Panel on Climate Change (IPCC) and the UK's Climate Change Committee (CCC) recognise that sustainably sourced biomass can play an important role in meeting climate change targets. I decided to chair the IAB because it's vital that biomass is sourced sustainably and takes the latest scientific thinking into account.

As the science evolves, our recommendations will aim to ensure that the biomass used at Drax makes a positive contribution to our climate and the environment.

Although the majority of our advisory board meetings have occurred virtually, we intend to meet face to face more frequently in future. In particular, to visit the sourcing areas that Drax uses. I look forward to progressing our work programme with Drax and delving deeper into the company's sustainability strategy."



Biomass sourcing

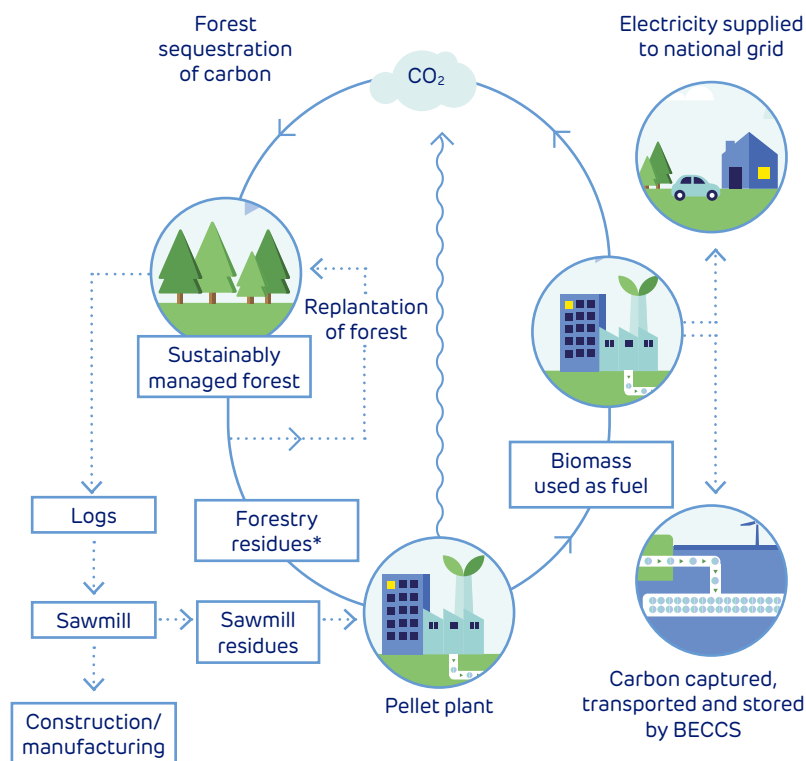


Over the last two decades, Drax has developed the critical knowledge and capabilities in renewable generation and the development of a resilient global supply chain for wood pellets of the right quality that meet strict sustainability standards. And now, in 2022, 99.8% of our generation was derived from biomass, hydro and pumped storage, the balance being derived from legacy coal generation in January 2022.

Sustainable biomass is renewable when biomass is sourced sustainably because of the closed carbon cycle which is shown in the diagram opposite. This section provides details on biomass sustainability.

The CO₂ released from sustainable biomass operates within what is termed a biogenic carbon cycle. This is part of the continuous exchange of carbon between the land and the atmosphere.

Conversely, fossil-derived carbon is a one-way emission and all burning of fossil fuels adds to the accumulation of greenhouse gases in the atmosphere.



*includes low-grade roundwood

Sustainably sourced biomass underpins our purpose: to enable a zero carbon, lower cost energy future.

Drax has been working with biomass for over 20 years. We began co-firing biomass with coal in 2002 and completed our first full conversion of a coal unit to biomass in 2013.

As the world's largest user of biomass for energy, our Responsible Sourcing Policy (Policy), published on the Drax website, sets out the criteria by which we acquire our biomass for use at Drax Power Station. For us, this is biomass that will deliver positive outcomes for climate, nature and people. A report "Forest Research – Carbon impacts of biomass consumed in the EU" (available on our website) by Forest Research – the UK's principal organisation for forestry and tree-related science – identified sourcing practices that maximise the positive carbon contribution sustainable biomass can deliver.

Our sourcing choices are led by these recommendations. The biomass used at Drax Power Station complies with the standards set out in law, regulations, and our contract with the UK Government.

We are required to demonstrate, and assure to a limited level ISAE3000 standard, that the biomass we use at Drax Power Station is sourced against the UK's sustainability standards. The evolution and implementation of our Policy is informed by science and sets principles which go beyond existing UK regulations.

Our Policy, published in 2019, applies to the production of biomass by Drax managed facilities in the US South and biomass consumed at Drax Power Station, reflecting our business at the time. We recognise our duty to keep forests thriving, to respect the many benefits they bring as carbon sinks and areas of recreation, as well as their critical role in fostering biodiversity. We work with our suppliers to ensure the biomass we use contributes to the protection, and where possible, the enhancement of the natural environment.

Subsequent to our acquisition of the Pinnacle pellet business in 2021, we own and operate pellet production facilities in the US and Canada. We also have a pellet supply business where our customers operate under different sustainability standards to those for Drax Power Station. In the time since acquisition, we have

challenged ourselves to implement our Policy across our global operations, reflecting the growth, development, and evolving ambition of our business.

In 2022, as we have continued work to increase the sustainability standards of our new Canadian assets, the Group has:

- Supported the development of an Alberta Sustainable Biomass Program (SBP) regional risk assessment, through collaboration with the Wood Pellet Association of Canada. The regional risk assessment process evaluates risk against the SBP indicators which will help us achieve higher quantities of SBP-compliant fibre for our Alberta and British Columbia (BC) operations.
- Announced our intention to build a new pellet plant and port facility in Longview, Washington, in the Pacific Northwest region of the US. Our movement into this new fibre basket will lead to detailed SBP risk assessments of the fibre sourcing area. Through this work we are enabling a greater proportion of SBP-compliant material.
- Developed more sophisticated systems and analytics to understand the fibre we source, which is helping to generate higher amounts of SBP-compliant fibre.



“Biomass is unique amongst renewable technologies in the wide array of applications in which it can be used as a substitute for fossil-fuel based products and activities, from power generation to hydrogen production and even new forms of plastics. Along with its ability to deliver negative emissions, this makes biomass one of our most valuable tools for reaching net zero emissions.”



UK Energy White Paper
(December 2020)



Drax has been awarded a rating of B
in CDP Forests 2022

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)	Waste (t)	Country total (t)
US	1,620,136	245,146	1,131,778	1,809,150	–	112,690	–	4,918,900
Canada	1,663,922	273,828	–	63,709	–	–	–	2,001,460
Latvia	176,007	664	131	556,978	–	–	–	733,780
Estonia	57,846	–	12,796	53,921	–	–	–	124,563
Brazil	214	–	–	144,069	–	532	–	144,816
Portugal	10,519	22,429	27,356	102,331	52	–	–	162,687
Belarus	24,807	–	–	647	–	–	–	25,454
UK	–	–	–	–	–	63,510	–	63,510
Russia	19	–	–	–	–	17,053	5,264	22,336
Other European	18,008	–	–	178	–	6,734	–	24,920
Total	3,571,479	542,067	1,171,062	2,730,982	52	200,519	5,264	8,222,425

Pellet Production 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)	Waste (t)	Country total (t)
US	878,417	–	586,317	443,731	–	–	–	1,908,465
Canada	1,405,962	257,839	–	38,938	–	–	–	1,702,740
Total	2,284,379	257,839	586,317	482,669	–	–	–	3,611,205

Drax Power Station sources of fibre (material received at Drax Power Station)

	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low-grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Waste (t)	Country total (t)
US	1,465,295	245,146	1,018,727	1,730,220	–	112,690	–	4,572,079
Canada	581,782	136,156	–	41,641	–	–	–	759,579
Latvia	176,007	664	131	556,978	–	–	–	733,780
Estonia	57,846	–	12,796	53,921	–	–	–	124,563
Brazil	214	–	–	144,069	–	532	–	144,816
Portugal	10,519	22,429	27,356	102,331	52	–	–	162,687
Belarus	24,807	–	–	647	–	–	–	25,454
UK	–	–	–	–	–	63,510	–	63,510
Russia	19	–	–	–	–	17,053	5,264	22,336
Other European	18,008	–	–	178	–	6,734	–	24,920
Total	2,334,498	404,395	1,059,011	2,629,984	52	200,519	5,264	6,633,722

Note: our 2022 data table shows a small volume of material from Russia and Belarus. This material was all delivered in January and February 2022. Following the start of the conflict, we ceased all trading of Russian and Belarusian biomass.

Sustainable Development continued

From forest to furnace: the controls and checks from source to Drax Power Station

The UK Government outlines sustainability criteria for organisations to qualify as a generator of renewable energy. Biomass must comply with the Land Criteria (which for wood pellets, sets out a range of measures for sustainable forest management) and the Greenhouse Gas (GHG) Criteria. The GHG Criteria is a limit set out by the UK Government, which ensures that the totality of emissions involved in Drax's biomass supply chain, represents significant GHG reductions compared to fossil fuels. The current GHG criteria for UK biomass is to ensure supply chain emissions do not exceed 200kgCO₂e/MWh electricity generated.

We must report monthly to the UK regulators, Low Carbon Contracts Company Limited (LCCC) and Ofgem on the amount of biomass used, the type of material used, where it came from and the GHG emissions from the supply chain. We must also confirm if the biomass complied with the Land Criteria. At the end of every compliance year, we must have an independent third-party assurance to assess the accuracy of the monthly reporting submitted through the year. This third-party assurance is against limited level ISAE3000 standards and is completed for the regulators of the UK subsidy schemes for biomass: Ofgem and LCCC. In 2022, a limited assurance covering the previous compliance period highlighted no material misstatements in our reporting.

For a company to demonstrate that it meets all the sustainability requirements of the Land Criteria, it can either use a voluntary scheme (like FSC®, PEFC or SBP – see box opposite for further details) or carry out its own checks and audits. Material delivered with a full FSC® or PEFC claim comes from forests assessed by an independent auditor, deemed to be responsibly managed, and compliant with UK sustainability requirements.

At Drax Power Station, to ensure we can identify and track material through our supply chain, we are certified against the FSC®, SBP and PEFC chain of custody requirements.

SBP-compliant material provides evidence that it came from a sustainable source. The SBP system accepts the assurance

of responsible materials provided by FSC® or PEFC certification. Despite overlapping requirements, FSC® or PEFC certification does not cover all the criteria of SBP certification – and vice versa.

At Drax Power Station, 97% of the woody biomass used in 2022 was SBP-compliant, which evidences compliance with the Land Criteria. The remaining 3% woody biomass and the non-woody biomass we use is assessed to be compliant with the UK Land Criteria through our own programme of checks and audits.

To qualify for SBP-compliant status, all the pellet mills we source from need to trace the material they purchase back to the point of harvest. Also, they must be able to test if the material meets sustainability requirements. This can be done through the provision of FSC® or PEFC certification on the material, or through an additional programme of checks and controls. Drax purchases sawmill residues (chips and sawdust) and low-grade material from managed forests. For sawmill residues, checks must be in place to ensure that the sawmill's sourcing is in line with SBP requirements. All checks and controls are then assessed as part of the SBP audit at the pellet plant. The SBP standard stipulates for audits to be conducted on site. As a consequence of COVID-19 this stipulation was relaxed, as a result of which in the period of 2021/2022 some audits were conducted remotely. The ability to conduct remote audits ceased with effect from 31 December 2022. The auditors also select a sample of forest sites for audit, to ensure the controls are effective and processes are being followed. SBP audit reports are published annually on their website for all certified pellet plants.

The contracts for material received at Drax Power Station require that all material must comply with Drax's sustainability requirements. We maintain ongoing dialogue with all our biomass suppliers and operate a programme of supplier engagement to ensure compliance.

We also commission additional research on the areas from which we source in order to further understand the impact in these locations. See more on page 45.

Highlight on:

Forest Stewardship Council (FSC®)

Founded in 1993, this international non-governmental organisation promotes responsible management of the world's forests. Its certification system covers more than 200 million hectares of forest. (FSC® C119787).

Programme for the Endorsement of Forest Certifications (PEFC)

Founded in 1999, this global alliance of national forest certification schemes is an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification. (PEFC/16-37-1769).

Sustainable Biomass Program (SBP)

SBP is a certification system designed for woody biomass used in industrial energy production. Originally created by biomass generators, SBP has evolved and has had a multi-stakeholder governance structure since 2019.

Biomass feedstock sources at Drax

Fibre sources (%)



Sawmill residues	43
Branches, tops & bark	7
Thinnings	14
Low-grade roundwood	33
Agricultural residues	2

Biomass production and trading

Following the acquisition of Pinnacle in April 2021, which expanded our US pellet operations and introduced new pellet production facilities in Canada, we acquired a trading portfolio with customers to whom we supply biomass. These customers operate under different sustainability requirements to the UK regulators and Drax Power Station.

In the last two years, we have worked to further enhance our understanding of sourcing biomass from British Columbia and Alberta. Recognising the significant differences to the commercially managed forests in the US, we have facilitated a visit to our Canadian operations by the IAB, which made a number of recommendations (these can be viewed on our website), including improving the availability of evidence around our impact on climate, nature and people, and developing region-specific requirements that complement our global principles.

We remain committed to adapting and improving our sourcing practices in line with evolving science and our learnings from engagement with stakeholders.

As a minimum, we assess all fibre suppliers to our pellet mills under PEFC's due diligence review process. This ensures that all fibre sources are claimed as PEFC controlled sources. All our pellet mills are subject to an annual SBP audit, which assesses their sourcing and management systems against the sustainability requirements of the SBP Standards. In 2022, 97% of the biomass received at Drax Power Station was certified as SBP-compliant, with the remaining 3% assessed to be compliant by our own controls and verification. Not all the wood pellets produced at Drax pellet mills in North America are entitled to carry an SBP-compliant claim, however all pellets comply with the requirements of the customer to whom they are sold.



Highlight on:

Active forest management: thinning

Thinning removes some trees from a forest stand to improve the health and vigour of those remaining. Thinning operations target small, malformed or diseased trees for removal, allowing larger healthier trees to reach maturity sooner. Thinning also reduces the risk of pest infestation and wildfire while speeding the development of a more mature forest with increased plant diversity in the understory (the layer of trees and shrubs between the forest floor and its canopy).

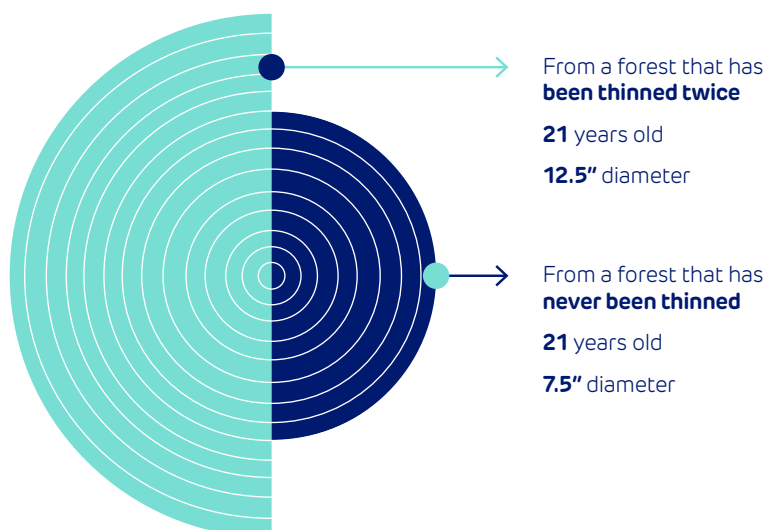
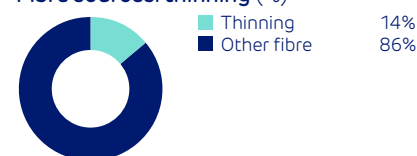
In the US South, the periodic thinning of a forest helps improve the size and quality of sawlogs when the trees reach maturity, the economic value of the timber produced and the carbon absorbed and stored, as well as forest health and biodiversity. In many cases, if forests were not thinned, the revenue from sawlogs would be reduced and landowners may consider other uses for their land, such as agricultural crops and livestock farming. The management of forestland to produce sawlogs ensures forests are growing vigorously, absorbing carbon, and forests remain a carbon sink.

Thinning is the process of **periodically removing smaller, unhealthy, or malformed trees to reduce the density** of working forests.

Less competition for sunlight and nutrients **means healthy trees grow bigger more quickly.**

Younger trees in forests that have been thinned are **larger than older trees** in forests that haven't.

Fibre sources: thinning (%)



Sustainable Development continued



Helping to ensure British Columbia's forests offer a sustainable source of fibre takes collaboration and careful management

As a business operating in the Canadian forest industry, predominantly in British Columbia (BC) and Alberta, we strive to work with local, provincial and national governments, communities, and First Nations. This will help to ensure the forests of BC and Alberta are sustainably managed, more resilient against the risks of pests and fire and preserved for future generations.

Canada's forests are some of the most resilient and sustainably managed in the world. They are subject to environmental regulation, careful management and third-party certification. BC and Alberta have vast forest resources and these forests are highly regulated by the provincial government to meet a series of conservation, environmental, and social objectives. Forest policies in Canada centre on the concept of sustainable forest management with the underlying goal of achieving a balance between the demands on forests for products and benefits, and the maintenance of forest health and diversity. The governments in BC and Alberta set the harvesting rules and annual harvesting rates for these forests.

Drax sources its biomass from well-established forestry markets mainly in the US and Canada as well as Europe. The main output from these markets is sawlogs, which are processed for use in construction and manufacturing, such as house building. When used in this way, these materials represent a source of long-term carbon storage and when the forest regenerates or is replanted these growing trees absorb carbon from the atmosphere.

In Canada, harvesting is carried out under regulated schemes often referred to as licences or tenures. Companies taking the higher value sawlogs are the principal industries for Canadian lumber and primarily hold harvesting rights. The remaining harvested material which is a by-product of the principal industries referred to above, and which previously had limited other markets, can be used to manufacture sustainably produced wood pellets. The licence or tenure holder manages the forest, ensuring that soil

and water are protected, and harvested trees are replaced by ecologically appropriate seedlings. This work is done by forest professionals and is regulated by provincial regulations.

The wood pellet industry also supports the timber industry by utilising the sawdust and shavings which are a by-product from sawmills (and which represents almost 80% of our total volume into Drax Canada pellet mills) and the residues in the forest, such as undergrowth, branches and logs that are too diseased, twisted, or otherwise unsuitable for timber production.

Partnerships

Drax operates eight pellet mills across BC and two in neighbouring Alberta, which receive by-products from the lumber industry. We partner with companies that operate sawmills and have forest tenures that allow them to harvest certain forest areas. We obtain sawmill residues from these partners. The BC and Alberta governments identify the forest areas able to produce solid wood products, which lock in carbon for years. We work with a range of third-parties, including large commercial corporations and smaller community-based groups in protecting the land from which the wood and associated by-products are produced. Some of these partners include First Nations which have a deep association and understanding of the land and forests. For example, we work with Ts'ideldel Biomass around the Williams Lake area (you can read more about this on page 33) and in 2023, we will be looking to increase our partnerships with First Nations within our operating areas.

Protecting forests from pests and fire

In three seasons between 2017 and 2020, BC saw catastrophic wildfires. Factors like climate change and storms are seen as contributing to the increased number of fires in the province. The intensity of the fires has been exacerbated by naturally generated debris left on forest floors, from relatively recent infestations from mountain pine beetles and other insects, or diseases affecting forest health.

To protect the forests from fires, pests and diseases, it is important to open them up through managed removals that create more space and less dense stands of trees and natural debris. It is also crucial to reduce what is left lying on the forest floor after forestry operations. This helps to create an eco-system which encourages biodiversity and soil health, and which enables flourishing habitat for flora and fauna. These sustainable management practices support the resilience of the forest, and the biomass collected from such activities can be used by businesses such as Drax for its sustainable power generation.



Catchment Area Analysis

Drax commissions independent Catchment Area Analyses (CAAs) in the regions from which we source. They test the forest carbon impact of our biomass sourcing, and we are committed to continuously improve the methodology of these studies as the science develops. Our CAAs are published on our website, with details of the independent body completing the work, the methodology used and their findings.

Completion of our CAAs is part of a rolling programme, and to date we have covered 58% of our sourcing (based on consumption at Drax Power Station in 2022). Through our rolling programme, we aim to complete the balance during 2023; activity which has been encouraged through both recommendations from the IAB and the Forum for the Future report, referenced on page 37.

As part of this work, we ask local experts to test if demand for wood pellets is causing the following issues, and to provide the evidence behind their conclusions:

- Deforestation and degradation
- Changes in forest management practice
- Unexpected/abnormal increase in wood prices
- Reduction in growing stock
- Reduction in sequestration rate of carbon
- Increase in harvesting levels above the sustainable yield capacity

All our CAA reports are published on our website where you can find full details. Where findings are inconclusive or indicate an impact, we investigate further.

For example, in Estonia, the researchers found a slight increase in wood prices and a slight increase in harvesting levels above the sustainable yield capacity. In 2017-2018, prices of all roundwood assortments (sawlog, pulpwood, fuelwood) increased notably, especially for exported pulpwood,

however fuelwood price increases were less dramatic, suggesting that the price increase was not linked to the introduction of the biomass industry.

The data for Estonia showed that there were uncharacteristically low levels of harvesting between 2004 and 2011. The level of harvesting was then increased for the period 2011 to 2020. In 2018, harvesting was at the maximum sustainable level (the level which is set by the Estonian Government) due to increased sawmill capacity, high demand for pulpwood from Finland and Sweden, and improved demand for energy wood. The researchers described this as a temporary peak which had already slowed. We will continue to monitor trends in this area. SBP certification also provides helpful data on these trends, ensuring that our suppliers can demonstrate that feedstock harvesting does not exceed the long-term production capacity of the forest.

	% of Drax supply in 2022	Deforestation and degradation	Changes in management practice	Unexpected/abnormal increase in wood prices	Reduction in growing stock	Reduction in sequestration rate of carbon	Increase in harvesting levels above the sustainable yield capacity
Alabama Cluster	4	No	Inconclusive	No	No	No	No
Amite BioEnergy	6	No	No/Inconclusive	No	No/Inconclusive	No	No
Burns Lake and Houston	3	No	No	No	No	No	No/inconclusive
Chesapeake	12	No	No/Inconclusive	No/Inconclusive	No	No	No
Enviva Cottondale	2	No	Inconclusive	Inconclusive	No	No	No
Estonia	2	No	Yes/Inconclusive	Slight Increase	No	Ambivalent impact	Slight increasing impact
Georgia Mill Cluster	6	No	No	No/Inconclusive	No	No/Inconclusive	No
LaSalle	7	No	No	No	No	No	No
Latvia	10	No	No	No	No	No	Inconclusive
Morehouse	6	No	No	No	No	No	No



Highlight on:

Clear-cutting

Clear-cutting is an important forest regeneration technique that supports sustainable forest management. It happens when most (or all) trees in an area are harvested simultaneously. It is a well-established forestry practice in many regions, including the UK, Europe and North America. Clear-cuts typically provide a range of forest products, with timber suitable for sawlogs used in the construction industries. Among this, there is usually some low-grade roundwood and forest residues suitable to make pellets.

The practice of clear-cutting is informed by science-based principles. It can be used to mimic wildfire and other forest disturbance in a planned and controlled manner. Clear-cutting is helpful for tree species that require full sunlight to regenerate and grow; it helps prevent forest degradation through competition which results in the more vigorous and shade-tolerant trees dominating. Clear-cutting creates open conditions that allow understory plants to get more sunlight, paving the way for an increase in pollinators and stronger forest regrowth. Over time, clear-cut areas regrow by replanting or natural regeneration, taking their place in a landscape mosaic of multiple forest stands at different stages of development. This continues the natural forest cycle.



Sustainable Development continued



Highlight on:

Frequently Asked Questions

1. What is biomass?

A. Biomass is organic matter (typically agricultural by-products and residues, woody waste products, and crops and microbes).

2. How is burning wood sustainable?

A. Biomass comes from organic, living matter that is in a cycle of growth and renewal, absorbing CO₂ from the atmosphere in the growth process. In the case of woody biomass, trees are replanted by the work of foresters and land managers who care for the land, to replace those which are removed within a regulated process that enables the forests to be sustained. When biomass is used to generate heat and/or electricity, CO₂ is released – and when new trees are planted as part of sustainable forest management, the new-growth trees absorb CO₂ from the atmosphere.

3. What is a sustainably managed forest and how is it sustainable if you are chopping down trees?

A. Sustainable forest management is defined in a number of different ways. At Drax, we follow the definition laid out in the UK Renewables Obligation 2015, which covers requirements including maintaining biodiversity, maintaining the health and vitality of ecosystems and maintaining the productivity of the area. These requirements set the standard that forest health is maintained for the long term, and even though forests may be harvested, trees are replanted in the right way, maintaining the long-term carbon stock of the forest.

Forest owners get the best value from growing, harvesting and selling a range of products. The harvesting takes place for multiple purposes, and the sawlogs provide the bulk of the income for forest owners. To track how the forests are growing and what they are being used for, we commission Catchment Area Analyses on targeted areas from which we source (see page 45). This evidence demonstrates that we are adhering to our responsible sourcing policy for the woody biomass used at Drax Power Station, by not causing deforestation, forest decline or negative impacts on carbon. Information about the health of these forests is available on our website.

4. What is sustainable biomass?

A. For biomass to be sustainable, it must first be sourced from forests which comply with sustainable forest management standards. Sustainable biomass uses residues from the wider forest industry where forest management and felling is used primarily for producing timber used for construction and furniture manufacture. The material we use to make pellets takes the by-products which are created from these industries, including sawmill and forest residues, and low-grade roundwood, left over when timber is processed, and which has little other use or market value.

5. How can it be sustainable if you are shipping the biomass from across the world?

A. In order to source low quality woody material, which has limited other uses, we source from regions across the world that have large areas of forestry and active forest industries, leading to a higher availability of residue material – either sawmill residues (created as a by-product of sawmilling), or forest residues (low-grade material created as a by-product of harvesting or forest management operations).

For biomass to be considered low carbon, we must ensure that we account for the emissions created through the full supply chain (from forest, through all modes of transport including shipping, to Drax Power Station). We conduct this calculation for all the biomass delivered to Drax Power Station and ensure that when the emissions are totalled (including that associated with all transit including shipping), they still constitute a significant saving compared to fossil fuels. This process is defined by, and required by, UK regulations. See more on this in our climate section, on page 48.

6. Does burning biomass produce more emissions than burning coal?

A. Combustion of biomass produces similar levels of CO₂ to coal. However, unlike coal, sustainable biomass does not add additional CO₂ to the atmosphere. When sourced sustainably, biomass is in a constant cycle of renewal and carbon absorption across a landscape, ensuring that at least as much carbon is removed from the atmosphere to the amount emitted at the stack. Conversely, burning coal releases carbon that has been locked up for millions of years, increasing the amount of new carbon accumulated in the atmosphere.



Highlight on:

Bioenergy creates an opportunity

“If left to nature, much of British Columbia’s forests would experience frequent, low-grade fires to maintain the natural ecosystem. These natural “maintenance” fires are being suppressed, resulting in unnaturally dense forests, with high surface fuel loads – inviting this surge in catastrophic wildfires with significant emissions”

Source: ‘Adding value to waste’, The ForestLink (Note: Shauna Matkovich from The ForestLink sits on our IAB)





Climate Positive

Our purpose – to enable a zero carbon, lower cost energy future – means Drax is investing to play a leading role in the UK's journey to a net zero economy. In December 2019, at COP25 in Madrid, we set an ambition to be carbon negative by 2030.



We are committed to the management and disclosure of climate change risks and opportunities in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

 See our TCFD disclosure on page 52

Global context

Introduction by Dr Alan Knight – Group Director of Sustainability

In October 2022, following a review of emissions reduction targets and progress to date, the UN warned there was no credible pathway to keep global temperature rise under 1.5°C. Society, governments, businesses and all of us must act now to address the climate crisis and limit global warming to this target: 1.5°C above pre-industrial levels.

Playing our part in mitigating climate change by staying below an increase of 1.5°C is at the heart of our business at Drax. We have transformed from being a company using coal to one predominantly using sustainable biomass and hydropower. We not only generate renewable energy, we also have ambitions to become carbon negative using BECCS. As the Group Director of Sustainability, I'm excited and proud of this ambition.

Research by the Intergovernmental Panel on Climate Change (IPCC), the world's leading authority on climate science, states that carbon dioxide removals (CDR) methods, including BECCS, are needed to mitigate residual emissions and keep the world on a pathway to limit warming to 1.5°C.

The illustrative mitigation pathways assessed in the IPCC's 2022 report use significant volumes of CDRs, including BECCS, as a key element for mitigating climate change. IPCC modelling shows that between 0.5 and 9.5 billion tonnes of CDRs, via BECCS, could be required annually by 2050 to reach global net zero targets. The UN-backed Principles for Responsible Investment estimate that the CDR market could be worth over a trillion dollars by 2050.

Drax is continuing to develop options for BECCS projects both in and outside of the UK. See more on our plans for BECCS on page 12. Delivering these emission reductions and tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas.

What is our approach?

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

Our purpose informs the three pillars of our strategy:

1. To be a global leader in carbon removals: By pioneering BECCS at Drax Power Station and developing BECCS opportunities globally.
2. To be a global leader in sustainable biomass pellets: A lower cost biomass supply chain with the potential for carbon negative generation.
3. To be a UK leader in dispatchable, renewable power: A portfolio of dispatchable flexible assets to support the energy system's growing use of intermittent renewable energy.

Our Climate Policy, updated in 2022, outlines our approach and follows the TCFD framework of disclosing Governance, Strategy, Risk Management, and Metrics & Targets. Read our Climate Policy in full on our website, under Compliance and Policies.

Our targets

Our emission reduction targets for 2030 (using a baseline of 2020 data); awaiting validation by the Science Based Targets Initiative

75%


in Scope 1 and 2 emissions from electricity generation by 2030

42%

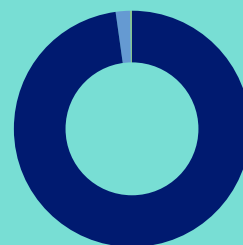
in non-generation Scope 1 and 2 emissions by 2030

42%

in Scope 3 emissions by 2030

 Find out more on page 62

Power generation mix in 2022 (% total output)



Biomass	97.8
Hydro	2.0
Coal	0.2
Thermal	0

Sustainable Development continued

Climate Positive

Climate positive by being carbon negative

At Drax, we have set an ambition to be carbon negative by 2030 by removing more carbon from the atmosphere than we produce (Scope 1 and 2), helping the UK achieve its net zero target. By then, BECCS at Drax could deliver up to 8Mt of CO₂ removals a year. This would deliver over 15% of the carbon removals the UK requires to achieve net zero by 2050, according to figures provided by the CCC in their 2019 Net Zero Report.

We are also developing opportunities for global BECCS, principally in North America, where we are targeting 4 Mt of carbon removals by 2030. See more about our Global BECCS plans on page 12.



Since 2012, the Group's actions have reduced our generation scope 1 and 2 carbon emissions by c.99%.

We aim to achieve our ambition of being carbon negative by 2030, by reducing our emissions as far as possible Group-wide, while using removals delivered through BECCS to neutralise our remaining emissions. In doing so, we will also support the UK Government and other businesses to achieve net zero carbon emissions. We are committed to the Science Based Targets initiative (SBTi) and have submitted our targets for validation. To align with our SBTi targets, Drax set a new baseline for our carbon emissions data, to ensure comparability to our 2020 base year.

To make sure our activities continue in line with science, our decarbonisation strategy aligns with IPCC scenarios. These limit global warming to a maximum of 1.5°C above pre-industrial levels, with low or no overshoot. They also consider the necessary role of bioenergy and BECCS in delivering credible decarbonisation pathways.

Please see more details on our climate related work in our TCFD section, starting on page 52, including metrics and targets on page 60.

Forest carbon

While biomass is zero rated under IPCC rules (see diagram on page 49 for an explanation), Drax has closely followed the science which underpins this position. We recognise that biomass is only low carbon (or better) if it meets certain sustainability criteria and we have developed our Responsible Sourcing Policy on this premise. We have followed the science of forest carbon for many years and reviewed multiple approaches of modelling forest carbon. We have also commissioned our own studies and assessed the potential for the use of remote sensing (using satellites to scan forest areas) to provide data on forest carbon.

In 2022, we contributed to the development of the Greenhouse Gas (GHG) Protocol "Land Sector and Removals Guidance" led by the World Resources Institute (WRI). This included involvement in the discussions and the drafting work surrounding the CO₂ removals accounting framework, land

management removals criteria, and product storage accounting. We began piloting the guidance at the end of 2022, with a view to completing a full forest carbon inventory of our biomass once the final guidance is published in 2023. Being involved with the GHG Protocol's project and piloting is key to our forest carbon work. We believe we should not only rely on biomass certification schemes and our own due diligence when sourcing biomass – we should also consider quantified impacts on forest carbon.

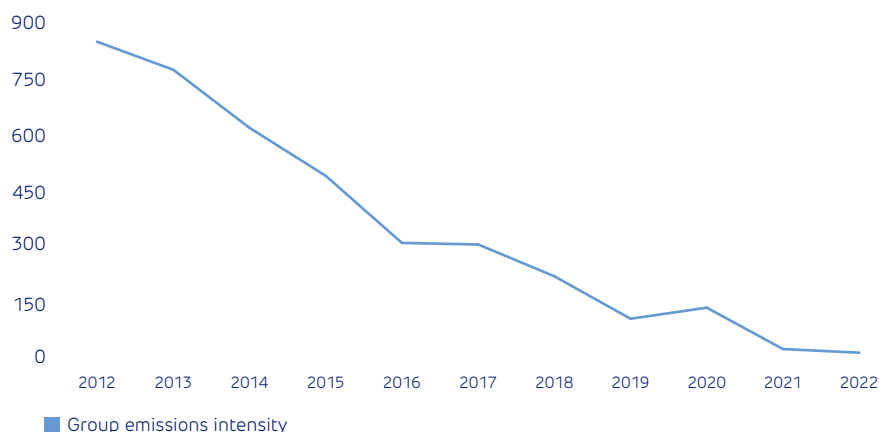
We have also continued our investment in research addressing causality with a team of academic researchers in the US South. This research includes assessing what forest catchment areas may look like if we did not source from them, to better understand the impact that biomass sourcing can have. The research uses economic modelling to establish relationships between the biomass demand we create, and landowner responses to meet that demand, in the US South. We commit to continuing to stay close to the science and how it can inform best practice in safeguarding forests in this area.

Energy and carbon reduction initiatives

At Drax, we are continuously monitoring energy efficiency and saving measures to reduce our carbon footprint. One of the initiatives we started in 2022 was at our Cruachan Pumped Hydro station in Scotland.

At Cruachan Power Station, Unit 3 is contracted to the National Grid ESO to provide system inertia (stability) services, such that it runs 24 hours a day, synchronised to the grid. In doing so, the unit enables more intermittent forms of zero carbon non-synchronous generation, such as wind, onto the electricity transmission system. To remain synchronised, the unit consumes around 2MWh of power. It is currently contracted to provide this service until 2026.

In 2022, an energy saving project was initiated to explore ways to reduce the power consumption in this operating mode. Studies are focused on the generator windage losses to reduce heat losses and therefore power consumption to cool the generator and stator. This project is due to present its findings in 2023 and any changes to reduce power consumption will be monitored during 2023.

Group emissions intensity (tCO₂e/GWh)

Other examples of energy and carbon reduction initiatives we have kickstarted in 2022 include:

- within our air conditioning units at Drax Power Station, we are using more environmentally friendly gas, allowing better efficiency
- upgrading to more energy efficient pumps for the Heating, Ventilation, and Air Conditioning at Drax Power Station
- signing a Memorandum of Understanding with Japanese shipping company MOL Drybulk to reduce emissions associated with shipping biomass by deploying technologies such as wind assistance from sails on vessels.

In 2021, we completed the third in a series of three high-pressure turbine upgrades on biomass units 1-3 at Drax Power Station.

Biomass supply chain emissions

Biomass can only be considered a low carbon, renewable energy solution when certain evidence exists. The evidence must show that the savings of GHG emissions are delivered on a lifecycle basis, compared to alternatives such as fossil fuel generation. Therefore, we collect fuel and energy data for each step within the supply chain. This enables us to calculate lifecycle GHG emissions for our biomass and demonstrate compliance with regulatory requirements.

The UK Government has set a limit on biomass supply chain GHG emissions, which is currently 200 kgCO₂e/MWh of electricity. Generators must meet this limit to be eligible for support under the Renewables Obligation and Contract for Difference schemes. In 2022, our average biomass supply chain GHG emissions amounted to 96 kgCO₂e/MWh of electricity.

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. It accounts for material sources of GHG emissions, including categories absent from other UK reporting tools. These categories include methane and nitrous oxide emissions arising from fuel combustion. The calculator has been externally verified against UK and EU regulations, and the calculator and the verification statement are available on our website, under Sustainability, Sustainable Bioenergy.

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.

Biomass carbon accounting:



Biomass emissions are counted in the Forestry and Other Land Use (AFOLU) category.

IPCC guidance calculates all biogenic carbon emissions and removals from changes in land-based carbon stocks (like crops, soil and forests) in this way.

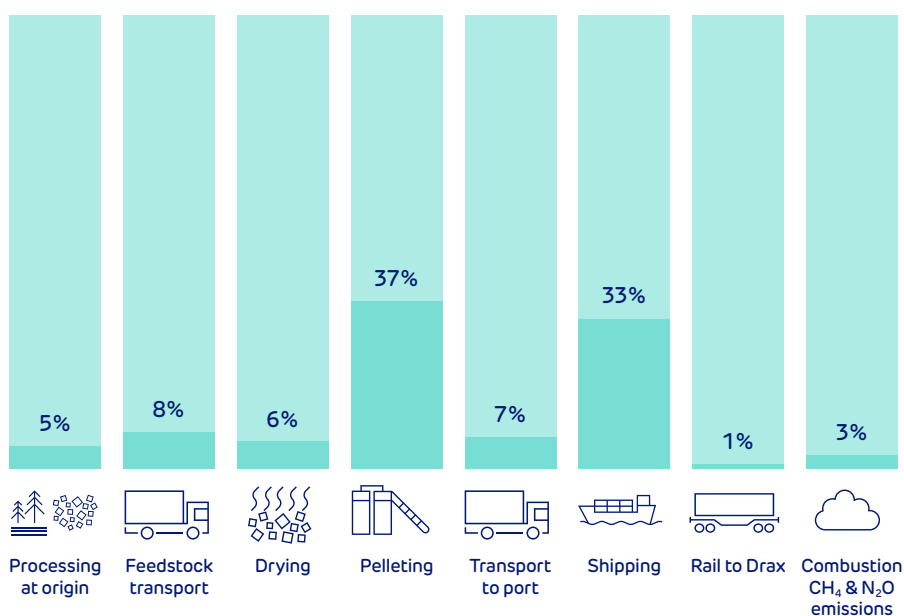
It helps to ensure that lands are managed sustainably to mitigate against climate change and meet Paris agreement goals.

Because biomass is accounted for in the land use sector, the IPCC rates CO₂ emissions from biomass as zero in the energy sector.

CH₄, N₂O and other emissions from biomass are included in the energy sector.

Drax Power Station biomass supply chain GHG emissions in 2022 (%)

	Unit	2022	2021	2020	2019	2018	2017
Average biomass supply chain GHG emissions	kgCO ₂ e/MWh	96*	100	109	124	131	130



Note:

Includes the biomass supply chain 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.

*Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000. For assurance statement see the Drax website, under Sustainability, Our Approach.

Sustainable Development continued

Climate Positive

Environmental management

Approach and governance for environment

Our Group-wide Environment Policy, which can be found on our website, outlines our ongoing commitment to manage, monitor and reduce the environmental impacts caused by our business through continual improvement of our operations. It also sets our commitments to minimising the adverse impacts of our operations on biodiversity. Each month, we report internally on environmental incidents and near misses, and the Board receives regular updates as part of the CEO report. We respond to, and track actions taken from, substantiated environmental complaints made in relation to our operations. We also investigate environmental incidents in relation to our operations (e.g., waste spillage or near-miss contamination event) to establish root causes and learn the appropriate lessons, which we then share across the business.

Environmental Management Systems

During 2022, the environmental management of our Generation assets was certified to ISO 14001:2015 and these assets continue to be subject to regular external verification.

Environmental compliance

Drax recognises the importance of establishing open and direct partnership with the local environment agencies in the areas in which we operate. We provide further information on environmental compliance matters below.

- At Daldowie, we continue to identify and mitigate potential sources of odour. We have completed work to enclose the skips which store the waste product processed at site and signed a contract to construct a new 50-metre chimney stack (due for completion in 2023). We continue our dialogue with the Scottish Environment Protection Agency (SEPA), keeping them informed about our actions. In 2022 no substantiated complaints about odour were received.
- Air emissions tests conducted by Drax subsidiaries Morehouse BioEnergy LLC (MBE) and LaSalle BioEnergy LLC (LBE) in 2018 and 2019, respectively, demonstrated that volatile organic compounds (VOCs) from certain sources at the facilities were higher than indicated by previous tests and exceeded the VOC emission limits in the applicable air permits. MBE and LBE reported the test results to the Louisiana Department for Environmental Quality (LDEQ). Both MBE and LBE introduced technology at the plants to improve emissions in accordance with schedules of compliance approved by LDEQ. In August 2020, the construction and start-up of a regenerative catalytic oxidizer (RCO) was completed at the MBE facility. In February 2021, the construction and start-up of an RCO was completed at the LBE facility. These air permit exceedances and other alleged violations were the subject of various enforcement actions brought by LDEQ against MBE and LBE. In 2022, MBE and LBE finalized settlement agreements with LDEQ relating to these air permit exceedances and other alleged violations, and each entity paid \$1.6 million in settlement to LDEQ. There are no pending enforcement actions against MBE or LBE related to the past air permit exceedances. As stated, MBE and LBE have completed the installation of the new RCOs at each facility to reduce emissions and continue to monitor for any potential non-compliances.



During 2022, the environmental management of our Generation assets was certified to ISO 14001:2015

Environmental management

	Unit	2022	2021
Emissions to air			
Nitrogen oxides – power generation	t	5,979	7,556
Sulphur dioxide – power generation	t	403	1,087
Particulates – power generation	t	376	448
Nitrogen oxides – pellet production	t	836	386
VOCs – pellet production	t	854	1,202
Particulates – pellet production	t	1,354	193
Water use			
Total water abstracted – power generation ⁽¹⁾	m ³	51,899,818*	64,140,878
Total water returned – power generation	m ³	47,187,916*	57,616,803
Total water abstracted and returned – hydro generation ⁽²⁾	m ³	3,389,452,345*	3,005,380,954
Total water abstracted from reservoir – pumped storage ⁽³⁾	m ³	361,145,582*	261,791,757
Total water abstracted from Loch Awe – pumped storage ⁽⁴⁾	m ³	325,844,996*	249,155,337

Notes:

For Pellet Production other emissions to air for 2021 data are reported for Drax Biomass plants only: La Salle, Morehouse and Amite. Our 2022 data reflects 17 pellet mills under operation, as opposed to 3 pellet mills in 2021.

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

(1) 2022 Power Generation covers Drax Power Station

(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 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Emissions to air

Drax Power Station is required to comply with UK laws and regulations which limit emissions to atmosphere. New standards came into effect in August 2021 under the Industrial Emissions Directive and Large Combustion Plant Best Available Techniques Reference Document (BREF) which sets limits for emissions. 2022 was the first year of operation under the annual emission limits for biomass.

Our operations in the US and Canada which manufacture biomass pellets are also subject to laws and regulations which limit emissions to atmosphere and set requirements on the level of self-monitoring and reporting which is required to be undertaken.

Water use

The use of water is subject to strict criteria, compliance with written procedures and also UK, US and Canadian laws. That compliance is overseen internally by the HSE teams and externally by the local regulatory agencies.

Drax Power Station uses water for operational and cooling processes, the volumes of which are shown in the table above. A primary use for the water at Drax Power Station is when it is heated to produce steam at very high pressure which is used to power the turbines that generate the electricity. Of the water used a proportion is emitted as water vapour, through our cooling towers. The remainder is recycled and discharged under permit to the local river. In line with our permit requirements, procedures are in place to manage water system efficiency and usage – ensuring we meet all discharge consent limits. Compared to 2021, our total water abstracted for generation decreased from 64,140,878m³ to 51,899,818m³ – once again, this was related to the operational position (i.e. MW produced) for 2022.

In 2022, we diverted 3,389,452,345 m³ of water from river systems to run through our plants before being redirected back into the river for hydro generation at the Galloway and Lanark Hydro Scheme.

At Cruachan Power Station (our pumped storage facility), we generate electricity by allowing water to fall from Cruachan dam down through four turbines which generate electricity at times of demand for power from business and consumers. The water flows through the turbines before being directed into Loch Awe. At times when demand from business and consumers falls, there is excess power on the grid. We use the excess power to pump water from Loch Awe into the upper reservoir at Cruachan dam. We closely monitor the arrangements for the cycling of this water and report to SEPA as required.

Task Force on Climate Related Financial Disclosures (TCFD)

Introduction

Compliance Statement

Drax recognises the importance of climate considerations, and specifically the matters of physical and transition risks arising from climate change. To manage these risks, we are committed to taking affirmative actions to meeting the Financial Conduct Authority's Listing Rule 9.8.6(8)). This will be our third year of providing dedicated disclosures against the TCFD framework. The financial year to 31 December 2022 represents the first year in which Drax has been required to respond to the recent additional disclosure requirements under the TCFD Annex and Guidance, published in October 2021. The additional requirements provide for greater transparency and incorporate new areas for assessment which by their nature are complex. Drax has sought to integrate these new requirements into its business methods and reporting, whilst recognising that, given the complexity, in this first period of reporting we are, like many stakeholders, evolving our understanding of the best approaches, methodology and standards. Accordingly, whilst we consider the information provided to be responsive to the new requirements, we are of the view this will require further refinement

and improvement. Therefore, we believe that full consistency with the TCFD requirements has been attained for nine out of the 11 recommendations in the reporting period. We consider the disclosures to be partially consistent with the recommendations for cross-industry metrics and targets (recommended disclosures "Metrics and targets a) and c)"). We believe our cross-industry metrics currently lack the level of specificity required to meet the threshold for full consistency. Over the coming year, we intend to evaluate appropriate targets and evolve our business methods, and our approach to metric reporting. This should enable us to increase the level of specificity we are able to provide on these disclosure requirements. Our objective is to confirm that the 2023 Annual Report and Accounts is consistent with the current TCFD recommendations.

Our Approach to Disclosure

At Drax, being at the forefront of combatting the physical and transition risks of climate change is consistent with our purpose and business model. Drax has therefore presented its approach towards

CDP Climate

The CDP Climate questionnaire is aligned to the TCFD recommendations. In 2022, Drax was awarded a

B

disclosing the physical and transition risks of climate change and their potential impacts upon the business throughout this section, but additional relevant information can be found throughout the Annual Report and Accounts.

An overview of our progress against the framework is disclosed by sections as categorised under the TCFD recommendations (Governance, Risk Management, Strategy, Metrics and Targets). The TCFD Summary cross-reference table is presented below.

4 TCFD pillars	11 TCFD recommended disclosures	Reference
Governance	1. Describe the Board's oversight of climate-related risks and opportunities	Page 53. Corporate Governance, page 94
	2. Describe management's role in assessing and managing climate-related risks and opportunities	Page 53. Principal Risks page 89
Strategy	3. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	Pages 56-57 Strategic report pages 2-9 and Principal Risks page 89
	4. Describe the impact of climate-related risks and opportunities on the organisation's business, strategy, and financial planning	Pages 56-57. Strategic report pages 2-9 and Viability Statement page 75-76
	5. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Page 54-55
Risk Management	6. Describe the organisation's processes for identifying and assessing climate-related risks	Page 53-54, Principal Risks page 77-81
	7. Describe the organisation's processes for managing climate-related risks	Page 54, Principal Risks page 77-81
	8. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	Page 54, Principal Risks page 77-81
Metrics & Targets	9. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Metrics, page 60
	10. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks	Metrics, page 61
	11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Targets, page 62

Climate-related financial disclosure

Governance

Board and executive-level oversight of climate-related risks and opportunities

The Drax Board has ultimate accountability for all climate change risks and opportunities. The Board meets regularly and is supported through the existing governance structure which manages climate change risk on a day-to-day basis. Please see the Corporate Governance report on page 94 for greater detail.

The Group has developed a Climate Policy, published on our website, that is annually

reviewed and approved by our Executive Committee. The Policy outlines our approach to integrate the management of climate-related risks and opportunities into everyday decision-making and delivery of our business strategy. Responding to climate change is a core component of the Group's purpose, and this is reflected in our governance. Climate Change is one of our Principal Risks, and so is subject to a six-monthly "deep dive" review by our Executive Committee.

In 2022, the CEO commissioned a new Group Carbon Reduction Task Force, which includes Senior Leaders from across the organisation that will track and report on current and future projects required to decarbonise our current and future value chain. In addition, the Board have allocated a significant weighting for decarbonisation targets to the 2023 Group Scorecard, in order to align the objectives and incentives of the operational business areas with our decarbonisation targets.

The Board	<ul style="list-style-type: none"> Reviewed the Climate Change Principal Risk Agreed the Climate Positive strategy Reviewed the Climate Policy As part of the approval process for climate change opportunities, the Board reviewed proposals for investing in construction of additional pellet production capacity, including the carbon and environmental related design requirements
Audit Committee	<ul style="list-style-type: none"> The Audit Committee has responsibility for overseeing risk and risk management, which includes climate change risk. Climate risk disclosures are reviewed twice each year
Remuneration Committee	<ul style="list-style-type: none"> Reviewed and approved targets for developing ESG dashboards (as part of the 2022 scorecard), which includes climate metrics Reviewed and approved the adoption of a KPI for the development of a blueprint for an ultra-low carbon pellet mill in the 2022 scorecard. Agreed an emissions reduction target for the 2023 scorecard
Executive Committee	<ul style="list-style-type: none"> Reviewed and contributed to progress in establishing ESG dashboards, including an assessment of the data capture, interpretation, and reporting Reviewed and agreed our approach on the shadow price of carbon The CEO reviewed and signed off our annual submission of the CDP Climate Change questionnaire. Performed a deep dive of the Climate Change Principal Risk and assessed the potential impacts on the Group's business outcomes.
Carbon Oversight Group (COG)	<ul style="list-style-type: none"> In early 2022, COG provided a forum for the review of climate-related risks. COG comprised a group of experts in climate matters across the Group and people in roles with direct impact on our carbon performance. Both in the formal COG and outside of the group, these members help manage our day-to-day progress on climate related matters. COG members managed the Climate Change Principal Risk.

Assigning senior management accountability for climate change risk

We have assigned key accountabilities on environment and climate change to ensure a clear understanding of ownership throughout the business and at the executive level. Accountability for the Group's climate and broader sustainability positioning (including the Climate Change Principal Risk) is assigned to the Group Director of Corporate Affairs, as delegated by the Executive Committee. The Group Director of Sustainability reports directly to the Group Director of Corporate Affairs and monitors the day-to-day risk management of our climate change Principal Risk.

These accountabilities include the implementation of:

- Identification, measurement, monitoring and reporting of the financial risks of climate change in line with TCFD recommendations
- Scenario analysis (for physical and transition risks) to determine long-term financial risks that could impact the balance sheet
- Disclosing the financial risks of climate change
- ESG reporting and performance (the Drax sustainability strategy and key performance metrics)
- A governance framework to ensure leaders and wider colleagues understand the climate-related risks and opportunities

See more details on Governance in these sections:

 [Diagram showing how risk reports up to the Drax Board 77](#)

 [Corporate Governance Report page 94](#)

 [Directors' Remuneration Report page 127](#)

 [Principal Risks and Uncertainties page 77](#)

Sustainable Development continued

Climate Positive

Our progress against TCFD recommendations

TCFD pillar:

Governance

Actions for 2022

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.

Work with the Board and Executive Committee on the creation of a new Sustainability Council that will oversee climate-related risks and opportunities.

Progress in 2022

The Board and Executive Committee were consulted on several climate-related matters (details in the previous table).

At the end of 2022, we planned our new Sustainability Governance approach and identified roles and responsibilities for managing our Climate Change principal risk.

Actions for 2023

In 2023 we will roll out our new Sustainability Governance approach.

Risk Management

Our approach to Climate Risk

The Group recognises climate change risks and the financial impacts as a Principal Risk, reflecting management's assessment of the risk exposures for the Group across its operations based on an established approach to the identification, rating and mitigation, which is fully integrated into the Group's Risk Management Policy. Our climate-related risks are prioritised based on our risk scoring matrix, which looks at likelihood and impact. Our assessment of impact considers a broad range of impacts, including financial, regulatory, environmental, reputational and strategy considerations – our sustainability priorities are embedded throughout that assessment. Our Principal Risk categories (including Climate Change) are described in full in the Principal Risk section on page 77.

At Drax, we identify, monitor and manage our climate-related risks through scenario analysis, climate vulnerability assessments, internal programmes for carbon reduction and striving towards our BECCS ambitions to be a leader in carbon removals. In addition to minimising our own emissions, climate-related considerations are embedded in our decision-making, and we use a set of financial criteria, including our internal carbon price, for investment decisions. We consider existing and emerging regulatory requirements related to climate change as well as other relevant factors. You can find more details on how we manage risk in our "group approach to risk management" on page 78.

Drax has identified climate risks in two main categories – physical and transition. Physical impacts of climate change include event-driven, acute impacts, such as

flooding, and chronic impacts, such as sea-level and temperature rises. Transition 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 transition impacts include several aspects which directly align with the Group's strategy.

Scenario Analysis

To understand the physical and transition risks of climate change, their financial impacts and their ultimate materiality to the balance sheet and income statement, the Group works with third-parties to perform scenario analysis. Scenario analysis enables an organisation to assess climate-related risks and opportunities under a range of potential future states and pathways. Scenario analysis can be carried out qualitatively or quantitatively and provides a useful tool to:

- enable organisations to consider issues for which possible outcomes are highly uncertain, outcomes which will develop over the medium to longer-term, or potentially have significant disruptive effects
- provide structure to strategic future planning and broaden decision makers' thinking to a range of possible scenarios
- help organisations to assess the potential business, strategic, and financial impacts from climate change and the management actions that may need to be considered in strategic and financial plans

- help organisations identify indicators to monitor the external environment and provides the opportunity for organisations to adjust their strategies and financial plans where necessary
- aid investors to understand the resilience of an organisation's strategies and financial plans and to compare risks and opportunities

The Group recognises that TCFD is a journey and as data improves, we commit to continue to build on our approach to understanding the impacts of climate change. In 2020, we completed a high-level qualitative analysis considering the impact to our business under different physical and transition climate risk scenarios. In 2021, we worked with a third party to advance this work by considering both transition and physical risks under different climate scenarios, looking at impacts to 2030, aligning with Drax's strategic planning. In 2022 Drax focused on understanding the physical risks of climate change that could impact our self-supply value chain operations in the US South, British Columbia and Alberta, for the 2030s and 2040s, expanding the time frame considered.

We have taken a risk-based approach to our analysis work, focusing on the most material areas first. Our 2022 work covered our own pellet production and supply, as this represents a significant element of our value chain and supply of biomass for Drax Power Station (DPS). Future work will have a broader focus, including impacts on forests, third-party supply of pellets and our hydropower assets.

The table below provides an overview of scenarios considered by Drax to understand the risks of climate change.

Physical Risk	<ul style="list-style-type: none"> • 2°C world – current level of physical impacts (approximated to RCP 2.6): Very ambitious and effective global action to mitigate climate change results in a scenario < 2°C warming by 2100. In this scenario, 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. • 4°C world – High level of physical impacts (approximated to RCP 8.5): Low ambition/effectiveness on global action to mitigate climate change results in > 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.
Transition Risk	<ul style="list-style-type: none"> • A 1.5°C world scenario: Rapid and comprehensive changes are made to progress decarbonisation goals, beyond the UK's current net zero commitments and beyond current global pledges, to limit warming to 1.5°C by 2100. Coordinated global action occurs, including changes to policy, regulation, technology, and markets to support decarbonisation and carbon removal by 2030. • An 'existing policies' scenario: The existing policies set by the UK (which are not yet sufficient to achieve net zero by 2050), US, and Canada, and the current global pledges are maintained without further ambition and action to progress decarbonisation goals, resulting in potential warming above 3°C by 2100. Changes across the global economy and society are less rapid and less comprehensive by 2030. Policy is fragmented and ad-hoc across the UK, US, Canada, and globally.

A summary of the 2022 physical risk supply chain assessment

In 2022, we researched the physical climate risks on our supply chain. The focus was on the medium and long-term threats to our pelleting facilities, logistics operations and generation assets across the US, Canada and the UK. Short-term threats were not a focus

for this study, as the Drax supply chain has some built-in resilience for the short term, and recent investments have enabled short-term risk to be managed to an acceptable level. This study therefore focused on potential future actions which will be required as the pace of change

increases. This was a quantitative assessment, based on the modelled annual average expected disruption. The key risks for the 2040s were identified and are summarised in the table below:

Climate change risks in the 2040s	Risk category
River flooding in the UK impacting train routes into Drax Power Station	High
Coastal flood and potential for disruption at ports	High
Hurricane or windstorms causing disruption at US ports	Medium
Drought and low river levels causing disruption to waterway navigation	Medium
Heatwaves and wildfires causing disruption to transport routes	Medium

Low risk: <2,000 tonne-days
Medium risk: 2,000 – 10,000 tonne-days
High risk: >10,000 tonne-days

Having evaluated these risks, the analysis concluded that the Group has a resilient supply chain, with only minor disruption to supply expected during an average year due to climate related risks. The minor disruption would be equivalent to less than half a shipment to Drax Power Station per year from all the annual transatlantic ship loads we receive. This risk only rises slightly through to the 2040s, remaining below a single shipment disrupted per year on average.

Drax has a resilient supply chain, a strategy of increasing our self-supply and our climate-related opportunities outweigh our risks. As our business strategy is built around our climate-related opportunities, this demonstrates that our strategy is resilient against climate-related risks.

These risks have been incorporated into our Climate Change risk register, which is summarised below and in the Principal Risks section on page 77. In our 2021 Annual Report and Accounts, we reported on the transition scenario analysis, which looked at two transition scenarios (Rapid transition '1.5-degree scenario' and Slow transition 'existing global policies'). We reported on the main impacts under both scenarios and our strategic response under both scenarios.

The Group's business strategy is closely aligned to our strategic response to the main impacts highlighted under our transition risk scenario analysis, highlighting that our strategy is resilient against transition risks. We therefore focused in 2022 on our physical risks. In 2024, we hope to take a final investment decision on our opportunities for Cruachan expansion and BECCS, and further scenario analysis on transition risks are planned for 2024, as more information becomes clear.

To increase the understanding of the physical risks posed by climate change, the Group is considering:

- Further risk assessment work across the Drax supply chain in North America to help inform decision-making on possible steps to mitigate supply chain risks
- Exploring physical climate risks outside of our supply chain, looking at operations at DPS and at the individual pellet mills
- Further work on heatwave risk, as such events may have an impact on operations, including the generation of electricity at Drax Power Station, or disruption to supply chains

Sustainable Development continued

Climate Positive

Our Key Climate Related Risks

1. **Time frame:** Short-term (1 year) – aligns to our time periods for assessing going concern

- Medium (2-5 years) – matches the period assessed for viability reporting
- Long-term (5+ years) – aligns to our 2030 BECCS ambitions and beyond

2. **Significant Impact:**

- Significant impact is assessed as an impact greater than 20% of 2022 Adjusted EBITDA of £731 million

Note, the assessments in the Risks and Opportunities tables considers gross impact only, and not likelihood

- Impacts of climate change are considered in the Viability Statement on page 75 and note 3.8 to the consolidated financial statements

Grouping	Description	Time frame ¹	Significant Impact ²	Strategic mitigation
Physical risks to our Pellet Production operations and supply chain in the US and Canada	Acute and chronic climate hazards impacting: <ul style="list-style-type: none"> • Fibre availability to Canadian pellet production • Site operations in US pellet production sites • Site operations at Canadian pellet production sites 	ST, MT and LT	No (direct impact on revenue and cost of sales)	<ul style="list-style-type: none"> • Proactive weather monitoring with appropriate mitigations taken to minimise the potential impact of extreme weather events • 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 • Diversification into new jurisdictions that reduce seasonal impact on the business • New build pellet mills positioned to minimise risk associated with potential future weather patterns • Continue monitoring systemic risks when moving to new geographies • Colleague training to respond to adverse climate effects
Note: risks which, following mitigation, are assessed as low risk are not presented here. These include issues raised in our third-party risk assessment work, including risks to shipping in North America.				
Physical risks to our Drax Power Station operations and supply chain	Physical risks to ports and shipping UK, including <ul style="list-style-type: none"> • extreme weather events and flooding at multiple UK port locations • Sea level rise impacting available port facilities, preventing the receipt of material into Drax's UK ports 	ST, MT and LT	Yes (direct impact on revenue and cost of sales)	<ul style="list-style-type: none"> • Business continuity plans in place for ports in our supply chain, including response to weather events • Continue getting more detailed climate scenario analysis to look at supply chain risks • Engaged with the local authority climate risk plan to cover storm surges
	<ul style="list-style-type: none"> • River water temperature at DPS rises to a level which could cause permit breach 	ST, MT and LT	No (direct impact on revenue and cost of sales)	<ul style="list-style-type: none"> • Permit variation already in place for the summer months
Note: risks which, following mitigation, are assessed as low risk are not presented here. These include issues raised in our third-party risk assessment work, including road and rail into the UK and risks to third-party supply				
Policy risks related to the transition to a low-carbon economy	Future regulatory framework(s) no longer consider biomass to be renewable and/or require biomass generators to pay a carbon price on stack emissions or on supply chain emissions	ST, MT and LT	Yes (direct impact on revenue, cost of sales and operating expenses)	<p>Due to the potential high impact of these unmitigated risks, we have a strong mitigation plan in place which is functioning well, lowering the risk to an acceptable level</p> <ul style="list-style-type: none"> • BECCS ambitions are a key part of our strategy • Group decarbonisation plans in place to reduce biomass supply chain emissions • Engaging with regulators and industry bodies and wider stakeholders to understand their priorities, influence the strategic direction, and undertake scenario planning in preparedness for ensuring compliance • Targeted scenario planning and direct engagement with the REDIII negotiation process and via Trade Associations suggesting alternative policy and regulatory solutions, to ensure workable outcomes • Seeking engagement with eNGOs to discuss issues of contention and potential areas of common ground, as well as challenging views where we believe they are inaccurate or misleading
	Updates to sustainability criteria on biomass cannot be met	ST	No (direct impact on revenue, cost of sales and operating expenses)	<ul style="list-style-type: none"> • Continued engagement with key stakeholders around our biomass sourcing and the benefits of using biomass from working forests • Alternative Fuels programme looking at options for alternative feedstocks
	Changes in UK Carbon Budget, Government strategy significantly limits or does not allow for unabated gas generation – risk to OCGTs projects	ST and MT	No (direct impact on revenue, cost of sales and operating expenses)	<ul style="list-style-type: none"> • Close liaison with UK Government on future policies. Group Market Analysis team modelling future generation scenarios and predicting future generation mix • Broad range of future options being developed
Note: risks which following mitigation are assessed as low risk are not presented here				
Technology risks related to the transition to a low carbon economy	Note: Five risks are considered within this category but are considered to be low risk after consideration of mitigations in place, so are not included here. These risks include issues such as: Lack of government strategy/commitment to new low carbon technologies and ability to raise funds for implementing new technologies			
Reputation and market risks related to the transition to a low-carbon economy	Market factors or reputation leads to a reduction in profitability of the Customers business	MT and LT	No (direct impact on revenue)	<ul style="list-style-type: none"> • All energy supply propositions now from renewable sources • Introduction of value-adding energy services (Offer non-generation system support and energy management services, such as the provision of decarbonization services, including vehicle fleet electrification) • Strategic Communications work ongoing to provide better data and transparency on BECCS and biomass
Note: risks which following mitigation are assessed as low risk are not presented here.				

We also cover the climate-related risks on our strategy – see page 82 on Principal Risks and Uncertainties for a detailed breakdown.

Our Key Climate Related Opportunities

Each of our climate-related opportunities would impact on revenue, cost of sales and operating expenses.

Opportunity	Description	Time frame ¹	Significant Impact ²	Implementation
Development of new sustainable biomass pellet capacity and self-supply	Drax is targeting 8Mt p.a. of production capacity by 2030. This production will be used for third-party sales plus our own generation. This target also covers the balance of supply from other lower cost biomass sources and third-parties. Increasing our self-supply capacity will provide greater security in respect of an important aspect of supporting our business model.	ST, MT and LT	Yes	<ul style="list-style-type: none"> Expansion of existing plants and of new satellite facilities, in 2022 we increased our pellet production by 27% In 2022 we commissioned three new plants and acquired a new 90kt pellet plant in British Columbia. You can read more about this on page 13 Additionally in 2022, we took Final Investment Decision (FID) to develop two new pellet production projects and, in July, opened our new Tokyo sales office
Development of BECCS at Drax Power Station	One of our strategic objectives is to be a global leader in carbon removals. At Drax Power Station, we are developing options to retrofit BECCS, and aiming for 8Mt p.a. of carbon removals by 2030. Achieving this could make Drax Power Station the world's first carbon negative plant at scale and offers a model for further BECCS retrofit for adoption by other power generation plants.	LT	Yes	<ul style="list-style-type: none"> 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 We completed a pre-Front End Engineering Design (pre-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. As part of our capital investment programme on BECCS, in 2022 Drax selected Worley Europe Limited to begin the FEED work In 2022 we signed a Memorandum of Understanding (MoU) with British Steel, and submitted our Development Consent Order (DCO) We announced that we are aiming for 8Mt p.a. of carbon removals in the UK by 2030. And during 2022, we submitted our planning application for the UK Government consultation on greenhouse gas removals (GGR) business models. Subject to an effective carbon removals policy and regulatory framework from the UK Government, we are aiming for the deployment of BECCS on two of our biomass generating units by 2030 <p>See more details on our ambition for two BECCS units at Drax Power Station on page 12</p>
Development of Global BECCS in North America	We have announced that our ambition is to remove 4Mt of carbon through BECCS outside the UK p.a. while generating renewable, baseload electricity and supporting healthy, sustainable forests. We continue engaging with policymakers and are screening regions and locations for BECCS in North America.	LT	Yes	<ul style="list-style-type: none"> Progressing with site selection, government engagement and technology development In September 2022, we announced an MoU with Respira, an impact-driven carbon finance business, which could see the largest volume of carbon dioxide removals (CDRs) traded so far globally. Under the MoU, Respira could purchase up to 2Mt of CDRs over a five-year period from our North American BECCS projects. This would enable other corporations and financial institutions to achieve their own CO₂ emissions reduction targets, by purchasing CDRs from Respira <p>See more details on our Global BECCS ambitions on page 12</p>
The planned expansion of Cruachan Pumped Storage Power Station in Scotland.	<p>The UK's plans to achieve net zero by 2050 will require further electrification for example of heating and transport systems, resulting in a significant increase in demand for electricity from businesses and consumers.</p> <p>However, meeting the full extent of expected demand will only be possible if additional power sources are developed which can provide the dispatchable power and system support services required to ensure security and stability of supply and to limit the cost to the consumer.</p>	MT	No	<ul style="list-style-type: none"> Planning application was submitted in May 2022. The location, flexibility, and range of services it can provide makes Cruachan strategically important to the UK power system A final investment decision could be taken in 2024 and the development operational by 2030. Any investment decision will depend on the right regulatory framework

- Amount and extent of assets or business activities vulnerable to transition risks: Based on the residual risk after mitigations over a five-year time horizon, capitalised spend on UK BECCS is vulnerable to transition risks if the UK Government does not pursue BECCS as a route for carbon removals. As identified in the critical judgements, the total capitalised to date is £25 million. This is linked to the risk around regulatory frameworks identified in the table above. An investment decision could be taken by the Group in 2024, subject to the right investment framework, and spend will continue on this project in 2023.
- Amount and extent of assets or business activities vulnerable to physical risks: Based on the residual risk after mitigations over a five-year time horizon, an interruption to biomass generation is considered to be the most likely way that physical risk could manifest. As identified in the table above, the impact of this could be greater than 20% of Adjusted EBITDA in a given year.
- Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities: The Group's purpose – to enable a zero carbon lower cost energy future – and our ambition to become a carbon negative company by 2030, inform our future capital expenditure and investment plans. We believe that our three strategic objectives are closely aligned with the goal of addressing climate change. As previously announced, we are developing plans to invest a significant amount in the coming years to progress these objectives, and expenditure is underway in planning and development of new technologies such as UK BECCS. £19 million of capital expenditure related to UK BECCS was recognised during 2022 with a total capitalised spend on the project to date of £25 million.

We also cover the climate-related risks on our strategy – see page 82 on Principal Risks and Uncertainties for a detailed breakdown.

Our progress against TCFD recommendations

TCFD pillar:

Risk Management

Actions for 2022	Progress in 2022	Actions planned for 2023
Build on the first phase of the asset-level physical risk assessment, considering additional climate scenarios over longer time horizons.	In 2022, we completed the second stage of our physical risk assessment of our US and Canada pellet operations.	Drax will update and monitor the risk register for the Climate Principal Risk and build on our risk assessment work.

Strategy

Impact of climate-related risks and opportunities on our strategy

The identified climate-related risks and opportunities that could have a material financial impact on the business are set out on pages 56-57.

Our climate-related opportunities are intrinsically linked to our strategy of being 1) a global leader in sustainable biomass pellets, 2) a global leader in carbon removals, and 3) a UK leader in dispatchable, renewable power.

We continue to explore and develop the transition plan that will enable us to operate beyond the current subsidy regime for biomass generation past 2027. Subject to the right regulatory and investment framework, we aim to transform Drax Power Station into one of the world’s leading carbon capture

projects. This involves using BECCS to permanently remove 8Mt p.a. of CO₂ emissions from the atmosphere each year by 2030. The project is well-developed, the technology proven within the industry, and an investment decision could be taken in 2024, with a first BECCS unit operational in 2027 and a second in 2030. Should BECCS not be achieved due to any of the risks identified in the Principal Risk and Uncertainties disclosure on pages 82-83, this would potentially limit our ability to achieve our net carbon negative targets.

In 2022, we made significant progress to deliver our BECCS project. This included submitting our DCO, continuing with the FEED process, and signing a MoU with British Steel. It also included ongoing stakeholder engagement with the local community, local planning authorities,

the Environment Agency and the Health and Safety Executive. The East Coast Cluster initiative was selected as one of the UK’s first carbon capture and storage clusters in the UK, see more on page 14. This is the first step towards ensuring the CO₂ transportation and storage infrastructure which will be required to safely take and store the CO₂ emissions captured by the BECCS project.

We do not expect the six-month winter contingency for coal, which ends in March 2023, to have an impact upon the timing of the project’s final investment decision or intended commissioning date. Site preparation works for BECCS are ongoing and will continue following formal closure of the coal units in March 2023. You can read more about our ambitions for BECCS in the CEO’s review on page 12.

We also cover the climate-related risks on our strategy – see page 82 on Principal Risks and Uncertainties for a detailed breakdown. We consider climate change through our financial planning, please see note 3.8 to the financial statements.

Our Beyond Net Zero Plan and Progress

One of the pillars of our business strategy is to be a global leader in carbon removals. To demonstrate our commitment to that, in 2019 we set an ambition to be carbon negative by 2030. Our actions towards our strategy are summarised in the graphic page 59.

Progress: We have been on a journey removing fossil fuels from our generation portfolio. In 2012, we were a single site, burning 9.6 million tonnes of coal, producing emissions of 784t CO₂ per GWh of electricity generated. In 2020 we announced the planned closure of our commercial coal operations and in 2021 we sold our CCGT assets. In 2022, we agreed to delay the planned closure of our two coal-fired units at the request of the UK Government to bolster the

UK’s energy security by providing a winter contingency service (October 2022 – March 2023) to the UK power system. Our coal units will close in March 2023 on conclusion of the contract with National Grid. We are currently developing three OCGT plants, to deliver on our capacity market contracts starting in 2024 and continue to evaluate these projects, including their potential sale.

In addition to removing fossil fuel generation, we have been identifying emissions reductions opportunities and efficiency projects. We remain committed to our BECCS ambitions, which we believe is fundamental to delivering the net zero ambitions of the UK, not just our own carbon removal ambitions.

Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities: At 31 December 2022 the Group had capitalised £25 million relating to the UK BECCS development project, including £19 million in 2022. Please see more detail in our financial statements.

Aligning with our strategic objectives:



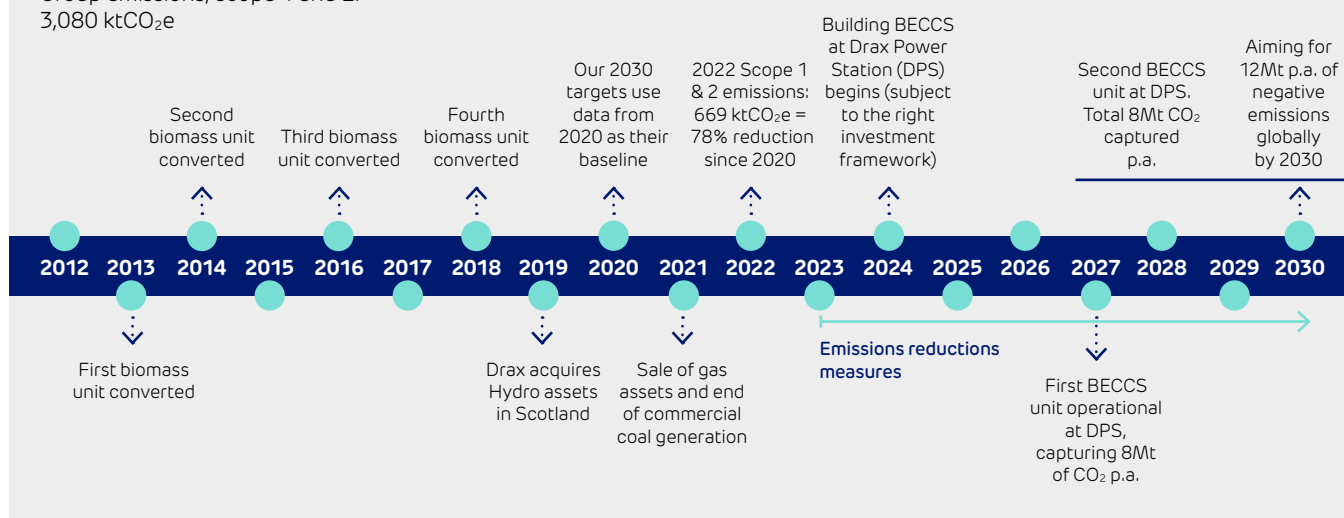
To be a global leader
in carbon removals

Emissions in 2020 (as per baseline)

Group emissions, scope 1 and 2:
3,080 ktCO₂e

2030: Drax achieves carbon negative

- 75% reduction in Scope 1 and 2 emissions from electricity generation
- 42% in non-generation Scope 1 and 2 emissions
- 42% in Scope 3 emissions



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

Our progress against TCFD recommendations

TCFD pillar:

Strategy

Actions for 2022

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.

Progress in 2022

We completed our follow up climate scenario analysis in August 2022 and shared this with the relevant teams across the business.

Actions for 2023

Drax will perform an additional materiality assessment of ESG related risks that will seek to inform the Group's approach to climate and other sustainability related risks.

Metrics and targets

At Drax, our key metrics related to our transition to a net zero future are focused on monitoring our progress towards our carbon negative ambition.

We consider our climate related issues in the context of our materiality assessment. In 2023, we are completing a materiality assessment with support from a third

party and commit to updating our metrics in line with any changes.

Climate-related risks and opportunities

- Physical risks to our Pellet Production operations and supply chain in the US and Canada
- Physical risks to our Drax Power Station (DPS) operations and supply chain

- Policy risks related to the transition to a low-carbon economy
- Technology risks related to the transition to a low-carbon economy
- Reputation and market risks related to the transition to a low-carbon economy

- Opportunity: Development of new sustainable biomass pellet capacity and self-supply

- Opportunity: Development of BECCS at DPS
- Opportunity: Development of Global BECCS in North America

- Opportunity: The planned expansion of Cruachan Pumped Storage Power Station in Scotland

Climate Related Metrics

- Amount and extent of assets or business activities vulnerable to physical risks. Please see climate-related risks, page 57
- Pellets produced (see Key Performance Indicators, Page 18)

- Amount and extent of assets or business activities vulnerable to transition risks £ or % Please see climate-related risks, page 57
- Land use. 97% of wood pellets used in Drax Power Station were SBP-Compliant (full reporting on biomass sustainability in the Biomass Sourcing section, starting on page 40)
- Proportion of business activities aligned with climate-related opportunities – Proportion of 2022 Group generation from biomass, hydro and pumped storage: <99% (2021 was 94%)

- Pellets produced (see Key Performance Indicators, Page 18)
- Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities. Please see climate-related opportunities, page 57

- Amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities. Please see climate-related opportunities, page 57

- Proportion of business activities aligned with climate-related opportunities. Proportion of 2022 Group generation from biomass, hydro and pumped storage: >99% (2021 was 94%)
- Pumped storage and hydro capacity: 0.6GW (see page 9) (2021 was 0.6GW)

Metrics relevant to all risks and opportunities

GHG emissions:

- Scope 1
- Scope 2
- Scope 3
- Carbon intensity page 61

- Total energy consumption page 61

- Remuneration linked to climate change, see below

- Internal carbon price, see below
- Water use, see page 51

Remuneration:













Our Group Scorecard comprises key metrics by which the cash bonus awards for Executive Directors and all eligible colleagues are assessed. For 2023 the Scorecard includes a carbon reduction metric, linking performance-related remuneration to actions that support the delivery of our long-term ambition to be carbon negative by 2030. See targets section on page 62.

Internal carbon price:

For Drax's future investments to adequately consider their carbon impact, we have developed a shadow carbon price in 2022. Our internal carbon price has been benchmarked to the UK ETA, and will be subject to change over time, and across 2022 was within the range of £75-100/t.

We intend that as part of the evaluation of strategic growth project decisions through 2023, our internal shadow carbon price will be considered and will be applied to emissions across all Scopes (1, 2 and 3) over the lifetime of the investments. The level of the price will be kept under review so that it calibrates to a sufficiently material level to influence decisions, driving forward our purpose.

Understanding our carbon emissions

Scope 3	Scope 1	Scope 2	Scope 3
  	  	  	  
Upstream	Direct emissions	Indirect emissions from electricity	Downstream
<ul style="list-style-type: none"> Coal supply chain Natural gas supply chain Biomass supply chain Supply chain for other fuels Supply of sludge to Daldowie Biomass transport from Drax Biomass to Drax Utilities as part of lease contracts Emissions from operational and capital purchases Business travel Hotel stays Employee commuting 	<ul style="list-style-type: none"> Coal and natural gas power generation Methane and nitrogen oxides emissions from biomass generation Pellet plant operations Pellet port operations Large plant vehicles Flue gas desulphurisation systems Company vehicles Fluorinated gases from heating, ventilation and air conditioning systems 	<ul style="list-style-type: none"> Hydro electricity consumption Cruachan electricity imports Generation electricity consumption Pellet Production business electricity consumption Office sites electricity consumption 	<ul style="list-style-type: none"> Recycling, processing and disposal of waste Reuse and reprocessing of ash and by-products Transmission and distribution Emissions from use of sold electricity Emissions from use of sold natural gas Emissions from transport and use of sold pellets

In line with TCFD Guidance on Metrics, Targets and Transition Plans (October 2021), we disclose the following climate-related metrics:

Carbon and energy performance

	Unit	2022	2021	2020
Carbon emissions				
Generation CO ₂ emissions ⁽¹⁾	ktCO ₂ e	310	525 ⁽⁷⁾	2,682 ⁽⁷⁾
Group total Scope 1 ⁽²⁾	ktCO ₂ e	336*	932	2,762
Group total Scope 2 (location-based) ⁽³⁾	ktCO ₂ e	333*	323	318
Group total Scope 2 (market-based) ⁽³⁾	ktCO ₂ e	332*	323	318
Group total Scope 1 and 2 (location-based) ⁽⁶⁾	ktCO ₂ e	669*	1,255	3,080
Proportion of Group emissions within the UK	%	51*	78	95
Group total Scope 3 ⁽⁴⁾	ktCO ₂ e	3,123*	3,121	3,135
Biologically sequestered carbon ⁽⁵⁾	ktCO ₂ e	12,130	13,415	13,273
Carbon intensity				
Generation emissions per GWh of electricity generation	tCO ₂ e/GWh	23*	33 ⁽⁷⁾	143 ⁽⁷⁾
Group emissions per GWh of electricity generation ⁽⁶⁾	tCO ₂ e/GWh	49*	78	164
Total energy consumption				
Group total energy consumption	kWh	5,232,723,625*	44,112,891,484	48,253,807,865
Group total energy consumption within the UK	kWh	680,178,336	40,112,110,227	47,090,524,296

Note: Carbon emissions are reported against a criterion of operational control. Carbon emissions are reported in units of carbon dioxide equivalent (CO₂e) and include all greenhouse gases as required by the GHG Protocol. For the basis of reporting see www.drax.com/sustainability

(1) Generation emissions covers the total direct emissions from Scope 1 and indirect emissions from Scope 2 activities across our Generation sites

(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 CO₂ 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

(7) 2021 and 2020 figure was based on the Scope 1 kgCO₂ EUETS value of Drax Power Station and Daldowie only

* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 and based on Drax using the Corporate Greenhouse Gas Protocol, for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Sustainable Development continued

Climate Positive

Targets:

In response to our climate risks, our actions centre around our ambition to deliver negative emissions and the targets listed here are in response to our climate-related risks and support our climate-related opportunities.

Our ambition is to become carbon negative by 2030. To achieve this, we have set the following targets which are going through the validation process with SBTi and are based on further reductions from a 2020 base year:

- 75% in Scope 1 and 2 emissions from electricity generation by 2030
- 42% in non-generation Scope 1 and 2 emissions by 2030
- 42% in Scope 3 emissions by 2030

Interim targets towards our long-term ambition to be carbon negative by 2030 that are in the Group Scorecard for 2023 are:

- Reduce the emissions footprint arising from our portfolio of hydro generation assets by 25%, by the end of 2023, versus our 2020 baseline emissions figure
- Beginning the process of exiting the sale of natural gas contracts to our retail customer base
- Installing electric vehicle charging infrastructure across the majority of our UK sites

Alongside the 2023 Group scorecard projects, we will utilise the new shadow carbon price to prioritise and seek funding for dedicated decarbonisation projects, currently at various stages of development, to target specific sources of emissions across our Group footprint. This will allow us to secure capital spending for projects which do not provide positive commercial returns when judged against traditional valuation measures.

Aligned with our climate-related opportunity to develop new sustainable biomass capacity and self supply, we have set a target to have 8Mt p.a. of production capacity by 2030. See Strategic Report, page 19.

We have not set targets on spend related to our BECCS ambitions, but we continue to progress our strategy and hope to take a final investment decision in 2024.

See more details on our plan to reach our negative emissions ambitions in the CEO Review on page 12.

TCFD pillar:

Metrics and Targets

Actions planned for 2022

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.

Progress in 2022

We set up a new Carbon Reduction Task Force, to support our carbon reduction plans and began the process of developing internal carbon targets. We submitted for SBTi validation and will update on this in 2023.

Actions for 2023

In 2023, we will be developing individual carbon reduction plans across our three main business units (Pellet Production, Generation and Customers). These will form part of our climate transition plan.

LRQA Independent Assurance Statement

The following statement is a direct extract from the LRQA assurance statement dated 20 February 2023.

Relating to the Drax Group Plc Environmental and Social Governance data for the period January 1 2022 to December 31 2022.

LRQA Limited ("LRQA") has provided independent limited assurance to Drax Corporate Limited ("Drax") over specific data within the Drax Group plc Annual Report 2022 ("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.



Nature Positive

We have put an emphasis on working in ways that respect, protect and where possible add benefits to the natural environment.



Global Context

Introduction by Alicia Newton – Senior Scientific Officer

We have put an emphasis on working in ways that respect, protect and where possible add benefits to the natural environment, through partnerships and initiatives around regions in which we operate. This ranges from our power station in North Yorkshire and hydro sites in Scotland, to the forests from which we source in both the US and Canada.

In 2021, the World Economic Forum (WEF) Global Risk Report identified biodiversity loss, ecosystem collapse and human-made environmental damage as top risks. The general expectation of business and society is shifting from solely minimising harm (or protecting natural environments) to actively restoring and creating an environment to allow nature wellbeing to improve. At Drax, we support this and will include it within our Nature Positive outcome as it progresses in 2023.

We fully support Target 15 (part of the post-2020 Global Biodiversity Framework, ratified at COP15 in late 2022 which looks at the responsibilities of businesses and financial institutions) and are working towards it by developing processes to align with TNFD (see more on page 65 about our TNFD pilot).

In 2022, we began work on consolidating our Nature Positive approach across the business and its operations – e.g., by developing KPIs and metrics. I'm proud to say that we remain passionate about contributing to nature-positive globally while remaining committed to delivering Nature Positive outcomes for the business. In this report we will refer to both 'nature-positive' (which refers to the global concept – see box) and 'Nature Positive' (which refers specifically to one of the Drax sustainability outcomes).

Approach and governance for Nature Positive

We continue to shift our approach from a focus on ensuring we do not have a harmful nature impact to also include restorative nature actions. The ESG dashboard allows tracking of our nature-related actions, and we are continuing this work in 2023 as we publish our Nature Policy. One of our aims for 2022 was to begin to integrate existing workstreams into a Nature Positive framework and narrative. This piece of work will continue in 2023 as we work through the TNFD pilot.

In 2022, we began work on a separate Nature Policy, which will map onto our Group aims and extend our commitment from 'no harm' to actions which encourage the regeneration of nature. Our Nature Policy will set out what we aim to achieve as a business to support nature and biodiversity in the areas where we operate. Until implementing our new Nature Policy, we have our Group Environment Policy, which can be viewed on our website. This outlines our commitment to minimise adverse impacts of our operations on biodiversity, through the protection of fauna and flora.

Nature initiatives

Below is a summary of some of our current efforts and initiatives that we hope to build on in 2023.

US:

- Collaboration with the Louisiana Department of Wildlife and Fisheries (LDWF) to improve forest conditions of hardwood plantations established under the Wetland Reserve Program (WRP) by providing a market for thinning material.
- We support the Forest Stewards Guild's (FSG) bottomland hardwoods initiative in the Lower Mississippi Alluvial Valley.

What is nature-positive?

In a paper published in 2021, conservationist Harvey Locke, scientist Johan Rockström and the CEOs of 12 conservation and business organisations, argued for the adoption of a 'Nature-Positive Global Goal for Nature' corresponding to and supporting the net zero goal. The paper set out three gradual objectives for nature-positive: 'Zero Net Loss of Nature from 2020, Net Positive by 2030, and Full Recovery by 2050'. Put simply: We need more nature by 2030 than we have today.

In 2022, we set the following commitment for Nature Positive:

By 2027 Drax will have implemented the systems and metrics across our operations and value chains to demonstrate a contribution to nature positive outcomes in those regions.

Sustainable Development continued

Nature Positive

Work with the FSG includes participation in, and support of, learning exchanges and landowner workshops, plus funding for the development of individual management plans. We also share bottomland hardwood mitigation material with our suppliers (a project developed in cooperation with the FSG).

Canada:

- In British Columbia, we collaborate with various forest industry participants to advance environmental stewardship, including First Nations. Our purchase of low-grade wood and residues enhances the quality of forests by avoiding the burning of the material left on the forest floor, which often occurs. Removal of the residues also helps prevent and mitigate the impact of wildfires.

Drax Power Station:

- The nearby areas of Barlow Mound and Arthur's Wood are monitored annually, through ecological surveys with independent reporting (such as of soil health). Barlow Mound and Arthur's Wood are also managed for wildlife habitat conservation.

Cruachan Power Station:

- Since 2009, this plant has completed biodiversity surveys to monitor the species living in the surrounding habitats. This survey data has allowed the team to build a picture of the variety of mammals, birds and insects present in the area, including a significant number of protected status species.
- We seek to partner with local organisations and land-owners such as to reforest pockets of land near the plant. This project further enhances the extent of natural forest within the area, complementing some of the protected 'Atlantic rainforest' in Scotland, and providing habitat for many local native protected species.

Galloway and Lanark Hydro Electric Schemes:

- We started a project with partners to monitor Atlantic salmon smolts in the Polharrow Burn to increase understanding and identify if there are hotspots of fish mortality.
- In 2022, the team started a new project (Dee Restoration) at Black Water, funding the improvement of instream and riparian habitats.

Contributing to nature-positive thinking

We are working with the World Business Council for Sustainable Development (WBCSD) to track nature-positive science and the international response to understand how we can learn from the latest developments and work towards a shared understanding of nature-positive with other stakeholders.

Within WBCSD, we are active members of multiple working groups including the Forest Solutions Group and the Nature and Nature-based Solutions project. Through this engagement, we are helping with the development of nature-positive roadmaps for both the forest and energy sector. The 'Forest Sector Nature-Positive Roadmap Phase I: A shared definition of nature-positive', published in November 2022, provides guidance and tools to support forest companies in implementing nature-positive strategies.

WBCSD is a Science Based Targets Network (SBTN) corporate engagement programme member. In 2022, Drax was involved in the joint WBCSD and SBTN consultation workshops of the SBTN design phase, developing science-based targets for nature through methods, tools, and guidance.



We are a founding supporter of the Get Nature Positive campaign.

Highlight on:

Post-COP15: our thoughts on the World Biodiversity Summit

Business and finance representatives formed a large portion of the attendees at the COP15 summit in Montreal and were united in their recognition of the need to halt and reverse nature loss.

There was widespread support for adopting a target of '30 by 30', meaning that 30% of land and marine areas are designated as protected by 2030. Business leaders also led the call for the adoption of the Kunming-Montreal agreement, particularly the specific targets around reforming environmentally harmful subsidies and the reporting of nature-related risk and opportunity in financial disclosures. Drax is excited to embrace and contribute to these targets in the coming years, and to continue to be part of the conversation around the Global Biodiversity Framework and the Global Goal for Nature. Drax attended COP15, supports these nature-oriented priorities and is reflecting them in our policy framework, in our actions and in our pledge of financial resources to realise the necessary change. We expect this to be an important area of focus in 2023.



The Taskforce on Nature-related Financial Disclosures (TNFD)

Launched in June 2021, the TNFD is an international initiative to provide a framework on how organisations can address environmental risks and opportunities to channel capital into positive action. The framework builds on the existing Taskforce on Climate-related Financial Disclosures (TCFD).

At the time of writing, the TNFD is currently on its third beta iteration, with the final TNFD framework set for publication in September 2023.

We are committed to the management and disclosure of our nature positive risks and opportunities. In 2022, we were selected alongside 22 other companies to pilot the TNFD framework with TNFD pilot partner WBCSD. Drax was chosen among others in the energy industry to represent the renewables and bioenergy sector.

Since October 2022, we have participated in multiple workshops to contribute to the development of the TNFD framework, exploring priority focus areas for the energy sector through testing the guidance and knowledge sharing. Findings and feedback from the group will be fed back to TNFD in 2023.

People Positive

Enabling our people to achieve our strategy is key to Drax achieving its ambitions.



Introduction by Karen McKeever – Chief People Officer

Enabling our people to achieve their potential and feel they are enabled to do their best is critical to Drax achieving its ambitions. To be People Positive, we are looking after the people who work for and with us, as well as supporting the communities in which we operate. We do this by supporting the green skills agenda, developing a talent pipeline, and focusing on diversity and inclusion. Our ambition is to make Drax a great place for all colleagues to work, be themselves, and grow, while being a good and responsible neighbour.

With the impact of Covid-19 still being felt, our people strategy aims to ensure that colleagues have the resilience to adapt and work effectively at a fast pace, whilst having the confidence in and awareness of the resources available to them to manage current and future uncertainties. An effective approach to helping our people also means that as an organisation we need to adapt. We are therefore evolving our ways of working to create an environment with the colleague experience at its heart.

Our People Positive strategy objectives are to:

- Ensure the organisation has the diversity, skills and experience to deliver our business strategy
- Bring to life a culture that is representative of our strategic ambition
- Ensure our people are working as effectively as possible, feel valued for the work they do and their contribution as a person to our workplace community

People Positive strategy

Our People Positive strategy encompasses all aspects of a colleague's experience at Drax, including the systems we use, our policies, our values, and our culture.

In 2022, we continued to review our People policies to assess whether they met the up-to-date needs of our business and colleagues. We introduced a new Bereavement policy which considers a range of bereavement experiences, including miscarriage.

Our Resourcing strategy underpins our plans for growth, reflecting work with the business to understand both current and future resourcing needs. This has included new advertising and engagement strategies to attract, retain and develop diverse talent pools that reflect the demographics of the areas in which we operate. It also includes our Strategic Workforce Plan, which focuses on future workforce planning, enabling us to grow our business internationally and adapt to business changes swiftly.

We continued to undertake reviews of our reward strategies in each market, with the intention that our people are incentivised, rewarded and recognised for their contribution. This helps us create a high performance, inclusive culture.

During 2022, we started work on our employee value proposition, which aims to reorientate and integrate the organisations culture and values and support our global growth strategy. This will create an environment where colleague wellbeing is prioritised.



Spotlight

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

 Find out more on page 94

Our People

	Unit	2022	2021	2020
Total number of Group employees⁽¹⁾	n	3,229*	3,053	3,022
Employee engagement score	%	79	79	82
Total employee turnover rate	%	13.8	29.5	11

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

* Limited external assurance by LRQA (limited assurance using the assurance standard ISAE 3000) for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Safety, health and wellbeing Approach and governance for safety, health and wellbeing

The safety, health and wellbeing of our employees and contractors is a primary focus for Drax. Our Group-wide Safety, Health and Wellbeing policy (available on our website) is supported by our OneSafeDrax vision that all colleagues have a role to play in safety for themselves and those they work alongside.

Local Health, Safety and Environment (HSE) performance is regularly reviewed by each management team, with Group HSE performance reviewed quarterly by the Group HSE committee. Findings from an assessment of captured data is reviewed by the Executive Committee and the CEO also reports on that analysis, progress made on initiatives and areas for further action to the Board at each meeting. Additionally, Drax Leadership Team sessions (held monthly) commence with a 'safety standout' section where key safety messages are shared.

During 2022, we completed the roll-out across all sites of a new HSE reporting platform. This single system allows more data analysis of incidents, corrective actions, hazard management, risk management and behavioural observations. We expect to see improved analysis in 2023 as we develop dashboards to look at trends in reporting that help us understand areas for action and develop local objectives.

An important part of the processes, systems and training which we adopt is a recognition of the importance of continued attentiveness, of learning about existing and emerging workplace hazards and risks and ensuring the appropriate tone and commitment from leaders and all colleagues in working safely. In this way safety is acknowledged to be a shared responsibility which is enabled by ongoing vigilance and striving to improve, recognising that as individuals and as a collective we can do better.

Additional people data can be found in our ESG Supplement, published on the Drax website.

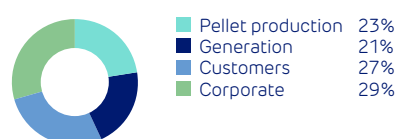
Employment contracts



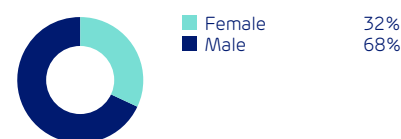
Employees per country



Employees per business unit



Employment gender (total workforce)



Note: headcount as at 31 December 2022

* Limited external assurance by LRQA (qualified opinion) using the assurance standard ISAE 3000 for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Safety Management Systems

We have safety management systems (SMS) in place to promote safe workplaces for our people. During 2022, we aligned 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 promoting wellbeing and a continuous improvement in our health and safety culture.

Using a risk-based methodology designed to assess, improve, and demonstrate the adequacy of our HSE business processes, a third-party undertakes our HSE internal assessment. Each business receives a report for local management's ownership of the improvement areas, and the overall assessment is reported to the quarterly Group HSE Committee and to the Audit Committee. In 2022, this happened in July and November respectively. The Group HSE Committee provides oversight on HSE related risks, and the Committee's Terms of Reference were reviewed in June 2022.



My Voice survey 2022:

"90% of colleagues believe their supervisor/manager sets the right example when it comes to being safe on the job"

Sustainable Development continued

People Positive

Health and safety compliance

Wherever we operate, we seek to establish an open and direct partnership with the local health and safety agencies. We provide further information on safety aspects below:

- As reported in 2021, following notification of charges relating to a violation of occupational health and safety laws arising from an explosion at the Entwistle pellet plant in February 2019, Drax pleaded not guilty to all charges. In September 2022, all charges against Drax were dismissed.
- We have received notification from the Health and Safety Executive in relation to non-compliance with the Pressure Systems Safety Regulations (2000) at Drax Power Station. Drax consider this to be an administrative breach and have challenged the notification, and we are awaiting a formal response from the Health and Safety Executive.

Safety Performance

Each business unit submits monthly reports on HSE performance, including our total recordable injury rate (TRIR). The Board receives an update at each meeting as part of the CEO report, which includes information on any incidents and trends. We have a process to investigate injury events, with particular focus on those with a potential to become more severe, to ensure we establish root causes and learn the lessons we need before sharing those findings and learnings across the organisation, where relevant.

In 2022, our total TRIR was 0.44 per 100,000 hours worked, against a target of 0.20 (2021: 0.22 per 100,000 hours worked, against a target of 0.20).

This is not where we want our safety performance to be and remains a primary focus for us. However, it does reflect our improved visibility on incidents and reporting in the year as changes have been introduced across the Pellet Production teams that better capture incidents and provide tools for assessing and reporting on actions being taken.

In September 2022, we conducted a 'safety standdown'. This was an opportunity for all our operations and support functions to engage in a conversation about safety, as an avenue for collating ideas on how we can improve our safety performance. The safety standdown was launched with a video from the CEO to all colleagues, emphasising the importance of safety. Our teams are now tracking their commitments to improving safety behaviours and specific actions.

As we implement our HSE improvements, we are investing in maturing our safety culture. Through a training and mentoring programme, including hazard awareness and risk assessments, we expect to see reductions in TRIR during 2023. We plan to conduct relevant benchmarking in 2023 on our injury rates, and TRIR will form part of the safety scorecard metric in the bonus calculation.

Process safety

Process safety is the application of engineering and management principles, guidelines, and tools to the identification, assessment, and control of the risks associated with the release of hazardous materials during the design, operation, and maintenance of our industrial processes. The goal of our process safety is to prevent or mitigate the consequences of accidental releases of hazardous materials, which can include chemical spills, explosions, and fires.

Our Group-wide Process Safety Policy focuses on how we identify and manage process risk to protect our people, assets, the environment, and the communities in which we operate. It reflects our commitment to reducing the potential for a major accident, through the application of improved plant and process controls, and the training and awareness of our people.

During 2022, we embedded process safety across the Generation business and continued the journey of integration across our Pellet Production business. Our process safety principles are in line with industry good practice and focus on controls of plant, process and people. A new process safety dashboard was delivered in 2022, giving management and operations teams visibility of process safety compliance against targets. As part of continuous improvement, we will update and adapt this during 2023 to reflect best practice. We aim to improve and consolidate our process safety measures by adopting a multifaceted approach to the scoring that highlights and prioritises improvement areas.

Process safety performance is reported monthly to the Executive Committee. We expect that all process safety incidents with high potential are routinely investigated to establish root causes and enable corrective actions. The actions focus on preventing reoccurrence and we share the lessons learned across the Group.

Health and safety performance

	2022	2021	2020	2019
TRIR – total ^{(1) (2)}	0.44*	0.22	0.29	0.22
TRIR – employees	0.46	0.27	–	–
TRIR – contractors	0.39	0.11	–	–

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

Total includes both employees and contractors. There were no fatalities in any of the years stated above.

(2) Limited external assurance by LRQA (limited assurance using the assurance standard ISAE 3000) for 2022 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

For additional health and safety performance data, see our ESG data supplement

Wellbeing

We have given increased attention and resources to colleague wellbeing and our strategy includes support through our benefits, employee assistance programmes, manager and leader education, and mental health first aiders. We have a wide-ranging communication programme to help raise awareness and educate colleagues about the support available to them, including our Living Well newsletter and on-site events. In the UK, we held wellbeing fairs for the first time in November, giving colleagues the opportunity to interact with benefit providers first-hand.

With many colleagues feeling the impact of the rising cost of living, we introduced a new financial wellbeing partner, nudge. As well as providing personalised online financial wellbeing hints and tips, nudge worked with us to provide seminars covering topics including how to navigate the cost of living crisis. In 2023, we will continue to work closely with this provider to offer ongoing support to colleagues.

We know that wellbeing is closely interlinked with inclusion. To create an inclusive environment, our wellbeing and inclusion strategies are closely aligned. Both are delivered through colleague events (both in-person and online) and internal communications (such as newsletters) to encourage colleagues to take part in awareness sessions and discussions.

Building psychological safety, where colleagues feel comfortable to talk about difficult topics, has also been a key priority during 2022. Through communications and events, we tackled sensitive subjects, including menopause, male mental health, and testicular and prostate cancer.



With the support of an external specialist, we increased the number of colleagues in the UK trained as mental health first aiders, enabling appropriate representation for each UK business area. This has ensured these colleagues are able to provide support to the rest of the workforce. We have also continued our work to understand the appropriate offering for our North American colleagues. We are aiming to build on the energy and enthusiasm of our existing mental health first aiders to act as wellbeing advocates across our organisation, to support our wellbeing strategy.

Colleague representation and engagement

Engaging with our colleagues is a priority and starts with listening to, and better understanding, their views. Established in 2019, our My Voice Forums (MVFs) are a valuable way for the Board and senior management to undertake such engagement. The MVFs are made up of colleague members from each part of our business, to ensure representation for every function. A member of the Executive Committee and an HR representative support these forums and attend each meeting. The MVF chairs meet quarterly with the Chair of the Board of Directors and the CEO to discuss colleague sentiment and to provide feedback on key topics. You can read more about such Board-level engagement with the MVFs on page 109.

We regularly survey our colleagues to understand levels of engagement and inclusion, which helps us understand progress or areas of challenge in making Drax an inclusive and positive place to work. Our inclusion index is also one of the key metrics on our Scorecard – see page 147 for more information.

Based on the findings from our annual survey undertaken in October 2021, our engagement and inclusion scores have improved compared to 2021. The 2021 engagement survey highlighted that leading change, our social and environmental commitment, and providing opportunities for careers and development are what matter most to our colleagues. In 2022, our survey results showed that good progress has been made on leading change on and careers and development. However, there is more work to do to help build colleague understanding around our social and environmental commitments. This will be addressed through our community strategy and our work to improve transparency and reporting on our biomass sourcing.

Diversity, equity and inclusion (DE&I)

We are committed to a supportive, diverse and inclusive working environment, where employees can be themselves. Genuine inclusion that is reflected in the attitudes of those people within the organisation to being open to accepting, respecting and collaborating with people whose ideas and backgrounds differ from their own, drives diversity, which drives innovation. As the Group grows and increases our global footprint, we draw on the culture and heritage of the communities and countries where we operate. This supports our business for future growth and delivers on our purpose: to enable a zero carbon, lower cost energy future.



Diversity Data, gender balance

Board:

44% female

56% male

Senior career levels:

31% female

69% male

Sustainable Development continued

People Positive

Our My Voice Survey gives an insight into DE&I at Drax, and our Inclusion Index in 2022 was 80% – a 3% increase from 2021.

Our key activities in 2022 included the following:

- We focused on building an experienced DE&I team to drive our progress. The team undertook a review of our DE&I interventions globally and used this to enhance our DE&I strategy.
- We built the foundations for the launch of our four Colleague Resource Groups (CRGs) planned for 2023. Our CRGs will be a space for colleagues who are passionate about inclusion to support our inclusion goals, and for colleagues from marginalised communities to come together.
- We continued to roll-out our Inclusive Management Programme for managers. The programme uses immersive learning to build manager capability around inclusion, from understanding bias to having challenging conversations. By the end of 2022, over 180 managers had attended the programme, which is being rolled out to North America in 2023. Alongside this, we also launched our global 'We Belong' e-learning programme for all colleagues.
- In November 2022, we sponsored the POWERful Women Conference, focused on how the energy sector can build inclusive cultures and deliver on diversity goals. Twelve female colleagues from across Drax attended the conference and brought those learnings back to their own roles. Our partnership with POWERful Women has also seen us involved in their campaign to widen participation of women in the energy sector, and several colleagues from Drax will be featured in this campaign in early 2023. This is an important issue for Drax, and we support the aim to encourage more women to consider a career in energy.
- In 2022 we refreshed our self-identification project 'Count Me In'. The purpose of 'Count Me In' is to gain greater insight to the demographics of our colleagues, so we can make more informed and strategic decisions. By the end of 2022, 71% of our colleagues had completed the 'Count Me In' survey, and we will continue to take action to improve this.

Further information on diversity is available in the Corporate Governance Report, page 100

Levelling up and social mobility

Drax is at the forefront of bringing opportunities and growth to Yorkshire and the Humber – helping to work to a goal of creating thousands of jobs. Our most recent report, 'Capturing Carbon at Drax: Delivering jobs, clean growth and levelling up the Humber', shows how the Humber region could be the cornerstone of a green economic recovery by creating and supporting thousands of jobs.

- We are partnering with Selby College to develop the UK's first educational programme in carbon capture.
- We are part of the Zero Carbon Skills Taskforce.
- We are a signatory to the Social Mobility Pledge, committing to social mobility through outreach, access and recruitment.

Development and training

We are committed to developing new talent, providing our colleagues with the skills and capabilities to support them in fulfilling their career aspirations. In 2022, we delivered 2,352 total colleague training hours, and 12,415 digital learning hours using a blended learning approach. We have a proud history of investing in new talent by providing internships, graduate programmes, work experience and apprenticeships – our longest-running apprenticeship schemes at Drax Power Station were established almost twenty years ago. Since 2006 we have hired 186 apprentices in total and have held a 91% retention rate of apprentices completing the programme (compared to a national average of 57.5% in 2020/2021). Currently, in the UK we have 54 apprentices with another 63 colleagues working on apprenticeship qualifications in the business. We also have placements for interns and graduates.

In 2022, we launched our Senior Leadership Development offering, with 88 Senior Leaders who participated in 2022. Our senior leaders continue to participate in our Inclusive Leadership Programme, which supports managers in helping to improve diversity outcomes, and the course received 91% satisfaction feedback. We plan to expand our Inclusive Leadership Development programme in 2023 with participation by colleagues

Drax and Selby College regularly host Science, Technology, Engineering and Maths (STEM) events to inspire young people to enter careers in STEM. In 2022, over 170 Year 9 pupils from four different local schools took part in a range of fun and engaging STEM activities, introducing them to future skills, training, and employment opportunities. The event engaged analysts and engineers from Drax's graduate and apprenticeship schemes to lead some of the sessions, as a way to inspire the next generation and show them the career opportunities available to them.

in North America. Our high-potential Future Creators programme, launched in 2019 and designed to support the accelerated development, retention, and growth of our future leadership pipeline, continues to be successful. To date, 49 colleagues have completed it and 86% of all of the participants have either moved up a career level or moved into broader roles since joining the programme.

Community and charity

At Drax, we care about being a socially responsible business. By making a positive contribution to the communities in which we operate, and by supporting good causes, our intention is to play a part in helping to shape a better future for people living in areas which have a connection with one of our businesses.

As part of that work, we deliver charitable donations and employee volunteering initiatives. In 2022, Drax UK employees gave £14,422 and Drax UK gave £592,372 in donations, including through employee match funding, payroll giving, our community fund, community partnerships and fundraising days.

We offer employee volunteering days, providing one day of paid time per year to take part in volunteering activities. In 2022, 59 volunteering days were completed across Drax Group. Examples of employee volunteering included supporting primary schools, vaccine clinics, and refugee centres.

Being a good neighbour

Drax strives to be a good neighbour and is committed to playing a positive role in the communities in which it operates. Drax does this through a combination of community outreach initiatives and grant funding for local projects and programmes.

In 2022, Drax Group donated £843,561 to support 225 community initiatives (this includes the Drax UK figure of £592,372 on the previous page). For example, in the US we donated \$10,000 to environmental group Ouachita Green in Louisiana to support community improvement efforts in Ouachita Parish, close to our Monroe office. This donation supported projects such as planting oak trees to replace those damaged in storms.

In the UK, Drax Power Station donated £15,125 to Selby High School as part of a five-year programme to supply laptops to each annual intake of Year 7 pupils from low-income families. The pupils are able to use the laptops throughout their time at the school, increasing their access to technology to support their learning.

In Scotland, we have been supporting the Galloway Glens Landscape Partnership in and around the Water of Ken and River Dee. This project aims to connect people to their heritage and support modern, rural communities close to our Galloway Hydro Scheme to secure a prosperous future. For example, we conduct and participate in nature-related research trials and restoration projects, and support community events.

We have included a community section within the newly developed ESG dashboard. It measures our engagement with the community and will be used to evaluate our progress. In 2023, we intend to launch the new Drax Foundation to invest in our communities through multi-year funding for non-profit organisations. These organisations will deliver improved access to STEM education, skills development for underserved communities, or benefit the natural environment. We expect to work collaboratively with representatives from our local communities to create Action and Engagement Plans, to ensure we are listening and responding to local needs. You can read more about the Foundation on page 32.

Our Skylark Nature Reserve is a 500-acre site near to both the power station and the village of Barlow, Selby. It includes a woodland area, wildflower meadow and over 100 species of wildlife, including endangered species. Our Skylark team work with ecologists on conservation work and host visits from local schools.



Engagement with our suppliers

Our Buying teams and the Responsible Sourcing team manage our engagement with pellet suppliers to Drax Power Station. They work closely with the Industry Frameworks and Supply Chain Compliance and Business Ethics internal teams at Drax.

The Responsible Sourcing team's first line of engagement for biomass suppliers is through our Sustainability Data System. This questionnaire-based system assesses the risks associated with suppliers based on their answers. For most of our pellet suppliers at Drax Power Station, we also use Sustainable Biomass Program (SBP) certification (97% of volume in 2022 was SBP-compliant). This helps ensure the biomass we receive at Drax Power Station meets our requirements. For non-SBP wood pellet suppliers to Drax, we appoint third-party auditors. All biomass contracts supplying to Drax Power Station must

comply with the Drax Group Supplier Code of Conduct (covering issues such as human rights, modern slavery, anti-bribery and corruption and financial crime) and our sustainability requirements. A breach of these obligations can, if not corrected in a satisfactory manner, lead to the termination or suspension of a relationship.

We also commission independent risk reports to help us identify risks and establish mitigations that we can incorporate into our supply contracts. Beyond this, we are further developing our engagement with our pellet suppliers to Drax Power Station. These activities will include:

- Development of a supplier risk assessment
- Design and implementation of supplier scorecards
- Regular visits to each supplier's operational sites, and catch-up video calls
- Hosting webinars, open days, site tours, training and networking events
- Active participation in industry conferences and events

Ethics and integrity

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

Governance of Ethics and Business Conduct

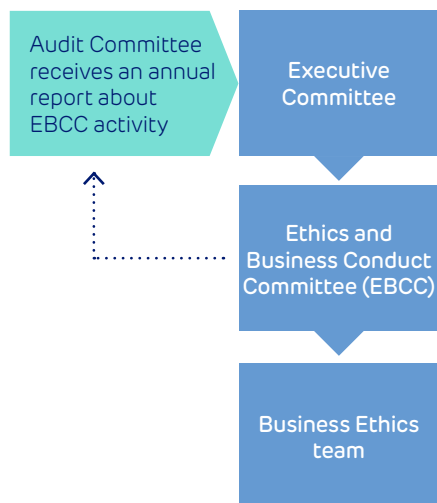
Everybody at Drax is personally responsible for ethical business conduct. Managers are responsible for demonstrating leadership on ethical matters and supporting their teams to apply our ethical principles.

Sustainable Development continued

People Positive

Business Ethics Documentation Framework

Our business ethics documentation framework consists of principles, policies, and guidance.



The **Ethics and Business Conduct Committee (EBCC)**, a sub-committee of the Executive Committee, oversees our business ethics programmes.

The EBCC comprises senior leaders, meets quarterly, and was chaired by the Chief Financial Officer during 2022 until November, when the Group General Counsel formally assumed this role following ExCom approval.

The EBCC serves as an escalation route for higher risk ethical decisions, which is supported by an agreed Escalation Protocol.

The Audit Committee provides an additional layer of oversight, receiving an annual summary on EBCC activity. It also receives quarterly updates on Speak Up reports.

Our Business Ethics team takes steps to understand our risk profile. The team also works on developing, deploying, and maintaining the associated policies, procedures, awareness raising communications and training materials. In addition, the team monitors and evaluates compliance and investigates potential breaches of policy. Our Internal Audit function provides assurance on the robustness of our programmes. Our Anti Bribery and Corruption programme was the most recent to be audited (in September 2022).

Drax Code of Conduct

The principles are set out in our Drax Code of Conduct (Drax Code), which outlines our approach of 'doing the right thing', and identifies the behaviours expected from employees and contractors on a broad range of topics, such as ethical behaviour, health and safety, and whistleblowing. The importance of complying with policies and guidance is integral to the Drax Code, which includes a series of embedded training videos. The consequence of failing to comply with the Drax Code is clearly articulated in the Code itself.

Business Ethics policies and guidance

Our business ethics policies and guidance relate to:

- Anti-Bribery and Corruption
- Anti-fraud
- Corporate Criminal Offences (Anti-facilitation of Tax Evasion)
- Fair Competition
- Financial and Trade Sanctions
- Human Rights
- Privacy
- Speak Up (Whistleblowing)

We reviewed each of these policies and the Drax Code in 2022.

A series of guides support the above policies. Some of these guides are subject-specific (for example, Fair Competition), others span multiple policies (for example, Ethical Due Diligence).

In 2022, the Drax Code, Anti-Bribery and Corruption Policy, Privacy Policy (and training), and a guide summarising all Business Ethics policies were deployed as mandatory reading to colleagues in Canada. This formed part of wider integration activities into the Drax Group Policy Framework. Other Group colleagues received annual eLearning refreshers on the Drax Code and Privacy. Additional training to certain 'at higher risk teams' was also provided throughout the year on other Business Ethics related topics.

As a result of our expansion and opening an office in Japan, integration planning activities for Drax Asia also commenced in 2022, with an employee handbook to be developed in 2023.

Employees completed Code of Conduct e-learning

99%

Employees completed an Annual Business Ethics Declaration

86%

Note: Excludes employees on long-term absence from Drax during the declaration period, and does not include colleagues based at our Princeton and Japanese sites who joined the business during 2022.

Drax Supplier Code

Our Supplier Code sets out the commitments and standards we expect from our third parties, and any subcontractors they use, in relation to working for Drax. The Supplier Code, which was reviewed and updated in 2022, includes details of how any third party can 'speak up' about a concern over non-compliance with the Supplier Code.

During 2022, we continued to roll out our Supplier Code to relevant third-party suppliers, incorporating it into the associated contracts by means of specific business ethics clauses (including a termination clause for serious breach).

We take a risk-based approach to ethical due diligence, with appropriate suppliers being subject to the relevant checks prior to on-boarding. Our due diligence system enables the continual monitoring (i.e., in relation to international sanctions, regulatory enforcement action and as relevant, negative media) of suppliers during contract lifecycle. When concerning alerts are raised, they are investigated and, where appropriate, escalated to the Ethics Business Conduct Committee (EBCC) for consideration.

Business Ethics programmes

Supply Chain Human Rights (SCHR)

Drax has been a signatory of the UN Global Compact (UNGC) for five years and has embedded the ten principles of the Compact through our policies, culture, and ways of working. We also participate in the UNGC's Modern Slavery Working Group.

We set out our human rights commitments in our Human Rights policy, the Drax Code, and our Supplier Code. Our Human Rights policy and codes are publicly available.

We have a long established cross-departmental SCHR Working Group, which reports quarterly to the EBCC. You can find more detail about the activities of the Working Group in our Modern Slavery Statements.

Anti-Bribery and corruption (ABC)

We have a zero-tolerance approach to bribery and corruption. Our ABC programme is based on 'Adequate Procedures' guidance published by the UK Ministry of Justice and the EBCC oversees it (along with all other business ethics programmes). In 2022, our ABC programme was subject to internal audit, with controls deemed to be appropriate and working effectively to manage risks. This aligned to the internal risk assessment that was conducted in 2022. In 2023, we will be focused on addressing the due diligence related recommendations from the audit.

Fair competition

We are committed to conducting our business in accordance with all applicable fair competition laws and have adopted a zero-tolerance approach to any anti-competitive behaviour or activity. Our Fair Competition programme now covers UK competition law, US anti-trust law and Canadian laws, and includes mandatory e-learning for 'at higher risk' teams. During 2022 we engaged lawyers to provide an external risk assessment of the programme which they deemed as satisfactory ('green' traffic light rating).

Data privacy and security

The Data Protection team manages our Privacy programme. We take seriously the privacy and security of the personal data we control, working closely with our people, customers and third parties.

In 2022, the Data Protection team completed the annual review of policies and notices to confirm they remain in line with prevailing legal and regulatory requirements. The updates encompassed new jurisdictions where the group operates (i.e., Canada and Japan).

During 2022, 14 reports raised across internal and external Drax channels were managed under the Speak Up programme.



We listen carefully

New system improvements were implemented to third-party onboarding for Data Protection and Information Security Due Diligence in the UK, with plans to roll out across other jurisdictions in 2023. These changes provide that contract assessments take place on the inclusion of the correct clauses supplied to the Procurement team. Other improvements include refresher training on data protection topics, improved working practices with the security function, and continued education within the Data Protection team.

Data Protection investigations into potential data breaches were investigated in a timely manner, with good support from operation teams. In some cases, timely resolution included sending a notification to relevant authorities if necessary (such as the Information Commissioners Office).

Individual rights requests from customers and employees were processed within required timescales, along with requests made by appropriate authorities (such as the Police).

Speak Up (whistleblowing)

We are committed to transparency, openness, and continuous improvement. We encourage those working for and on behalf of Drax, and our third parties, to raise genuine concerns (via our reporting channels) about practices that could breach laws, regulations, or our own ethical standards.

Drax has a zero tolerance of retaliation or victimisation. We have processes in place to apply appropriate consequences should an individual retaliate against, or victimise, a reporter in any way.

Of the reports raised (or carried over and closed out) in 2022 and considered by the Board, several related to safety standards and practices. Concerns were also raised about inclusivity and standards of behaviour.

The Board sought action by management to address the matters raised, where substantiated, in addition to an assessment of the underlying causes. This involved Non-Executive Directors participating in additional discussions with management on potential initiatives and programmes.

Four matters raised in 2022 remain under investigation at the time of this report.

For more information, please see the [Corporate Governance section on page 100](#).

Corporate Criminal Offences (CCO) (Anti-facilitation of Tax Evasion)

Our ethical due diligence and payment procedures have been set up to facilitate the conduct of business which is compliant with applicable tax laws. These procedures are subject to regular internal audit.

In 2022, we aligned our documentation for Canadian colleagues.

Financial and trade sanctions

Our ethical due diligence and contracting processes include the consideration of financial and trade sanctions risk. Risk-based monitoring of counterparties is also in place. An assessment of the Financial and Trade Sanctions policy programme in the second quarter of 2022 found the controls to be appropriate and working effectively.

There was heightened sanctions-related activity in 2022 due to the Russian invasion of Ukraine. The Financial and Trade Sanctions policy, coupled with the work of our Business Ethics and Legal teams, supported an effective response.

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) and this report forms our UNGC Communication on Progress. 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 on our website.

Sustainable Development continued

People Positive

Non-financial information statement

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	40
		Carbon emissions	61
		Nature Positive	63
		Environmental management	50
Labour	Employees	Code of Conduct	72
		Supplier Code of Conduct	72
		Group Safety, Health and Wellbeing policy	67
		Human Rights policy	
		Gender Pay Reporting	
		Safety, health and wellbeing	67
		People, culture and values	105
		Community and Charity policy (internal policy)	
		Positive social impact	66
		Supplier Code of Conduct	72
Human rights	Respect for human rights	Human Rights policy	
		Modern Slavery Act statement	
		Ethics and integrity	71
		Code of Conduct	72
Anti-corruption	Anti-corruption and anti bribery matters	Anti-Bribery and Corruption policy (internal policy)	
		Ethics and integrity	71
		Business model	8
		A description of the Company's business model	
	A description of the principal risks	Climate-related financial disclosure	52
		Principal Risks and Uncertainties	90
	A description of the non financial key performance indicators	Remuneration committee report	127
		ESG data supplement 2022 – Drax website	



ESG Summary – ratings

A complete summary can be found in our ESG Supplement on the Drax website

B

CDP Climate Change

In 2022, Drax Group plc received a score of B (on a scale of F – A) in the Climate Change. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Please see the CDP website for further details.

B

ISS:

As at 21/02/2023, Drax Group plc has a ISS Corporate Rating of B- Prime (one a scale of D- to A+). Corporate Rating prime status is awarded to companies with an ESG performance above the sector-specific Prime threshold.

B

CDP Forests:

In 2022, Drax Group plc received a score of B (on a scale of F – A) in the CDP Forests. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Please see the CDP website for further details.

62

Moody's:

In 2022, Drax Group plc received a score of 62 from Moodys ESG Solutions (on a scale of 0 to 100, with 100 being the highest score).

AA

MSCI:

In 2022, Drax Group plc received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. The use by drax group plc of any MSCI ESG research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Drax Group plc by MSCI. MSCI services and data are the property of MSCI or its information providers and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI.

25.9

Sustainalytics:

In 2022, Drax Group plc has a Sustainalytics ESG Risk Rating of 25.9 (on a scale of Low Risk 0 to High Risk 100).

Viability statement

In accordance with the UK Corporate Governance Code, 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 was also provided on longer-term risks.

Assessment period

The Board determined to conduct this assessment over a period of five years (2021: five years) considering:

- The Group's Business Plan (the Plan) which is prepared annually, updated three times during the year and 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 and this time period receives specific focus from the Board.
- 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. Selecting a five-year period balances short-term market liquidity whilst including medium-term contractual positions.
- The Group benefits from the stable and material earnings stream available from current subsidies until 31 March 2027. In the period beyond current subsidies the viability modelling assumes that Drax Power Station runs on a merchant basis.
- A significant proportion of the Group's debt facilities mature in this period, with 91% maturing in the 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 note 2.4 to the Consolidated financial statements.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 77 to 91 have been considered over the viability assessment 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 impacts were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process.

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.

Relevant principal risks

The principal risks with the potential to exert significant influence on viability are considered to be: trading and commodity, political and regulatory, biomass acceptability and plant operations. A significant adverse change to the status of each risk has the potential to place material financial stress on the Group. As described on pages 77 to 91, some of these risks have increased during 2022, as market conditions and commodity prices have continued to be highly volatile.

A summary of the scenarios modelled can be seen below. In addition to modelling the impacts on a standalone basis, severe but plausible scenarios that included a combination of unforeseen plant outages, adverse movements in commodity prices and reductions in subsidy income were 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 52), and in our impairment analysis, suggests that climate change does not currently present a significant threat to viability on a net basis, notwithstanding the changes noticed by the business in weather patterns, as noted in the review of principal risks on page 77.

The most likely way in which climate change risks could manifest is through a failure in plant operations, either in the Pellet Production or Generation businesses. The impact of these scenarios is included in the analysis as noted in the table below and further information is contained within note 3.8 of the financial statements.

The outcomes of this analysis indicated that the Group would be able to withstand these scenarios without compromising upon its ability to meet liabilities as they fall due. This is further considered in the 'Review of financial forecasts' section below.

Principal risk	Description of scenario modelled	2023 impact >20% of opening cash and committed facilities?
Trading and commodity	50% power price downturn	No
Political and regulatory/ biomass acceptability	Zero ROC recycle value after CP22	No
	20% increase in biomass costs to produce	Yes
Plant operations/ Climate change	+10% increase in biomass forced outage rate	Yes
	90-day outage on ROC unit (in 2023)	Yes
	Failure of a large supplier to deliver	Yes
	Pellet production volume decrease of 7%	No
Severe but plausible case	Combination of the scenarios above	Yes

Viability statement continued

Consideration of other risks

The remaining principal risks, including transitional impacts of climate change, were considered and were not deemed to present a significant threat to viability over the assessment period. The impact of increased expenditure or a loss of margin as a result of one of these risks (e.g. a cyber attack resulting in disruption to planned generation) can be inferred from the scenarios already modelled.

If the Group is not successful in achieving 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.

Longer-term risks

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

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 because of supply chain disruptions. 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. However, climate change also provides companies with an opportunity. For more information on climate-related risks and opportunities, please read the TCFD section on page 52.

Failure to deliver on our strategic objectives could also pose a threat to the Group over the longer term. The achievement of these objectives is forecast in the period beyond the assessment period. The models used to assess viability are based on the analysis required by IAS 36, and therefore exclude enhancement capital expenditure and the associated cash inflows. An example of such inflows and expenditure is for future BECCS projects.

If returns achieved from strategic 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 each initiative, in line with our long-standing disciplined approach to capital allocation.

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 January 2023. It is built by business unit 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 targets 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 earnings of the biomass generation units, albeit these reduce in the model at the end of current subsidies in early 2027. The impact of the Energy Generator Levy announced in November 2022 has been considered when preparing financial forecasts and sensitivities.

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 'severe but plausible' 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 to be an aggregation of incidents either in a short timeframe or repeatedly during the period. Further detail is contained within the 'Relevant principal risks' section above.

The severe but plausible case considered the impact on earnings, cash flow and net leverage resulting from incidents including unexpected generation (+10% increase in biomass forced outage rate) 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 significant, they indicated that the Group should continue to operate within the covenant restrictions of its financing arrangements and would have sufficient cash to meet its liabilities as they fall due. The final column of the scenarios table indicates the scale of the impacts.

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 Group's ability to trade effectively in volatile markets, use of existing committed facilities, the Group's insurance arrangements and reductions in other expenditure.

Availability of adequate funding

The Group's current borrowings are set out in note 4.2 (page 224). The Board expects these facilities, along with cash flows generated, to provide adequate levels of funding to support the execution of the Group's Plan.

Facilities totalling c. £1.2 billion, excluding RCFs, mature during the assessment period. The base viability assessment assumes that these are repaid as they fall due or prior to that, predicated on no strategic enhancement expenditure being included in the model, as discussed above. In the severe but plausible case the facilities are forecast to be extended based on expected rates achievable in the current environment.

At 31 December 2022 the Group had total cash and committed facilities of £698 million, see note 2.7 on page 208. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the assessment period under a range of scenarios.

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

Expectations

Based on its review, the Board is satisfied that viability would be preserved in a range of scenarios, with various mitigating actions available to manage the risk, should they be required.

Taking all of the above into account, the Board has 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 of the potential challenges in the 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 identify and manage all key risks in accordance with policies and processes approved by the Board.

Risk appetite

The risk appetite is the level of risk that the Group is prepared to tolerate in seeking to realise its business objectives. The Board determines the risk appetite of the Group to ensure the potential impact of both current and emerging risks is considered and appropriately managed, to increase the likelihood that the Group's business objectives can be achieved, whilst seeking to minimise the threat of adverse impact to the financial and operational performance and the prospects of the Group.

Risk appetite therefore informs the expected behaviours from our Board, senior executives, colleagues, contractors, and partners. This 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, the extent to which the risk is foreseeable and the potential benefits to the Group and its stakeholders.

Some parts of the Group's operations reflect high inherent risk while also providing the opportunity for potential commercial gain. For example, trading in commodities, where 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. We deploy forward hedging strategies which seek to manage the volatility of commodity prices

to help limit the Group's exposure to the uncertainty of future adverse swings in commodity prices, whilst also acknowledging that this same market volatility provides an opportunity for financial returns. This is an area of risk which experienced material change in 2022 and we explore the issues and challenges associated with this risk on page 87.

The risk management approach reduces, rather than eliminates, the risk of failure to achieve business objectives, and provides reasonable, but not absolute, assurance against material misstatement or loss. For example, in recent years the business has become increasingly aware of changes in weather patterns which, alongside other climate-related risks, have become more impactful on our business. As a result, we continue to recognise a Climate Change Principal Risk. Through our analysis of the underlying climate 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.

Risks are assessed on a gross basis, a net basis after mitigating controls have been considered, and a target risk level reflective of the Group's risk appetite.

Drax Group plc Board		Audit Committee
Group Executive Committee		
First line of defence	Second line of defence	Third line of defence
Management of Risk Controls	Develop a Risk Management Framework	Internal Audit
Internal Controls	Provide Independent Oversight of Risk	Independent Assurance of Risk Management Framework
Management Controls	Compliance	

External audit

Principal risks and uncertainties continued

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 the Group's risk management committees who have responsibility for:

- Regularly assessing and understanding the risks that may impact our business to ensure any new, current or emerging risks are managed within the defined risk appetite and limits of the business.
- Reviewing changes in the internal business and external macro environment and responding appropriately.
- Driving completion of the actions required to improve the mitigation of risks and where possible 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 subject matter specialists and risk owners reflecting their technical knowledge. The Executive Committee undertakes deep-dive reviews of all the Principal Risks through an annual cycle and receives reports from the risk management committees and Principal Risk owners. Under the guidance and challenge of the Audit Committee, management undertake a process that targets continuous improvement with regards to risk management including a quarterly update being provided at each Audit Committee meeting on proposed enhancements. During 2022, as part of their annual internal audit plan, KPMG completed a maturity assessment of the Group's risk management framework as a result of which no high priority actions were identified.

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 detailed in the diagram below:



Identification

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

Assessment

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

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

Governance

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

Monitoring and Reporting

The Executive Committee undertake deep-dive reviews of each Principal Risk on an annual cycle and receive reports from the risk management committees and Principal Risk owners.

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

Emerging Risks

In addition to these reviews, risk owners, risk management committees, the Executive Committee, and the Board undertake holistic reviews to identify emerging risks and consider the appropriate response. This involves judgement and is undertaken through gathering the views of key internal stakeholders including the Executive Committee and Board members who bring to bear significant levels of technical knowledge, industry experience and economic awareness. Where appropriate, this may also involve the views of external experts or stakeholders. For example a review of the Group's physical climate risks was undertaken by Atkins, a third party consultant, during the year.

As a result of this, a new emerging risk was identified – the significant levels of construction which will be required in future periods to deliver strategic objectives. In addition to ongoing capital expenditure on the OCGT projects, and investment in the expansion of existing and new North American pellet plants, the business is approaching a pivotal point in relation to options for BECCS development, and the risks relating to physical execution are becoming more important. Whilst work continues to ensure an economic business model can be established for UK BECCS, as outlined further on pages 16 and 82, initial preliminary works to enable the project at Drax Power Station are commencing.

This exposes the Group to new risks associated with the execution of a significant programme of work, dependent on supply chains, availability of skills in the labour market, and the other operational and safety risks associated with large scale construction. As a result, the key controls in operation to mitigate these risks are undergoing review to ensure they are sufficient and effective. In conjunction with this, the level of assurance obtained over the design and operation of these controls is also being considered. As these projects progress through 2023, 2024 and 2025, and final investment decisions are expected to be taken, the Board will consider whether this represents a new Principal Risk to the Group.



Vanessa Simms,
Audit Committee
Chair

On behalf of the Board, the Audit Committee reviews the effectiveness of the system of risk management and internal control. The Committee takes a keen interest in understanding the evaluation of the Group's Principal Risks, to ensure that internal controls remain appropriate and that the Group's overall exposure to risk aligns with the Board's risk appetite.



You can read more about how the Committee oversee Principal Risks on pages 116 to 126.

Internal control

The Group has a well-defined system of internal control, supported by policies and procedures, documented levels of delegated authority which support decision-making, and accountability by management across the Group. These internal controls operate as important mitigations of the risks identified via the Group's risk management processes. Therefore, the effective design and operation of these key internal controls is critical to the achievement of the Group's strategic aims.

Management maintain an assurance map assessing the level of assurance obtained for each of the Group's Principal Risks across the various lines of defence, as shown on page 77. This enables the Audit Committee to debate and challenge whether sufficient assurance is in place over the Group's system of internal control. Where a risk is identified as having emerged or increased, the level of assurance obtained over the respective mitigating controls may need to be enhanced in response. For example, the identification of capital construction as an emerging risk has led to the inclusion of an internal audit addressing BECCS readiness in the 2023 internal audit plan.

The Audit Committee approves and implements a programme of internal audits covering various aspects of the Group's activities. Refer to page 126 for further information. This programme evolves, based on an assessment of the key risks of the Group.

The majority of internal audits are performed by KPMG, who provide a fully outsourced internal audit function to the Group, reporting to the Audit Committee. For specialist areas, an expert auditor is employed such as the use of DNV to undertake internal audits in respect of Health and Safety. The findings and recommendations from each internal audit are distributed to members of the Executive Committee and the Audit Committee as a whole. Each report includes management's responses to the findings and recommendations, and details of the actions that management propose to take. At each monthly meeting, the Executive Committee considers the status in responding to and closing recommended actions.

In addition, the Audit Committee receives a quarterly update report on the status of the internal audit plan and any recent findings. Internal audits are augmented by additional internal control checks which are performed by operational management, and which are considered by senior management and the Audit Committee.

Where weaknesses are identified, these are investigated and the impact on the business is identified, with remediation actions established. This is also reported to the Audit Committee. None of the findings reported during 2022 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 2022, and considered at the meeting of the Board held in finalising the Annual Report and Accounts in February 2023, 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 pages 116 to 126.

Principal risks and uncertainties continued

Overall risk assessment

The Group has identified nine Principal Risk categories which have the potential to have a material adverse impact on the operational or financial performance of the Group. These and other key risks are assessed within an established programme by which management, the Executive Committee and the Board consider how risk and the Group's ability to respond should evolve.

The Board continued to perform a robust assessment of Principal and emerging risks. As part of its year end processes, the Board considered reports from management reviewing the Principal Risks and uncertainties, and how these had evolved during the second half of 2022. This review took account of the ongoing Russia-Ukraine conflict, the volatility in the energy market and the potential impact on future energy strategy. Thought was also given to the cost of living crisis and associated government responses such as the Energy Bill Relief Scheme and Electricity Generator Levy, as well as the agreement reached with National Grid to make our two coal-fired units at Drax Power Station available to operate as a winter contingency until the end of March 2023. All of these areas are discussed in further detail below.

The threat of cyber-attack is evolving, and managing this risk requires careful understanding and assessment of the threat. Geopolitical tensions have in the past been known to result in increased cyber related incidents, and the Russia-Ukraine conflict is considered to have increased the Group's risk exposure to attacks, state-sanctioned or otherwise, on our systems. Despite the significant work and investment undertaken to further enhance security over our systems, this heightened external risk environment poses an increased cyber risk which may result in operational and financial impacts and regulatory non-compliance.

Consistent with the view communicated in Drax's 2022 Half Year Report, increased energy prices expose the business to a heightened financial cost should an unplanned outage occur on a plant, as the business would incur the cost of a significantly heightened market price to buy back the volumes contracted but undelivered. Whilst we do not believe the integrity of the Group's plant and machinery, and therefore the likelihood of an outage, has increased, the financial impact of such an occurrence has increased and could have a material impact on the Group's results.

The two material increases in risk noted above are discussed further below under 'Cyber-security' and 'Cost of living and energy market conditions'. Additionally, the Information systems and security and Trading and commodity risk disclosures on pages 91 and 87 respectively, provide detailed descriptions of the risk, impact and key mitigations associated with both threats.

Despite there being some further, less significant, increases in the Group's other Principal Risks, as discussed further below, the Board is satisfied that the Group's remaining Principal Risks are materially unchanged.

Russia-Ukraine conflict

Russian forces invaded Ukraine in February 2022, which not only created a humanitarian crisis but led to extensive economic impacts felt across the globe, leading to potential risks to the business summarised below:

Biomass pricing and availability

The conflict is testing global supply chains and reinforces the importance of resilience in the Group's biomass sourcing processes. As the volume of Russian and Belarusian biomass purchased by the Group has historically been very low, this line of sourcing was ceased with no significant impact on the Group's ability to achieve required future biomass volumes.

However, a secondary impact on the Group's indirect supply chains has been upward global biomass pricing pressures, as suppliers faced increased costs to procure fibre due to market shortages and inflationary pressures. The impacts of higher biomass prices are largely mitigated by our long-term hedging strategy which ensures a high proportion of the contracts in place have agreed pricing out to 2027. In addition to remaining vigilant to biomass pricing pressure, the ability of our suppliers to fulfil contracted volumes continues to be closely monitored to respond to market developments, including the impact of fibre market shortages resulting from the Russia-Ukraine conflict.

Cyber-security

The Board believes the Russia-Ukraine conflict has increased the Group's risk exposure to attacks on our systems, and those of suppliers on whom the Group relies for integrity of service. This view is supported by our engagement with a range of third parties in addition to publicly available information. The Group's Security and IT teams have conducted a thorough risk assessment of our externally facing infrastructure and have implemented a robust critical patch regime as a result of this heightened cyber-security threat. The Group also has regular updates with its regulators which allow it to assess and calibrate the level of security risk. Whilst the Group's response to the heightened risk has been robust, it is acknowledged that cyber-attacks are continuously increasing in sophistication and complexity, requiring constant assessment and response to address any vulnerabilities on an ongoing basis. Therefore, whilst actions in respect of this increasing threat have been undertaken, we recognise the scale, pace and nature of exposure also continues to evolve and responding immediately with commensurate mitigations may not always be possible.

Market volatility

The Russia-Ukraine conflict has also contributed to widespread energy market volatility and concerns over the security of supply due to the restriction of Russian gas. The resulting commodity price increases and extension of the availability of the Group's coal assets are discussed further on pages 81, 87 and 90.

Cost of living and energy market conditions

During the second half of the year, in common with other economies, the UK continued to experience increased pressure on the cost of living due to high inflation. It is expected that inflation will continue to outstrip the increase in average incomes over the coming months. Energy market pressures also continued into the second half of 2022, becoming a more sustained energy price increase. In response to this, in order to provide support to our colleagues through this challenging period, we accelerated the Group's annual pay review process by three months to take effect in January 2023. You can read more about this on page 130. These economic conditions, as well as the UK Government's response to them, create the following risks to the business:

Cash collection

We recognise that the inflationary pressures from rising commodity prices, including power, are providing challenges to consumers and in some cases causing hardship. In September 2022 the UK Government announced the Energy Bill Relief Scheme (EBRS) to support UK businesses and other non-domestic energy users by protecting them from increasing energy costs and providing them with certainty over winter energy costs. Price caps have been applied to UK customer bills from 1 October 2022 and from 1 April 2023 the EBRS will be replaced by the Energy Bills Discount Scheme (EBDS), which has been confirmed to be in place until March 2024.

We continue to monitor how wholesale power price increases are feeding through to end consumers in our Customers business. By building on the actions taken during the Covid-19 pandemic, we aim to support our customers during this challenging time by working to provide payment plans where necessary. We remain alert to the possibility that this may have an impact on our customers' ability to pay their bills, resulting in a potential financial impact of bad debt or delayed payments.

Market price volatility

What initially appeared to be temporary energy price volatility resulting from short-term pressures on supply at the start of 2022, became a more sustained energy price increase. As noted on page 87, energy price volatility exposes the Group to an increased financial cost should an unplanned outage at Drax Power Station occur. We believe that this risk is most appropriately managed through holding back a proportion of capacity as a mitigation. This would enable energy contracts to be fulfilled by an alternative unit should an unplanned outage occur. Price increases in the forward market can also present challenges in respect of liquidity and credit, requiring careful management of both ongoing exposures and collateral requirements.

Continued availability of coal-fired units until March 2023

In July 2022 the Group confirmed that, at the request of the UK Government, it had entered into an agreement with the National Grid to make our two coal-fired units at Drax Power Station available to operate as a winter contingency to the UK power system until the end of March 2023. The units will only operate if and when we are instructed to do so by the National Grid. Whilst this means prolonging the UK's dependence on fossil fuels, which is not aligned with the Group's strategy, we recognise that as part of the UK's critical national infrastructure, we play a key role in providing security of energy supply and take this responsibility seriously. Some of the Group's facilities and equipment relating to coal-fired generation are classed as ageing assets, given Drax Power Station was built approximately 50 years ago. Continued operation of these assets therefore brings operational risks in maintaining the availability of assets to fulfil a request to operate. The Group is also cognisant that the extended use of the coal-fired units could increase the threat of disruption to the Group's operations and supply chain from protester action. Before committing to extending the availability of the coal-fired units, a thorough assessment was undertaken to ensure these potential risks could be sufficiently managed to an acceptably low level. In assessing whether to make the units available, and after careful consideration, it was determined that a six-month extension was not expected to impact on the timing of a final investment decision or intended commissioning date for the UK BECCS project. Site preparation works for UK BECCS are ongoing and will accelerate following formal closure of the coal units in March 2023.

Energy market reform

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. Global economic challenges and volatility in commodity markets have created the potential for an accelerated timeline of political and regulatory reform, as governments and regulatory bodies seek to ensure fiscal policy and regulation, including regulation surrounding biomass, remains fit for purpose.

The UK Government has opened a consultation on Review of Energy Market Reform (REMA), however it currently remains unclear the scale of the impact of any such reform. As part of their response to current heightened energy prices, the UK Government announced an Electricity Generators Levy, which will apply to the Group's hydro run-of-river and biomass generating assets under the Renewable Obligation scheme from 1 January 2023 to 31 March 2028. Refer to page 13 for further information.

Credit availability and liquidity

We are exposed to spot and forward commodity prices. High volatility may impact Drax's ability to access the market as it presents challenges in respect of liquidity and credit. This requires careful management of both ongoing exposures and potential collateral requirements under a range of scenarios. This could result in a reduction in Drax's forecast hedge levels in future years, and less certainty over forecast earnings.

Set out below are the Group's nine Principal Risks:

- Strategic
- Health, safety and environment
- Political and regulatory
- Biomass acceptability
- Trading and commodity
- People
- Climate change
- Plant operations
- Information systems and security

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Strategic risk

=

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. The Group has three strategic aims that underpin its purpose and ambition as detailed in the Group's business model on page 8. 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.

In 2022 the business established a strategy execution team that monitors the delivery of strategic initiatives and mitigates risks. A quarterly review is undertaken by the Executive Committee to gauge its confidence in delivery and determine the actions to be taken should course correction or additional risk mitigation be required.

Strategic pillar: To be a global leader in sustainable biomass pellets

Achieving a leading position requires delivering and growing our own production, at a sustainable economic cost whilst ensuring our sustainability requirements are met.

The primary objectives are to increase biomass production capacity to 8Mt p.a. and to continually improve the biomass pellet supply chain to maintain pellet costs at a sustainable economic level.

Risk and impact

- 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 fibre.
- There is the risk that biomass does not have stakeholder support in our target markets (for example, government, investors, economic and social) leading to a lower rate of adoption than our strategic plan assumes.

Key mitigations

- Continued execution of the integrated plan to expand biomass production capacity and maintain the cost of sustainable biomass pellets at an economically sustainable level.
- The adoption of the development and execution of a medium to long-term fibre strategy as a strategic initiative.
- The identification and management of biomass acceptability as a Principal Risk as detailed on page 86.

Strategic pillar: To be a global leader in carbon removals

As a key part of our long-term strategy, Drax is developing options for Bioenergy Carbon Capture and Storage (BECCS), as a form of carbon removal. We believe BECCS could offer significant long-term value creation opportunities, in addition to being a key part of enabling not just Drax but the UK and other countries to reduce carbon emissions. To be a leader in the emerging carbon removals market, Drax is working to deliver the BECCS project at Drax Power Station and also deliver BECCS globally. This requires the development of an economically attractive business model within its target jurisdictions.

Risk and impact

- There is a risk that current or future governments do not provide the fiscal and legislative framework required to support the scale of the BECCS programme and Drax's future investment decision. This could result in the potential impairment of £24.5m of capitalised UK BECCS development costs as detailed further under critical accounting judgements on page 178.
- There is a risk that an economic business model for BECCS cannot be established, 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 sufficient scale to achieve a leading position.

Key mitigations

- Drax has established and is delivering against three strategic programmes:
 - Development of options for its UK BECCS project at Drax Power Station, and engagement with UK Government and other stakeholders to secure the right commercial model to support it. Refer also to Political and Regulatory risk on page 85.
 - Development of options for BECCS projects in other jurisdictions.
 - The proactive development and sale of carbon removal products and standards.
- These programmes build on Drax's competitive advantage, support the development of a scalable carbon removals business, and reduce the reliance on a single market and commercial model. Emerging risks associated with the development of these programmes include construction risks, referred to on page 79.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Strategic risk continued

Strategic pillar: To be a UK leader in dispatchable, renewable power

To maintain the position as the 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.

Risk and impact

- There is a risk that our asset portfolio is not appropriately valued by the market, is excluded from effective participation in power markets, or might be out-performed by a future technology.
- There is a risk that Drax Power Station does not receive the right economic support post 31 March 2027 with respect to the dispatchable renewable power that it provides.
- There is a risk that unexpected changes to electricity supply and demand could reduce both demand and volatility, and therefore limit the market for dispatchable renewable assets.

Key mitigations

- We maintain and invest in our market modelling capability and embed it into planning, option assessment and test and/or cross check against third-party scenarios.
- We continue to actively engage with relevant UK Government departments and regulators in relation to a range of matters associated with power market design, and the role of dispatchable renewable generation.
- 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 outlook for the market and emerging technologies.

Strategic enabler: Capital

Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required, whilst maintaining a corporate credit rating in the BB range, to support power trading and B2B energy sales to Customers.

Risk and impact

- There is a risk that the Group is unable to raise sufficient finance to fund the ongoing business or remain compliant with existing financing agreements due to poor performance, illiquid capital markets or poor credit rating leading to lack of investor appetite for the Group's credit and/or equity.

Key mitigations

- The Group's financial position including working capital and cash resources is strictly controlled.
- We continue to run a full investor relations programme, covering equity and debt markets.
- The Group's capital allocation process 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.
- We have reviewed the impact of the Electricity Generator Levy on our capital strategy and have not identified a materially increased risk.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Health, safety and environment

Context

The health and safety of our employees and contractors, and effective management of our environmental impact remain priorities for the Group. 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. 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 maintain high standards supported by a positive culture of safe working. We seek to respond proactively to emerging legislation and regulatory changes in both safety and environmental aspects.

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 the UK in the manufacture, storage and transportation of biomass pellets, and the generation of electricity from different sources, including biomass and hydro. Refer to page 90 for more information.
- As we enhance and expand our safety reporting to include populations such as contractors, our TRIR has the potential to increase while appropriate mitigations are fully embedded with new workers on operational sites.
- The biomass we use to generate electricity, and the particulates that can occur if the biomass pellets degrade, are highly combustible.
- In the generation of electricity, supplied to the National Grid at up to 400kV, we operate various plants at high temperatures and pressures, as well as managing significant volumes of water used by our nine hydro plants in Scotland (for example, 79.4 billion gallons at Cruachan). These are inherent attributes of our operations which contribute to Health, Safety and Environment (HSE) risk.

Key mitigations

- Continued investment in safety equipment, environmental mitigation, and plant equipment and its regular maintenance.
- Maintaining robust management systems which are subject to periodic review, and are refreshed as appropriate.
- Careful management of the production, preparation, storage and transportation (whether within our sites, ports, or in transit between sites) to minimise the risk of fire or explosion.
- Integration of all assets into a new HSE system across all our pellet operations.
- Effective governance framework including an executive-level Group HSE Committee, chaired by the CEO, to review and challenge the management of HSE across the Group.
- 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 the status of key HSE matters.
- Development of plans to align all business units on key focus areas to drive improvement in our HSE performance, whilst building upon the existing 'One Safe Drax' vision.
- Implementation of a new Health, Safety, Environment and Quality (HSEQ) IT system for tracking and reporting events and near misses, prompt investigations, and timely implementation of corrective actions by directing attention and encouraging continuous improvement.
- A programme of training, which aims to provide colleagues with an appropriate level of competence, enabling them to contribute to the effective management of HSE risks.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Political and Regulatory

Context

During 2022, the focus of the UK Government turned to the situation in Ukraine, the cost of living crisis, and energy security. Generation from biomass has continued to play a crucial role in UK energy security, and the case for the future role of BECCS in supporting UK energy independence and its net zero ambitions has strengthened. However, the Group remains conscious of the ongoing discussion associated with biomass (refer to Biomass Acceptability Principal Risk on page 86) and the need for further commitment and financial support from the UK Government, and other critical partners, in order to deliver the decarbonisation of UK power generation and enable the Group to realise its negative emissions strategy. Global economic challenges and volatility in commodity markets have created the potential for an accelerated timeline for the UK Government's continuing review and reform of the detailed legislation and regulation that underpins the electricity market. In 2022, this included launching REMA, announcing the Energy Prices Guarantee and the introduction of the Electricity Generator Levy (EGL). January 2023 also saw the launch of the UK Government's Capacity Market consultation, seeking views on proposed reforms to strengthen the security of supply and provide greater clarity around the transition to net zero.

Internationally, the Group is entering new markets which increases its regulatory obligations and compliance challenges. This includes reviews of sustainability standards in the Group's key markets including Canada and Japan; sales of pellets into Asian markets; and the opening of an office in Japan to support these activities. Furthermore, we remain alert to the changing geopolitical landscape which could continue to impact the global energy sector.

Risk and impact

- The invasion of Ukraine by Russian forces means the Group is no longer willing or allowed to access Russian and Belarusian biomass. Whilst the historically low volumes of Russian and Belarusian material purchased by the Group means this had no significant impact on the Group's ability to source biomass, it has led to upward pricing pressures due to market shortages and associated inflationary pressures. The global biomass markets have been and are expected to remain volatile both in terms of pricing and availability.
- At the request of the UK Government, the Group entered into an agreement with National Grid to make the two coal-fired units at Drax Power Station available to operate as a winter contingency until the end of March 2023, in response to concerns over security of supply. There is a risk that the UK Government asks the Group to extend the availability of its coal operations beyond this date, which, were it to be enforced, could materially and adversely impact the Group's renewable energy reputation and also potentially delay the timetable for UK BECCS.
- The cost of living crisis, compounded by the effects of Covid-19, is having an impact on social and economic policy as well as UK Government funding. Whilst public and political pressure to respond to the threat of climate change remains strong, it has been impacted by a reassessment of investment priorities and resulting changes to UK Government fiscal policy. This has resulted in delays to the introduction of new legislation to deliver investment frameworks that support reducing carbon emissions. This could adversely impact the investment needed to support BECCS, which may result in material delays in the ability to realise Drax's strategy around carbon removals.
- 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; changes to electricity market structure and the launch of the REMA consultation; network access and electric charging arrangements; environmental regulation (refer to Biomass Acceptability risk on page 86); wholesale market arrangements including impacts on liquidity (refer to Trading and Commodity risk on page 87); consumer service and affordability requirements; and the EGL.
- The global regulatory environment is evolving, which may result in additional costs and complexity. Post-Brexit reviews of regulation are back on the agenda and could lead to a divergence between UK and EU regulation and reporting requirements, further increasing our cost to operate. Our involvement in new international supply chains and pellet markets in Asia introduces additional challenges in terms of compliance, regulatory change and misalignment of standards between markets. Such complexity could increase the risk of non-compliance,

regulatory investigation and enforcement action against Drax, potentially resulting in penalties/sanctions that impact anticipated returns and/or the Group's licence to operate.

- Inflationary pressures from rising commodity prices, including power, are providing challenges to consumers and in some cases causing hardship which may lead to delayed payments or bad debt. We continue to monitor how wholesale power price volatility is feeding through to end consumers in our Customers business and aim to support our customers during this challenging time, for example by providing payment plans. There is also a risk of continuing energy supplier failures from these rising commodity prices, which results in greater cost mutualisation, whereby the cost of supply failure is spread across the remaining industry participants.

Key mitigations

- We believe the impacts of higher short-term biomass prices are mitigated by our biomass hedging strategy, which ensures a large proportion of the biomass contracts in place are long-term with agreed pricing and volumes. In addition to remaining vigilant to biomass pricing pressure, the ability of our suppliers to fulfil contracted volumes is also closely monitored, due to the impact of fibre market shortages associated with the Russia-Ukraine conflict.
- Engaging with politicians and government officials, to listen to and inform understanding and perception of Drax's business. This includes 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 committed target to achieve net zero by 2050 and ensuring security of supply.
- Engaging with regulators and industry bodies to understand their priorities, influence the strategic direction, and undertake scenario planning in preparedness for ensuring 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 globally, such as the US and the wider Asia-Pacific 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. The Group's International Affairs team continues to develop our stakeholder interaction and broaden engagement in regions where we source and supply biomass.
- Confirming our compliance frameworks and internal guidance remain robust and continue to focus on best practice as regulation evolves and the business further expands its global operations.
- Investment in knowledge and experience through recruitment into the Group to best support our global operations.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Biomass acceptability

Context

Biomass is a significant element of Drax's current business and is important in the delivery of longer-term strategic objectives, enabling the Group to meet its carbon removal target and the UK to realise its net zero target. During 2022, Drax sourced and shipped to the UK 2.5Mt of biomass for use in the operational activity of generating electricity at Drax Power Station. Furthermore, Drax enters into commercial contracts to supply biomass to third parties. The supply of 2.2Mt of biomass to third parties represented 4.7% of revenue during 2022.

High-profile campaigning by anti-biomass groups increased during 2022, with sentiment amongst stakeholders potentially being impacted. However, there continues to be clear and reiterated UK Government acceptance and recognition of biomass' important role in enabling security of supply. This is also underpinned by independent research of the contribution to be made by sustainably sourced biomass. 2023 is likely to be an important year in the development of biomass regulation and policy globally. Regulatory frameworks associated with the sourcing of biomass materials are also under development, including in some regions where we currently conduct business and others where we may seek to develop our business in the future. It is possible that future 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 the introduction of barriers to entry which may adversely impact our growth plans and financial returns versus expectations.

The UK Government is due to develop its positioning and publish several relevant documents over the coming months which may impact the Group's licence to operate. In Europe, the EU Commission (the primary decision-making body) will also publish an updated policy file as part of the "Fit455" package, including regulation on biomass in the Renewable Energy Directive III (REDIII). The RED file is widely considered to be market leading in terms of sustainability criteria for biomass, on which UK regulation is based. REDIII revisions may impact biomass policy decision making in the UK in the future, or in countries we supply, such as Japan, potentially restricting certain types of fibre for bioenergy. We continue to engage with UK and EU governments and other stakeholders to explain the benefits of responsibly sourced biomass and the positive impact this technology can have on the climate, nature and people.

Risk and impact

- Some parties, including certain environmental non-governmental organisations (eNGOs) continue to argue against the use of biomass. These groups seek to influence and challenge policy and law-makers, which may result in reduced political, business, public, and financial support for the benefits of biomass. 2022 saw high-profile and heightened campaigning by anti-biomass groups, including using the framework of the OECD Guidelines for Multinational Companies to challenge certain statements made by Drax.
- Biomass remains immature as a commodity market. This includes some of the regions from which biomass is sourced, processed, and shipped. The Group currently has robust supply chains in place and in order for this to continue, we will require ready access to an increasingly diverse supply of biomass.
- Drax's target is that all fibre currently used at Drax Power Station is Sustainable Biomass Program (SBP) compliant. However, SBP standards are now under revision. There is a risk that the revised standards do not keep pace with stakeholder perceptions of biomass, the needs for the Group in supporting its strategy, including under BECCS, or become unworkable or overly restrictive.
- In the UK, policy decisions and publications relevant to biomass are expected in 2023. These include the Biomass Strategy which will set out the UK Government's latest position on biomass and UK BECCS. Additionally, the UK Government is looking at policy decision making required closer to 2030, in particular how biomass sustainability can be assured when the CfD regime closes to biomass from 2027 onwards. The UK Government is also in the process of developing a UK Sustainable Finance Taxonomy, within which different technologies will be deemed as being a 'green investment' or not. If the current UK Government position supporting biomass as a renewable technology changes, this may negatively impact the Group's operations and revenues in the UK.
- In Europe, the Fit455 process continues with REDIII under revision which may adversely impact the Group's growth plans. Being outside the EU reduces the UK's influencing ability on EU biomass policy. The present draft of REDIII proposes unworkable restrictions on the use of "primary woody biomass" in Europe, which, if included in the final legislative text, would have negative impacts on the Group's ability to supply Europe with its biomass needs, risking EU energy security and the delivery of long-term climate targets.
- Reputation and market risks related to the transition to a low-carbon economy include increased activity by eNGOs, 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, or risk from legal challenge by eNGOs to our development or operational activities) and challenges with employee recruitment and retention. Refer to People risk on page 88.

Each of the above risks could have a material and adverse impact on the Group's financial and business prospects, strategy and future results.

Key mitigations

- Engagement with stakeholders in all regions in which we operate, via a new global biomass campaign, to understand their requirements and expectations around sustainability as well as improving readiness to produce evidence of compliance.
- Proactive education of stakeholders on the science of our sustainability practices.
- Increased resource within teams to develop and maintain strong relationships with policymakers in the UK, EU, North America and Asia via targeted engagement across institutions.
- Targeted planning and engagement with the REDIII negotiation process and via Trade Associations suggesting alternative policy and regulatory solutions, to ensure workable outcomes.
- Where possible, seeking engagement with eNGOs to discuss issues of contention and potential areas of common ground, in support of more constructive engagement on delivering change that is responsible and sustainable. Equally, where we believe the views of eNGOs are inaccurate or misleading, providing robust challenge.
- The Independent Advisory Board (IAB) of scientists and leaders in the field of sustainability provided impartial advice and guidance relating to the robustness of our work to deliver Nature Positive, Climate Positive and People Positive outcomes throughout 2022 which will continue in 2023. Refer to page 39 for further information.
- Closer relationships forged with suppliers through the supplier relationship programme to identify opportunities to enhance actions which support sustainable and responsible sourcing strategies and biodiversity, which is integral to our philosophy.
- Scenario and contingency planning and direct engagement with voluntary certification schemes, notably SBP, at Board and technical levels to ensure revised standards are fit for purpose and to identify alternative options where necessary.
- Provided support to SBP to achieve RED II approval, affording divergent policies in UK and EU to be met through the same scheme.
- Continued assessment of new markets from which to source sustainable woody and alternative types of biomass.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Trading and commodity

Context

The Group is exposed to fluctuations in a range of different commodity prices, impacting both revenue and costs. Managing these exposures, the interactions between them, and the resulting balance of opportunity and risk, is critical to delivering value. Volatility within global commodity markets was significant during 2022, bringing with it heightened risk and a need to consider potential additional mitigations.

Drax produces biomass and power with renewable certificates, and captures the market value of these commodities through both the wholesale markets and direct sales to end-users. The Group's cost base is exposed to spot and forward commodity prices and foreign exchange rates, and the liquidity of these markets, particularly, the cost and availability of third-party biomass pellets and the fibre and logistics costs of our own Pellet Production business.

Managing the volatility and liquidity risks of these markets requires careful planning. Through our portfolio strategy, we optimise our assets to maximise value within the clearly defined parameters of our risk management framework, covering each individual commodity. We use forward hedging of varying lengths to manage the volatility of commodity prices and limit the impact of these on both revenue and costs, and we have multiple routes to market to manage liquidity constraints.

Risk and impact

- Power prices can be subject to significant volatility. Short-term elevated power prices in excess of hedged rates may result in losses should an unplanned outage occur on one or more of the Group's generating units, as the Group could be required to buy back at spot (or the then prevailing market) rates which could be materially higher than the price which Drax had originally been paid for supplying that power.
- Power prices remain highly volatile after reaching unprecedented levels during 2022, creating increased market uncertainty as well as constraints on supply. This uncertainty impacted market liquidity, which is expected to continue in the longer term. Such a continuation could make it harder to achieve target hedge levels for future periods, resulting in less certainty over forecast earnings and increased exposure to volatility.
- High energy prices may cause some supply customers to change their forecast consumption. This presents challenges in managing the portfolio hedge position, and in a volatile market could result in additional costs if volume has to be bought or sold at adverse prices.
- Delivery of commercial value from the flexibility of our portfolio, and the optimisation of a complex supply chain against an uncertain running regime, requires effective execution of our trading strategy and opportunities to trade being available through sufficient liquidity. Volatility, as experienced in 2022, brings added complexity to the delivery of our strategy and increases the pressure on executing specific trades to take account of market conditions. Errors in execution, delays in carrying out planned trading or interruptions to our trading platform could all materially adversely affect the Group's performance.
- Reduced liquidity in the forward market, along with price volatility, can lead to increased market exposures. These exposures potentially reduce the market's appetite to trade further as this volatility in prices may lead to uncertainty on counterparty exposure across the market.
- Increased production costs in Drax's supply chain may impact suppliers' ability to deliver contracted biomass. This could result in additional third-party purchases in the spot market, at uncertain prices, or an interruption to forecast generation. Refer to Political and Regulatory risk on page 85.
- Disruption to Drax's biomass supply chain itself may also impact Drax's ability to fulfil its sales contracts or deliver the forecast fuel requirements to the Generation business. During 2022, we experienced instances of suppliers warning of shortages and risk in their ability to meet their contracted obligations.
- The Generation business may fail to secure future system support services contracts or the value in providing those services may reduce due to increased competition.
- Inability to fulfil 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, particularly when wider supply of pellets is restricted.
- The fibre market is very dynamic and is impacted by both our suppliers and competitors. This makes it difficult to forecast the probability and impact of associated risks. The industries that use residuals

(and other fibre classes) continue to develop. Whilst biofuel technology is still an early concept it is likely that this market will develop in the longer-term, further emphasising increasing demand for fibre.

- Across the international markets we trade in, we are exposed to foreign currency exchange risk, primarily in relation to the sterling cost of pellets to the Generation business, which is typically contracted in USD or EUR.

Key mitigations

- We continue to build on our high levels of forward power hedges (sales) for 2023 to 2025, and the CfD on one of our biomass generation units reduces our exposure to volatility.
- Our UK portfolio of Industrial and Commercial electricity customers provides liquidity for forward power and renewable certificate sales through the Customers business. We maintain high hedge levels of customer sales through our power trading capability.
- We are able to regularly reforecast our supply customers' usage and realign our portfolio hedge to reflect changes in demand. A large proportion of our customers are on flexible contracts, where they absorb the cost or benefits of any reforecasts.
- Under our hedging strategy, our exposure to buying back power at higher prices in the short term is mitigated by holding back a percentage of generation. This provides insurance should there be an unplanned outage.
- The flexibility and optimisation capabilities of the Group's hydro assets allow the Group to manage its exposures more effectively and provide additional opportunities to create value.
- Enhanced monitoring of the Group's credit exposure, both cash and non-cash, and identification of a number of levers that could be utilised should the Group's market exposure move outside of our defined levels.
- Increased self-supply of biomass allows the Group to better manage the supply chain to meet both forecast generation requirements at Drax Power Station and also third-party supply contracts and respond quickly to changes in these demand profiles.
- A consolidated Group-wide biomass position enables oversight of our complete portfolio, allowing better informed decisions about how pellet production operations are able to support our forecast sales/generation requirements, noting the requirement to satisfy third-party biomass supply obligations.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for flexibility of generation and can create additional value.
- The Group has long-term fibre contracts to supply the Pellet Production business with biomass. We also actively engage with third-party pellet suppliers to ensure delivery schedules are met and any changes to agreed schedules are understood, to limit the impact on power generation. We continue to build fibre inventory and there is a dedicated team focused on managing this dynamic issue. The Biomass Strategy Team is focused on the 5 – 15 year fibre plan that underpins the pellet production business and BECCS strategy.
- Foreign exchange risk is mitigated by significant hedging of forecast exposures over a five-year horizon.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

People



Context

During 2022, we, like many other organisations, faced tough challenges. As Covid-19 measures relaxed, the cost of living crisis began to take hold creating new pressures. Additionally, the labour market has been competitive with resources scarce and salaries increasing for in-demand skills. To fulfil our international growth plans we need to increase headcount significantly in markets with which we are less familiar. Plans to understand the long-term skills and capabilities required are underway, such as supporting work on new technologies like BECCS, alternative fuels, and the expansion of our biomass facilities in the US. Whilst addressing these market pressures and growth plans, keeping our colleagues safe is paramount in our planning and decision-making.

It is imperative that our workforce has the skills required as the Group expands its presence. The UK political turmoil, and high-profile and heightened campaigning by anti-biomass groups during 2022 have the potential to impact our reputation, engagement with prospective candidates, and workforce attrition.

Risk and impact

- In addition to ensuring we retain the core skills that will be required to run our business, the growth plans of the organisation will require new skills and capabilities. The Group is world leading in a number of the key aspects associated with the delivery of our strategy. As such, we require people with skills and capabilities which are adaptable to addressing new and emerging aspects of sustainable power generation and associated markets. Our performance and the delivery of our strategy is dependent upon having a robust talent pipeline at all levels of the organisation which importantly also reflects the diversity in the wider societies in which we operate.
- Union organisation could lead to complex pay negotiations with an associated cost of establishing appropriate contingencies to mitigate against any threat of potential strike action.
- Changing ways of working allows colleagues more choice about where and how they work. This means we have to be competitive on all fronts with our employee value proposition. The failure to adequately respond to changing colleague expectations could result in the loss of existing colleagues or not attracting new colleagues with the skills the Group needs for future growth.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Such change can have an impact on employee engagement, wellbeing, stress, and retention, with subsequent impacts on colleague turnover and productivity.
- International growth brings with it increased complexity, which requires an understanding and appreciation of cultural, legal, and diversity matters in those territories.
- Reputation and market risks related to the transition to a low-carbon economy may result in challenges with employee recruitment and retention. Refer to Climate Change risk on page 89.

Key mitigations

- We are progressing our employee value proposition and strategic workforce planning approach to fulfil our growth plans. Current growth needs are being met by increasing the overall capacity of the resourcing team and outsourcing recruitment processes where required to manage the increased demand.
- Working with colleagues across all aspects of our business to understand and determine our skills and capability needs, for the near, medium and longer term. Supporting the more immediate needs through reskilling programmes whilst also looking at the medium/longer term through our early careers offering.
- Contingencies are in place to mitigate against the risk of outage caused by strike action.
- Enhancing our diversity and inclusion strategy to ensure it 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 69 and 112.
- Using automated advertising for our recruitment, supporting our levelling up and diversity agendas, and identifying talent from broader communities.
- Introduction of an Inclusive Leadership Programme, and an Inclusive Management Programme, aligning to the business' strategy to educate and inspire colleagues to make Drax a more inclusive place to work.
- 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.
- Regular reviews of our succession and key talent cover, mapped to our development programmes and talent offering.
- Evolving our engagement and listening strategies mapped to a colleague experience framework, including the introduction of Colleague Resource Groups.
- Onboarding a new occupational health provider and broadening our benefits and wellbeing offering to help colleagues take more preventative measures in areas, such as financial wellbeing.
- Aligning our wellbeing and inclusion plans, recognising that colleagues will contribute their best when they feel psychologically safe and supported in being themselves at work. This includes additional education and support focused on financial wellbeing and addressing increased anxieties relating to the rising cost of living, encouraging healthy behaviours, and enabling colleagues to understand their own health.
- Introducing a new Bereavement Policy which considers a range of bereavement experiences, including miscarriage.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Climate change

Context

The resilience of the Group's strategy and operations to 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 rises which may pose challenges to our operations. Transitional impacts of climate change include policy, regulatory, technology and market-related changes associated with the transition to a low-carbon economy that could affect the Group's business model, but also serve as opportunities for growth.

In the analysis of the risks we therefore assess differing factors: those where the Group needs to mitigate against adverse events which could impact our ability to conduct our business, and those where, through effective and constructive engagement with third parties, the Group will be able to deliver a combination of economic, financial, and sustainability benefits through its activities. We provide further detail on climate-related risks and opportunities in our TCFD disclosure on page 52.

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 such as hurricanes, flooding and wildfires with potential to cause damage to assets and impact on the 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. For example, during December 2022, Winter Storm Elliot halted production at several plants in Canada due to sub-zero temperatures and also prevented the transport of pellets as railway lines became inoperable.
- Policy and regulatory risks related to the transition to a low-carbon economy include changes in government and cross-border climate or emissions policies that may negatively impact our Generation and Pellet Production businesses. Refer to Political and Regulatory and Biomass Acceptability risks on pages 85 and 86 respectively.
- Technology risks related to the transition to a low-carbon economy include technology and innovation, such as BECCS, not developing as expected, impacting delivery of the Group's carbon negative ambition and business strategy as well as faster than expected development of competing technologies, such as direct air capture.

Key mitigations

- The Pellet Production business has developed stockpiles to alleviate incidences of extreme weather-related production interruption.
- The increase of geographic diversity of pellet plant asset locations across the US and Canada.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events.
- A robust business strategy informed by net zero 2050 scenario. The Group's three strategic objectives are aligned to global renewable energy and decarbonisation agendas. Refer to pages 2 and 3.
- Carbon negative ambition and Climate Policy, underpinning a business strategy consistent with UK and international climate change policies. Discussions with governments and policy makers continue with increasing recognition of the role the Group's strategy can contribute to in combatting the threats of climate change.
- Sourcing from a wide geographical range of third-party biomass suppliers; and continued evaluation of alternative fuels, using different feedstock types and considering wider sourcing geographies.
- Robustly challenging the views of eNGOs where we believe those views are inaccurate or misleading. Equally, where possible, seeking engagement with eNGOs on carbon accounting and reporting, and liaising with the UK Government on future policies.
- Innovation team track technology advances and progressing development of new technologies.

Principal risks and uncertainties continued

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Plant Operations

Context

The reliability and safe operation of our facilities is critical to our ability to create value for the Group as well as fulfill our contracted obligations in the generation of power for the UK power system.

The Plant Operations risk profile is influenced by a number of key activities including the safe management of ageing assets, building inherent reliability and safety by design for new installations, management of change, and operating equipment within intended design limits and parameters.

The Group's facilities are highly complex and require careful management, identification, control, and mitigation of risk to operate safely throughout the full life-cycle (from design through to decommissioning). The operational risk profile is varied and continually changing due to the growth in the business, with the construction of new assets and decommissioning of older assets.

At the request of UK Government, the Group entered into an agreement with National Grid to make our two coal-fired units at Drax Power Station available to operate as a winter contingency until the end of March 2023 to support security of supply to the UK.

Risk and impacts

- Severe weather events (such as hurricanes, fires, and floods) across North America and in the UK could result in interruption to operations and hinder the supply of required materials to operate our assets. Refer to Climate Change risk on page 89.
- As plants age, the operational reliability and integrity is expected to reduce. For example, Drax Power Station located in Selby in Yorkshire was built approximately 50 years ago and some of our hydro assets, located in Scotland, nearly 100 years ago. Whilst the likelihood of an unplanned outage occurring remains unchanged from the evaluation in 2021, the impact of an unplanned outage at Drax Power Station has increased due to volatile energy prices. Refer to Trading and Commodity risk on page 87.
- Failure to procure critical spares, goods, and services could result in additional production losses. The war in Ukraine has resulted in supply chain challenges such as longer lead times and significantly increased costs, exacerbated by global competition for raw and manufactured materials.
- Loss of experience due to planned restructuring or leavers could lead to loss of knowledge and increasing reliance on processes and procedures to operate plant and maintain quality. In particular, the Pellet Production business saw a high colleague turnover in 2022.
- An inherent risk of handling biomass is the potential for fire and explosion during its storage, production, transportation and its on-site delivery, which has the potential to cause significant disruption to operations. Refer also to Health, safety and environment risk on page 84.
- As a result of the extension to the availability of the coal units until March 2023, we believe the likelihood of protestor activity has increased. This could result in disruption to or prevention of biomass operations due to site damage, health and safety issues, or supply chain interruption leading to curtailment of delivery of goods and materials (including biomass) or otherwise to safely operate our generation assets, with significant financial impacts.
- There are also threats across our supply chain due to the reliance on the complex co-ordination of transportation at various stages of the process. Therefore, Drax could be exposed to unplanned disruption.
- Injuries and environmental issues could occur as a result of decommissioning, demolition, and restoration activities.

Key mitigations

- Business continuity plans are in place for all plants, ports and other logistics which cover weather impacts and other factors. This enables Drax to respond to normal and one-off weather events.
- A comprehensive plant investment and reliability programme has been implemented, that is risk-based and reflects the challenges of operating complex equipment and takes account of potential long lead times for spares, supported by an experienced engineering team. Increased controls such as advanced condition monitoring to alert any plant failures before they occur, where practicable, are being installed.
- The potential cost of an outage is considered when determining the running regime of our generation plant. For example, when prices are higher, lower risk running options will be utilised whereas when prices are lower we may look to take the opportunity to perform short maintenance outages.
- Maintaining stringent safety procedures in place for sourcing, acceptance, and handling biomass, and the control of dust management from both a respiratory, health, and fire and explosion perspective are assessed for their compliance with our policies.
- Maintaining plant standards and investment in plant to As Low As Reasonably Practicable (ALARP) standards, such as chemical suppression systems at Drax Power Station have been established. In areas of the plant where engineering controls cannot yet meet required standards, Personal Protective Equipment (PPE) is used to ensure individuals are not exposed to harmful levels of dust.
- Increased physical security presence is in place. Security policies and procedures are in place for each site/region in addition to a plan of adherence.
- Insurance is in place to cover potential losses from plant failure, where possible.
- Maintaining robust management systems, designed to identify and mitigate risk and manage process safety across operating assets.
- Providing the required training and development to equip our colleagues in conjunction with recruiting people with the right skills and experience.

Risk level change from previous year ▲ Up/increasing ▼ Down/reducing = No change

Information systems and security

Context

Our Information and operational technology systems and the integrity of the data we use, are essential to supporting the day-to-day business operations of the Group in addition to contributing to the delivery of our growth strategy.

As part of the UK's critical national infrastructure, we are required to maintain availability of our systems and the capability to adapt and respond to evolving external threats. We have a clearly defined technology and security roadmap, continually improving and investing in technology which is capable of meeting current and projected future requirements and ensuring our financial, legal, regulatory and compliance obligations are met.

Managing these risks in an environment where threats and challenges are continually evolving requires careful understanding and assessment. We use internal and external expertise, including engagement with regulators, auditors, and industry groups, to continuously update our understanding of the IT and Security risk environment. We involve IT and Security in all projects to ensure systems networks and architecture are reviewed and threat levels are assessed and addressed. Nevertheless, despite the significant work and investment undertaken to further enhance security over our systems, this heightened external risk environment poses an increased cyber risk to our business continuity and supply chains.

Risk and impact

- Geopolitical tensions have in the past been known to result in increased cyber-related threats. The ongoing conflict between Russia and Ukraine has increased the Group's risk exposure to attacks, state-sanctioned and otherwise, on our systems and those of suppliers on whom we rely for integrity of service.
- Successful cyber-attacks have the potential to compromise our systems, affecting the confidentiality, integrity and availability of our data (including personal data). The threat is evolving, and the risk from this threat has increased as a result of the Russia-Ukraine conflict. Their current attack methodology seeks to deny access which may cause operational and financial impacts and regulatory non-compliance.
- Evolving regulatory requirements present ongoing challenges to the Group. Operators such as Drax are required to broaden the scope of systems that are deemed 'at risk' and focus is being placed on establishing adequate resilience, the capability to respond and recover quickly from disruptions, and ensuring the continuation of safe and secure operations. Not meeting such regulatory obligations could result in the Group facing enforcement notice and financial penalties.
- We partner with third-parties to support our information and operational systems. If these businesses were themselves to suffer systems failure, cyber-attack, or financial difficulties, this could in turn impact our business, operations, and performance.
- Legacy systems are more difficult to maintain and are more susceptible to cyber-attacks. Subsequent operational issues, such as reduced performance, may impact the availability of systems, data, and facilities, affecting our operations adversely.
- The availability of experienced IT and Security personnel in the labour market has tightened. This may result in not being able to retain and/or hire people with the necessary skills to manage these risks. See People risk on page 88.

Key mitigations

- Maintenance of effective and up-to-date cyber security measures, including a prevent, protect, detect, respond and recover strategy, which evolves to address known and emerging threats.
- We are well-placed to respond to changing regulations and standards and we continue to develop technology, security controls, and resilience measures to maintain compliance.
- Regular awareness campaigns and training events are undertaken aimed at improved cyber-security awareness.
- Maintenance of a robust supplier onboarding policy and associated processes, to ensure major service providers and vendors are appropriately risk-assessed and reviewed periodically.
- Periodic internal and independent external assessment of the integrity, adequacy, and compliance status of our IT and cyber security controls.
- Regular updates with regulators to allow the business to continually assess the level of security risk.
- Increased exercising and refreshing of business continuity, disaster recovery, and crisis management plans.
- Continual technical refresh programmes to address legacy infrastructure and systems, and adoption of secure-by-design principles and design patterns.
- Refer to the People risk disclosure on page 88 for additional mitigations.
- All Information systems and security risks, and associated risk treatment plans, are reviewed regularly by the IT Board comprised of Executive Committee level members and senior management subject matter experts.

The strategic report is set out on pages 2 to 91 and was approved by the Board of Directors on 22 February 2023.

Will Gardiner
CEO



Effective governance is integral to the success of our business and the realisation of our goals

Amy Gwynn
Assistant Environmental Officer and a member of the
Women's Network at Drax Power Station



The numbers of female colleagues at Drax Power Station has increased significantly over the years, both in operational and support roles, which is very positive.


While this is great to see and shows real progress in our efforts to create a more diverse workplace, it's also highlighted areas we need to improve to reflect this demographic, such as the need for improved, better fitting personal protective equipment and creating breastfeeding facilities.

We're there to listen to colleagues' concerns and ideas and make changes to support women at various stages in their lives, including the menopause.

We want future generations of women to know they can work in our industry, that there are equal opportunities to grow and develop within the business and that they can realise their potential."



People positive



Barbara Maxwell,
Purchasing and Supply Lead at our Galloway
and Lanark hydro schemes. Barbara is a
Mental Health First Aider (MHFA)

“

I wanted to become a MHFA because I've seen first-hand how mental health can affect people. It can be really hard to find the strength to initially tell someone about your worries or problems and to know where to ask for help.

My training has given me the confidence to know the signs to look out for and to step in. I also know where to signpost for professional help.

Colleagues know there's someone at Drax they can talk to. By directing colleagues to professional support, they'll get the support they need earlier, creating a happier and healthier workforce.”



People positive

Corporate Governance Report: Letter from the Chair



Philip Cox CBE, Chair

Effective governance is fundamental to the way in which everyone on the Board and across every part of our business is expected to act.

Our purpose, strategic objectives and values

Our 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

Safety, sustainability and cost reduction underpin our three 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 carbon removals

Development of projects in UK and internationally

Carbon negative by 2030

To be a UK leader in dispatchable, renewable power

Dispatchable, renewable power – biomass, hydro, pumped storage

Renewable power and energy services to strategic customers

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.

Governance is integral to the success of our business and the realisation of our goals. It also informs our purpose and values. Effective governance is fundamental to the way in which everyone on the Board and across every part of our business is expected to act. In addition, it enables us to work in ways that help us realise our potential.

During 2022, the Board challenged management and contributed to the Group's progress in delivering its strategy. This included the continued expansion of the supply of sustainably sourced pellets, both for the Group's own use and third-party contracts. Furthermore, the Board fully supported an accelerated development of options for BECCS in the UK and globally. We have also devoted time during meetings and in our Board visits to understanding performance in activities such as health, safety and sustainability.

You can find more information about the Board's trip to Canada on page 95 and on sustainability from page 36. For more about safety and how we embed key actions into assessing management's performance, please see page 156.

During 2022, Drax – in common with many other organisations and individuals – had to react to challenging macro-economic factors. These included the impact of the invasion of Ukraine by Russia and the resulting sanctions, high energy prices, and rising inflation. Colleagues have worked hard to understand these issues and develop appropriate actions, which the Board scrutinised and challenged before reaching what we believe are appropriate conclusions. One example was the formation of a working group to undertake a detailed review of the Group's supply chain and supplier resilience after the introduction of sanctions. The Board received updates on operational issues and risks, and the steps taken to ensure

the supply continuity that would allow the Group to meet its generation commitments.

Amidst energy market changes unprecedented in modern times, Drax received a UK Government request to be available to operate our coal units during winter 2022/23, if required. The Board carefully assessed this request. More details about the decision-making process, stakeholder considerations (including the need for customers to have energy security during winter) are on page 107. The effect of the cost-of-living crisis has had an impact upon many people, including our colleagues across the Group. The Board discussed these impacts and how to respond in the early autumn, and supported management in considering the amount and timing of the annual salary review. We also considered our colleagues' wellbeing, including the development of a Bereavement Policy. There is more information about this on page 69.

The integration of the Canadian business continued in 2022, with the Board reviewing ways to invest in and facilitate operations as part of transitioning into an enlarged group. Since the acquisition of Pinnacle in April 2021, colleagues in Canada have made a significant contribution to the business and our strategic progress is testament to everyone's dedication. As part of integration, the Group continues to roll out training modules such as ethics, values and safety to colleagues. The management team has also overseen ongoing work to implement the Group's sustainability principles across our Canadian sites.

In June 2022, the Board took part in a highly successful trip to pellet production sites in Canada. We attended a series of meetings with local management and subject matter experts, including health and safety, process safety and ESG. Directors were fortunate to attend a forest tour hosted by a First Nations group, where we discussed the vital forest management work taking place. We were also delighted to meet many Canadian colleagues in person and develop those important relationships. Non-Executive Director Kim Keating who was appointed to the Board in October 2021, lives and works in Canada and is passionate about outreach within local communities. During the visit, all of the Board members gained insights into the operational challenges of conducting business in Canada with extreme seasonal weather changes including periods of severe cold, snow and high winds. More discussion around this risk and the response of the business is on page 89.

Engaging with our stakeholders

The Board recognises the need to ensure effective engagement with stakeholders, both internally and externally. Regular updates form part of reports discussed at Board meetings, supported by discussions with management and advisers. Some Directors have also directly engaged with suppliers while visiting Canada, and with shareholders. These included meetings where variously our CEO, Will Gardiner, CFO, Andy Skelton, and I have participated. In addition, Will Gardiner has led our engagement with the UK Government. As our business continues to grow internationally, we appreciate the open discussions and enriched experiences that come from

visiting and meeting stakeholders face to face. We feel it is vital to listen to stakeholders, take account of their perspectives, and respond to and act upon their feedback. This was clearly demonstrated during our considerations concerning the potential operation of the coal units, during winter 2022/23. There are details about the process included on page 107.

We believe the BECCS programme is fundamental to delivering the net zero ambitions of the UK, while also supporting the nation's energy demands. During 2022, we have worked with stakeholders such as BEIS, and DEFRA, regional partners including the Northern Endurance Partnership (NEP) as part of the East Coast Cluster, and commercial partners to develop our work on BECCS. This included holding two large events focused on suppliers. Last October, the Board held a two-day review of the Group's strategy, including the potential scale of the BECCS opportunity. The review assessed key next steps for the programme in the UK, and considered the prospects for global BECCS, primarily in the US. To do so, we scrutinised the feedback from meetings with regulators, policy makers and potential partners in several US states. These options for broadening the adoption of BECCS, both at home and globally, are encouraging and we believe represent genuine prospects for accelerated growth.

With BECCS being just one aspect of our portfolio and engagement with stakeholders, the Board also received reports about wider stakeholder engagement. In July, we received a presentation from the External Affairs team and discussed, assessed and challenged the quality of the team's engagement in satisfying Section 172 of the Companies Act. Naturally, this meant considering the issues pertinent to the Group, such as the expansion at Cruachan, plus UK and global BECCS. However, we also sought to gain a better understanding of what matters most to our stakeholders, and of how management seeks to address these issues. The Board fully understands the vital nature of this work and the next phase of BECCS delivery in 2023 relies upon stakeholder support and the necessary regulatory framework in supporting Drax's investment decision (find more information on page 26).

In line with the Board's expectations for a full and thorough stakeholder engagement process, the Cruachan expansion work during 2022 involved a broad consultation with all relevant stakeholders. Through 2022 the Board received updates on progress and discussed the structure of engagement. The project remains in the preliminary stage of consultation and approval. The expansion represents a key part of enabling the supply of secure, renewable energy in Scotland and England. And it will become a focus for education and job creation in the local communities.

During the year, Will Gardiner and I continued to meet quarterly with the chairs of the MyVoice Forums, our workforce engagement initiative. These meetings allow us to hear directly from colleagues, via their representatives. It is a safe forum where everyone can speak openly, holding discussions on key issues that are important for our colleagues. Will and I then reported the feedback to the whole Board. This ensures all Directors gain an appreciation of employee interests and concerns while also providing an opportunity for Directors to offer informed guidance and reflections upon our possible responses. You can read more about this on page 26.

Recognising the value of increasing Director engagement with employees, Nicola Hodson recorded a video in June 2022. In it, she explained the annual bonus plan, how we choose financial, strategic and ESG measures, and how they support our strategy. We shared the video with colleagues in July 2022 and, as the fourth most viewed internal video in 2022, it was very well-received. At the Annual General Meeting (AGM) in 2023, we will use online technology once more. This enables shareholders to attend remotely and in person, with the aim of optimising shareholder engagement and participation. However, the take up rate for remote attendance remains very low so we will continue to consider its effectiveness in enabling the Board to hear from shareholders.

Corporate Governance Report: Letter from the Chair continued

Diversity and inclusion

In last year's Annual Report, we outlined our progress regarding diversity and inclusion at Board level and throughout the Group. Even so, we recognise there is always more work to do. We welcome the expectation from the FCA for improved transparency, as announced in its April 2022 Policy Statement on 'Diversity and inclusion on company boards and executive management'. It includes recommendations that appear in our own Board Diversity Policy, which was reviewed and approved during 2022. While already meeting two of the FCA's new targets, we are mindful of the expectations placed upon the Boards of listed companies to meet all the targets. Set out below is our current progress against the FCA targets, and we provide further diversity figures in the tables on page 106:

1. **At least 40% of the board are women.**
Met: 44.44% of the Board are women. In addition, 40% of the Executive Committee are women.

2. **At least one of the following senior board positions is staffed by a woman – Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO).**
Not yet met: This is something of which we are mindful, and it will be considered as a factor in any future recruitment processes. Both the Audit Committee and Remuneration Committee are chaired by women.

3. **At least one board member is from a minority ethnic background, defined by reference to the categories recommended by the Office for National Statistics, excluding those listed as coming from a White ethnic background.** **Met:** The Board currently has one director from an ethnic minority background.

In other sections of this Annual Report, we explain the additional measures we have taken in 2022 to support positive change for diversity, equity and inclusion. These include leadership development, more transparency in career progression, and awareness-raising through events. We have developed our Bereavement Policy, which considers a range of bereavement experiences, including miscarriage and are building Colleague Resource Groups (CRGs) to give under-represented voices an opportunity to communicate in a safe place. We are also evolving our recruitment strategies to attract candidates from under-represented groups.

The Board considered and fully supported all these steps. For example, to celebrate Black History month in February 2022, Non-Executive Director Erika Peterman recorded a personal video message to colleagues (the fifth most-viewed internal video of 2022), and we held an internal live panel event to share colleagues' experiences.

Culture and governance

As the Group focuses on its People Positive agenda, we continued during 2022 to work on culture, values and our colleagues' experience. The Board received regular updates on workforce engagement, including feedback on meetings between the Chair of the Board, the CEO and the chairs (chosen by colleagues) of the MyVoice Forums. The Board also reviewed and challenged management on the results of the workforce engagement survey and the corresponding action plans, such as workshops to support colleagues. Actions following the 2021 survey, and ahead of the 2022 edition, were taken with the aim to improve the lower response rates from our colleagues in Canada and the US. These included making additional PC workstations available to colleagues in operating facilities, and allowing employees to access the survey with their phones via a QR code. In addition, line managers had to both ensure colleagues could access emails and make the appropriate plans for colleagues to have enough time to complete the survey.

The Board and management continue to place particular emphasis on the safety and wellbeing of our people. However, as we emerged from the pandemic, the cost-of-living crisis started to take hold. Our response included careful consideration of the best financial support measures, bringing the annual pay rise forward by three months and giving colleagues a significant increase. We appointed a new financial wellbeing partner, called Nudge. Through a web application, Nudge offers colleagues personalised financial guidance that aims to help them navigate the current financial challenges, as well as plan for retirement and deal with other financial matters.

During the year there were a number of Director visits to sites. For example, in November, John Baxter and Kim Keating travelled to Drax Power Station to meet management and colleagues. They discussed safety, how to improve the operational efficiency of assets, and planning for onsite development works. Kim also had a separate meeting with female employees who were part of a women's networking initiative, and John met apprentices to discuss their experience of working at Drax. He also visited the Glasgow office in June, for an update on risk management (including safety and governance) and our Scottish assets, including the development at Cruachan.

Looking forward, pressures on the global economy and cost-of-living are likely to continue. Alongside these challenges, we will ensure that our strategy for biomass acceptability, carbon removal, and secure renewable power all develop too. Drax experienced many changes during 2022 and the Board recognises the significant work by all colleagues, in response to those challenges. We very much appreciate everyone's positive contribution in delivering our day-to-day operations while 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 purpose.

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

N R

Contribution and Experience

Philip's 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.

Philip is an experienced leader of large businesses, particularly in the energy sector. As Chair, Philip cultivates a culture of openness, transparency and honesty on the Board in which constructive debate and challenge occurs and all directors contribute fully. Philip has an in-depth knowledge of energy markets and the related regulation. He also has extensive experience in stakeholder engagement.

Appointment to the Board:

January 2015

Appointment as Chair:

April 2015



Will Gardiner

CEO

Contribution and Experience

Will has driven the vision and operations of the Company since becoming CEO in January 2018, inspiring Drax's transformation from a leading UK renewable energy company to global leadership in sustainable biomass with the ambition to be a global leader in carbon dioxide removals.

Sustainability considerations are at the core of everything at Drax. Will is driving Drax's sustainability agenda, taking a thought leadership role in defining sustainability criteria for woody biomass. Working with stakeholders across the spectrum, Will is creating a purpose led company at Drax to ensure outcomes that are positive for people, nature and the climate.

In addition to being CEO of Drax, Will is a Commissioner of the Energy Transitions Commission, is a member of the World Economic Forum's (WEF) Alliance of CEO Climate Leaders, and 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



Andy Skelton

CFO

Contribution and Experience

Using his strong financial and commercial skills built over 25 years, Andy provides the financial oversight and controls that has supported the growth of Drax from a renewable energy company to an international company with a differentiated portfolio.

Highly values driven, with a personal commitment to Drax's climate, nature and people positive ambitions, Andy represents Drax as a member of the Northern Powerhouse Partnership, helping create more opportunities and a better economy for the people of the North of England, where he also lives.

Previously Andy was 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

Corporate Governance Report: Board of Directors continued

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 holds a portfolio of other Board appointments, including Chair of International Alert and of the Joffe Trust. He also serves as a member of the Board ('Council') of Chatham House, and of the International Budget Partnership; is President of the Advisory Council of Transparency International UK; and is a member of the Ethical Investment Advisory Group of the Church of England. David's 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 CFO of Field Group plc. In a non-executive capacity, David has been Deputy Chair of the International Integrated Reporting Council, Deputy Chair of Shared Interest Society, a non-executive director of Low Carbon Accelerator Limited, and Chair of Traidcraft plc. David is a chartered accountant, and has a Masters in Theology from both Cambridge and Edinburgh universities, and a Masters in Finance from London Business School.

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

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.

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.

Vanessa has broad and expert level experience in strategic capital allocation, finance, risk and internal controls at highly successful companies in the UK which is invaluable in her role as Chair of the Audit Committee. She has a comprehensive understanding of large, listed companies' requirements and brings a rich insight into a broad range of stakeholder perspectives.

Appointment to the Board:
June 2018



Nicola Hodson
Independent Non-Executive Director

A N R

Contribution and Experience

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.

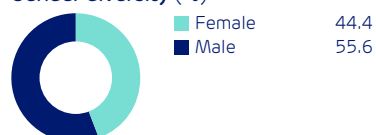
Nicola is currently Chief Executive of IBM UK and Ireland and Deputy President of TechUK. Previously she was Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, Chief Operating Officer of Microsoft UK and previously held P&L and sales roles at Siemens, CSC (now DXC) and EY. Nicola is a Non-Executive Director of Beazley plc.

Nicola brings expert level technology knowledge, with her current working experience at the forefront of global organisations. She is also skilled in business and digital transformation, and sales. Nicola is committed to inclusivity and enabling people to realise their full potential, irrespective of their background.

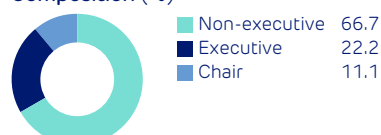
Appointment to the Board:
January 2018

Board statistics (As at 31 December 2022)

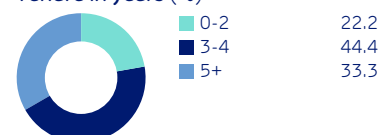
Gender diversity (%)



Composition (%)



Tenure in years (%)



John Baxter CBE

Independent Non-Executive Director



Contribution and Experience

John has 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 Committees on Environment, Health, Safety & Security and also People & Remuneration

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

John has broad and expert level experience in engineering, health and safety, and energy generation experience. John is passionate about people development, particularly advancing the opportunities for young people in STEM careers, including via apprenticeships. His dedication to charity work and fundraising to support young people, provides a depth of understanding during Board discussions on stakeholder engagement and culture matters. Also, having been born and brought up in Scotland he brings important insights to Drax on the local environment and culture.

Appointment to the Board:

April 2019



Kim Keating

Independent Non-Executive Director



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. 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.). She is currently a non-executive director of Yamana Gold Inc. & Board chair of Major Drilling International Inc. Kim is also a founding member of Makwa-Cahill Limited Partnership, a nuclear qualified indigenous fabrication company. 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 & Diligent Climate Leadership certification. She is a graduate of the Rotman-Institute of Corporate Directors Education Program and was awarded her ICD.D designation. Throughout her career, Kim has made significant engineering and project management contributions to complex major projects in the Canadian, Norwegian and UK energy sectors, bringing a wealth of strategy, operational leadership, and technical expertise to her roles. She has a deep appreciation and insight into the value of community partnerships particularly with indigenous groups.

Appointment to the Board:

October 2021



Erika Peterman

Independent Non-Executive Director



Contribution and Experience

Erika's extensive experience, gained from over 25 years working in global organisations, enables the delivery of change and growth in complex, world-leading businesses. Her broad knowledge has been built 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 senior executive roles with BASF, covering manufacturing and production, engineering, strategy, and commercial business management. Passionate about STEM and DEI, she actively supports BASF's talent and workforce development programs, as well as a range of diversity and inclusion initiatives.

Erika sits on a variety of College of Engineering Advisory Boards, including those for the University of Houston and the Georgia Institute of Technology. She serves as a Board Trustee at Chatfield College in Cincinnati, Ohio. She is also a member of the Executive Leadership Council, a non-profit organization 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)

At two meetings during 2022, the Board formally considered reports on how Drax, the Board and its Committees applied the Principles and complied with the Provisions of the Code. The meetings included discussions about the steps being taken and how they might evolve, as well as the effectiveness of stakeholder and colleague engagement. We also discussed how the Board assesses, monitors

<p>Board Leadership and Company Purpose</p> <p>Principles</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 both sustainable biomass pellets and in negative emissions, and to be a UK leader in dispatchable, renewable power. It also supports 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 and identifies areas for improvement and practices that enable positive engagement, underpinning the culture of respect.</p>	<p>The workforce engagement forums meet quarterly. Key issues discussed in 2022 included career development, inclusion, social and environmental responsibility, Russia's invasion of Ukraine, inflation, energy costs and the rising cost of living. Chair, Philip Cox, and CEO, Will Gardiner, meet quarterly with the chairs of the workforce forums, with support from Hillary Berger, who is Group General Counsel and an Executive Committee member. The subsequent CEO report to the Board includes information about these meetings.</p> <p>Typically, the Group undertakes employee engagement surveys annually. Action from the 2021 survey included the implementation of a career pathway pilot. This involved career video stories and leaders engaging with teams to discuss how they can improve on communicating and leading change. (You can read more about how the Board monitors and assesses culture on page 105).</p>
<p>Division of Responsibilities</p> <p>Principles</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 six were considered independent on appointment; one of them, David Nussbaum, acts as Senior Independent Director.</p> <p>The Senior Independent Director, David Nussbaum, led the Non-Executive Directors in a review of the Chair's performance and 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 while providing challenge and guidance in an open and constructive environment. Examples from 2022 include requests for deep dives into the top safety risks and the reintroduction of health and safety to the bonus scorecard. In addition, there were</p>
<p>Composition, Succession and Evaluation</p> <p>Principles</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, and 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 in one to five years. Based on merit and objective criteria, the review focuses on various aspects such as technical skills, experience, behaviours, attitudes and diversity. This ensures the business has the right leaders in place to deliver our purpose and strategy.</p>
<p>Audit, Risk and Internal Control</p> <p>Principles</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, Vanessa Simms, was considered independent on appointment in that role, 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>The Board has procedures in place to manage risk and oversee the internal control</p>
<p>Remuneration</p> <p>Principles</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, Nicola Hodson, was considered independent on appointment as Chair and has relevant committee experience.</p> <p>Shareholders approved the current Directors' Remuneration Policy (Policy) at the 2020 AGM.</p>	<p>During 2022, the Remuneration Committee – with support from Korn Ferry – reviewed the Policy and considered it to be broadly fit for purpose. The updated Policy will be presented to shareholders for approval at the 2023 AGM. You can find out more about the proposed new policy in the Directors' Remuneration Report on pages 127 to 157. Annual bonus metrics are the same for all</p>

You can find the Code on the Financial Reporting Council website at www.frc.org.uk

and constructively influences culture. In addition, we considered the actions taken in addressing recommendations from the most recent, externally-led Board and Committee performance evaluations. The Board's view is that the Company has satisfied the Principles and Provisions of the Code throughout 2022.

<p>In June 2022, the Board visited Drax sites in Canada. 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 First Nations' forest management, in addition to health and safety, process safety and ESG at the Canadian sites. Following the easing of Covid-19 restrictions, we are planning further visits to Drax site locations for 2023.</p> <p>The Board ensures that both it and the business actively engage with a wide range of stakeholders to encourage meaningful two-way participation. This also ensures 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</p>	<p>on pages 26 to 33. The Chair, Senior Independent Director and Chairs of the Audit and Remuneration Committees are all available for engagement with shareholders.</p> <p>Diversity, equity and inclusion are important to 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:</p> <ol style="list-style-type: none"> (1) Data – understanding and tracking changes being made to the socio-economic and cultural balance of colleagues working across the Group (2) Educate – positive steps to inform behaviours as part of driving change (3) Inspire and recruit – encourage people throughout the organisation to participate and recognise the importance of their involvement in realising shared objectives 	<p>The Diversity and Inclusion Steering Committee reviews progress in each pillar regularly with the CEO providing updates to the Board. You can read more about our work on diversity and inclusion on pages 69 to 70 and 112 to 113</p> <p>The Group's confidential whistleblowing telephone hotline and web-portal enable colleagues and third parties to raise matters of concern. The Board oversees whistleblowing and receives regular updates; it also discusses findings from investigations and challenges management on initiatives associated with raising awareness and addressing learnings.</p>
<p>discussions about the cost tracking and status of projects.</p> <p>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</p>	<p>of management. These agenda items typically include meetings with the external and internal auditors.</p> <p>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 another listed company.</p>	<p>All Directors have full access to the services of the Group Company Secretary, who works closely with the Chair of the Board and Chairs of the Committees. This ensures the Board has the policies, processes, information, time and resources it needs to function effectively and efficiently. The whole Board approves the appointment or removal of the Group Company Secretary.</p>
<p>The most recent review, conducted in November 2022, also assessed the capabilities required to support progress in delivering the breadth of projects across key functions of the Group.</p> <p>All Directors seek annual re-election (or election at their first AGM following appointment).</p>	<p>Board Alchemy performed an externally facilitated evaluation of the Board and its Committees in 2022. You can read more about this on page 107 to 108 and pages 113 to 115.</p> <p>More about the composition and activities of the Nomination Committee is in the Nomination Committee Report, on pages 111 to 115. Actions being taken</p>	<p>in the search for a new Chair of the Board upon the conclusion of Philip Cox's period of tenure can be found on page 112.</p>
<p>framework. Its procedures also 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 77 to 91. The Audit Committee</p>	<p>supports this work as part of regular agenda items.</p> <p>In 2021, the Committee undertook a formal tender in preparation for the end of tenure of the present external auditor Deloitte LLP. This concluded with a recommendation</p>	<p>to appoint PwC for the financial year commencing 1 January 2024.</p> <p>Details about the composition and activities of the Audit Committee are within the Audit Committee Report, on pages 116 to 126.</p>
<p>participating colleagues, including Executive Directors, ensuring alignment. In 2020, the Committee determined that from 1 January 2023, the contribution rates paid in respect of pension benefits for existing Executive Directors would align with the wider workforce.</p>	<p>The Remuneration Committee scrutinises performance-related pay at the point of completing a measurement period. It has discretion to adjust remuneration outcomes where appropriate to ensure that reward outcomes align to Group performance.</p> <p>No directors are involved in making decisions regarding their own remuneration.</p>	<p>You can find the updated Policy, the composition and activities of the Remuneration Committee, and remuneration outcomes in the Remuneration Committee Report on pages 127 to 157.</p>

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 in addition to external stakeholders, including the UK Government and NGOs.

The Committee considers stakeholder engagement, including a focus on the political landscape that could impact the Group's ability to execute its strategy. There are more details about such engagement by the Group on pages 26 to 33. During 2022, there were no changes to the membership of the Executive Committee.

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, Group Health and Safety, Supplier Code of Conduct and Diversity and Inclusion Policy.

As detailed on page 107, the question of whether to operate the coal units during winter 2022-2023 represented a significant business decision for the Group and its stakeholders. The Executive Committee completed several reviews of the risks related to coal generation and reported these findings to the Board.

Following the acquisition of Pinnacle Renewable Energy, Inc in April 2021, the Committee has continued – throughout 2022 – to oversee its integration within Drax. We are also deepening our understanding of the opportunities related to global sustainable biomass generation.

The Executive Committee considers business performance against the annual plan, and reviews progress in realising longer-term objectives. They receive reports 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 2022, the Executive Committee completed an in-depth review of all nine principal risks; each one 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 (which was completed in 2021). 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 77 to 91.

The Executive Committee meets informally most weeks throughout the course of the year, in addition to holding 7 meetings at which more formal reports are considered on a range of business performance and planning measures. Where relevant to the matters under discussion, Committee members receive the relevant briefing papers ahead of these meetings. In addition, members receive presentations on various issues from senior managers within the business units.

The Committee also meets with management teams each quarter for a deep dive into performance in delivering the Group's strategic imperatives. In these sessions, the Committee reviews key programmes and progress against key milestones.

Biographies of the Executive Committee members are on the website: 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

The Board is responsible for leading the Group and ensuring long-term value creation for shareholders and wider stakeholders. It also establishes and reviews the Group's purpose and values, assesses and monitors culture, and takes responsibility for setting and overseeing the Group's strategy and risk appetite. It monitors performance too, making sure the necessary controls and resources are in place to deliver the Group's plans and that the Group meets its responsibilities to its stakeholders.

Audit Committee

This Committee oversees financial reporting, key accounting judgements, internal controls and risk management systems, plus internal and external audit effectiveness.



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Nomination Committee

The tasks of this Committee include making recommendations on the size, diversity and composition of the Board, and succession planning for the Directors and senior executives.



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Remuneration Committee

This 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. It also considers the alignment of reward across the wider business.



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Executive Committee

The focus of this Committee is the Group's strategy, financial structure, planning, operational and financial performance, and governance framework. It also closely considers culture and diversity, succession planning and organisational development below Board level.



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Ethics and Business Conduct Committee

This Committee monitors ethical behaviour and practices across the business.

Capital Allocation Process Committee

The members of this Committee provide oversight, co-ordination and approval for capital deployment proposals.

Financial Risk Management Committee

This Committee provides oversight and challenges the effective management of all financial risks, including trading, commodity, treasury and currency.

IT Board

This Board provides oversight and co-ordination of IT activities and strategy, information systems and security risk.

Operating Review Committees (Pellet Production, Generation and Customers)

These Committees review the operational and financial performance of the business units.

Group HSE Committee

This Committee reviews and challenges the management of process and people safety, health, environment and wellbeing risks.

Corporate Governance Report continued

Role of the Board

The Board determines the Group's purpose, strategy and business model for long-term value creation, and its appetite for risk and risk management policies. The Board also determines the annual plan and budget, considering whether the Group has the necessary resources to deliver the strategy. In addition, the Board sets the key performance indicators to measure performance against strategic objectives (e.g. tracking cost reduction targets in the self-supply of pellets; see page 18). It also reviews and advises on stakeholder engagement, including with shareholders, the workforce, Government and NGOs. The Board considers management proposals for acquisitions, disposals, and other transactions outside ordinary delegated limits. Such transactions included the decision to make available the coal units at Drax Power Station, in the event called upon to provide power to the UK grid (see page 107).

The Board also considers material changes to accounting policies or practices, and significant financial decisions. Such decisions include investment in large scale projects such as BECCS, capital structure and the dividend policy. For more information on these see the Financial Review which starts on page 20. The Board provides challenge to management on the Group's priorities and initiatives related to sustainability and environmental practices. The Board reviews the effectiveness of the Group's governance structure too, commenting on how it should be revised to reflect the evolution of the business. Reviews may cover: business conduct, ethics and whistleblowing; the prosecution, defence or settlement of material litigation; and Directors' Remuneration Policy. They may also include the terms of reference of Board committees, and the Board structure, composition and succession planning.

Terms of reference

The Board has a schedule of matters reserved for its decisions, and formal terms of reference for its committees (which it reviews periodically). The terms of reference of the committees of the Board are available to view on the Group's website at 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. Delegation is to the Executive Committee, or otherwise delegated in accordance with a schedule of delegated authorities that is 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, as well as operational and financial performance. In addition, it receives regular business reports from senior management across the Group, and updates on investor relations and wider stakeholder engagement. Adequate time is allocated to each agenda item, to support effective discussion and challenge by Directors.

During 2022, there was a focus on understanding the principal risks associated with the request received from the UK Government to be able to operate the coal units, if required, to assist with country's energy security during winter 2022/23. You can read more about the Board's decision process and stakeholder engagement on page 106-107 and in the Principal Risks and Uncertainties section on page 77.

Linked to energy security, the Board received regular updates during 2022 on the macro-economic factors influencing energy providers and supply chains. In February, the Board established a working group with delegated authority to complete a detailed review of the Group's supply chain. This review encompassed the resilience of suppliers and analysis on third-party sourcing. During the year, the Board also discussed the increasing costs of pellet production and inflation-related costs. Board members reviewed ways the Group's integrated supply chain is capable of creating additional value to mitigate macro-economic factors. You can read more about the Group's approach to economic risks on pages 77 to 91.

The Board receives regular industry, regulatory and topical updates from internal specialists as well as external experts and advisers. Examples included, half-yearly updates on security matters including cyber security, information security and the effectiveness of controls.

The core activities of the Board and its Committees are planned on a forward agenda that the Chairs of each Committee consider and review at least annually. Through meeting minutes the Committee maintains a list of matters arising from each meeting and follow these 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 also assesses 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 in evaluating the potential for change from those in areas of critical operational risk 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 presented with such matters for their review. The Articles were most recently reviewed by the Board in 2021 and updated with shareholder approval at the AGM held in 2021. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. In 2022, 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). 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?

The Executive Committee

- The subject of ethics and values is a standing agenda item for the Executive Committee. The Chair of the EBCC supports the CEO's regular updates to the Board.
- The Executive Committee develops plans for Board consideration on matters such as responding to workforce engagement feedback, promoting diversity and inclusion, and dignity at work.
- The CEO sends a weekly Group-wide "Ask Will" email with Q&A (allowing colleagues to ask/comment about what is on their mind).

The Group Ethics and Business Conduct Committee (EBCC)

- A sub-committee of the Executive Committee, the EBCC meets quarterly to monitor, support and challenge activities, assessing whether there has been proper regard for the Group's policies as well as external laws, regulations and standards. It also considers initiatives to maintain, enhance and assess ethical behaviour and business conduct across Drax.
- Members of the EBCC include the Group General Counsel (Chair), the Director of Corporate Affairs, the DBI Senior Vice President, the UK Portfolio Generation Director, the Managing Director of Drax Customers, the Group General Counsel and the Group Company Secretary.
- The EBCC supports the Group's commitment to doing the right thing in its business practices. It achieves this by making sure there are appropriate communications to raise awareness and providing appropriate training that informs behaviours in accordance with our Code of Conduct. For more information, see page 72.
- This sub-committee also assesses and challenges the annual review and risk assessment of compliance programmes. These cover anti-bribery and corruption (including conflicts of interest), corporate criminal offences (tax evasion), ethical due diligence, fair competition, privacy, sanctions, Speak Up (whistleblowing), and supply chain human rights.

The Business Ethics team is responsible for the operation of the Group's Speak Up (whistleblowing) programme and reviews its annual risk assessment (most recently completed in early 2022). This includes the external, confidential (and anonymous, should reporters so wish) reporting service that's available in multiple languages. In the 2022 MyVoice 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 page 73.

Our various Speak Up reporting channels are promoted to internal stakeholders across several platforms, and to third parties via our Supplier Code of Conduct. The Business Ethics team responds to any reports from within Drax, as well as those referred via the external service. The Group Company Secretary is the Whistleblowing Officer with oversight of all related investigations, which the Business Ethics team manages. Speak Up matters continue to be reported to the Board and EBCC at the respective meetings, with an annual report of EBCC activities (including Speak Up reports and investigations) provided to the Audit Committee. The Audit Committee also receives a quarterly report on Speak Up.

As stated in our 2021 Annual Report, our Speak Up programme received a positive internal audit in May 2021 (reported to the Audit Committee in July 2021). Most actions raised in the audit were completed within 2021, although one that the Audit Committee was tracking – related to creating an investigation procedure – was carried over into 2022. To close this action, the EBCC created and approved three principle-based guides in June 2022.

The Speak Up (whistleblowing) policy was reviewed in early 2022, with no material changes required. Our two Speak Up guides (one for reporters and the other for managers) were also reviewed and updated then communicated to colleagues in 2022. Both documents reflected our newly-created template for internal Speak Up reports.

The Speak Up programme was rolled out to colleagues in Canada during 2021. In July 2022, there were further communications via the deployment of the Anti-bribery and Corruption Policy and a 'Keeping Ethics in Mind' guide that summarises Business Ethics policies. In September 2022, the full Code of Conduct (including Speak Up content) was issued to former Canadian salaried colleagues; whilst non-salaried colleagues received the 'Code at a Glance'. Our new Princeton colleagues in Canada will be included in the programme from 2023.

We intend to deploy the Speak Up programme to our Drax Asia colleagues in 2023. In preparation, during the second half of 2022, we progressed an external legal review of our Speak Up policy in relation to Japanese whistleblowing legislation.

In addition, the Business Ethics team held two virtual awareness-raising sessions in September 2022 for our MyVoice Forum members and Mental Health First Aiders. A Code of Conduct eLearning refresher (including Speak Up content) was deployed in November 2022 to all UK and US colleagues (although not to our colleagues in Canada).

Corporate Governance Report continued

Diversity

We explain our work promoting diversity of all kinds on pages 69 to 70. The tables on this page show the gender and ethnicity representation on the Board, and the gender representation in the wider workforce, at 31 December 2022.

Gender diversity of the Board and wider workforce

Gender	Male		Female		Total	
	No.	%	No.	%	No.	%
Board members	5	55.6	4	44.4	9	100
Senior managers ⁽¹⁾	45	62	28	38	73	100
All employees ⁽²⁾	2,155	68	992	32	3,147	100
Total	2,205	68	1,024	32	3,229	100

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

(2) Excluding Board members and senior managers.

Gender representation on the Board and Executive Management

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	5	55.56%	4	6	60.00%
Women	4	44.44%	0	4	40.00%
Other categories	0	0.00%	0	0	0.00%
Not specified/prefer not to say	0	0.00%	0	0	0.00%

Ethnicity representation on the Board and Executive Management

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority white groups)	7	77.78%	3	10	100.00%
Mixed/Multiple Ethnic Groups	0	0.00%	0	0	0.00%
Asian/Asian British	0	0.00%	0	0	0.00%
Black/African/Caribbean/Black British	1	11.11%	0	0	0.00%
Other ethnic group, including Arab	0	0.00%	0	0	0.00%
Not specified/prefer not to say	1	11.11%	1	0	0.00%

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 assesses the sufficiency of resources available for the Group to effectively engage. The Corporate Affairs team maintains a detailed map of the Group's key stakeholders, 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 on key stakeholder relations activity, current issues and the relevant feedback received from stakeholder interaction. These updates ensure the Board's awareness and inform discussions, with members taking these opportunities to assess and challenge management's approach relating to engagement.

The methods of engagement vary according to the issue and stakeholder(s) concerned, and engagement takes place at many levels of the business. A judgement is made, case-by-case, on the need for engagement by the Board, Executive Committee or senior management, or at the operational level. Management also keeps under review the relevant stakeholders that may be affected by major decisions.

During 2022, the Board received reports on the engagement strategy from a range of stakeholders. The topics included BECCS and the potential expansion of the Cruachan pumped storage power station (see page 95). The Board also considered biomass acceptability and strategy, and the possible use of the coal units over winter 2022-2023 (see page 107). 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.

The Board has a duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006. Supporting this, Board discussions – and papers – for material decisions consider the likely impact on stakeholders affected by the decisions. This helps to ensure that the interests of all relevant stakeholders are considered in decision-making. You can find our Section 172 Statement on page 26.

For more detailed information on our stakeholders and how we engage with them, please refer to our Stakeholder Engagement section on pages 26 to 33.

Directors' development and induction

The Board are supported in their development and knowledge through a combination of 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 and equip the Non-Executive Directors with insight into how the Drax approach compares with the practices of its peers.

All new Directors receive a comprehensive and tailored induction programme. It includes meetings with key managers, international site visits, briefings on key operational matters and training with external and internal providers on Board procedures and governance matters. Following their appointment in October 2021, Kim Keating and Erika Peterman completed their induction programme during the first half of 2022.

Throughout 2022, 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 they judge it necessary to discharge their responsibilities effectively. No such independent advice was sought in 2022.

Board decision-making and stakeholder considerations – Extension of coal operations and energy security

In 2020, the Board announced that by 2021 Drax would cease the commercial operation of coal for the generation of power. This decision was, and remains, an integral part of the delivery of our carbon negative strategy. This is also underpinned by the further development of generation through the use of viable and sustainable alternative fuels. As a consequence of the energy crisis and the war in Ukraine, in spring 2022 the UK Government requested that Drax consider making available its two coal fired units for operation during winter 2022-2023 under a formal operational and commercial framework.

With regular discussions on the matter, the Board diligently examined this request and established a sub-Committee consisting of the Chair, CEO and CFO. Additionally, a new management working group fed into the Executive Committee to consider the impact of extended coal operations. Early in the process, the Board took advice from key advisers including our brokers and our lawyers, Slaughter and May. The analysis included scenario-planning and reports on different stakeholders' perspectives and their concerns.

It was emphasised that the aim of operating the coal units, if required, was not to generate significant value for the Company. Instead, the expectation was to enter into an agreement with National Grid ESO that would allow for extended coal operations in consideration for a reasonable fee, to ensure the Group's costs were reimbursed, and to ensure additional risks which might arise were suitably indemnified. In seeking such a structure, management was cognisant of the views of external stakeholders, including shareholders. It also took account of the

Group's willingness to support the country, businesses, and communities in the security of energy supply at a time of potential need.

As the Government's request represented a significant change from the Company's stated strategy, the Board placed significant importance on stakeholder views. We gained updates on the views of energy customers, employees, NGOs, Ofgem and shareholders. We also considered concerns regarding the impact on the delivery of BECCS at Drax Power Station and the possible reputational impact. After thorough review, the Board concluded that it did not expect that a decision to make available the coal units over winter 2022-2023 would adversely affect the timing of realising BECCS. However, it was noted that the 2023 phase of the BECCS project continues to rely heavily on the UK Government's financial model that supports BECCS.

Operationally, the Board considered site and logistics security to enable the units to achieve a state of readiness. This included the recruitment of experienced contractors and provision of training, and the identification of supply chain partners. It was also recognised that the amount of coal generation was not significant when compared to energy generation from sustainable and renewable biomass. Furthermore, and crucially, the request related to a short-term challenge to address a security of supply issue for the UK's energy needs.

Throughout its consideration, the Board was cognisant of its stated strategy; the Directors remain committed to the cessation of the coal operation and to becoming carbon negative by 2030. The Board was also respectful of the views of stakeholders both within the Company and those outside who were averse to enabling the coal assets to be operated. The decision to agree to operate the coal units during winter 2022-2023, if required, resulted from several factors, including the highly unusual circumstances arising from the war in Ukraine. Other factors included high levels of energy uncertainty, energy market volatility, and the fact that Drax forms a key part of the UK's critical energy infrastructure.

2022 External evaluation of the Board

The Board conducts formal performance evaluations annually. These reflect on the continuing effectiveness of its activities and the quality of its decisions, and consider the contributions made by each Board member. In line with the UK Corporate Governance Code requirements, every third year the Board engages an external facilitator to support the review. Board Alchemy supported the review in 2019 and Committee performance evaluation in 2020. Board Alchemy has no other connection with the Group or individual Directors.

Selection of the provider

In preparing for the 2022 review, the Board agreed that Board Alchemy should be re-appointed. In so doing the Board recognised that there had been significant changes since the previous external review. These included the appointment of two new Non-Executive Directors as well as a transformational acquisition and significant change in the activities of the Group combined with progression in strategy. Board Alchemy brought knowledge of the business and its objectives, and an understanding of how the Board had been performing (and its goals from three years ago). These insights were considered valuable in supporting the present review and allowing a degree of continuity that considered how the Board had evolved and responded to the changes experienced. Following consideration of the style of assessment, reflection and challenge, provided by Hanif Barma of Board Alchemy, the Board concluded that he was the most appropriate choice of reviewer.

Corporate Governance Report continued

The process

Hanif commenced the review by consulting public information on the Group. Subsequent conversations with the Goup Company Secretary added additional context to the written materials and allowed for an assessment of progress since the last external review. The Directors completed questionnaires and took part in interviews to support discussions on key topics and gain feedback. Hanif also met selected members of the Executive Committee and observed the September meetings of the Board and Remuneration Committee, and the November 2022 meeting of the Audit Committee. After collating all feedback, a report was presented to the Board at the December 2022 meeting.

Outcomes

In November 2022, David Nussbaum, Senior Independent Director, received feedback from Hanif regarding the Chair's performance; the Chair was not present for this discussion. Later in November, David provided feedback to the Chair based on the conversation with Hanif. The conclusions of the feedback were that the Chair continued to perform well and was an effective enabler to the Directors, promoting open dialogue and

good engagement amongst Board members. The Directors had noted progress in relation to feedback provided the previous year. Apart from the topics arising from the separate, overall board performance evaluation, the Directors did not identify further areas that merited the Chair's attention. Hanif also met the Chair to discuss the performance of individual Directors and the comments were fed back to the relevant Directors.

Although there were no high priority actions for the Board, some recommendations and suggestions were provided and are set out on page 114, alongside the outcomes and actions to be taken over the coming year.

Number of meetings held

The Board and its Committees have regular scheduled meetings and hold additional meetings as required to deal with matters as they arise. The Board has seven 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 prior approval from the Board, take on additional roles provided the individual can continue to devote sufficient time to meet the expectations of their role. No requests for new external roles have been received from the Non-Executive Directors during the year.

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 2022 enabled the Board to assess the effectiveness of actions being taken and to scrutinise both the financial and non-financial impacts of the pandemic. More information on these visits can be found on pages 95 and 96 of the report.

Board composition and independence

The Board has reviewed the independence of each Non-Executive Director. None of the Non-Executive Directors who served during 2022 had any material business or other relationship with the Group. In addition, there were no other matters 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. It also recognises 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

In 2019, the Board selected the MyVoice Forums (MVFs) as the most appropriate means to facilitate workforce engagement. This decision was informed by the workforce forums already existing in parts of the business. These 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. Across the Group, we have approximately 50 representatives, drawn from across career levels and jobs roles, and representing 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.

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 topics previously agreed to be important to the Board and workforce. Following each meeting, the Chair and CEO provide updates to the Board, to make sure all Directors understand the views of colleagues and feedback received. Engagement with the MVF chairs has been valuable in helping the Board gain ongoing feedback as the Group continues to evolve.

Topics discussed in 2022 included our return to offices following the Covid-19 pandemic and the move towards hybrid working. The Chair and CEO also gained feedback on internal

events which had taken place and which were designed to raise awareness and encourage discussion about inclusion (Black History Month and Neurodiversity). Other topics included Russia's invasion of Ukraine and its impact on energy prices; the rising cost-of-living; Drax Power Station running coal; and biomass sustainability. The forums offer a safe space in which to address direct questions raised by the MVF chairs, and to discuss important issues.

The MVFs continue to be a key part of our listening strategy and work in tandem with the MyVoice engagement survey. The forums provide valuable, deeper insight to the survey themes and deliver further input to the resulting action plans.

Following the 2021 engagement survey, our MVFs provided valuable insight concerning career and growth opportunities. The engagement and feedback from the forums helped to shape and drive our plans, which has resulted in a 4% rise in favourable responses in the 2022 MyVoice survey compared to 2021.

Each week, the CEO sends an email to the entire workforce with an update on what he and the business have been doing, and with answers to colleague questions. During 2022, the CEO received over 1,900 questions on topics including the rising cost-of-living, and the impact on electricity generators of the Russian invasion of Ukraine, wider political changes and UK windfall taxes.

Corporate Governance Report continued

Board attendance 2022

The table below shows the number of meetings held and the directors' attendance during 2022.

Director	Date appointed as a director and member of the Board	Scheduled meetings ⁽¹⁾	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	7	7	100%
Philip Cox	1 January 2015	7	7	100%
Will Gardiner	16 November 2015	7	7	100%
Nicola Hodson	12 January 2018	7	7	100%
Kim Keating	21 October 2021	7	7	100%
David Nussbaum	1 August 2017	7	7	100%
Erika Peterman	21 October 2021	7	7	100%
Andy Skelton	2 January 2019	7	7	100%
Vanessa Simms	19 June 2018	7	7	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 2022

In addition to the topics discussed earlier in the Corporate Governance Report, the Board considered the following key items in 2022.

Board strategy event

- Over a two-day period in October 2022, the Board conducted its annual deep dive into strategy. The two days included presentations from management and discussions with various internal stakeholders from across the organisation. The sessions provided insight into market context, opportunities for the growth of the Group, including the deployment of BECCS internationally and explanation of key stakeholders involved in supporting the Group's plans. Discussions were also held on sustainability and the capabilities to enable the realisation of the Group's plans for growth using sustainable biomass.

Health, safety and wellbeing

- In April 2022, following a visit by several Directors to a selection of the North American sites, the Board discussed working practices and agreed that efforts to harmonise health and safety standards across all the Group's operations should be ongoing. In November 2022, the Remuneration Committee agreed that a safety KPI be reintroduced to the 2023 bonus scorecard. You can read more about this in the Remuneration Committee Report on page 156.

Operations

- Considered and approved the development of, and investment in, BECCS.
- Considered and approved the planning process to develop an additional underground pumped hydro storage power station at Cruachan – with the potential for more than doubling the electricity generating capacity at that site.
- Considered the risks related to the Government's request to operate the coal units if called upon, over winter 2022/23. See page 107 for more information.

Nomination Committee report



Philip Cox CBE, Chair

As the Group grows and evolves, having leaders with the right mix of skills and capabilities to deliver our strategy and purpose, is key.

Committee members

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

Attending by invitation

CEO

Number of meetings held in 2022: One ⁽¹⁾

The Group Company Secretary is Secretary to the Committee.

Attendance in 2022

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	1	1	100%
Philip Cox	22 April 2015	1	1	100%
Nicola Hodson	12 January 2018	1	1	100%
Kim Keating	21 October 2021	1	1	100%
David Nussbaum	1 August 2017	1	1	100%
Erika Peterman	21 October 2021	1	1	100%
Vanessa Simms	19 June 2018	1	1	100%

(1) As explained on page 112, additional time and focus outside of formal meetings was given by Nomination Committee members to discuss the Chair's succession.

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) in relation to delivering the long-term success of the Group
- Ensure a succession planning process is in place 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 the Board and Committee evaluation

Nomination Committee activities since the last report

- Discussed the process and search for a new Chair
- Non-Executive Directors considered the renewal of John Baxter's letter of appointment as part of a Board meeting
- Considered a report on succession planning at executive and senior management levels
- Reviewed and approved the updated Board Diversity Policy, to reflect FRC guidance

Introduction

I am pleased to present the Nomination Committee Report for the year ended 31 December 2022.

The Nomination Committee has overall responsibility for people matters, with a particular focus on Board level and senior management. To support the long-term success of the Company, the Committee also assesses the adequacy of internal processes. These processes concern reviewing and evolving the balance of skills, experience and diversity required which increasingly takes account of the Group's extended global footprint. The work includes challenging executive management on whether the capabilities within the organisation are sufficient, and the steps being taken to ensure appropriate assessment and forward planning takes place to support the delivery of the Group's strategy. The work also covers succession, through the development of existing talent and identification of alternative talent sources that might be outside the Group. Board members and senior management must be able to deliver the Group's purpose, and in conjunction with supporting and enabling that realisation consistent with our values, and to do so with due regard for the requirements of Drax's stakeholders.

Terms of reference

The Committee's terms of reference are reviewed annually, most recently in February 2023. The terms of reference are available on the Group's website at www.drax.com/governance

Nominations Committee Report continued

Given the growing international presence and complexity of Drax, the Committee recognises the importance of having effective measures in place, embedded within the regular considerations and actions of the business that ensure management properly understand the requirements of our business. Drax requires people with new skill sets and experience in activities which the Group may not previously have undertaken. For example, delivering options for BECCS in North America continues to progress and, in 2023, we will be growing our teams in North America (including into new states in the US). In September 2022, we welcomed new colleagues at Drax Princeton (Princeton Standard Pellet Corporation), a site that will assist in our efforts to reach 8Mt p.a. of sustainable biomass pellets by 2030. During 2022, we also opened a sales office in Japan; the first time the Group has had a presence in Asia. This is an exciting step towards our strategy to increase biomass sales in the Asian markets. These developments demonstrate the significance of building strength amongst our colleagues, including senior management.

A priority for the Board and Nomination Committee is assessing how these developments in the business align with the Group's imperative of broadening diversity in the enlarged Group. We are also conscious of taking into account the local communities in which we operate, trends across wider society, and the ability of the Group – and its people – to adapt. We recognise that such work has its challenges, and the Board is committed to playing a role in shaping that activity. It is also dedicated to ensuring diversity, equity and inclusion are fundamental to the recruitment, retention, career progression and personal development activities across the business. We recognise that such activity is central to enabling the right culture and values of the Group, and to long-term success.

Succession planning and diversity

I was appointed to the Company as a Non-Executive Director in January 2015 and appointed to the position of Chair in April 2015. Since my appointment to the Board in January 2015 I have seen Drax change and grow, establishing itself as a business that is not only a key part of the UK's national infrastructure, but also leading new ways of supporting businesses and communities using innovative, reliable and sustainable sources of power generation. My third and final three-year term is due to expire in December 2023. As part of the 2020 review into my re-appointment for that final term, the Committee proposed the search for a successor should start early enough to allow for a thorough recruitment process. This is intended to facilitate an overlap period when the Chair-designate could join the Board with sufficient time to complete a meaningful onboarding process.

A robust process is in place to support the structured succession and to ensure objectivity. Our Senior Independent Director leads this and I will continue to provide input, as requested. Additional time and focus has been given by Nomination Committee members to discuss these matters, forming part of Board meetings and informally outside of meetings. Firstly, following a rigorous review of an initial six advisers by a subset of the Nomination Committee, four firms were invited to present. Following those presentations to the subset of the Committee, Heidrick and Struggles were appointed in October 2022. A key advantage of this firm has been its ability to conduct an international search, reflecting the structure of our growing Group across the US, Canada, Asia and Europe. Our structure also brings a level of complexity, so the search will include candidates with experience in large multi-national groups. It should be noted that Heidrick and Struggles is signed up to The Voluntary Code of Conduct for Executive Search Firms, which ensures it factors diversity considerations into its recruitment advice and has no other engagement with the Group or conflict which would impact their role.

During 2022, the Committee also reviewed and updated the Board Diversity Policy (the 'Policy'), with due regard for the FCA Policy Statement on diversity and inclusion on Boards and in executive management. The Policy states the Company's support for the recommendations from the FTSE Women Leaders Review and the Parker Review. It also confirms our objective to maintain at least 40% female director representation and to have at least one director from an ethnic minority. As shown on page 106, these targets are currently fulfilled. The Policy also highlights that the Board believes a commitment to diversity and inclusion is fundamental to achieving our strategic goals and delivering a zero carbon, lower cost energy future.

While recognising the steps already taken on diversity, the Board and Nomination Committee are conscious this remains an important element of ensuring the appropriate balance of skills, knowledge and experience. Members of the Board also continue to be strong advocates for enabling positive and constructive change in the wider workforce, which recognises the value from diversity.

Each year, the Committee reviews the Group's measures to enable succession planning and assesses alignment with the Group's strategy and the realisation of its objectives. This relates to the skills, capabilities and experience needed to deliver our strategy. The review includes identifying colleagues with the potential to progress into more senior roles, across a timeframe of one to five years. It also incorporates factors such as technical skills, experience, behaviours and attitudes. The most recent meeting considering these matters in depth was held in November 2022. The Board is of the view that high performing companies are enabled by greater diversity and has challenged management on the need for effective recruitment, onboarding and career development programmes that ensure diversity is proactively included. We remain of the view more needs to be done in these areas.

The review also 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 providing each of the candidates with appropriate training. Management outlined the training implemented during 2022, how its evolution would encompass a wider cross-section of employees, and how targeted training supports them in their personal development. The Committee asked to be kept updated in 2023 to understand the progress being made. In addition, the Committee endorsed the need for ensuring there was a suitable level of understanding about the technical requirements of roles identified. Importantly this should take account of emerging technologies, as well as capabilities in new types of markets – for example markets for Carbon Offsets, in which the Group will need to participate and how such areas might inform recruitment processes.

As part of the succession review, the Committee discussed the Group's progress on gender diversity. This included work to identify talent earlier in career paths, for example by focusing on diversity data when hiring new employees and converting diverse job applicants into new hires. In 2022, the Company also set up partnerships to help attract diverse candidates. We adopted female-biased language when advertising for Apprentice Engineers, which resulted in an increase to the number of female applicants and subsequent engineer hires. The proportion of female apprentices increased, from 14% at the end of 2021 to 21% at the end of 2022. A ratio of one female to every four male apprentices is progress but we believe more needs to be done. During 2022, we also launched our Senior Leadership Development offering to support the growth of our senior leaders. This involves having a consultation with our internal leadership development experts to co-create

bespoke development journeys. Options available to employees include a diagnosis of development needs through psychometrics and 360-degree feedback and sourcing an executive coach or mentor. Options also include support in sourcing formal qualifications within a newly-created programme, which would be subject to evaluation and feedback. A total of 84 senior leaders took advantage of this offering in 2022, and we hope the number will continue to grow throughout 2023.

Currently, out of a total of ten Executive Committee members at 31 December 2022, four (40%) are female. No changes to the members of the Executive Committee were made during 2022. You can see more details about our Executive Committee members here: www.drax.com/about-us/corporate-governance/board-and-committees/.

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. The 2023 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. We continue to invest additional resources into this important area with the recruitment and onboarding of a Diversity, Equity and Inclusion (DE&I) team. To engage colleagues more broadly with DE&I, and encourage consideration of the issues while taking positive steps to influence culture and behaviours, a series of key events took place. This included the Group marking Black History month in February 2022. At the start of the month, Non-Executive Director Erika Peterman recorded a personal video message for colleagues, and there was a live panel event where colleagues shared their experiences. Work was also undertaken to align the wellbeing strategy with inclusion, recognising the intrinsic link between an individual's sense of wellbeing and belonging. The organisation has also recognised the National Day for Truth & Reconciliation in Canada and held neurodiversity awareness events. The Colleague Resource Groups (CRGs) that represent gender, ethnicity, sexual orientation, and neurodiversity were launched in August 2022 and began recruiting for Chairs, sponsors and regional representatives. The goal is to further drive employee engagement, safety and wellbeing, and the work will continue into 2023. The groups aim to attract colleagues from across all our regions, to increase visibility, engagement and understanding about a range of topics.

The Nomination Committee and Board receives updates on management programmes to 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. The activities are an important part of our role in the industry, and they allow for two-way engagement. Our five-year programme with Selby College, which we started in 2020, continues and we have regular partnership meetings where we discuss opportunities for both parties to work together. The college has also delivered a course on BECCS and rolled it out to colleagues within the business; further cohorts are planned for 2023. In addition, the college continues to deliver our upskilling Engineering Manufacturing Technician Apprenticeship and we currently have 17 students on the course. The college also provides other engineering-related training.

Non-Executive Directors: terms of appointment

Under the Board's policy, Non-Executive Directors are appointed for an initial term of three years, which can be renewed by mutual agreement. For this to happen, the Board must be satisfied with the director's performance and commitment, and a resolution to re-elect at the appropriate AGM be successful. The Board will not normally extend the aggregate period of service of any independent Non-Executive Director beyond nine years.

What's more, the Board will rigorously review any proposal to extend a Non-Executive Director's aggregate period of office beyond six years.

In 2022, the Board considered the re-appointment of John Baxter, for a second term of three years. The Board considered John's skills and contribution, together with the feedback from the externally-supported evaluations of the Board and our Committees. Following this, and on recommendation from the Non-Executive Directors, the Board approved the extension of his appointment for a further three years, taking effect from 16 April 2022.

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 2022, an externally-facilitated evaluation of the Board and its Committees was conducted by Board Alchemy. There is a detailed update on the Board evaluation process on page 107 and 108.

The external performance evaluator – Hanif Barma at Board Alchemy – commented in his report on the Board's progress regarding director diversity, since his last performance review in 2019. Pleasingly, feedback included in Hanif's 2022 review as provided by the Directors, is that both our Non-Executive Directors who were appointed in 2021 – Kim Keating and Erika Peterman – have made valuable contributions to the quality of Board discussions.

The evaluation also determined that the Board and Committees were led well by effective, inclusive chairs. It was also concluded that the Board and Committee members had the requisite skills and experience to provide valuable contributions and effective challenge. Hanif also highlighted the progress made regarding Director diversity. At its meeting in December, the Board assessed the performance evaluation report and progress in responding to the open recommendations from previous evaluations. The table on page 114 summarises progress from the most recent evaluations and how we responded to them in 2022.

The Nomination Committee is aware of the importance of ensuring existing Board members continue to develop their understanding as the Group evolves. This is highlighted in a recommendation from the independent performance review reported to the Board in December. One area identified was to consider 'refresher' training sessions on hedging strategy, trading and energy commodity markets.

Recommendations from previously-raised Board and Committee evaluations have been addressed, with certain items involving continued work and focus.

Previously-identified needs included making the best use of the Board's time to enable Directors to make the fullest contribution, and the processes around induction and obtaining external viewpoints. Improvements in the quality of papers submitted to, and presentations delivered by management at Board meetings were highlighted as potential remedies; efforts to refine and develop Board packs continue. During the October 2022 Board strategy meetings, the Board were complimentary on the progress the business had made in developing meeting materials and enabling informative discussions that resulted from them. As the business evolves and grows, the focus will be on the Board papers and what new and additional information is required to ensure ongoing rigour.

Nominations Committee Report continued

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

	Recommendation	Comments
1.	Provide 'refresher' development to Board non-executives in areas relating to hedging strategy plus trading and commodity markets. Adopt a structured approach to determining training needs for Board members.	During 2023 a number of training sessions will take place and Directors will be consulted on any individual training needs.
2.	Enable Board members to visit Drax assets more regularly, particularly since this has been difficult in recent years. Members should use visits as an opportunity to engage with staff.	The Board agrees that Non-Executive Directors would benefit from visiting at least one asset per year, outside of the usual schedule Board trips.
3.	Consider using the Chair succession exercise to meet new requirement for a woman to hold one of the four senior roles on the Board.	Diversity is actively being considered as part of the recruitment process. Heidrick and Struggles are also signed up to the Voluntary Code of Conduct for Executive Search Firms.
4.	Obtain specific feedback from Board members about how to further improve papers submitted to the Board.	Directors will be consulted about meeting materials.
5.	Ensure less-experienced members of the management team who present papers to the Board are consistently well-briefed and adequately prepared.	This action is part of an ongoing initiative to provide the opportunity for the Board to meet with a wider cross section of employees as part of routine business. From 2023 additional support will be provided to new presenters.
6.	Establish formal terms of reference for the Independent Advisory Board (IAB) to Drax, then regularly review and update them.	Terms of reference are in place and were last reviewed by the IAB in September 2022. They will be considered by the Board in 2023.
7.	The Board should discuss the merits of establishing a Sustainability Committee and, if the decision is to proceed, consider the timing of its launch and its remit.	The Board have asked the CEO to evaluate the potential contribution of a separate sustainability committee, including its objectives, constituent members and the degree of oversight provided by the Board to its conduct of business. This will be considered further by the Board in 2023.
8.	Give attention to the development of a digital strategy to support the broader business strategy and purpose of Drax.	A digital strategy will be developed and presented to the Board in 2023.
9.	At Board level, undertake a 'lessons learned' review of the Pinnacle acquisition and establish the practice of conducting similar reviews on a regular basis.	An initial paper on lessons learned should be presented to the Executive Committee, following which a Board discussion will be held in 2023.
10.	Consider resuming the practice of holding occasional Board meetings away from the London head office.	The Board agree that at least one Board meeting each year should be held at a different site. In addition, a Board visit to Cruachan Power Station is planned for June 2023.
11.	The Board should seek management views about how the Non-Executive Directors might better support the Executive in stakeholder management.	In 2022 the Board discussed how Non-Executive Directors could participate in stakeholder engagement beyond the regular work of the Chair. A Board paper detailing peer methods of engagement will be considered in 2023.
12.	The Board should discuss how to evolve support for local communities, particularly through the creation of employment opportunities for minority groups.	A paper detailing support opportunities will be presented to the Executive Committee, following which a Board discussion will be held in 2023.
13.	The Remuneration Committee's terms of reference should include a responsibility to annually review the performance of the remuneration consultants.	The terms of reference were updated and approved at the the February 2023 Remuneration Committee.

Embedding the Company's values and culture within the wider workforce is an area of continued focus. The Board's imperative of ensuring culture, values and behaviours is appreciated, and evidenced in many legacy operations, needs to continue to be embedded in the American and Canadian assets. As the business grows, it will also be important to understand and embrace the breadth of diversity in the communities where we operate, ensuring that people from diverse backgrounds feel supported and we learn from colleagues inside and stakeholders outside about how we as a Group can grow. There is more information about our work with local communities on pages 28 to 33.

Skills and knowledge of the Board

A key responsibility of the Committee is ensuring the Board maintains a balance of skills, knowledge and experience appropriate to the long-term operation of the business and strategy delivery. The Nomination Committee has reviewed the Board's composition, considering whether it has:

- The right mix of skills, experience and diversity
- An appropriate balance of Executive Directors and Non-Executive Directors
- Non-Executive Directors who can 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 to operate effectively, now and for the future. All the Directors have many years of experience, gained from a broad variety of businesses. Collectively they bring a range of expertise and sector knowledge to Board deliberations, which encourages constructive, challenging and insightful discussions.



The Board at Drax does many things well but most striking for me was the Board's mindset. It thinks broadly and deeply about how it does things, and is willing to challenge itself about the way it works. It is proactive but, as circumstances change, this mindset means it also reacts and responds with positive engagement from board members; the Board looks at things from different perspectives and reflects on feedback that it receives. Embracing diversity and inclusion has been an important enabler of this outcome, and this operates at two levels. Boardroom diversity is a key strength and, for example, the Board has responded to Drax's shift from UK to global business by internationalising the Board. The Board also actively promotes organisational diversity, understanding that this will underpin the business's long-term success. It engages actively with staff through the MyVoice Forum and asset visits, seeking to understand staff viewpoints. It is now striving for greater participation of local and indigenous communities in Drax's workforce." Hanif Barma, Board Alchemy

Renewal and re-election

Any newly appointed Director may hold office until the first AGM following their appointment. At that meeting, they must submit themselves for election by shareholders.

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. The evaluation and review of the Board and its Committees, described above, concluded that each Director continues to demonstrate commitment, management and business expertise in their particular role. They continue to perform effectively. Accordingly, John Baxter, Philip Cox, Will Gardiner, Nicola Hodson, Kim Keating, David Nussbaum, Erika Peterman, Andy Skelton and Vanessa Simms will all retire at the forthcoming AGM. Being eligible, they will offer themselves for re-election.

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 takes place. Details 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
22 February 2023

Audit Committee report



Vanessa Simms, Chair

The Committee seeks to ensure transparent and accurate reporting of financial and operational performance, and robust wider business controls

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), others as required.

Number of meetings held in 2022: Four

In addition to the meetings mentioned in the table below, Vanessa attended several planning meetings with management 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 auditor and internal auditor at intervals throughout the course of the year to discuss planning for work and specific items such as engagement with the Financial Reporting Council (FRC), progress on the evolution of the UK's governance environment and responses to recommended actions from previous reports.

Attendance in 2022

Committee member	Date appointed a member	No. of scheduled meetings	No. of meetings attended	% of meetings attended
Nicola Hodson	12 January 2018	4	4	100%
David Nussbaum	1 August 2017	4	4	100%
Erika Peterman	21 October 2021	4	4	100%
Vanessa Simms	19 June 2018	4	4	100%

John Baxter attended the April 2022 meeting by invitation.

Introduction

The role of the Audit Committee is to provide oversight of the financial reporting process, the internal and external audit process, the Group's system of risk management and internal control, and compliance with laws and regulations. This is to ensure transparent and accurate reporting that covers financial and operational performance and future prospects, and robust wider business controls required for the day-to-day conduct of all aspects of its business. Through this activity the Committee also assesses whether stakeholders are able to gain a fair and balanced understanding of how the Group is performing, its underlying resilience, and the effectiveness of the governance applied in the conduct of its business.

Such work is particularly important in times of volatility and uncertainty. 2022 saw continued macro-economic and geo-political challenges that have affected many aspects of society. This has included the ongoing conflict in Ukraine, the global energy crisis and inflationary pressures; each of which have impacted businesses and consumers. In such times, management have a responsibility to link the sound business practices mentioned above with proactively understanding and responding to the immediate challenges affecting our stakeholders and wider society. In turn, the Audit Committee considers the robustness of the process in making those decisions, challenges management on the tracking and assessment of emerging risks and evaluates the appropriateness of controls, including potential required changes required to those controls.

As described by Will Gardiner in his CEO report, on page 12, 2022 saw Drax continue to invest in delivering on its strategy and purpose. Progress made included, developing options for BECCS; commissioning of additional operational capacity of pellet production in North America; and delivering growth across our commercial operations. In so doing our employees worked exceptionally hard, responding to challenges such as securing the required volume of biomass to meet the demand of our plant in the UK and to fulfil third party supply contracts; working with customers facing uncertainty in meeting their energy bills; and developing the commercial frameworks that could support our

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.

BECCS programme. In addition, colleagues responded to the impact on the UK of the energy crisis, in particular helping to bolster the country's energy security by providing a "winter contingency" service, making available for operation the coal-fired generation units at Drax Power Station to support the UK power system for the winter of 2022-2023 should they be called upon to operate.

Considering how to respond to the UK Government's request for a winter contingency, requiring Drax to provide the operational readiness of the Group's coal-fired generation units, was a key activity in 2022. We speak more about this process in the Corporate Governance Report on page 102. The evaluation involved consideration of multiple issues, which included the risks of ensuring the assets would be capable of operating if called upon by National Grid. The Audit Committee supported the Board in considering these issues. At our meeting held in July, management were asked to report back to the Board in the autumn on actual steps taken to ensure operational readiness and the mitigation of identified risks, on which they reported in November 2022. This allowed us to further assess the adequacy of steps taken and follow through on actions implemented which sought to mitigate identified features.

2022 began against a backdrop of increasing tensions in Ukraine, and the subsequent invasion by Russia in February 2022. With the introduction of sanctions regimes, Drax acted quickly to secure alternative sources of biomass to replace those of Russian and Belarusian origin. During the year, the Committee was appraised of the work being undertaken to transition to alternate sources, including the steps being taken by management to be assured of sustainable sourcing. This included reviewing the biomass acceptability principal risk, and the level of independent assurance obtained. More information on our sustainable sourcing practices can be found on page 40, and more information on our biomass acceptability risks can be found on page 86.

Geo-political tensions have further increased the threat of disruption to businesses and organisations from cyber-attacks. Our response to cyber threats is an important part of assessing the effectiveness of our internal controls. We explain in more detail our evaluation and response to cyber risks on pages 80 and 91. During 2022 the Committee received reports on cyber security and cyber risk management. This included both the threat assessment and the actions being taken, including the levels of future investment required in people, processes and systems. We also received information on the level of sophistication of threat activists. For example, the Committee considered the breadth of different attack strategies and the data captured on the form of such attacks.

The Group's generation assets form part of the UK's critical national infrastructure, and Drax is designated as an Operator of Essential Services. As such, Drax is required to maintain a defined level of resilience to defend against potential cyber-attacks. The Committee considered a report in April 2022 on how management is meeting its regulatory obligations and comparing the internal status to updated benchmark guidance from the UK Government. In November 2022 the Committee also considered a detailed report from the cyber security function on our independently assessed current state of preparedness, and recommendations on how to continue to enhance our capabilities, reflecting the evolving requirements of regulators in addition to management's own understanding of the emerging risks. The Committee will monitor actions resulting from these reviews at future meetings.

The Committee discussed the strength of the team, their experience and operational capabilities to evaluate the evolving threats and to implement the required resilience, in addition to the training and awareness promoted across the wider organisation to cyber-attacks. The Committee will continue to assess whether the capabilities of the team are at the appropriate level to maintain the required level of resilience. The Committee and Board have been supportive of enhancements including additional investment and recruitment as part of responding to the emerging threats.

Another consequence of the conflict in Ukraine has been to significantly increase volatility in global commodity markets. As discussed on page 80 this volatility increases certain risks to the Group, including those associated with an unplanned outage on our generating assets. The Committee was updated at each of their meetings during 2022 on how these increased risks are being managed, and the additional mitigations introduced by management to assess whether balanced and proportionate actions were being taken.

The Committee receives periodic reports on the work to assess compliance with material regulations or policy pertaining to the Group's activities. During 2022, this covered areas including cyber security, safety, and sustainability supported by reports from management and, where appropriate, subject matter experts.

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, and inviting challenge from the external auditor on the approach taken
- Advising the Board on whether the Committee believes the Annual Report and Accounts are fair, balanced and understandable
- Reviewing the systems of internal control and risk management, including consideration of emerging risks
- Supporting the Board in establishing a culture of honesty and ethical behaviour, including oversight of whistleblowing procedures, fraud risk and controls
- Assessing the requirement for, and reviewing the outputs from, independent external assurance and verification
- 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 to ensure the external auditor's independence and objectivity
- Making recommendations to the Board (to put to shareholders for approval) regarding the appointment of the external auditor
- Monitoring and reviewing the effectiveness of the internal audit function

As Chair of the Committee, I report to the Board on the Committee's activities and considerations following each meeting. All members of the Board also 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 the resources of their teams. The Committee also has access to external professional advice as required and deemed necessary. I hold meetings with the Chief Financial Officer, external auditor and internal auditor 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.

Audit Committee Report continued

The Committee allows time at each meeting to speak in the absence of management or advisers. In addition, the Committee meets both the external auditor and the internal auditor without management present. Where required, this allows the Committee members to discuss areas for attention and identify potential areas of challenge. 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 2022. The feedback from the recent Board and Committee evaluation is that such discussions support transparency and positive discussion.

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 2022, an external review was undertaken of the Board and its Committees, including the Audit Committee (see page 107 for further details). The review concluded that the Audit Committee continued to work well. Meetings are chaired well; the Committee Chair is inclusive and encourages contributions from Committee members, who contribute freely, provide good challenge and ask pertinent questions. There is good engagement and positive relationships with both the external auditor and the internal auditor. High quality papers are produced to support the meetings and Committee members have fed back positively on the information they receive. The respective Committee Chairs work together well and coordinate when necessary (one such example being on target setting and assessment of reward outcomes for performance related incentives) to avoid a siloed approach to the work of the Committees. An internal review will be conducted in 2023.

Committee activities in 2022

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 external 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 or external conditions, 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 2022 at its routinely scheduled meetings are set out in the table below.

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

The Committee received updates on the Group's risk management and internal control environment and reviewed internal audit reports at each of the four meetings held during 2022. It gave particular focus to the emerging risks arising from the conflict in Ukraine and ongoing volatility within commodity markets, and how management were responding.

At its meeting in April, the Committee considered in detail how management had responded to the emerging risks from the conflict in Ukraine, including the formation of a working group, detailed tracking of risks, and the escalation of key items to the Executive Committee and Board as appropriate. In addition, a deep-dive was performed into the impact of the conflict on cyber security risks, incorporating information provided by external parties, and considering the actions both already taken and planned in response.

February	April	July	November
Item under review			
<ul style="list-style-type: none"> The 2021 year-end review of key financial and reporting matters An update on going concern and viability Final report from Deloitte on its 2021 audit findings The 2021 Annual Report and Accounts and preliminary results announcement The verification process undertaken to support the 2021 Annual Report and Accounts An update on the effectiveness of risk management and internal controls during the period An update on the Group Assurance Map Year-end risk review, including ongoing risks and mitigations arising from Covid-19 and emerging risks from the conflict in Ukraine An update on whistleblowing Summary of internal audit reviews for the period and outstanding actions An update on the external auditor tender process 	<ul style="list-style-type: none"> Management update on key financial and reporting matters The external auditor's management letter for the 2021 audit, including management responses and actions An update on the effectiveness of risk management and internal controls during the period An update on internal controls and risk management of cyber security, including the impact from the conflict in Ukraine An update on whistleblowing Summary of internal audit reviews for the period and outstanding actions The effectiveness of the 2021 external audit process Senior Accounting Officer reporting to HMRC An update on the Group Tax Strategy 	<ul style="list-style-type: none"> The 2022 interim review of key financial and reporting matters Report from Deloitte on its 2022 half year review findings The external auditor's response to the report from the FRC's Audit Quality Review (AQR) team on its 2020 audit Consideration of the 2022 Half Year Report and results announcement An update on the effectiveness of risk management and internal controls during the period Half year risk review, and reporting included in the Half Year Report An update on internal controls and risk management of sustainability, supported by an external review An update from the Ethics and Business Conduct Committee An update on whistleblowing The Audit Committee's terms of reference The Auditor Independence Policy 	<ul style="list-style-type: none"> Management update on key financial and reporting matters affecting 2022 Plan and timetable for the 2022 Annual Report and Accounts Planning report from Deloitte on the 2022 audit, including response to AQR team report Summary of internal audit reviews for the period, outstanding actions, and the proposed plan for 2023 An update on Audit and Corporate Governance reform, and management actions An update on internal controls and risk management of health, safety and environment An update on the effectiveness of risk management and internal controls during the period An update on the Group Assurance Map A review of the Group's Principal Risks An update on whistleblowing A review of the ESG metrics published in the Annual Report and Accounts, and their verification The effectiveness of the internal audit process

The Committee took part in several other deep-dive risk and internal control reviews during the year including wider cyber security risks, ethics and business conduct, health and safety, and climate change and sustainability. As part of the latter review, the Committee challenged management on the level of external assurance and verification of the data and statements included in the Group's external reporting. Following this, and a review of management's risk assessment, the Committee were satisfied with the level of assurance being provided.

Where the Committee feels it is of value, external parties are engaged to support with subject matter deep-dive reviews and those parties may be asked to attend Committee meetings to provide additional expertise and insight. For example, DNV Limited attended the meeting of the Committee in November 2022 to provide an update on their internal audit work around health, safety and environment, and their key findings.

Alongside the expert support provided by these external parties, management also co-ordinates an ongoing 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 potential gaps or control failures identified. These responses are then reviewed by a separate internal team, and the assessments of control operation and effectiveness are periodically verified.

This assessment is performed against the broader context of changes in both the underlying risks and also the environment in which the Group is operating, and considers whether prevailing controls remain appropriate. To support this, the Committee regularly reviews a detailed Assurance Map for the Group, covering each of the Principal Risks. This documents the different levels of assurance that are in place, and how they are structured. It also provides management's assessment of whether the overall level of assurance is appropriate, or has areas that require addressing. The Committee challenges management on this assessment and identifies any areas that they feel require further assurance, giving guidance or instruction on how that should be provided, where necessary.

Having reviewed the latest Assurance Map at their meeting in November 2022, the Committee was satisfied that there were no significant gaps in the levels of assurance maintained by Group. The Committee recognised the need for continued focus on the assurance around biomass acceptability, climate change and political and regulatory principal risks, as these areas are rapidly changing and can have a significant impact on the Group. Several actions were agreed at the meeting, to be implemented in 2023, including the further development of second-line assurance in these areas. Additional detail on the Group's Principal Risks and key mitigations can be found on page 78.

As noted above, conditions in energy markets remained volatile during 2022, and what initially appeared to be short-term pressure on prices at the start of 2022 became more prolonged. This has exposed the Group to the risk of an increased financial cost from an unplanned outage were such an event to occur, and can also present challenges in respect of liquidity and credit, requiring careful management.

The Committee received updates on the impact of these changes during the year, and the mitigating actions being taken by management to manage these evolving risks. This included the outputs from scenario and liquidity planning and stress testing to consider whether established trading, risk management, and plant operational policies remained appropriate in light of market conditions. The oversight and management of these risks falls under the remit of the Financial Risk Management Committee,

(as detailed on page 103). The Committee was satisfied with the mitigating controls implemented to manage the underlying risks, and that potential future scenarios were being appropriately considered.

The Committee also works with the internal auditor, KPMG, to assess the broader system of risk management and internal control. The annual internal audit plan is designed with input from the Committee and wider management, and focuses on key areas of risk for the Group. This provides the Committee with an additional independent perspective on whether the key controls mitigating these risks remain appropriate and effective. Where appropriate, the internal auditor will provide detailed recommendations to improve the systems of risk management and internal control. Further detail on the role of internal audit is provided on page 125.

Updates provided to the Committee by management on risk management and internal controls during 2022 included financial reporting, and the continued development of the Group's financial control framework. This framework takes a risk-based approach to defining required levels of internal financial control, focused on mitigating the risk of material misstatement arising in the financial statements, due to either error or fraud. During 2022 the focus of this work was on continuing to drive consistency and best practice across the Group, and in particular aligning the approach across the Pinnacle operations, acquired in 2021. Significant work was also undertaken around the financial systems roadmap for the Group and on developing plans to harmonise and streamline approaches, with a focus on automation of controls where possible.

The continued enhancement of the financial control framework forms part of the Group's overall response to the corporate governance reforms proposed by BEIS ("Restoring trust in audit and corporate governance"). At meetings during 2022, the Committee received updates from the internal auditor on the latest developments in this area and discussed the planned approach in responding to potential future changes. This was supported by a deep-dive review at the meeting held in November 2022, which included an update on management's plans and the progress against these, as well as an assessment of the areas likely to require most focus in 2023. The Committee was satisfied with the progress being made in this area, and that the proposals published by BEIS are being appropriately considered and addressed by management.

As part of its routine business, the Committee review and discuss findings and action points arising from the internal and external reviews that are performed, to assess whether improvement plans are suitably robust and have appropriate delivery targets. None of the findings discussed during 2022 were considered individually or collectively material to the financial performance, results, operations, or controls of the business, but the assessments did identify opportunities for future improvements. Areas highlighted include how learnings from past health and safety events can be more rapidly incorporated into future working practices, and how access to automated systems must continue to evolve, including multifactor authentication.

The Committee considered information arising from internal whistleblowing reports. It discussed with management the scope of any investigation and challenged on the appropriateness of the steps being taken in response. The Board was also updated on these reviews separately. The Committee seeks to understand how matters identified in incidents inform training for colleagues and how actions by management can improve culture within our operations. An explanation of the Group's Whistleblowing Policy can be found on page 105.

Audit Committee Report continued

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. In addition, the Committee considered how these matters are disclosed within the Annual Report and Accounts, to ensure that appropriate context and explanations are provided.

Description

Accounting for derivative financial instruments

As described more fully on page 252, 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) and may also be required in the valuation methodology applied, where different approaches or sources of input information may be adopted.

A judgement is made that biomass contracts continue to fall outside the scope of IFRS 9, primarily due to the illiquid 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.

Where a fair value calculation is required, this typically involves a mark-to-market calculation, comparing the contractual price to prevailing market rates. As described on page 87, during 2022 there has been significant volatility in several of the markets most relevant to the Group, including power and foreign currency.

The result of this volatility is that the valuation of these contracts has been subject to significant fluctuations during the year. The size and scope of the Group's derivative portfolio means that small errors in the valuation or disclosure process could have a material impact on the amounts included in the financial statements.

In addition, whilst the inputs to these calculations are largely taken from observable market prices or data points, in certain cases more than one potential source of information is available. Whilst differences in these forward-looking assumptions are typically relatively small, the impact can become material when applied to a large portfolio of contracts. In addition, the volatility during 2022 resulted in the differences in source data increasing at certain points, as observable market prices can take time to fully incorporate rapid changes in the macro environment.

The accounting and disclosure requirements in this area are inherently complex. As a result, the accounting, controls, and disclosures in relation to derivative financial instruments all remain key areas of focus for the Committee.

At each of its meetings the Committee receives a Financial Reporting and Accounting update from management, covering any key changes in the period, as well as emerging issues. These updates also incorporate any updated guidance or clarifications issued by bodies such as the FRC or FCA and management's assessment of the impact on the Group and the timing of any planned response. These papers are discussed with the external auditor in advance of the Committee meetings, ensuring that they have the opportunity to consider and provide their own views on the matters raised. This includes highlighting alternative approaches or accounting treatments to the Committee, to assist their consideration of management's conclusions and proposals.

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 2022, there were no new classes of instrument that required review.

Ahead of each reporting date, the Committee reviewed 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, and developments during the period.

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

At each of its meetings, the Committee was also updated on the overall valuation of the Group's derivative portfolio, and the movements in the period. The Committee considered the operation of the financial control framework around the valuation process, and the output from a rolling self-certification process.

During 2022 the Committee gave particular focus to reviewing the improvements made to the valuation process, in light of the significant volatility in market prices and the corresponding fluctuations in valuations. These improvements include enhancements to the way in which credit risk adjustments are calculated and applied, increasing the granularity within the underlying valuation models, and more frequent detailed reviews of the most complex derivative valuations, including reconciliation to external valuations.

The Committee also considered the impact of volatility during 2022 on the source data used in the valuation process. As a result, it was concluded that this should be disclosed in the Annual Report and Accounts as a key source of estimation uncertainty, as detailed opposite. Consideration was also given to the wider disclosures made around financial instruments, and the Committee were satisfied that these were appropriate and accurately described the closing position and potential impacts from future price movements.

Based on these reviews, the Committee was satisfied that the controls in place around derivative financial instruments were robust, and that the enhancements to the control framework and valuation methodologies made during 2022 were appropriate. In reaching this conclusion, the Committee considered the opinion and recommendations of the external auditor, and the independent analysis performed by their specialist teams.

Description	Audit Committee review and conclusion
<p>Impairment of goodwill and fixed assets</p> <p>The Group reviews its goodwill and 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.</p> <p>As part of this review the Group reviews its classification of CGUs. As described on page 194, there have been no changes to this classification during 2022.</p> <p>When an impairment review is deemed to be 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 on sale.</p> <p>Assumptions that underpin the assessment of value in use for each CGU are based on the most recent Board-approved forecasts. The forecasts include all the necessary costs expected to be incurred to generate the cash inflows from the relevant assets in their current state and condition.</p> <p>Given volatility within commodity markets during 2022, certain assumptions can vary significantly from one period to the next. The reviews performed therefore also include sensitivity and scenario analysis to help the Board understand how changes in key assumptions impact the assessment. These include considering the prices of key commodities such as power and gas, as well as the potential impact of unplanned outages at different plants. Where these reviews suggest a potential risk of impairment, further detailed work is undertaken.</p> <p>The discount rates applied to the underlying forecasts (to take account of future risk and the time value of money) also represent an important assumption. These rates are reviewed annually with input from external experts. Market volatility, interest rates and inflation rates all impact the underlying calculation of these discount rates, and as such this area has required additional focus during 2022.</p> <p>Impairment arises where management determines, and the Audit Committee concludes, that the carrying amount of an asset (or group of assets) exceeds its recoverable amount. Further detail on this process and the assumptions made is provided in note 2.4 to the Consolidated financial statements.</p>	<p>At its meeting in November 2022, the Committee reviewed management's process and initial conclusions in respect of impairment for the 2022 financial year.</p> <p>Having considered and challenged management's reports, process and key assumptions, the Committee concluded that the overall approach to impairment reviews was appropriate, and was satisfied that the only potential impairments necessary during the year were in relation to the Abergelli OCGT project and the Daldowie energy from waste site, as described in more detail on page 195.</p> <p>The Committee also considered the accounting impact of the winter contingency service agreed on the coal units, and in particular whether any reversal of prior impairment charges was required. Having reviewed management's assessment, the Committee was satisfied that no such reversals were required, and that the assets in question would already have been fully depreciated.</p> <p>At its meeting in February 2023, the Committee reviewed a roll-forward of the analysis from November 2022 and considered any significant internal or external changes since that detailed analysis had been performed. This incorporated further analysis of the expected impact of the Electricity Generator Levy announced by the UK Government in November 2022.</p> <p>This review did not indicate any material changes in the conclusions, and the Committee was satisfied with management's assessment and the impairment charges proposed. Further scenarios and analysis were also considered to support the review of going concern and viability conducted by the Committee, discussed in more detail below. This analysis did not suggest any further indicators of impairment, and supported the conclusions reached.</p> <p>The Committee reviewed the impairment disclosures in the Annual Report and Accounts and concluded that the key assumptions and sensitivities had been appropriately disclosed, and that all statements made were supportable.</p>

Audit Committee Report continued

Description

Calculation and presentation of alternative performance measures

As described on page 179, 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 Consolidated 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. However, the classification of transactions as exceptional and the separate presentation of certain remeasurements requires judgement.

A full glossary of alternative performance measures referenced throughout the Annual Report and Accounts, including the closest equivalent IFRS measure and an explanation of why the measure is considered important, is provided on page 287. Further supporting reconciliations of certain alternative performance measures from relevant IFRS measures are provided in note 2.7 to the Consolidated financial statements.

Audit Committee review and conclusion

The Committee plays an important governance role in the classification and presentation of items as exceptional in the financial statements. At each Committee meeting, management presents a paper that sets out the transactions proposed to be classified as exceptional in the period. The Committee reviews this paper, and challenges each of the individual items. Formal approval of the classification is provided at reporting dates.

In 2022, the Committee challenged management around the write-off of historically capitalised SaaS costs, recorded as an exceptional item in the year. This was to ensure that the treatment was consistent with the agreed policy and was not business-as-usual expenditure. As a result of this review the Committee was satisfied that recording the historic write-off as exceptional was appropriate, whilst current period and future costs would be reflected in underlying results, as described on page 177.

In addition, the Committee reviewed the definition of alternative performance measures in the year to ensure that they remained appropriate. As a result of this review it was determined that the primary Net debt metric reported in the Annual Report and Accounts should be updated to incorporate the impact of derivative financial instruments specifically used to hedge the impact of fluctuations in foreign currency denominated debt.

At its meeting in February 2023, the Committee reviewed the final classification of transactions as exceptional or certain remeasurements in the 2022 financial statements. It also considered the calculation and presentation of alternative performance measures in the 2022 Annual Report and Accounts. Having considered analysis from management, and the opinion of the external auditor, the Committee was satisfied that the approach taken is appropriate. It was also satisfied that the Annual Report and Accounts for 2022 are fair, balanced and understandable.

Description

Review of other significant judgements and estimates

The other areas of significant judgement and key sources of estimation uncertainty in the financial statements are set out on page 178. Management regularly reviews these other areas to ensure they are kept up to date, and also considers whether other items should be included.

As part of the preparation for the 2022 Annual Report and Accounts, management considered the level of provision required for expected credit losses in the Customers business. This took account of market conditions, current UK Government support schemes and any observed changes in customer payment habits. Management also considered whether the provision represents a key source of estimation uncertainty under IAS 1.

As noted in the 2021 Annual Report and Accounts, during 2021 it was deemed appropriate to commence capitalisation of certain costs associated with the BECCS project at Drax Power Station, based on an increasing level of confidence in the development of the project in the future. As total capitalised costs on this project are now material to the financial statements, this is deemed to represent a significant judgement under IAS 1.

In November 2022, the Committee reviewed and discussed a paper from management 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 fixed assets.

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 key sources of estimation uncertainty and an update on any changes in the period. In particular, any material emerging issues are discussed in detail.

During 2022, the Committee reviewed the approach taken to calculate expected credit loss provisions in the Customers business. It noted the impact of the Government's Energy Bill Relief Scheme, which came into effect in October 2022, and the performance of cash collection against billing seen during the year as a whole. Having completed this review, the Committee was satisfied that the approach adopted in the calculation was appropriate. The Committee also concluded that the risk of a material change in the estimated carrying value of related assets within the next financial year was unlikely, and that therefore this does not represent a key source of estimation uncertainty under IAS 1.

The Committee reviewed management's assessment that capitalisation of certain costs associated with the UK BECCS project remained appropriate. As part of this, the Committee noted that the total amount capitalised under this project was now material, and so this item warranted inclusion as a significant judgement in the financial statements. The Committee also noted that judgements were being made to not yet capitalise costs associated with other potentially significant future projects, such as the expansion of the Cruachan pumped storage power station and BECCS projects in the US. The Committee was satisfied that the proposed disclosure incorporated sufficient detail to cover these areas.

Having considered the other matters raised in management's papers, the Committee was satisfied that the items disclosed as critical accounting judgements and key sources of estimation uncertainty on page 178 are appropriate and complete. In addition, the Committee was satisfied that the descriptions clearly and accurately reflect the matters disclosed and the positions taken.

Audit Committee Report continued

Reviewing the 2022 Annual Report and Accounts

At its meeting in November 2022, the Committee received reports from management on its planning for the various elements of the 2022 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 Chair was updated on progress with the year-end audit process and key financial reporting matters. Updates were also provided by the external auditor and the internal auditor. At its meeting in February 2023, the Committee reviewed both the external auditor's findings and the draft 2022 Annual Report and Accounts.

The Committee also reviewed and approved the verification process undertaken by management around key information included in the Annual Report and Accounts. This included reviewing the results of internal and external assurance received around specific disclosures and sections of the report, and considering the overall level of review and assurance. Having completed this review, the Committee was satisfied that the verification process was robust and that key information and statements included within the Annual Report and Accounts were supportable.

As part of this review, the Committee considered 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 assessing a scenario analysis prepared by management, reviewed by the external auditor, which considered the potential future impact of the Group's principal risks on its financial projections. Particular focus was given to the scenarios relating to plant operations and commodity price risks, given current market conditions, and the medium to long-term impacts they could have. This is discussed in further detail on page 75.

The Committee challenged the assumptions made around availability of finance and covenant compliance, and considered the appropriateness of the period of assessment for viability. Whilst management and the Board consider longer-term forecasts for other purposes, including strategic planning and capital allocation, the Committee concluded that it was appropriate for the assessment period to remain at five years.

The Committee was satisfied that the proposed viability statement was robust, fair and balanced, including consideration of the disclosure around longer-term risks extending beyond the viability assessment period. In addition, the Committee was satisfied that the level of assurance, challenge and verification was appropriate, whilst taking into account the work undertaken by the external auditor. Consequently, it was also concluded that the ongoing use of the going concern basis of preparation for the financial statements was appropriate.

As noted above, the Committee considered and reviewed management's disclosure on certain remeasurements and exceptional items (see page 178) and the presentation of these items in the Consolidated income statement. This included a review of the calculation and presentation of alternative performance measures. The Committee was satisfied that the use of alternative performance measures and the way in which they are presented remains appropriate, and that they provide helpful information to the users of the Annual Report and Accounts.

Fair, balanced and understandable

As a result of the Committee's review, it advised the Board of its conclusion that the 2022 Annual Report and Accounts, taken as whole, were 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 that the Annual Report and Accounts provides the information necessary for shareholders to assess the Company's and the Group's position and performance, business model and strategy, and that statements made are supported by appropriate verification and assurance, including those made around the systems of risk management and internal control.

External audit

Effectiveness of external audit

The Committee reviewed the effectiveness of the external auditor during the year and does so annually. Deloitte LLP (Deloitte), who have performed the role of external auditor continuously since 2005, were reappointed at the AGM in April 2022. Makhn Chahal became lead Audit Partner in 2021 and has significant listed company and sector-specific auditing experience.

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 and the professional scepticism being applied. This took account of the Committee's discussions with the external auditor around areas of higher audit risk and the basis for the auditor's conclusions on those areas. During 2022 this included a particular focus on the annual impairment review process and the valuation of derivative financial instruments. The Committee was satisfied with the level of ongoing challenge applied by the external auditor.

The annual 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 audit work and engagement whilst planning and executing the audit, both at a Group and business unit level. In addition to completing an annual review, the Committee considers the effectiveness of the external auditor throughout the year and discusses this point at each meeting. This ongoing review incorporated any relevant external information, such as the FRC's annual Audit Quality Inspection and Supervision Report, which was published in July 2022 and included an assessment of Deloitte and other large audit firms.

As reported in the 2021 Annual Report and Accounts, 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. The Committee considered in detail the findings from the final report from the AQR, together with Deloitte's responses in each area and their proposed future actions. In addition, the Chair and Audit Partner discussed the final report, and the Chair met with the FRC directly to understand their key findings and recommendations.

The Committee noted two key areas recommended for improvement in relation to the work performed, around expected credit loss provisions within the Opus Energy business, and the assessment of discount rates used by management in performing impairment reviews of non-current assets. The Committee considered Deloitte's proposed actions in these areas as part of the presentation of their 2022 audit plan at both the July 2022 and November 2022 meetings, and also considered the

improvements that had already been incorporated into its audit of the Group's 2021 financial statements. The Committee reviewed the conclusions from Deloitte's revised approach at their February 2023 meeting, and the additional work that had been performed. Improvements made to the audit approach included further utilisation of specialist teams within Deloitte (covering both credit provisions and data analytics) and additional corroboration of management assumptions against independent external data sources.

Having considered the actions taken and improvements made by Deloitte to address the areas identified in the AQR team report, the Committee concluded that there were no matters which cast significant doubt on the fundamental quality of the audit process. It was also noted that no adjustments to the financial statements were required as a result of this review.

Based on its overall review, and satisfactory consideration and response to the AQR team report, 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 appropriate professional scepticism in its work.

As reported in the 2021 Annual Report and Accounts, a tender process for the Group's external audit was conducted during 2021, in accordance with the UK Statutory Auditors and Third Country Auditors Regulations 2016 (SATCAR), which require all Public Interest Entities to rotate their external auditor at least every 20 years. As a result of the process, in January 2022 the Board agreed to appoint PwC as the Group's auditor for the financial year ending 31 December 2024, subject to shareholder approval. Deloitte will continue in its role as external auditor for the financial year ending 31 December 2023, also subject to shareholder approval, and PwC will shadow Deloitte in respect of this audit as part of an orderly transition.

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 external audit process. The Committee reviews the AIP annually and last did so in July 2022. As part of this annual review, the Committee considers areas of development in best practice and guidance. The main features of the current AIP (which is available at 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, which is expected to occur in very limited circumstances and is kept under review at each meeting of the Committee

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 2021 and 2022 for audit and non-audit services are set out below and in note 2.3 to the Consolidated financial statements (page 193).

	Year ended 31 December 2022 £000's	Year ended 31 December 2021 £000's
Schedule of fees paid to Deloitte LLP		
Audit fees:		
Statutory audit of Drax Group	1375.0	1,250.0
Statutory audit of the Company's subsidiaries	40.0	40.0
Total audit fees:	1,415.0	1,290.0
Interim review	115.0	110.0
Other assurance services	46.2	42.3
Assurance services provided to non-material affiliates	18.0	16.4
Corporate refinancing fees	65.0	–
Reporting accountant fees	–	469.0
Total non-audit fees:	244.2	637.7
Total auditor's remuneration	1,659.2	1,927.7

As noted opposite, the external auditor should not provide non-audit services where it might impair its 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 2022 there was a decrease in the level of non-audit services provided by Deloitte, with the most significant item being the Group's interim review. In 2021, Deloitte provided support in a limited reporting accountant role in respect of the shareholder circular for the acquisition of Pinnacle, with fees totalling £469,000.

In all cases the Committee was satisfied that the work was best handled by the external auditor because of its knowledge of the Group, and that the services provided did not give rise to threats to independence. The Committee was also 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, and 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 20 February 2023 and recommended to the Board that a resolution to re-appoint Deloitte as the Group's external auditor should be put to shareholders at the AGM in April 2023.

Internal audit

The Group has adopted a fully outsourced model for internal audit since 2020. KPMG has acted as the Group's main internal auditor since this model was implemented, supported by an internal team which acts as an interface with the business. The internal auditor presents an annual plan to the Committee for approval at its final meeting of the preceding 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.

Audit Committee Report continued

The Committee reviews this plan to ensure that priority is given to the areas of highest risk for the Group, while maintaining appropriate coverage of all other key risks. Fees are agreed on an audit-by-audit basis depending on the scope and requirement for specialist input, whilst being managed within an overall annual budget. Having reviewed the plan for 2022 in detail, the Committee subsequently approved it.

The Committee receives reports at each meeting regarding the reviews completed since its last meeting, and progress against the overall annual plan. The Committee reviews the findings and agrees the recommended actions and delivery dates for improvements, taking into consideration supporting analysis from management on the root causes of any weaknesses.

Key topics reviewed by the internal auditor during 2022 included Accounts Payable, Risk Management, and Regulation and Compliance. These reviews each provided recommendations to the Committee and management on how to further improve the system of internal controls, including suggested enhancements around segregation of duties when placing orders with suppliers, and the oversight of trading activities by the internal Compliance team. The recommendations, and suggested timelines, were agreed between management and the internal auditor before being presented to Committee. Aside from a small number of cases where the Committee asked for activities to be accelerated, all actions and target dates were approved.

In addition, the internal auditor provided information to the Committee at each meeting around the ongoing progress of the BEIS consultation "Restoring trust in audit and corporate governance". This included a deep-dive at the Committee meeting in November 2022, following the publication of the results of the consultation in May 2022, at which management's action plans and progress in relation to each of the key areas of the consultation were considered.

In conjunction with reports from the internal auditor on reviews completed during the period, the Committee also receives reports from management detailing progress on implementing recommendations from previous reviews, tracking this against the originally agreed implementation dates as described above. This allows the Committee to effectively monitor management's response. Having reviewed these reports, and received assurance from the internal auditor around the effectiveness of the overall tracking process, the Committee was satisfied that actions were being implemented on a timely basis.

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 main internal auditor, additional external parties may be engaged to support with independent internal audit reviews. This is typically in highly specialised areas, to increase the overall level of assurance gained from the programme of internal audit work.

As reported in the 2021 Annual Report and Accounts, during 2021 the Committee reviewed and supported the appointment of a new external consultant DNV Limited (DNV) to provide an assessment of the Group's health, safety and environment practices. The Committee received an update from management on progress against previously agreed actions at its meeting in July 2022, and a deeper dive update from DNV at its meeting in November 2022.

Changes implemented during 2022 included improvements around contractor management, as well as the roll-out of a new Group-wide IT system to capture and report on incidents, allowing increased transparency and accountability for site performance.

During 2022 DNV's programme of work has continued to focus on the three dimensions of Human, Organisational and Technical processes across the Group, and has also expanded to cover additional areas including safety culture within Pellet Production and a HSE governance review in relation to the BECCS project at Drax Power Station. Opportunities for improvement identified during 2022 include a continued focus on learning from past events and further development of emergency response identification.

Effectiveness of internal audit

The Committee reviewed the overall effectiveness of the approach to internal audit, and in particular the effectiveness of KPMG, at its meeting in November 2022. This review included the Committee's own views, and also incorporated feedback from members of the wider management team, covering areas such as scoping of reviews, level of subject matter knowledge and reporting of findings. KPMG also provided their feedback on interactions and engagement with management, and updated the Committee on this at each meeting during the year.

Based on its review, the Committee is satisfied that the approach to internal audit remains effective and that KPMG, as the Group's main internal auditor, continue to provide the requisite quality, experience, and expertise in both its work and reporting to the Committee.

This report was reviewed and approved by the Audit Committee.

Vanessa Simms
Chair of the Audit Committee
22 February 2023

Remuneration Committee report



Nicola Hodson, Chair

We are proposing a new Remuneration Policy which rewards long-term sustainable performance and value creation for shareholders.

Committee members

John Baxter
Philip Cox
Kim Keating
Vanessa Simms

Attending by invitation

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

Number of meetings held in 2022: Three

In addition to the below, Nicola regularly attended planning meetings to consider key agenda items.

Attendance in 2022

Committee member	Date appointed a member	No. of scheduled 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	21 October 2021	3	3	100%
Nicola Hodson	12 January 2018	3	3	100%
David Nussbaum ⁽¹⁾	1 August 2017	3	3	100%
Vanessa Simms	19 June 2018	3	3	100%

(1) David Nussbaum stepped down as a member of the Committee on 31 December 2021. David still attended all meetings in 2022 by invitation to provide input on the review of the Directors' Remuneration Policy.

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, as does the Board. The most recent review was in November 2022. The terms of reference are available on the Company website at www.drax.com/governance

Role of the Remuneration Committee

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

- Develop the Directors' Remuneration Policy (the Policy)
- Keep under review the implementation of the Policy
- Determine the remuneration strategy and framework for the Executive Directors and Executive Committee members, 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 upon recruitment or termination
- Oversee any major changes in colleague remuneration throughout the Group, ensuring there is consistency with the culture and values of Drax

Remuneration Committee report continued

Key Remuneration Committee activities in 2022

The key matters considered, and decisions reached, by the Committee in 2022 are shown in the table below:

Our workforce	Executives and senior management	Committee governance
<ul style="list-style-type: none"> Considered the remuneration of the wider workforce in the context of cost of living pressures. Also received updates on broader remuneration matters relating to the wider workforce. Reviewed the application of the increases from the annual pay review effective 1 April 2022 and 1 January 2023. Approved the outcome of the 2021 Group Scorecard and in turn approved the outturn of the 2021 Group Bonus Plan. Reviewed and approved the reporting of the 2021 Gender Pay Gap statistics. Adopted the 2022 Group Scorecard for the purpose of determining the 2022 Group Bonus Plan. Approved the operation of the 2022 Sharesave Share Plan for UK colleagues. 	<ul style="list-style-type: none"> Considered and approved the remuneration of Executive Directors and senior management. Approved Executive Director and Executive Committee member annual bonus awards for 2021. Approved the Deferred Share Plan awards (for Executive Directors) and LTIP awards for 2022. Approved the vesting of the 2019 PSP awards. 	<ul style="list-style-type: none"> Conducted a process for recruiting, and subsequently appointed, a new independent adviser to the Committee. Considered and approved the Committee's Annual Report on Remuneration for 2021. Conducted a full review of the Policy, including a comparison of the Policy against the requirements of the Corporate Governance Code. Developed the terms of a new Policy and initiated engagement with shareholders for feedback. Reviewed the fees paid to PwC and Korn Ferry, as the Committee's remuneration advisers in 2022, together with fees paid by the Group to PwC for other matters.

Annual Statement to Shareholders

Dear shareholders,

On behalf of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the 2022 financial year. The Group delivered impressive financial performance in 2022 and made significant progress on the Group's key strategic objectives. It is noted that the strong performance was not without its challenges for the business and for our colleagues. The rising cost of living has had a significant impact on our colleagues across the Group. Their response in contributing to the delivery of the Group's plans is recognised and appreciated.

Management and the Board believe the financial stability and wellbeing of our colleagues is of paramount importance and therefore we took decisions in the year to support our colleagues through these difficult times. The Committee firmly believes that remuneration outcomes must be fair, appropriate in the context of business performance, and consistent across the wider workforce. The remuneration outcomes for 2022 have been assessed in line with these principles.

Review of decisions made during 2022

Annual assessment of performance

The Committee determines the remuneration of the Executive Directors and members of the Executive Committee against the objectives and priorities of the Group. For 2022 we achieved this through considering performance against a combination of strategic and financial metrics. The 2022 Group Scorecard (Scorecard) included metrics reflecting key objectives for all business areas, including Generation, Pellet Production and Commercial. It also included metrics reflecting progress on strategic objectives, people, sustainability and environmental practices.

The Generation and Commercial businesses performed very strongly in 2022. The performance of Pellet Production was slightly behind budget but it still delivered robust performance, particularly in the context of external factors such as the impact of adverse weather during 2022. A detailed review of the achievement against the performance metrics in the Scorecard can be found on page 147.

The Committee determined that the overall performance outcome of the Scorecard represents a fair reflection of the business performance during 2022. The level of payout is commensurate with the experience of both shareholders and colleagues over this period. The Committee did however accept Will Gardiner's recommendation to reduce the formulaic outturn of the bonus to reflect safety performance in 2022. Whilst there were no serious safety incidents in 2022, the number of injuries recorded was higher than the standards we set. The Scorecard specifically has a safety moderator provision to allow for such eventualities. The final outturn of the annual bonus plan was 1.75 and this score results in 87.5% of the maximum annual bonus being paid to the Executive Directors. In accordance with our Policy, 40% of the overall bonus award will be deferred into shares and 60% will be paid in cash in the March 2023 payroll.

Long-term assessment of performance

Awards granted in 2020 under the Long Term Incentive Plan (LTIP) were subject to performance criteria stated in the Policy approved by shareholders in 2020. Vesting of these awards was determined based on performance against two measures over the three-year period from 1 January 2020 to 31 December 2022. The measures were Total Shareholder Return (TSR), relative to the FTSE 350, and Cumulative Adjusted Earnings Per Share (EPS), each accounted for 50% of the award. TSR over the three-year period was above the upper quartile (a rank of 5 out of the FTSE 350). The EPS outcome was 144.7p,

which was 23% ahead of the maximum target of 117.5p. The TSR and EPS performance resulted in full vesting for both performance measures.

The full performance vesting of the 2020 LTIP is reflective of the exceptional shareholder returns. The data in the chart at the bottom of the page shows how the value of £100 invested in both Drax and other leading Energy companies on 1 January 2020 has changed in the period to 31 December 2022.

The vesting of the 2020 LTIP is also relative to Drax's performance over the period. This included the impact of the pandemic (which includes the impact on earnings for 2020 and 2021: a reduction in EBITDA of £75 million), inflationary pressures and higher commodity prices. Over this same period, there has been considerable progress made on Drax's strategy and purpose. This included the divestment of the combined cycle gas generation turbine assets (CCGT); the acquisition of Pinnacle and significant progress in the development of plans for BECCS. This progress and prospects for long-term growth have remained underpinned by good operational and financial performance, with strong cash generation and dividend growth.

In addition to looking at Drax's performance in the round, the Committee also recognised other factors. Specifically, over the period since the grant of the 2020 award, Drax's share price has increased from 200p to an average share price over the last quarter of 2022 of 579p. Whilst being cognisant of the guidance from the Investment Association on potential windfall gains from 2020 awards granted during the first pandemic lockdown, we are not scaling back the award on vesting because:

- The 2020 award was not granted at a Covid 'low point'. The share price was as low as 134p in 2020 and was at 250-350p for most of the preceding year. The 2020 award was granted from a share price of 200p.
- With a rank of 5 out of the FTSE 350 constituents, Drax's TSR performance has been exceptional over the performance period (measured from the start of 2020, when the share price was higher than the grant price). This shows that the share price is not simply reflective of a general market bounce-back. The chart shows Drax's performance was well into the top quartile and that Drax has the highest TSR in the sector. Drax's closing share price on 31 December 2022 was 703p, 124% higher than the 314p share price at the beginning of the three-year period that pre-dated the pandemic impact.
- The three-year EPS target was established prior to the date of grant for the performance period 1 January 2020

to 31 December 2022, considering both internal forecasts and market expectations at that time. Whilst power prices started to increase during 2021, the Group's hedging policy meant the impact on the results was limited to the unhedged element of 2022, the final year of the performance period. Much of the value delivered across the performance period was achieved as the Group successfully optimised and leveraged its integrated supply chain to provide security of supply during several challenging years for the UK energy system, whilst delivering significant additional value. The pandemic materially negatively impacted the 2020 and 2021 financial year EPS performance. While there was a modest benefit from the UK Government's request to provide winter contingency through coal for part of the 2022 financial year, this was more than offset by the net earnings lost during the period from the combined effect of the sale of CCGT and acquisition of Pinnacle.

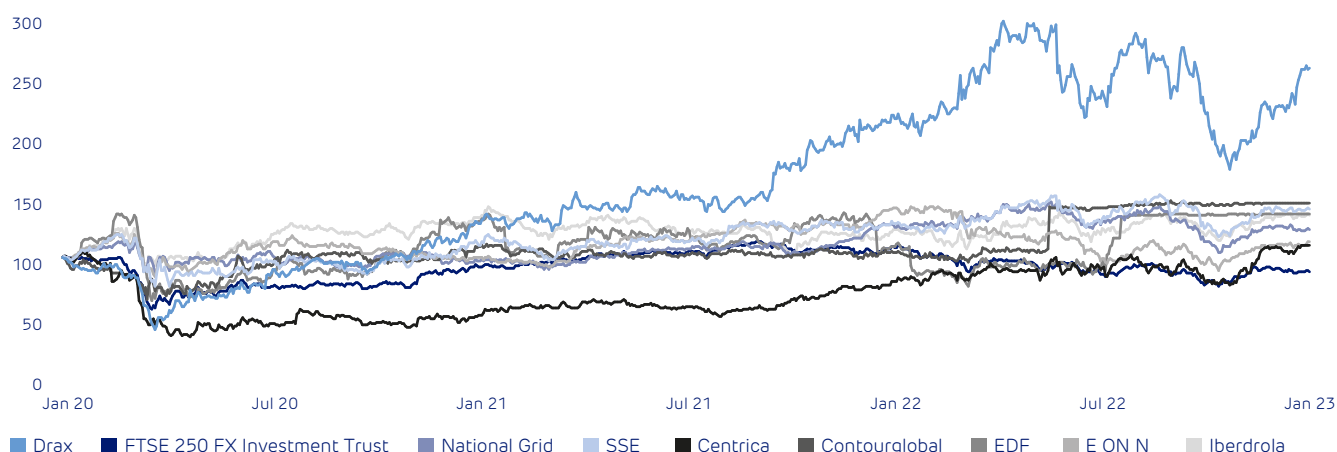
- Drax has an important role in the security of supply. Despite significant operational challenges, we maintained the supply of power during the pandemic which required robust supply chains for the supply of sustainable biomass as well as the operational demands at Drax Power Station. More recently following the request from UK Government, we made the coal units available when called upon for operation.
- Subsequent LTIP awards have been granted at higher share prices (429p in 2021 and 701p in 2022) and the 2019 and 2018 awards were granted at share prices of 380p and 255p.
- Vested awards for Executive Directors remain subject to a holding period. With the two-year holding period that applies, the share price could be lower by the time shares are released.

The Committee determined that the vesting outcome was appropriate in the context of performance over the three-year performance period. The Committee also believed the outcome was appropriate in the context of the response by management to the impacts of the pandemic on operational continuity and looking after colleagues. On this basis, the Committee decided not to exercise any discretion to reduce the overall vesting outcome.

All-employee remuneration

In September 2022, Drax completed the acquisition of Princeton Standard Pellet Corporation and thereby welcomed more colleagues in Canada (following the acquisition of Pinnacle in 2021). Careful consideration was given at that time to ensure that Princeton's colleagues smoothly transitioned to the Group's remuneration and broader HR policies.

Drax's TSR over the 2020 LTIP performance period versus other energy companies



Remuneration Committee report continued

In addition, Drax expanded operations into Japan in 2022, with the intention of further advancing biomass sales to support energy security and decarbonisation in Asia.

At this stage our footprint in Japan is modest but our presence there, including the number of colleagues we have, is likely to expand as that business grows. Management is currently considering remuneration and broader HR arrangements which are appropriate and competitive in the local market in Japan.

Inflation increased significantly in 2022 in all countries where Drax operates, leading to a significant cost of living impact on all colleagues. The Committee spent time considering how best to offer support. We took the decision to bring forward the effective date of the 2023 pay review to 1 January (from 1 April) for all colleagues not under collective bargaining (colleagues under collective bargaining already had 1 January as an effective pay review date). We felt that bringing forward the pay review was the most meaningful way to support colleagues during these difficult times. A budget of 8%, which is higher than recent years, was set. This was consistent with inflation rates in the US and Canada at the time the budget was set. This was also broadly in line with the Retail Price Index (RPI) in the UK when adjusting for the direct impact of energy prices.

For the two Executive Directors, the Committee decided on a 4% base pay increase, effective 1 January 2023. The Committee took this decision as they were mindful of the knock-on impact on the relativity of Executive Directors' total pay to the total pay of the wider workforce in awarding the Executive Directors base pay increases that were directly aligned with the average increase of the wider workforce (which is our standard approach). The median base pay increase for members of the Executive Committee was also 4%.

To further support colleagues with the rising cost of living, Drax implemented Nudge globally. This provided all colleagues with access to financial education, such as advice on day-to-day budgeting and how to help money go further. We will continue to monitor the cost of living situation throughout 2023 and consider whether there is anything further we can appropriately do to support our colleagues.

New remuneration policy

Context

The Committee undertook a full review of the current Policy in 2022. This took into account the evolution of the Drax strategy since the last Policy review in 2019, plus evolving market practice and feedback from our shareholders. Consensus from the feedback we received was our current Policy is working effectively and it remains aligned with our strategy.

Proposed changes

The key Policy changes which will be proposed for shareholder consideration at the AGM to be held in April 2023 are:

- **Annual bonus deferral and holding periods** – we are not proposing a change to the quantum of the bonus opportunities for the Executive Directors. While retaining the Scorecard methodology, there will be more flexibility in the choice of performance metrics. We will achieve this by removing the specification that 60% of metrics must be financial, albeit on the proviso that the majority of metrics will be financial (and the Committee note that 60% of the metrics in the 2023 Scorecard are financial). The current approach to deferral of the bonus for Executive Directors will be simplified. A flat 40% of any bonus earned is to be paid in shares and deferred for three years. This is to simplify the current arrangement whereby the deferral operates differently for bonus earned

for financial and non-financial targets. In addition, to align with market practice, the holding period on deferred bonus shares is to be removed. The deferred bonus shares will continue to have a three-year vesting period and, on vesting, these shares will still need to be held (as a minimum, on a net of tax basis) until Drax share ownership guidelines have been met.

- **Non-Executive Directors** – consistent with wider market practice in FTSE 350 companies with an international footprint, there will be an introduction of flexibility to provide a limited range of benefits and travel allowances to Non-Executive Directors. These changes are being made in recognition of the additional time and expenses incurred by Non-Executive Directors based overseas in providing their services to a UK based listed company (e.g. the changes will enable the additional time which the Non-Executive Directors concerned commit in travelling to and from UK Board meetings to be reflected in the total fees provided). The Policy will also specify that our default approach is to increase their fees each year at a rate that is up to the rate applied to the wider workforce. This will bring the Drax Policy into line with market practice. With respect to 2023, the Chair received a 4% increase and Non-Executive Directors received an increase of 4.1%, which was less than the average increase of the wider workforce although in line with the annual base pay increases of the two Executive Directors and median base pay increase of the broader Executive Committee members.

BECCS

As explained in other sections of this Annual Report, Drax continues to make good progress with its business transformation strategy. This we believe can be achieved through delivering both UK BECCS and global BECCS, with options including the delivery of 4Mt of negative CO₂ emissions each year from new-build BECCS outside of the UK by 2030, with a primary focus on North America. This includes the development of options for a pellet plant with BECCS, coal-to-biomass-to-BECCS and industrial models for BECCS as a service.

In respect of BECCS in the UK, our stated ambition is to develop 8Mt of BECCS at Drax Power Station by 2030. Management are progressing with the planning phases and during 2023, site preparation works will be undertaken, supporting the target of a final investment decision in 2024. The development of the BECCS opportunity in the UK will require the right investment framework from the UK Government.

Internationally, as outlined in our Trading Update in December 2022, management made progress on the objective to deliver 4Mt of negative CO₂ emissions annually from 2030. Opportunities under consideration include two new-build 300MW BECCS power units, each capable of producing 2TWh of renewable electricity from sustainable biomass and each capturing over 2Mt of CO₂ annually. Drax is also developing options for a pellet plant with BECCS, and the addition of BECCS to existing generation assets, including coal-to-biomass-to-BECCS.

The US was a key focus during 2022. The regulatory environment there continued to gain momentum, with the inclusion of BECCS as an eligible technology under the Department of Energy climate goals funding scheme. At state level, progress has been made through enabling legislation in Louisiana and Texas, with the Louisiana legislature approving a bill that classifies biomass as carbon neutral and BECCS as carbon negative. In addition, California's net zero strategy identifies carbon removal technologies as important to deliver the state's climate targets.

We are evaluating a range of potential financial models for these projects, which could include long-term power purchase agreements (PPAs), long-term CDR sales and government investment frameworks.

In 2022 the Committee gave much consideration to an appropriate mechanism by which management should be remunerated for the delivery of the high impact and high value opportunity of BECCS. The Committee's view is that the long term incentive plan provides a more appropriate mechanism for assessing and rewarding the delivery of BECCS over the medium to long term than the annual bonus plan. Having considered this in the context of the current Policy, the Committee has, after careful reflection, and after taking into account shareholder feedback, concluded that the timing of implementing such a change is more appropriate for 2024. This will allow time for necessary clarity on the outcome of engagement with the UK Government in relation to UK BECCS and further evolution of Drax's global BECCS policy. The Committee expects to be in a position to engage shareholders on this potential change later this year.

Shareholder Engagement

In developing the proposed Policy, we considered comments provided by shareholders on our current Policy and we engaged with our largest shareholders to explain our proposed revisions. In December we wrote to our leading shareholders (which accounted for circa 40% of our shareholder register at that time) to share the proposed revisions and our thinking behind them. In January and February 2023 we had conversations with some of these shareholders to discuss their feedback. We really appreciate the time taken by our shareholders and we found their input both helpful and constructive. The Committee took this feedback into consideration and it helped to inform our proposals, for example the decision to delay reviewing the mechanism through which management are remunerated for the delivery of BECCS.

Application of Remuneration Policy in 2023

Base pay review

The Committee reviewed the base pay of both Executive Directors for 2023 and determined that a below workforce increase of 4% would apply from 1 January 2023. From that date, the base pay of Will Gardiner increased to £663,000 and the base pay of Andy Skelton increased to £421,750. As noted previously, the Committee took this decision while mindful of the knock-on impact on the relativity of Executive Directors' base pay to the base pay of the wider workforce in awarding the Executive Directors base pay increases that were directly aligned with the average increase for the wider workforce (which was 8%).

Pension

As reported in 2019, effective 1 January 2023, the pension contribution rates of the Executive Directors reduced to 10% of base pay (from 20% for Will Gardiner and 16% for Andy Skelton).

Annual bonus

Feedback provided as part of the Policy review indicated that the construct of the current annual bonus plan is working effectively. Bonus awards for 2023 will continue to be based on a Scorecard methodology. The maximum bonus opportunities of the Executive Directors remain unchanged at 175% and 150% of base pay for the CEO and CFO respectively. The majority of the bonus remains subject to challenging financial targets with 40% based on Group Adjusted EBITDA and 20% on Leverage. The remaining 40% will be earned against a range of strategic, safety and ESG targets. The 2023 Scorecard will determine the bonus awards for all colleagues across the Group who participate in the bonus plan for 2023, including the Executive Directors. More information on the targets is on page 156.

Long-Term Incentive Plan

As detailed above, no changes are proposed to the existing LTIP structure. For the TSR element, performance will continue to be assessed against 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 are provided on page 157.

Workforce engagement

We believe engagement with our colleagues is extremely important in informing decisions of the Committee and in communicating how the Committee reaches decisions. There are several ways we engage with our colleagues on remuneration matters.

One of the key vehicles is the MyVoice Forums. In 2022 there were four meetings with the respective Forum Chairs, Will Gardiner and Philip Cox. At these meetings, a variety of matters were discussed and this feedback has informed HR decisions. For example, we received feedback that we need to improve on recognising the contribution of colleagues beyond our reward programmes. The Chairs are supporting HR to develop options. We are increasingly making use of this workforce engagement platform to seek views on remuneration and to help shape initiatives. For example, the participation of our UK Sharesave scheme is very high with over 50% of UK colleagues participating in at least one scheme. We have partnered with Wealth at Work to deliver a financial education programme in Q1 2023 and engaged our MyVoice Forum Chairs for feedback on how we communicate to ensure the content lands appropriately. This support will enable colleagues to understand their options with respect to the Sharesave contract that matures in June 2023. Each business area also had their own Forum meetings in 2022.

In 2022, I also recorded a video explaining the construct of the 2022 Scorecard and the rationale for each metric. The purpose was to improve the level of understanding of how the Scorecard works, to reinforce the importance of each metric to our strategic aims, and to explain how colleagues can directly influence them. The video was published on the intranet and made available to all colleagues. Feedback from colleagues suggests this was a valuable exercise.

During 2022, colleagues continued to have the opportunity to put questions to Will Gardiner on any topic, with his responses made available to all colleagues. Colleagues could also share their views with management through the all-employee annual engagement survey. Although the engagement score is no longer a metric in the annual bonus plan, we are still committed to assessing the findings and addressing them through targeted actions.

Summary

The Committee recognises the excellent performance of the Group in 2022. We believe the 2022 remuneration outcomes for the Executive Directors and senior management fairly reflect performance, provide a fair and consistent approach to remuneration across the Group, and is appropriate to the shareholder experience. We are confident that the proposed Policy underpins our purpose and the delivery of our strategy, and rewards long-term sustainable performance and value creation for shareholders. We hope that having read this report you will vote in support of the resolutions for the Annual Report on Remuneration and the separate proposed Remuneration Policy at the AGM being held on 26 April 2023.

Remuneration Committee report continued

2022 Remuneration at a glance

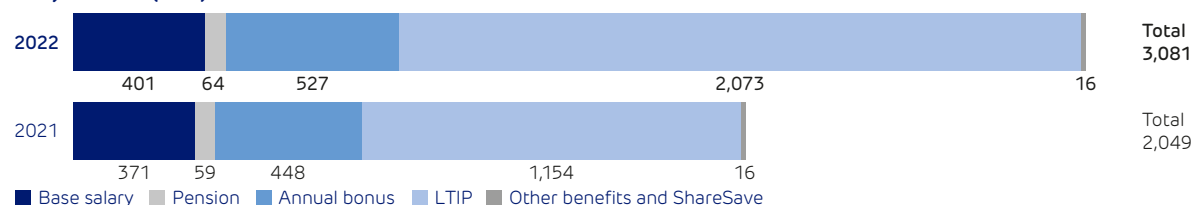
The charts below provide a summary of the remuneration earned by the Executive Directors in 2022. Figures are rounded up to the nearest £000. Full details can be found in the Annual Report on Remuneration from page 147.

Total remuneration

Will Gardiner (CEO) £000s



Andy Skelton (CFO) £000s



Implementation of the Policy in 2022

Element	Implementation of the Policy in 2022	Will Gardiner (CEO) 000s	Andy Skelton (CFO) 000s
Base salary	<ul style="list-style-type: none"> As stated in the Annual Report for the 2021 financial year, effective 1 January 2022, adjustments were made to the base salaries of the Executive Directors to reflect changes to the business. This decision was made in accordance with the relevant provision in the Policy and was supported by external market data. The base pay increases in April 2022 were made as part of the annual pay review process which resulted in Executive Directors receiving an increase in base pay of 4.5%, consistent with the average increase of the wider workforce. For reference, the effective date of the 2023 annual pay review process was brought forward to 1 January. Effective 1 January 2023, the Executive Directors received an increase in base pay of 4%, which is below the average increase of the wider workforce. 	£631	£401
Pension and other benefits	<ul style="list-style-type: none"> The employer pension contribution rate for Will Gardiner and Andy Skelton in 2022 was 20% and 16% of base salary respectively. From 1 January 2023, their respective pension contribution rates have been reduced to 10% to align with new joiners of the UK wider workforce. Other benefits received include a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other colleagues, and private medical cover. 	£145	£80
Annual bonus	<ul style="list-style-type: none"> The 2022 annual bonus outcome as a percentage of maximum opportunity was 87.5%, of which 62.3% was based on performance against financial metrics and 37.7% on performance against strategic metrics. In line with the Policy, for the Executive Directors, 40% of the overall bonus award will be deferred into shares under the Deferred Share Plan. 	£966	£527
Long-term incentive plan (LTIP)	<ul style="list-style-type: none"> The 2022 LTIP award is measured on the three-year performance period to 31 December 2024, 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. The 2020 LTIP will vest in May 2023 at 100% of the maximum and was based on the performance of TSR (50% weighting) and Cumulative Adjusted EPS (50% weighting), over the preceding three-year performance period. 	£3,636	£2,073
Shareholding requirements	<ul style="list-style-type: none"> Will Gardiner has met the shareholding requirement, with a shareholding at 31 December 2022, equivalent to 881% of base salary. Andy Skelton has also met the shareholding requirement, with a shareholding at 31 December 2022, equivalent to 487% of base salary. 	>250% of base pay	>200% of base pay

Alignment of Remuneration of Executive Directors and Wider Workforce

Many aspects of the remuneration for Executive Directors are also applicable to the wider workforce, such as the basis of the annual bonus award through the scorecard, pension, and benefits entitlements. Below is a summary of the remuneration arrangements broken down by the colleague grouping. In this table as indicated in the key below, specific areas of remuneration which are not highlighted represent remuneration which is fully aligned across all colleagues, whilst those highlighted in blue are not aligned.

Key

○ Aligned across workforce ○ Unique to a specific colleague group

Remuneration element		Executive Directors ⁽¹⁾	Executive Leadership and Senior Management ⁽²⁾	Wider workforce ⁽³⁾
Base salary	Approach	To target the appropriate market rate, as determined by comparisons with appropriate companies.		
	Increases	Keep pay for colleagues consistent with market rate and reviewed in line with inflation; base salary increases for Executive Directors will generally be in line with those for the UK workforce.		
Pension	New hires	All UK colleagues have the option to participate in the Company's defined contribution pension plan, with company contribution rate for new hires of up to 10% of base 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. From 1 January 2023, the contribution rates for the CEO and CFO were reduced from 20% and 16% respectively to 10%, to align with the rate for new joiners to the UK workforce.		
Benefits ⁽⁴⁾	Health and wellbeing	All colleagues receive medical cover, and access to an annual private health assessment or a local equivalent arrangement.		
	Risk and protection	All colleagues have company-funded life assurance and income protection, or a local equivalent arrangement, unless they are covered under alternative collective bargaining arrangements.		
	Car benefit	£12,000	Not applicable. Some colleagues have a car as job requirement	Not applicable. Some colleagues have a car as job requirement
Bonus	Eligibility	All colleagues are eligible to take part in the annual bonus programme, unless precluded by alternative arrangements with their respective trade union group. The bonus award is designed to reward the delivery of targets and objectives directly linked to the financial and strategic performance of the Group set each year and detailed in a scorecard.		
	Metrics	Bonus awards are conditional on achieving thresholds set in the scorecard, which combines financial and strategic metrics. These metrics are the same for all colleagues, so there is Group-wide consistency.		
	Deferral	40% of the total bonus outcome will be deferred into shares in the form of nil cost options or conditional awards under a Deferred Share Plan (DSP). The period over which shares are deferred is normally three years. Vesting is subject to continued service or "good leaver" termination provisions.	Not applicable, no deferral	Not applicable, no deferral
Long-term incentive plan (LTIP)	Eligibility	Discretionary annual grant of shares, under the LTIP.	Discretionary annual grant of shares, under the LTIP.	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.
	Metrics	For awards made under the LTIP, vesting is subject to long-term performance conditions, and typically are measured over a three-year performance period.	For awards made under the LTIP, vesting is subject to long-term performance conditions, and typically are measured over a three-year performance period.	No performance conditions for One Drax Awards.
	Shareholding requirement	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.	Not applicable	Not applicable
All-colleague plans (Sharesave)		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). For colleagues outside the UK, management will continue to monitor whether there is sufficient local interest to participate in an equivalent scheme.		

Notes:

(1) The Executive Directors are the CEO and CFO.

(2) Executive Leadership and Senior Management includes all colleagues in the three most senior job grades, excluding the CEO and CFO.

(3) Wider workforce includes all colleagues in job grades below the three most senior job grades.

(4) Drax opened an office in Japan in 2022. We are reviewing our benefits there and will introduce local competitive arrangements in 2023.

Remuneration Committee report continued

Corporate Governance Code

The Directors' Remuneration Policy has been subject to a full review by the Committee which was undertaken in 2022. Proposed changes will be put to shareholders for approval at the AGM being held on 26 April 2023.

When reviewing the Remuneration Policy, the Committee considered a number of factors, including but not limited to, Drax's ambitious growth strategy, shareholder feedback on the current policy, the UK Corporate Governance Code (see below) and wider best practice. This has culminated in the formulation of a revised remuneration policy (the Policy) which will apply for three years from the date of the 2023 AGM, subject to shareholder approval.

The table below sets out how the Policy specifically addresses the provisions of the UK Corporate Governance Code.

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 stable earnings, and TSR, which ensures strong alignment with the shareholder experience.

Risk

- A significant proportion of remuneration is 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 Policy.

Proportionality

- Performance measures are linked to Drax'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, the interests of stakeholders and shareholder experience.

Alignment to culture

- Annual bonus metrics for all employees, including Executive Directors, are the same so that all participating colleagues are focused collectively on, and rewarded for, the delivery of financial and strategic goals and Drax's purpose.
- The annual bonus for 2023 (and in previous years) contains metrics related to the environment, sustainability and people which underpin Drax's values and business strategy.

Summary of changes to the Policy

The table provide provides an overview of the proposed changes to the Policy and the associated rationale for these changes.

Element	Proposed Change	Rationale
Salary	<ul style="list-style-type: none"> Adopt consistent wording for the ability to move base salaries to the market rate where Executive Directors are either (i) an external appointment made on a below market base salary; or (ii) an internal promotion on a below market base salary. 	<ul style="list-style-type: none"> The change aligns Drax with standard FTSE 350 market practice. The default base salary increase for Executive Directors remains an increase up to the rate typically applied to the workforce. Where the quantum increase exceeds the norm, an explanation will be provided by the Committee.
Annual bonus	<ul style="list-style-type: none"> The following changes are proposed: <ol style="list-style-type: none"> Simplifying the wording on the choice of performance metrics. The majority of the annual bonus must still be earned based on performance against financial targets as opposed to the current approach that defined a set percentage of the bonus (60%) as being subject to financial targets. Simplification of current approach to that part of annual bonus which is deferred in shares. The change will specify that 40% of any annual bonus earned is deferred into Drax's shares. This approach replaces the prevailing more complex approach whereby 100% of any bonus earned against strategic targets takes place subject to 40% of the total bonus outcome being deferred. Removal of the two-year holding period on deferred bonus shares so that any deferred shares that vest will be released at the end of the three-year vesting period. These shares will need to continue to be held (as a minimum on a net of tax basis) until Drax's share ownership guidelines have been met. 	<ul style="list-style-type: none"> The changes to the operation of the annual bonus plan align Drax with standard FTSE 350 market practice. Requiring at least half the bonus to be subject to financial targets provides greater flexibility for the Remuneration Committee in operating the annual bonus plan and mirrors standard market practice. The current approach to bonus deferral was overly complex with differing proportions of the parts of the bonus subject to financial and strategic targets taking place dependent upon the level of bonus earned against each measure. This was administratively complex with the change simplifying the deferral process. Deferring a proportion of any bonus into shares which vest at a future date is standard practice. Holding periods are not typically applied to deferred share bonus awards at the point of release. To note, the holding period will continue to apply to shares vesting under the long-term incentive plan. The change brings Drax into line with standard FTSE 350 market practice.
Pension	<ul style="list-style-type: none"> The policy is being updated to reference that Executive Director pensions are now aligned with the rate typically provided to the UK wider workforce for new joiners at 10% of base salary. 	<ul style="list-style-type: none"> The change conforms the policy with institutional investors best practice expectations with Executive Director pensions being reduced to the rate typically provided to the UK wider workforce of 10% from their prior rates of 20% (CEO) and 16% (CFO) of base salary.
LTIP	<ul style="list-style-type: none"> The overall LTIP structure remains the same. 	<ul style="list-style-type: none"> N/A
Non-Executive Directors	<ul style="list-style-type: none"> The changes to the current Policy provide flexibility for Drax to provide a limited range of benefits and travel allowances. The Policy will also specify that the default is to increase Non-Executive Director base fees at a rate that is up to the rate typically applied to the UK wider workforce. 	<ul style="list-style-type: none"> The changes to the Non-Executive Directors' Policy mirror standard practice for FTSE 350 companies with an international footprint. The ability to provide a limited range of benefits and allowances will ensure that Drax has the flexibility to appoint international Non-Executive Directors of an appropriate calibre to support Drax through the next phase of its development. The change will enable Drax to provide support to Non-Executive Directors (specifically from outside the UK) in relation to initial set up and ongoing support with filing tax returns such that this is cost neutral to the individual. Introducing the ability to increase Non-Executive Director fees up to the rate of increase awarded to the wider workforce bring the Company Policy into line with standard market practice.

Remuneration Committee report continued

Directors' Remuneration Policy for approval at the 2023 AGM

Below is the proposed Policy which, if approved by shareholders, will be effective immediately after the AGM on 26 April 2023 and will be binding until the close of the 2026 AGM.

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.

Proposed Change (for adoption in 2023)

Adopt consistent wording for the ability to move base salaries to the market rate where Executive Directors are either (i) an external appointment made on a below market base salary; or (ii) an internal promotion on a below market base salary.

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.

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 January. 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, are eligible for increases during the policy period but will not usually be increased by a higher percentage than the average annual percentage increase in salaries of all other employees in the Group at the time of increase.

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

- (i) An Executive Director has been appointed at below market level to reflect experience.
- (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.

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.

Proposed Change (for adoption in 2023)

The policy is updated to reference that Executive Director pensions are now aligned with the rate typically provided to the UK wider workforce for new joiners of up to 10% of base salary.

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

The contribution rates for existing Executive Directors are limited to the rate for new joiners to the UK wider workforce, which is currently 10% of base salary. This is also the most common pension contribution rate for UK-based employees.

The pension contribution rate for any new Executive Director will also be limited to the rate for new joiners to the wider workforce.

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 (including tax equalisation expenses and benefits or allowances which are customarily provided in the country where an Executive Director resides).

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.

Annual bonus

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

Proposed Change (for adoption in 2023)

- (i) Simplification of the wording on the choice of performance metrics. The majority of the annual bonus must still be earned based on performance against financial targets.
- (ii) Simplification of current approach to that part of annual bonus which is deferred in shares. The change will specify that 40% of any annual bonus earned is deferred into Drax's shares. This approach replaces the prevailing more complex approach whereby 100% of any bonus earned against strategic targets takes place subject to 40% of the total bonus outcome being deferred.
- (ii) Removal of the two-year holding period on deferred bonus shares so that any deferred shares awarded vest after three years. These shares will need to continue to be held (as a minimum on a net of tax basis) until Drax's share ownership guidelines are met.

Remuneration Committee report continued

Practical operation

The Committee will determine the annual bonus payable after the year-end, based on performance against targets.

40% of the total bonus outcome will be deferred into shares in the form of nil cost options or conditional awards under a Deferred Share Plan (DSP). The period over which shares are deferred is normally three years. Vesting is subject to continued service or "good leaver" termination provisions.

Deferred shares vest based on continued employment and lapse other than in defined good leaver circumstances.

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

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

Maximum potential value

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

Performance measures

The majority of the annual bonus will be based on financial metrics. The Remuneration Committee reviews and determines the metrics, weightings and calibration of targets annually taking into account business objectives and the strategic priorities of the business.

The performance metrics applicable to the annual bonus awards are split between financial and strategic metrics.

- Financial – 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.
- Strategic – 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.

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.

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.

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 outcome of performance against the conditions set for each award (which for awards granted in 2023 will be Relative Total Shareholder Return and Cumulative Adjusted Earnings Per Share).

Practical operation

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

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.

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	200.0%
Other Executive Directors	175.0%

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

Performance measures

Awards will be subject to a combination of long-term measures which are aligned to the shareholder experience and may include financial metrics, shareholder value metrics, capital efficiency measures and ESG or strategic measures.

Remuneration Committee report continued

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.

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.

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, 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 awards granted under the LTIP, targets typically relate to 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.
- The Committee retains flexibility during the Policy period to change the weighting and choice of performance metrics to better align with strategy as it evolves.

Circumstances in which malus or clawback may apply

The Committee may, at any time within two years of the LTIP and DSP vesting or annual bonus payment, determine that malus and/or clawback provisions should be applied, 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.

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 the following and in all cases any use of discretion will align with the discretions afforded to the Committee in the relevant plan rules:

- reviewing the formulaic outcome of the annual 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;
- determining whether a leaver is a "good leaver"; and
- determining the treatment of awards in the event of a change of control.

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

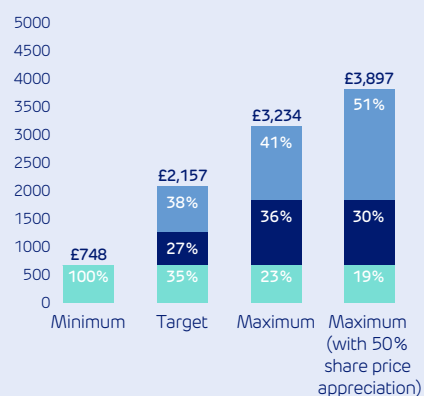
Remuneration Committee report continued

Remuneration scenarios

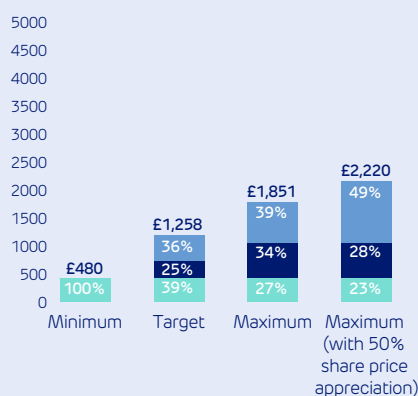
The composition and value of the Executive Directors' remuneration packages at below threshold (minimum), target and maximum performance scenarios under the Drax Group Policy are set out in the charts below based on salary on projected earnings for 2023 based on current salary. The assumptions used in the charts are provided in the following table:

Description	Fixed remuneration	Annual bonus	Long-term incentive
Minimum	Base salary is the rate payable as determined by the Committee following the annual review. Benefits and pension entitlement remain as disclosed in the Policy.	None	None
Target		50% of the maximum opportunity.	62.5% vesting (midpoint between threshold and maximum).
Maximum		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.
Maximum (with 50% share price appreciation)		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)
£000s



Andy Skelton (CFO)
£000s



■ Fixed remuneration
■ Annual bonus
■ Long-term incentive

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.

A new Executive Director would be eligible to receive an annual bonus of up to 150% of salary, or 175% for a new CEO, in each case with financial and strategic elements as set out in the Policy table above. In addition, a new Executive Director would be eligible to receive an LTIP award of up to 175% of salary, or 200% in the case of a new 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, or grant 'buyout awards' to replace awards or amounts forfeited by a previous employer (subject to the right to phase any payment to reflect performance, the requirement to mitigate loss and the Group's right to clawback 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 or buyout award made will not exceed the value of the benefits, awards or amounts lost as determined by the Committee acting fairly and reasonably. Any buyout award would have equivalent terms (including vesting dates, performance conditions and malus/clawback provisions) to the original award it replaces. Where possible, the Committee will use existing share-based plans to grant such awards. However, in the event that these are not appropriate, the Committee retains the discretion to use the exception in Listing Rule 9.4.2 for the purpose of making an award to compensate the individual for amounts forfeited upon leaving a previous employer;
- 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;
- make appropriate payments in circumstances where an Executive Director is relocated from outside the UK; and,
- approve the inclusion in the Executive Director's service contract of any terms required by mandatory law in the jurisdiction where the Executive Director is resident.

Remuneration Committee report continued

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
Notice periods	<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>
Compensation for loss of office	<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 (including, where necessary to comply with the mandatory laws of the jurisdiction in which the Executive Director is resident, a remuneration payment or payment for loss of office in excess of the Executive Director's pre-established contractual terms). The Group may pay reasonable fees for a departing Executive Director to obtain independent legal advice in relation to their termination arrangements and appropriate consideration for agreement to any contractual terms protecting the Group's rights following termination. Moreover, reasonable fees in respect of outplacement support, insurance for a period following termination of office and repatriation assistance, which may include relocation back and tax advisory support. 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
Treatment of annual bonus on termination	<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 to the date on which the Executive Director ceases active service. 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"> • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Group; and, • death. <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. Any bonus award will be paid in such proportions of cash and shares, and subject to such deferral arrangements as the Committee may determine. 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>

Element	Details
Treatment of unvested long-term incentive and deferred share awards on termination	<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"> • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Company; • death; and, • change of control. <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. Vested LTIP awards will remain subject to any post-vesting holding period unless the Committee exercises its discretion to allow for earlier release.</p>
Outside appointments	<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 Committee report continued

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.

Non-Executive Directors' fees may be paid in GBP or the currency of the location of the individual Non-Executive. Fees are reviewed annually and will typically be increased by up to the rate of increase awarded to the wider workforce.

Non-Executive Directors receive an annual base fee. Additional annual fees are paid to the Senior Independent Director and Chair of any Board Committees.

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

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).

Benefits:

Reimbursed role-based expenses incurred during performance of the duties of the role.

The Company will reimburse any reasonable travel and other business related expenses incurred (e.g. support with the completion of tax returns for international Non-Executive Directors) and the related tax thereon, if applicable.

Travel allowance

To recognise the additional time commitment associated with travel on Company business.

Set by reference to anticipated travel times and allowances provided by FTSE 350 companies in similar circumstances.

A travel allowance may be structured as appropriate from time to time, taking into account market practice, the location of the Non-Executive Director and travel commitments, including but not limited to an annual allowance, an allowance per meeting and different allowances payable for Non-Executive Directors based in different countries or continents.

Where travel allowances are paid, these will be disclosed.

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 152 of the Annual Report and Accounts.

Remuneration arrangements elsewhere in the Group

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 26 April 2023.

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 2022, together with comparative earnings for 2021. Figures are rounded up to the nearest £000.

Director	Year	Salary (£000)	Benefits ⁽¹⁾ (£000)	Bonus ⁽²⁾ (£000)	Long-Term Incentives ⁽³⁾ (£000)	Pension (£000)	Other ⁽⁴⁾ (£000)	Total Remuneration (£000)	Total Fixed Pay (£000)	Total Variable Pay (£000)
Will Gardiner	2022	631	19	966	3,636	126	0	5,377	775	4,602
	2021	570	18	802	1,722	114	0	3,226	702	2,524
Andy Skelton	2022	401	16	527	2,073	64	0	3,081	481	2,600
	2021	371	16	448	1,154	59	0	2,049	446	1,602

Notes:

(1) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance.

(2) Bonus is the value of the award from the 2021 and 2022 annual bonus plans. It includes the value of bonus deferred and paid in shares after three years subject only to continuous service. For 2021, 40% of the overall bonus was deferred and for 2022, 40% of the overall bonus will be deferred too.

(3) The 2022 numbers represent the value of the 2020 LTIP award which should vest in May 2023, 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 2022, which was £5.798. The value of the award attributable to share price appreciation for Will Gardiner is £2.38m and for Andy Skelton is £1.36m. This is based on the growth in the value of the shares due to vest (including dividend equivalent shares) from the grant share price to the average share price over the last quarter of 2022 (£5.798). The 2021 number (for the 2019 PSP award) are restated to reflect the actual share price on vesting of £7.706 on 28 March 2022.

(4) Other includes the value of Sharesave awards granted. Note no Sharesave awards were made in 2021 or 2022 as both Will Gardiner and Andy Skelton had maximum contributions under contract.

Annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2022 Group Scorecard is set out in the following table:

Plan Targets					Scoring		Weighted Score (out of 2)
Key Performance Indicator	Weighting	Threshold	Target	Stretch	Outturn	Score (out of 2)	
Financial							1.14
Group Adjusted EBITDA (£m)	40.0%	513	570	627	731	2.00	
Leverage (£m)	20.0%	(1,145)	(1,041)	(937)	(968)	1.69	
Strategic							0.69
UK BECCS	10.0%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.54	
North America BECCS	5.0%	Partially Achieved	Achieved	Strongly Achieved	Strongly Achieved	2.00	
Cruachan Expansion	5.0%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.66	
ESG Dashboards	6.7%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.75	
Blueprint for Ultra-low Carbon Pellet Mill	6.7%	Partially Achieved	Achieved	Strongly Achieved	Strongly Achieved	2.00	
Inclusion Index	6.7%	71%	77%	83%	80%	1.50	
	100%				2022 Bonus Outturn:	1.83	
Overall bonus outcome adjusted for Safety (with -0.08 downward modifier applied):					1.75 (87.50% of maximum)		
Proportion of total bonus award earned for Financial KPIs (pre-Safety modifier):					62.30% (1.14/1.83)		
Proportion of total bonus award earned for Strategic KPIs (pre-Safety modifier):					37.70% (0.69/1.83)		

Remuneration Committee report continued

The targets were aligned with the Group strategy and 2022 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 – was our principal financial metric, combining the underlying performance of each business to give a Group outcome. Group Adjusted EBITDA for 2022 was £731 million relative to a stretch target of £627 million (score of 2.00). 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 (£968) million which fell between the budget target and stretch target (score of 1.69). The outturn was adjusted for collateral payments made to counterparties to ensure consistency with the target.
- Progress on Strategic Projects – progress on key projects is of critical importance for Drax in progressing the Group's strategy. There were three projects which were included in this metric. The first project was progress on advancing options for our UK BECCS strategy. Significant progress was made in 2022 against the objectives set, across all critical path activities of our UK BECCS strategy (score of 1.54). The second project was on progress of advancing our options for BECCS in North America. As noted throughout this Annual Report, our ambitions for the deployment of new build BECCS across sites in North America are now a key part of Drax's long-term strategic aims (score of 2.00). Further information on the progress of our aims for UK BECCS and BECCS in North America is detailed on page 16. The third project was on progress on advancing the expansion of the Cruachan pumped storage power station. Significant progress was made on this project as well in 2022, as evidenced by the submission of the S36 application to the Scottish Government and subsequent signing of a Grid Connection offer with National Grid ESO. In addition, significant progress was made across other critical path activities (score of 1.66). The choice of projects, and assessment of performance of them in 2022 was subject to the Committee's scrutiny and approval.
- People, carbon reduction, and sustainability practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders. In 2022 the assessment of our carbon reduction aims was focused on the development of a blueprint for an ultra-low carbon and particulate emissions pellet mill by the end of the year with learnings from this ready to deploy for future projects (score of 2.00). This was combined with an independent rating of how included our colleagues feel across the Group, which directly links bonus outcomes to positive cultural change and influencing behaviours which can benefit our people and engender better organisational attitudes and initiatives. The rating is derived through an all-employee survey administered by a leading and globally recognised management consultancy. Drax's score for 2022 was 2% above the energy and utilities sector norm score (score of 1.50). In 2022 the assessment of our sustainable business practice was focused on the development of and implementation of ESG dashboards across the Group. The intention of these dashboards was to provide visibility of data on key metrics to the management teams at site and pellet mill level. These dashboards have now been implemented and insights from them have already started to influence important decision making (score of 1.75).

The Committee completed an in-depth review of the score for each of the performance measures, to ensure that the result was appropriate individually and in aggregate. The Committee believes that the outcome reflected the strong financial and strategic performance of the Group, as well as wider employee and shareholder experiences. Discretion was exercised by the Committee to reduce the formulaic outturn of the bonus to reflect safety performance in 2022 as described on page 128. The Committee approved the Group Scorecard result for 2022 at a meeting held on 21 February 2023, subject to the final approval of the financial results and Annual Report and Accounts by the Directors on 22 February 2023.

Bonus earned for 2022 (audited information)

The table below sets out the bonuses earned for the 2022 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)	Amount paid in cash (£000)	Amount deferred in shares (£000)
Will Gardiner	175%	87.5%	153.1%	966	579	386
Andy Skelton	150%	87.5%	131.3%	527	316	211

For 2022, 40% of the total bonus award will be deferred into shares for a period of three years and the remaining 60% will be paid in cash in March 2023. The deferral element will in ordinary circumstances vest in March 2026, 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.

LTIP incentive outcomes (audited information)

The vesting outcome for awards granted in 2020 under the LTIP, which were subject to performance conditions over the three-year period from 1 January 2020 to 31 December 2022, and will vest in May 2023, is provided in the tables below.

Performance Condition	Weighting	Performance for threshold vesting (25% vesting)	Performance for maximum vesting (100% vesting)	Actual performance
Relative TSR vs FTSE 350 constituents	50%	Median	Upper Quartile	158.9% (rank of 5 out of FTSE 350)
Cumulative Adjusted EPS	50%	100.1p	117.5p	144.7p

The Committee considered the Group's overall performance for 2022 and felt no discretion to the 2020 LTIP outcome was required. A full explanation of factors which were taken into account is provided on page 129.

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) ⁽¹⁾
Will Gardiner	200%	562,506	577%	562,506	64,641	627,147	3,636
Andy Skelton	175%	320,697	517%	320,697	36,852	357,549	2,073

Notes:

- (1) Represents the value of the 2020 LTIP award which should vest in May 2023, 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 2022, which was £5.798. The value of the award attributable to share price appreciation for Will Gardiner is £2.38m and for Andy Skelton is £1.36m. This is based on the growth in value of the shares due to vest (including dividend shares) from the grant share price £1.995 to the average share price over the quarter of 2022 (£5.798).

Remuneration Committee report continued

LTIP awards granted in 2022 (audited information)

The table below shows the conditional awards granted under the LTIP to Executive Directors on 18 March 2022.

Director	Award granted (as % of salary)	Number of shares granted ⁽¹⁾	Face value of awards granted (£000)
Will Gardiner	200%	174,119	1,220
Andy Skelton	175%	96,907	679

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £7.007. 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 2022 are set out below.

Performance Condition	Weighting	Performance for threshold vesting (25% vesting)	Performance for maximum vesting (100% vesting)
Relative TSR vs FTSE 350 constituents	50%	Median	Upper Quartile
Cumulative Adjusted EPS	50%	239.5p	292.7p

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2024.

DSP awards granted in 2022 (audited information)

The table below shows the deferred conditional share awards granted under the Deferred Share Plan (DSP) to Executive Directors on 18 March 2022 in respect of bonus earned for performance in the financial year ending 31 December 2021. These shares will vest on 18 March 2025.

Director	Value of deferred bonus (£000)	Number of shares granted ⁽¹⁾
Will Gardiner	321	45,809
Andy Skelton	179	25,590

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £7.007. 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 2022 (audited information)

No grants of Sharesave options were made to Will Gardiner or Andy Skelton in 2022. 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 2022 was 20% of base salary and for Andy Skelton it was 16%. Will Gardiner's employer contribution was delivered as cash in lieu of pension, whereas for Andy Skelton it was 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.

Effective 1 January 2023 the employer pension contributions for Will Gardiner and Andy Skelton were reduced to 10% in line with the rate for new joiners to the UK wider workforce. This is also the most common pension contribution rate for UK-based employees.

Payments to former directors (audited information)

There were no payments to former Directors.

Payments for loss of office (audited information)

There were no payments in 2022 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 2022, the shareholding guidelines were met as detailed in the table below.

Directors' interests in shares

Director	Number of shares ⁽¹⁾	Value at year end ⁽²⁾	Shareholding (as % of base salary)	Shareholding guideline
Will Gardiner ⁽³⁾	790,101	£5,554,410	881%	250%
Andy Skelton ⁽⁴⁾	277,667	£1,108,562	487%	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 2022 of £7.030.
(3) The total figure includes 693,375 shares owned, plus 96,726 unvested DSP shares on a net of tax basis. For reference, Will Gardiner purchased 338,105 shares in the open market between 2015 and 2022 but sold 46,667 shares and gifted 61,345 to charity leaving a net balance of 230,093 shares.
(4) The total figure includes 221,479 shares owned, plus 56,188 unvested DSP shares on a net of tax basis. 142,976 shares were purchased by Andy Skelton in the open market between 2019 and 2022.

Directors' interests under share plans

Director	Date of grant	As at 1 January 2022	Awards made during the year	Number of shares vesting during the year	Number of shares lapsing during the year	As at 31 December 2022	Date of vesting ⁽¹⁾	Value of awards ⁽²⁾
Will Gardiner								
2019 DSP	28 March 2019	38,941	0	38,941	0	0	28 March 2022	£0
2019 PSP	28 March 2019	247,245	0	191,071	56,174	0	28 March 2022	£0
2020 DSP	30 March 2020	82,195	0	0	0	82,195	30 March 2023	£577,831
2020 LTIP	7 May 2020	562,506	0	0	0	562,506	7 May 2023	£3,954,417
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£135,930
2021 DSP	1 April 2021	54,498	0	0	0	54,498	1 April 2024	£383,121
2021 LTIP	1 April 2021	266,650	0	0	0	266,650	1 April 2024	£1,874,550
2022 DSIP	18 March 2022	0	45,809	0	0	45,809	18 March 2025	£322,037
2022 LTIP	18 March 2022	0	174,119	0	0	174,119	18 March 2025	£1,224,057
Total		1,275,638	219,928	230,012	56,174	1,209,380	407,407	£8,471,942
Andy Skelton								
2019 PSP	28 March 2019	165,607	0	127,981	37,626	0	28 March 2022	£0
2020 DSP	30 March 2020	49,985	0	0	0	49,985	30 March 2023	£351,395
2020 LTIP	7 May 2020	320,697	0	0	0	320,697	7 May 2023	£2,254,500
2020 Sharesave	15 April 2020	23,603	0	0	0	23,603	1 June 2025	£135,930
2021 DSP	1 April 2021	30,441	0	0	0	30,441	1 April 2024	£214,000
2021 LTIP	1 April 2021	152,022	0	0	0	152,022	1 April 2024	£1,068,715
2022 DSIP	18 March 2022	0	25,590	0	0	25,590	18 March 2025	£179,898
2022 LTIP	18 March 2022	0	96,907	0	0	96,907	18 March 2025	£681,256
Total		742,355	122,497	127,981	37,626	699,245		£4,885,693

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 2022 of £7.030. For Sharesave options, this is the intrinsic value, e.g. based on the excess value at 31 December 2022 over and above the exercise price.

There was one movement in share interests between 31 December 2022 and the last practicable date for recording changes prior to the date of publication. On 23 February 2023 Andy Skelton, CFO, purchased 13,246 shares, and Andy's Person Closely Associated, Nichola Skelton, purchased 6,244 shares, taking Andy's total interest in shares to 297,157.

Remuneration Committee report continued

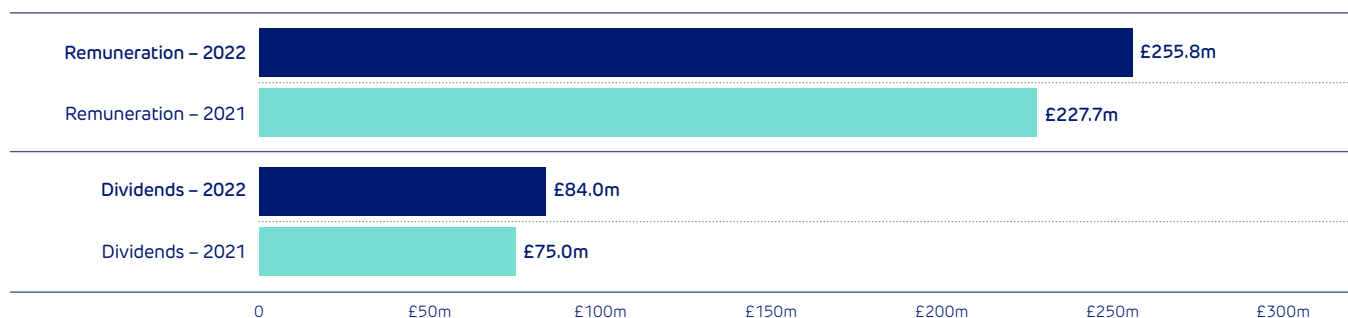
Service agreements or contracts for services

The following table shows, for each Director of the Company as at the date this Annual Report and Accounts is published, or those who served as a Director of the Company at any time during the year ended 31 December 2022, the start date and term of the service agreement or contract for services, and details of the notice periods. A new contract for services was agreed with John Baxter in 2022.

Director	Date appointed as a director and member of the Board	Contract start date/renewal date	Permitted Contract term (years)	Notice period by the Company (months)	Notice period by the Director (months)
Will Gardiner	16 November 2015	16 November 2015	Indefinite term	12	12
Andy Skelton	2 January 2019	2 January 2019	Indefinite term	12	12
Philip Cox	1 January 2015	1 January 2021	3 years	6	6
John Baxter	17 April 2019	17 April 2022	3 years	1	1
Nicola Hodson	12 January 2018	12 January 2021	3 years	1	1
Kim Keating	21 October 2021	21 October 2021	3 years	1	1
David Nussbaum	1 August 2017	1 August 2020	3 years	1	1
Erika Peterman	21 October 2021	21 October 2021	3 years	1	1
Vanessa Simms	19 June 2018	19 June 2021	3 years	1	1

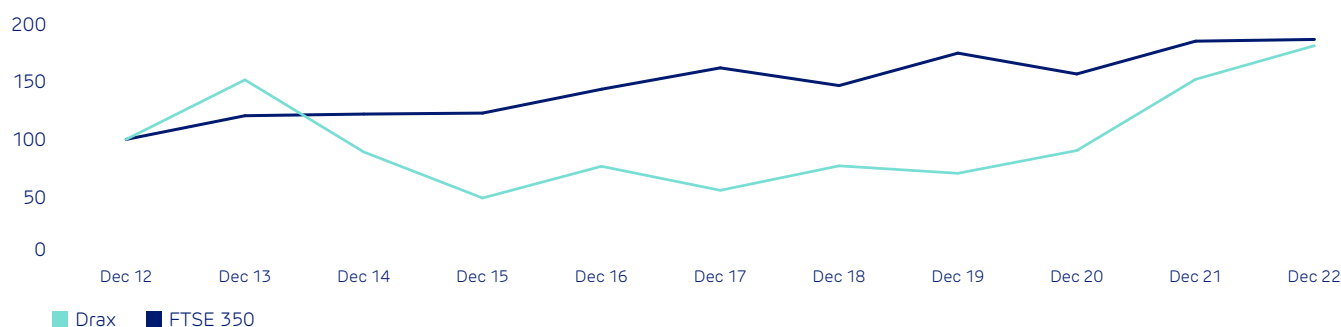
Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to distributions to shareholders. At the AGM on the 26 April 2023 the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2022. The cost with respect to dividends for 2022 in the table below relates to the interim dividend, which was paid in October 2022, and the final dividend to be paid in May 2023, subject to approval at the AGM.



Drax 10 year Total Shareholder Return performance to 31 December 2022

The graph below shows how the value of £100 invested in both Drax and the FTSE 350 Index (Index) on 31 December 2012 has changed. This Index has been chosen as a suitable broad comparator against which Drax's shareholders may judge their relative returns given that Drax is a member of the Index. The graph reflects the TSR for Drax and the Index referred to on a cumulative basis over the period from 31 December 2012 to 31 December 2022.



CEO's pay – last 10 financial years

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Group CEOs total single figure (£000)	3,360	1,854	1,248	1,581	1,236	1,885	1,121	2,013	3,226	5,377
Bonus % of maximum awarded	100.00%	73.00%	46.00%	88.00%	53.00%	53.00%	45.00%	45.00%	80.50%	87.50%
LTIP award % of maximum vesting	–	40.52%	21.66%	15.43%	0.00%	57.63%	18.00%	57.20%	77.28%	100.00%

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 2022 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)		
	2020	2021	2022	2020	2021	2022 ⁽¹⁾	2020 ⁽²⁾	2021	2022 ⁽³⁾
Will Gardiner	3.0%	2.0%	10.7%	0.0%	0.0%	0.0%	19.2%	82.9%	20.3%
Andy Skelton	3.0%	2.0%	8.1%	0.0%	0.0%	0.0%	9.4%	82.9%	17.5%
Philip Cox	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
John Baxter	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Nicola Hodson	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Kim Keating ⁽⁴⁾	N/A	N/A	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
David Nussbaum	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Erika Peterman ⁽⁴⁾	N/A	N/A	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Vanessa Simms	0.0%	2.0%	4.5%	N/A	N/A	N/A	N/A	N/A	N/A
Average for UK employees	3.0%	2.0%	4.5%	0.0%	0.0%	0.0%	0.0%	78.9%	8.7%

Notes:

- (1) With respect to taxable benefits, there has been no material change to Drax's existing benefits policies over the three reporting years.
- (2) The maximum bonus opportunity for Will Gardiner and Andy Skelton increased for 2021 to 175% and 150% respectively, which explains the percentage difference compared to UK colleagues. The bonus scorecard outcome for 2019 and 2020 was the same and this is reflected in the 0% change for the average UK employee.
- (3) The percentage change for 2022 shows an increase from 2021. This is because the bonus scorecard outcome for 2022 (1.75) is higher than it was for 2021 (1.61). Both Will Gardiner and Andy Skelton received higher base pay increases in 2022 than the average UK employee reflective of the changes to the business and therefore their bonus change for 2022 is larger when compared to the average UK employee.
- (4) Kim Keating and Erika Peterman joined the Board on 21 October 2021 and therefore the percentage change in their fees has not been provided for 2020 and 2021.

Remuneration Committee report continued

CEO pay ratio

The table below sets out the CEO pay ratio for 2022, along with the comparative ratios since 2019. 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 147 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	50th Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2022	Option A	114:1	79:1	57:1
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, 2021 and 2022 pay ratios was the same. For 2022, the total remuneration of all UK employees of the Group on 31 December 2022 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2022. 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 2022 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.

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 2022.

Element	25th Percentile (P25)	50th Percentile (P50)	75th Percentile (P75)
Base Salary	£23,358	£36,697	£52,825
Total Pay and Benefits	£47,370	£68,326	£94,770

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 2022 pay ratios report a wider gap between actual earnings of the CEO and UK employees (than compared to the 2019, 2020 and 2021 CEO pay ratios). This is ultimately due to the higher vesting of the 2020 LTIP versus the vesting of the 2019, 2018 and 2017 PSP awards (100% versus 77.28%, 57.2% and 18.0% respectively). To a lesser extent, this is also driven by the higher Scorecard outcome for 2022 than in the previous years in the sample (1.75 versus, 1.61, 0.90 and 0.90).

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.

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

The fees for the Chair and Non-Executive Directors were reviewed at the start of 2022 and were subsequently increased by 4.5% with effect from 1 January 2022. This was aligned with the average increase for the wider workforce in 2022. For completeness, the table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2022 together with comparative figures for 2021. The figures are rounded up to the nearest £000.

Director	Year	Base fee (£000)	Additional fee for Senior Independent Director (£000)	Additional fee for Chairing a Committee (£000)	Total (£000)
Philip Cox	2022	267	–	–	267
	2021	255	–	–	255
John Baxter	2022	59	–	–	59
	2021	56	–	–	56
Nicola Hodson	2022	59	–	11	70
	2021	56	–	10	66
Kim Keating ⁽¹⁾	2022	59	–	–	59
	2021	11	–	–	11
David Nussbaum ⁽²⁾	2022	59	11	–	70
	2021	56	10	–	66
Erika Peterman ⁽³⁾	2022	59	–	–	59
	2021	11	–	–	11
Vanessa Simms	2022	59	–	11	70
	2021	56	–	10	66

Notes:

- (1) Kim Keating joined the Board on 21 October 2021. The 2021 payments show pro-rated payments made. Kim is based in Canada and her fee was paid in Canadian dollars. Her base fee was in line with the fee structure in the Policy and was converted into Canadian dollars based on the exchange rate £1 = C\$1.72.
- (2) From 1 January 2019 to 31 March 2022, David Nussbaum donated his gross fees to charity.
- (3) Erika Peterman joined the Board on 21 October 2021. The 2021 payments show pro-rated payments made. Erika is based in the US and her fee was paid in US dollars. Her base fee was in line with the fee structure in the Policy and was converted into US dollars based on the exchange rate £1=\$1.37.

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 2022 of £7.030. There was no movement in share interests between 31 December 2022 and the date of publication.

Director	Number of shares	Value at year end
Philip Cox	60,000	£421,800
John Baxter	10,000	£70,300
Nicola Hodson	0	£0
Kim Keating	0	£0
David Nussbaum	0	£0
Erika Peterman	0	£0
Vanessa Simms	0	£0

Remuneration Committee report continued

Statement of Implementation of the Remuneration Policy in 2023

This section sets out the proposed implementation of the Directors' Remuneration policy in 2023. No deviations from the procedure for the implementation of the policy are proposed.

Base Salary

Below are the base salaries of the Executive Directors which took effect from 1 January 2023. There are no further planned increases for 2023. The base salary increase in January 2023 was 4.0% and this was made as part of the annual pay review process. This increase was less than the average increase for the wider workforce. A more thorough explanation on the pay increase is given on page 130 which also outlines the decision to bring forward the effective date of the 2023 pay review from 1 April to 1 January.

	Base Salary as at 1 April 2022 (£000)	Base Salary as at 1 January 2023 (£000)	Percentage increase
Will Gardiner	£638	£663	4.0%
Andy Skelton	£406	£422	4.0%

Benefits and pension

There are no changes intended to the benefits provided to the Executive Directors. The pension contribution rate for Will Gardiner reduced from 20% to 10% and for Andy Skelton reduced from 16% to 10%, effective 1 January 2023. The purpose of this change was to align their pension contribution rate with the applicable rate for new joiners to the UK wider workforce.

Annual bonus

The Group Scorecard metrics for 2023 are shown below. The performance targets for the scorecard are commercially sensitive therefore protective disclosure would not be in the best interest to stakeholders. The outcome of the 2023 scorecard will be disclosed in the 2023 Annual Report on Remuneration.

Target	Reason for use
Financial metrics (overall weighting of 60% in the Scorecard)	
Group adjusted EBITDA (40% weighting)	Adjusted EBITDA is our principal financial metric, combining the underlying performance of each business to give a Group outcome.
Leverage (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 of the Scorecard will be assessed on progress against three key strategic imperatives. The first is a KPI based on progress made on BECCS, both in respect to advancing our roadmap for the implementation of BECCS at Drax Power Station and the deployment of new build BECCS in the US. The second KPI focuses on the expansion of the Cruachan pumped storage power station. Performance will be assessed against a range of technical and commercial milestones. The third KPI focuses on the delivery of the stretching budget volume growth in 2023 of our pellet production.
Safety and ESG (20% weighting)	Safety and ESG are a critical part of our values and how Drax will create long-term sustainable returns for shareholders. This element of the Scorecard will be assessed against three facets. The first is a KPI focused on improving inclusion across Drax, assessed based on an independent rating. This KPI was included in the prior year Scorecard. The second KPI is focused on reducing Drax's carbon emissions across the Group and at a site level. Finally, a safety KPI is re-introduced to the Scorecard providing a holistic view of the Group's safety performance.

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. TSR performance will be measured over the period 1 January 2023 to 31 December 2025.

For the EPS element, targets for the 2023 grant have been agreed by the Committee at the meeting in February. The EPS target was set after considering the company's internal forecasts, market expectations and sector peers. The EPS target is 'Adjusted EPS', derived from Adjusted Results as reported in the Company's audited financial statements. Instances where such adjustments might apply include acquisition and restructuring costs, asset obsolescence charges and certain remeasurements on derivative contracts. EPS performance will be measured over the period 1 January 2023 to 31 December 2025 and vesting will be in accordance with the following schedule. Note, vesting between the threshold and maximum will be on a straight-line basis. The Committee will undertake a final review of the proposed grants for the 2023 financial year, including the performance targets, immediately prior to making the grant in order, where necessary, to reflect changes to market conditions. This recognises current market volatility.

Performance	Target	% of Award Vesting (of EPS performance condition)
Below threshold	<322.8p	0%
Threshold	322.8p	25%
Maximum	394.6p	100%

With regards to targets set in 2023 for each of the performance related incentives, the Committee retains discretion to restate or make adjustment to those targets in appropriate circumstances (such as material acquisitions, divestments, changes in capital structure or capital returns to shareholders). This would take account of the importance of such performance targets fulfilling their original intent and that they are not more or less challenging than intended when set and of relevant events in the performance period. Any amendments would be disclosed in the Remuneration Report at the relevant time.

Non-Executive Directors' fees

The annual fee structure for the Non-Executive Directors for 2023 is shown in the table below. The fee structure for 2022 is also provided for reference. The increase in base fee for the Chair and Non-Executive Directors is consistent with the increase that the Executive Directors received as part of the 2023 annual pay review process (which was less than the average increase of the wider workforce of 8%). Following an exercise with the Committee's independent adviser, it was identified that the additional fees were significantly below market rate given the current and expected future time commitment of the roles. The proposed increase to the additional fees is to bring them in line with the median of constituents of the FTSE 250 of a similar size to Drax. As outlined in the Policy, subject to shareholder approval, flexibility will be introduced to provide a travel allowance to recognise the additional time and expenses incurred by non-executives based overseas in providing services to a UK based listed company.

Director	Fees at 1 January 2022 (£)	Fees at 1 January 2023 (£)	Percentage increase (1 January 2023)
Chair	266,500	277,250	4.0%
Non-Executive Director base fee ⁽¹⁾	58,600	61,000	4.1%
Senior Independent Director	10,660	12,750	19.6%
Audit Committee Chair	10,660	12,750	19.6%
Remuneration Committee Chair	10,660	12,750	19.6%
Nomination Committee Chair ⁽²⁾	7,995	12,750	59.5%

Notes:

(1) The 2023 fees for the two Non-Executive Directors based outside of the UK will be paid in their respective local currency.

(2) No fee was currently paid for chairing this sub-Committee as the Chair is also the Nomination Committee Chair.

Shareholder voting

The table below shows the voting outcome at the 2022 AGM on the 2021 Annual Report on Remuneration. The votes cast represent 80.92% of the issued share capital. In addition, shareholders holding 2,325,760 shares abstained.

Voting on the 2021 Annual Report on Remuneration	For	Against
Number of votes	314,846,755	9,078,526
Proportion of votes	97.20%	2.80%

The table below shows the voting outcome for the Directors' Remuneration Policy at the 2020 AGM. The voting for the Directors' Remuneration Policy for 2023-2026 will take place at the AGM to be held on 26 April 2023.

Voting on the 2020-2023 Annual Report on Remuneration	For	Against
Number of votes	304,206,978	17,334,456
Proportion of votes	94.61%	5.39%

Adviser to the Committee

Until 24 May 2022, PwC were the adviser to the Committee. PwC is an independent adviser appointed by the Committee in October 2010. PwC were paid £18,700, excluding VAT, during 2022 in respect of advice given to the Committee determined on a time and material basis. As noted in last year's report, the Committee began a review of its independent adviser and on conclusion appointed Korn Ferry as the new adviser to the Committee. This appointment took effect on 25 May 2022. Korn Ferry were paid £108,360, excluding VAT, during 2022 in respect of advice given to the Committee determined on a time and material basis. Both PwC and Korn Ferry are members of the Remuneration Consultants Group and are signatory to its Code of Conduct. The Committee has satisfied itself that the advice it received from PwC and Korn Ferry was, and remains, objective and independent. Korn Ferry has no other connection with the company or individual Directors, and Korn Ferry has confirmed that there are no conflicts of interest, as has PwC for the period of 2022 where they were the adviser to the Committee.

This report was reviewed and approved by the Remuneration Committee.

Nicola Hodson
Chair of the Remuneration Committee
22 February 2023

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 2022. 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 Consolidated financial statements on page 252.

Directors

The following Directors held office during the year:

Philip Cox	Vanessa Simms
Will Gardiner	John Baxter
Andy Skelton	Kim Keating
David Nussbaum	Erika Peterman
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/.

Annual General Meeting (AGM)

The AGM will be held at 12.30pm on Wednesday 26 April 2023 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 8.4 pence per share was paid on 7 October 2022 (2021: 7.5 pence), to shareholders on the register on 26 August 2022.

The Directors propose a final dividend of 12.6 pence per share (2021: 11.3 pence), which will, subject to approval by shareholders at the AGM, be paid on 19 May 2023, to shareholders on the register on 21 April 2023.

Details of past dividends can be found on the Company's website at 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 11¹⁶/₂₉ 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 4.4 to the Consolidated financial statements on page 229.

Shares in issue

At 1 January 2022	413,068,027
Issued in period	1,804,464
At 31 December 2022	414,872,491
Treasury shares at 31 December 2022	13,841,295
Total voting rights at 31 December 2022	401,031,196
Issued between 1 January and 22 February 2023	38,131
At 22 February 2023	414,910,622
Treasury shares at 22 February 2023	13,841,295
Total voting rights at 22 February 2023	401,069,327

Authority to purchase own shares

At the AGM held on 27 April 2022, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. At the 2023 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 20 can be found in the Notice of Meeting. During 2022, 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 on the Company's website.

As at 22 February 2023, 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 ⁽¹⁾
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	17 May 2022	–	30,287,345	439,227	30,726,572	7.66%
Orbis Holdings Limited	15 Jul 2022	–	19,744,793	–	19,744,793	4.93%

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/. 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.

Directors' report continued

Political donations

Drax is a politically neutral organisation and, as further explained below, did not make any political donations or incur any political expenditure (within the ordinary meaning of those words) in 2022. 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 26 to 33, 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/. Due to the broad definition of political donations under the Companies Act 2006 (the Act), and as a matter of good governance and transparency, we have provided information on areas of expenditure incurred as a result of this engagement which may be regarded as falling within the scope of the Act. During the year ended 31 December 2022, Drax exhibited at, sponsored, and held events at, conferences organised by political parties, spending a total of £94,572 (2021: £75,925). This included sponsorship of events at the Labour Party business conference (£12,000) and the Yorkshire and the Humber Labour Party annual conference (£12,000), and hiring exhibition stands at the Conservative Party annual conference (£45,377) and Scottish National Party annual conference (£10,495). 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. Overall, the recipients were the Conservative Party (£57,977), the Labour Party (£26,100) and the Scottish National Party (£10,495).

At the 2023 AGM, Drax will be seeking renewal from shareholders of the existing authority approved at the 2022 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, as further amended and restated on 18 November 2020 and as further amended and restated on 14 September 2021) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the 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) as amended and restated on 20 September 2021 (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) as amended and restated on 21 September 2021 (the 2020 Private Placement).
- A loan facilities agreement dated 12 July 2021 between, amongst others, Pinnacle Renewable Energy Inc. and Royal Bank of Canada (as facility agent) which includes a C\$300 million term loan facility and C\$10 million revolving credit facility (2021 Facility Agreement).
- A £200,000,000 revolving credit facility agreement dated 9 December 2022 made between amongst others Drax Corporate Limited and Lloyds Bank plc as facility agent (the 2022 RCF 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 2019 Private Placement, the 2020 Private Placement, the 2021 Facility Agreement, and the 2022 RCF 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 Consolidated financial statements on page 257.

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 they 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.

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. Deloitte LLP continued in its role as external auditor to Drax for the financial year ending 31 December 2022 and, subject to shareholder approval at the 2023 AGM, Deloitte LLP will continue in its role as external auditor to Drax for the financial year ending 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. 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 116 to 126.

The Directors' report was approved by the Board on 22 February 2023 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 United Kingdom adopted International Accounting Standards 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 22 February 2023 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 1 January 2022 to 31 December 2022.

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

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 2022.

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 15 December, 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

London, 20 February 2023



Supporting a secure, renewable, energy system.

Richard Gwilliam,
Carbon Storage Director



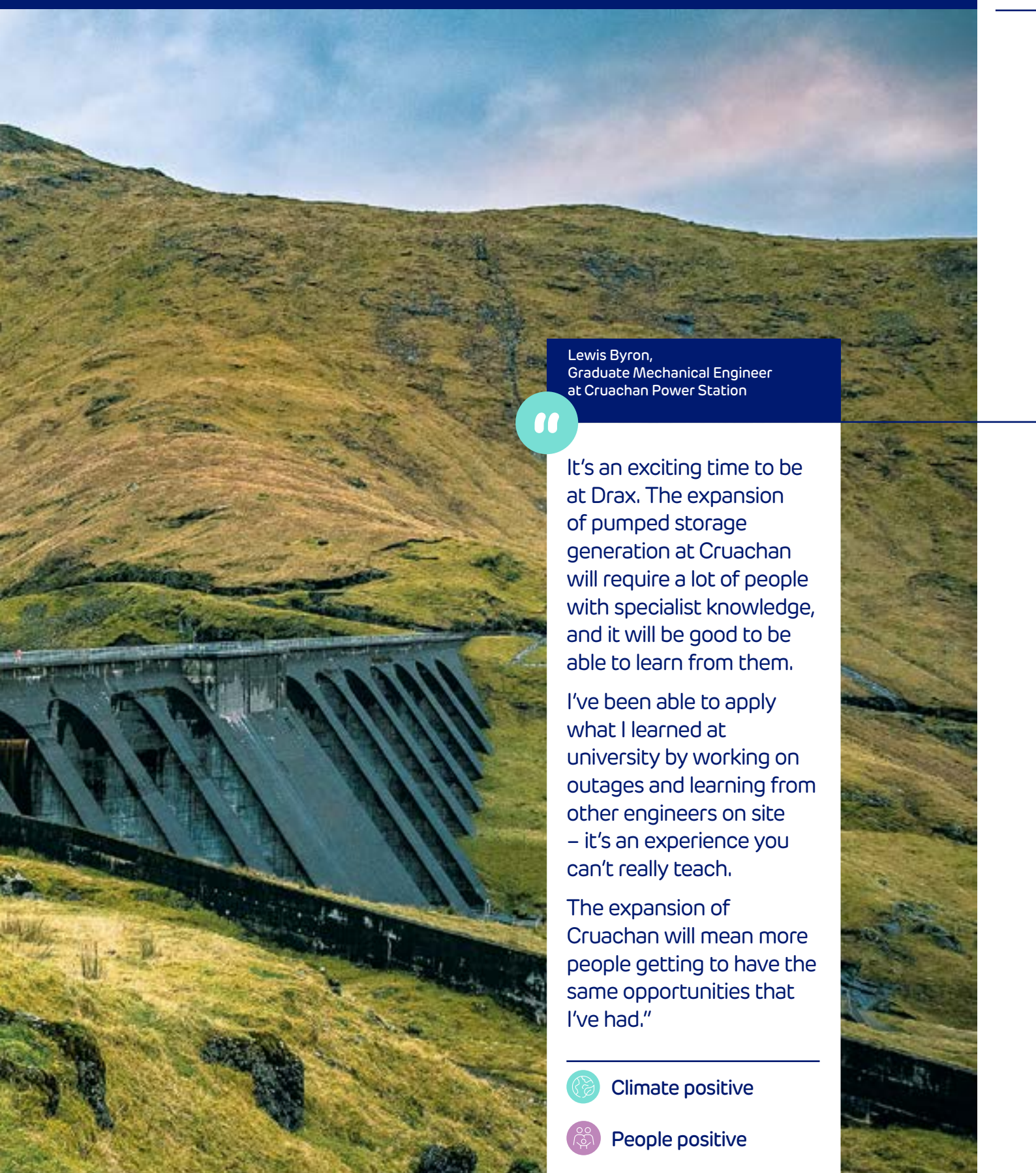
We want to be carbon negative by 2030. Deploying BECCS at scale will be crucial to meeting that target.

It'll bring about a significant change for Drax. Not only will we continue to be the backbone of the UK's electricity grid, but we'll be producing negative emissions through BECCS.

Converting an asset that started life as a coal-fired power station into something that can make a tangible difference to climate change and the UK's climate targets is something we should be really proud of."



Climate positive



Lewis Byron,
Graduate Mechanical Engineer
at Cruachan Power Station

“

It's an exciting time to be at Drax. The expansion of pumped storage generation at Cruachan will require a lot of people with specialist knowledge, and it will be good to be able to learn from them.

I've been able to apply what I learned at university by working on outages and learning from other engineers on site – it's an experience you can't really teach.

The expansion of Cruachan will mean more people getting to have the same opportunities that I've had.”



Climate positive



People positive

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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 2022 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 176 to 180;
- the notes in Section 2.1 to 8.3 related to the consolidated financial statements; and
- the notes in Section 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 Section 2.3 of the notes 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

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> • Valuation of goodwill and other intangible assets • Valuation of commodity, inflation and foreign exchange contracts • Estimation of Customers accrued income • Estimation of expected credit loss provision in Opus Energy Limited (Opus Energy) <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> ⚠ Newly identified ⬆ Increased level of risk ↔ Similar level of risk ⬇ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £15m, representing approximately 2% of current year's Adjusted EBITDA ¹ .
Scoping	As further explained in Section 7.1, we performed full scope audit on eight significant components, and audit of specified account balances on a non- significant component. These components represent the group's principal business units and account for substantially all the group's net assets, revenue, and profit before tax.
Significant changes in our approach	<p><i>Changes in key audit matters</i></p> <p>Estimation of expected credit loss provisions in Opus Energy has been identified as a key audit matter in the current year due to the increase in risk of customer default associated with the current macro-economic conditions and uncertainties.</p>

¹ Adjusted EBITDA is Adjusted Earnings before Interest, Taxation, Depreciation and Amortisation, excluding the impact of exceptional items and certain remeasurements

Independent Auditor's report to the members of Drax Group plc continued

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, repayment terms and covenants;
- assessing the historical accuracy of forecasts prepared by management and key assumptions underpinning the forecasts;
- checking the mathematical accuracy of the model used to prepare the forecasts;
- challenging the assumptions used in the forecasts, including performing sensitivity analyses in relation to assumptions for future commodity prices;
- checking the amount of headroom in the forecasts;
- assessing whether the directors have considered and reflected the impact of climate risks and opportunities in the group's going concern assessment; and
- evaluating the appropriateness of the going concern disclosures in the financial statements.

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 

Key audit matter description	<p>As at 31 December 2022, the carrying amount of the group's goodwill and other intangible assets amounted to £424.2m (2021: £416.3m) and £142.3m (2021: £188.6m).</p> <p>The group's impairment assessment of the carrying value of each cash generating units to which goodwill is allocated, is performed in accordance with IAS 36 Impairment of Assets. The recoverable amount of the group's goodwill was assessed by reference to value in use calculations which require estimates, including significant assumptions regarding future cash flows and discount rates. The cash flow forecasts are derived from the group's business plan, which considers variables such as margins, supply volumes and inflation. The forecasts also reflect relevant impact of climate risks such as future commodity prices on cash flows.</p> <p>Goodwill and other intangible assets are disclosed in Section 5.2 of the notes to the financial statements. Climate and biomass acceptability risks are disclosed in the principal risk section of the strategic report.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of relevant controls related to the impairment review of goodwill and other intangible assets.</p> <p>We checked the mathematical accuracy of the impairment models and the methodology applied for consistency with the requirements of IAS 36. We evaluated the key assumptions including margins, future commodity prices and inflation rates, and assessed retrospectively whether prior year assumptions were appropriate.</p> <p>With the assistance of our valuation specialists, we evaluated the reasonableness of management's discount rates. We benchmarked the discount rate to comparable companies 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 forecasts by comparing historical forecasts with actual cash flows, external industry benchmarks and the impact of any climate change risks. We checked whether projected cash flows were consistent with Board approved forecasts. Furthermore, we performed sensitivity analyses, including the impact of physical and transition climate change risks, as part of our overall evaluation of the forecasts.</p> <p>In respect of climate-related risks, we assessed whether key assumptions, such as future commodity prices, relating to the group's principal climate change risks have been incorporated into the group's forecasts. We further considered whether the forecasts and related cash flow sensitivities are consistent with the scenarios applied in the group's Task Force on Climate-Related Financial Disclosures (TCFD).</p> <p>We also assessed the completeness and accuracy of the financial statements' disclosures in relation to the impairment assessments performed.</p>
Key observations	<p>We conclude that the valuation of goodwill and other intangible assets as well as the relevant disclosures are appropriate based on the results of our work.</p>

5.2. Valuation of commodity, inflation and foreign exchange contracts

Key audit matter description	<p>Net losses on derivative contracts amounted to £302.4m (2021: £43.3m), with related derivative assets of £1,218.0m (2021: £1,246.1m) and liabilities of £1,724.8m (2021: £1,504.5m) recognised as at 31 December 2022. The group uses a variety of derivative contracts, including commodity contracts and cross currency swaps to mitigate its exposures to financial risks such as foreign exchange risk and commodity risk.</p> <p>The valuation of derivative contracts is complex and requires judgement such as in the selection of appropriate valuation methodologies and relevant assumptions, including future market prices, credit risk factors, time value of money and spread adjustments. Due to these complexities and the large volume of data used in the valuation, we have identified the risk of error and risk of fraud in this regard.</p> <p>Specifically, this risk has been pinpointed to the valuation of inflation swaps and the application of credit risk data calculations as part of deriving overall fair value estimates for derivative contracts.</p> <p>Furthermore, the group enters into contracts to buy and sell biomass. As disclosed in the critical accounting judgements, these contracts are currently considered to be outside the scope of IFRS 9 on the basis that they are not settleable on net basis. An error in this judgement could lead to excluding material amounts from the consolidated balance sheet. Accordingly, we identified a risk of error in relation to the judgement reached on the accounting for these biomass contracts.</p> <p>Further detail of the key judgements is disclosed in the Audit Committee report section on page 123 and Section 1 on page 183 of the notes to the financial statements. Financial risk management disclosures are set out in Section 7.1 of the notes to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of and tested the operating effectiveness of relevant controls related to the valuation of commodity, inflation and foreign exchange contracts.</p> <p>With the involvement of our 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 assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments, and performed independent valuations on a sample of commodity, inflation and foreign exchange contracts.</p> <p>We checked the appropriateness of management's assumptions by benchmarking these to third party sources. We also evaluated the consistency of these assumptions against other relevant areas of the financial statements such as asset impairment.</p> <p>We challenged management's approach and assumptions for assessing fair value adjustments such as credit risk, time value of money and spread adjustments through consideration of third-party data.</p> <p>We challenged the group's assessment and judgement on whether biomass contracts are "net settleable" against the requirement of IFRS 9 and relevant accounting standards and by considering contradictory sources of evidence.</p>
Key observations	<p>The valuation of commodity, inflation and foreign exchange contracts, and the judgement reached on the net settlement of biomass contracts are reasonable, based on the results of our audit.</p> <p>We consider the valuation methodologies used by management to be appropriate and the valuations are within acceptable ranges for all instruments.</p>

Independent Auditor's report to the members of Drax Group plc continued

5.3. Estimation of Customers accrued income 

Key audit matter description	<p>The recognition of retail revenue requires an estimation of customer usage between the date of the last billing and year end, which is known as accrued income. Across the Customers division, accrued income at year-end amounted to £342.6m (2021: £153.1m).</p> <p>The method of estimating accrued income is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value attributed to those volumes in the range of tariffs. Therefore, we identified the risk of error and the risk of fraud on the estimation of accrued income.</p> <p>Accrued income is disclosed in Section 3.5 of the notes to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of relevant controls over the estimation of accrued income, including the reconciliation of meter readings provided by the energy markets and used by management to estimate the power supplied; and the controls over the price per unit applied in the valuation of certain aspects of accrued income.</p> <p>We agreed the volume data for customer usage of energy in the year used in the calculation to external settlement systems and agreed the volume data in relation to customer billings for the year to internal billing systems to assess for consistency and assess any residual estimation risk. When external market information was not available at the balance sheet date, our data analytics specialists assisted us in testing the group's reconciliation of the volume of power purchased and their calculation of revenue supplied to assess whether accrued income as at 2022 year end was subsequently billed.</p> <p>We compared the unbilled unit pricing by agreeing historical pricing to sample bills, sensitising the pricing to understand the impact of different pricing assumptions.</p> <p>We evaluated the historical accuracy of management's forecasting of accrued income by comparing estimates to final billed and settlement amounts.</p>
Key observations	<p>We consider the estimated accrued income to be appropriate.</p>

5.4. Estimation of expected credit loss provision in Opus Energy 

Key audit matter description	<p>The current macro-economic conditions including rising energy bills, increases in the cost of living and rising inflation has increased the rate of credit defaults across several industries. The group is therefore required to make judgements and estimates on expected credit loss provision for trade receivables. Opus Energy is an entity within the Customers' segment whose customers are Small and Medium Enterprises (SMEs) – including retail, entertainment, and hospitality businesses – where the range of judgement that could apply is far broader relative to the other group entities. We therefore identified a risk of error and a risk of fraud on the estimation of expected credit loss provisions in Opus Energy. The group uses a machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of debt on an individual account basis using a broad range of indicators and that are specific to the customer. Further detail on the estimation of expected credit loss model is provided in note 3.5 of the financial statements.</p> <p>A credit loss provision of £60.9m (2021: £46.6m) has been recorded at year end. Total Trade receivables were £337.5m (2021: £234.1m) against which a total provision associated with Opus Energy at the balance sheet date amounted to £54.9m (2021: £44.4m).</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls related to the estimation of expected credit losses in line with the requirements of IFRS 9 Financial Instruments.</p> <p>We tested the completeness and accuracy of the data used in the expected credit loss model. With the involvement of our expected credit loss specialists and data analytics specialists, we evaluated the appropriateness of the model parameters and output of the expected credit loss model including its mathematical accuracy. Further we challenged the group's assumptions, including forward-looking assumptions regarding ongoing macro-economic conditions and whether they reflect the lifetime expected credit outcomes for the amount receivable at year end.</p> <p>We challenged the overall reasonableness of the provisions recognised at year end by assessing trends in cash payments, cancellation of direct debits and benchmarking the recorded provision against alternative valuation models, cash collection rates and external valuations.</p> <p>We tested the historical accuracy of management's estimation of expected credit loss provision by comparing estimates to actual write offs.</p>
Key observations	<p>Based on the work performed we concluded that the expected credit loss provision has been appropriately stated.</p>

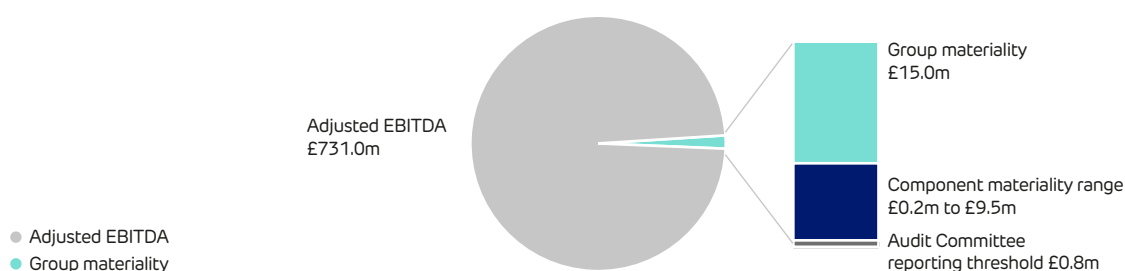
6. Our application of materiality

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
Materiality	£15.0m (2021: £11.4m)	£4.2m (2021: £4.0m)
Basis for determining materiality	<p>Approximately 2% of current year's Adjusted EBITDA (2021: 3% of Adjusted EBITDA) and corresponds to 3% of last three year's average Adjusted EBITDA.</p> <p>In determining our materiality for the current year, we have applied a lower factor of 2% (2021: 3%) to the Adjusted EBITDA to reflect the impact of volatility in current macro-economic conditions on current year's results.</p>	0.5% of net assets (2021: 0.5%) capped at 28% (2021: 35%) of the materiality identified for the group.
Rationale for the benchmark applied	Adjusted EBITDA was applied as it is considered to be of particular relevance to users of the financial statements as a key profit-based measure of performance used by the group. This measure allows the underlying profitability of the group's core business activities to be assessed year on year. It excludes fluctuations 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.	Net asset is considered the relevant benchmark for materiality determination due to the principal activity of the parent company as an investment holding entity for the group.



Independent Auditor's report to the members of Drax Group plc continued

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
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> a) 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; b) no significant changes in the nature of the entity's business during the year which would impact on our ability to identify potential misstatements; and c) history of low level of misstatements identified in the previous audits and managements willingness to correct those adjustments. 	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.8m (2021: £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 eight components: Drax Power Limited, Drax Pumped Storage Limited, Drax Smart Generation Holdco Limited, Drax Energy Solutions Limited, Drax Corporate Limited, Drax Group Holdings Limited, Drax Biomass Inc and Opus Energy Limited. Audit of specified account balances was performed at Northern Pellet Operations. These components represent the group's principal business units and account for substantially 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. The full scope entities are all based in the United Kingdom and audited by the group audit team. 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 £4.2m to £9.5m (2021: £4.0m to £6.0m). Component materiality levels were set based on the size and nature of each component on a range of applicable metrics.

At the group level, we also tested the consolidation process and performed analytical reviews 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

The group has considered climate change risk and biomass acceptability risk 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 pages 87 to 90, and Section 3.8 of the notes to the financial statements on page 227. The areas of the financial statements that are notably impacted by climate-related considerations are associated with future forecasts in the medium to long term. These include the valuation of property, plant and equipment, goodwill, and other intangible assets. Our response is highlighted in section 5.1 above. In addition, we have

- assessed and challenged the key financial statement line items and estimates which are more likely to be materially impacted by climate change risks given the more notable impacts of climate change on the business are expected to arise in the medium to long term.
- challenged how the directors considered climate change in their assessment of going concern and viability 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 challenging the group's climate and biomass acceptability principal risk assessments. The ESG specialists were also involved in reviewing the Sustainable Development section of the annual report and assessing TCFD on pages 38 – 43 against the recommendations of the TCFD framework.
- assessed whether climate risk assumptions underpinning specific account balances were appropriately disclosed.
- read the climate risk and biomass acceptability risk disclosures included in the strategic report section of the annual report for consistency with the financial statements and our knowledge of the business environment.

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 coordination of our component audit teams. The group audit team interacted regularly with the component teams during each stage of the audit and reviewed key working papers. The group audit team maintained continuous and open dialogue with the component teams in addition to holding formal regular meetings to ensure that the group audit team were fully aware of their progress and results of their procedures. The group audit team also sent detailed instructions to the 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. 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;
- results of our inquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- the involvement of our internal fraud specialists in planning our response to potential fraud risk factors, in particular through attending engagement team discussions;
- 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 forensics, 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.

Independent Auditor's report to the members of Drax Group plc continued

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, inflation and foreign exchange contracts, estimation of Customers accrued income and expected credit loss provision in Opus Energy, as well as 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 and biomass- related regulations.

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, inflation and foreign exchange contracts, estimation of Customers accrued income and estimation of expected credit loss provision in Opus Energy as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains these 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
- inquiring 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 and Ofgem;
- in addressing the risk of fraud in cut-off of bilateral sales, in addition to our testing described above we have performed focused 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 76 and 77;
- 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 page 76 and 77;
- the directors' statement on fair, balanced and understandable set out on page 166;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 76 and 77;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 76 and 77; and
- the section describing the work of the audit committee set out on page 120.

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 years ending 31 December 2022 and 2023. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2005 to 2022. Our last audit of the group, due to mandatory auditor rotation, will be the year ending 31 December 2023.

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

22 February 2023

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 Consolidated 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 Consolidated 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 185 to 189, as well as voluntary information which management believe users of the accounts may find useful, in line with the principles of IFRS.

Basis of preparation

The Consolidated financial statements have been prepared in accordance with the United Kingdom adopted International Accounting Standards (as issued by the UK Endorsement Board) and in conformity with the requirements of the Companies Act 2006.

The Consolidated 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. 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.

At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items measured at historical cost are translated at the date of the transaction using the average monthly exchange rate to the extent that this approximates the rate prevailing on the date the transaction occurred. Non-monetary items that are measured at fair value are translated at the exchange rate at the date when fair value was determined. Foreign exchange gains and losses arising on such translations are recognised in the Consolidated income statement within foreign exchange gains or losses unless they relate to qualifying cash flow hedges. Foreign exchange gains and losses on qualifying cash flow hedges are recognised within the Consolidated statement of comprehensive income, within Other comprehensive income (OCI) and deferred within equity, to the extent the hedges are effective, until the hedged item impacts the Consolidated income statement.

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using the exchange 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 that 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 OCI.

Climate change

The impact of climate change has been considered throughout the preparation of the Annual report and accounts. In particular, in the Strategic report the TCFD disclosures contain information on the four recommendations and 11 recommended disclosures of the FCA LR 9.8.6(8). Consideration in respect of the Consolidated financial statements focused on:

- Critical accounting judgements
- Impairment of assets
- Going concern and viability
- Useful economic lives of fixed assets

Further information on these areas can be found in note 3.8 to the Consolidated financial statements.

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 4 to 91 of this Annual report and accounts. The current energy market conditions and their impact on the Group are considered in the Financial review on page 20.

In the Viability statement on pages 75 to 76, 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 based on forecasts and projections that take into account reasonably possible changes in trading performance and other key assumptions. 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 have therefore adopted the going concern basis in preparing these Consolidated 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. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with the policies adopted by the Group.

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 OCI are attributed to the owners of the Parent Company and to the non-controlling interests. Profit or loss and each component of OCI of the subsidiaries is attributed to the owners of the Parent Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

See note 4.5 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 arrangement 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 arrangement have rights to the net assets of the arrangement, then it is a joint venture.

The Group currently only has one joint operation and no joint ventures. The Group recognises its direct right to assets, liabilities, revenue and expenses of the joint operation, as well as its share of any jointly entitled assets, liabilities, income and expenditure. These amounts are recognised within the appropriate Consolidated financial statement line items in accordance with the IFRS 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 is adjusted to recognise the Group's share of after tax profit or loss and 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 that 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 Consolidated financial statements are described in the note to the Consolidated financial statements relating to the item concerned (see contents on page 166).

The accounting policies adopted in the preparation of the Consolidated financial statements are consistent with those followed in the preparation of the Group's Consolidated financial statements for the year ended 31 December 2021, except for the change in accounting policy for Software as a Service (SaaS) costs (see Change in accounting policy section below for further details) and the adoption of new standards and amendments effective as of 1 January 2022. 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 Consolidated financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the Consolidated financial statements.

Change in accounting policy

In 2021, the IFRS Interpretations Committee (IFRIC) finalised its agenda decision regarding how to account for costs of configuring or customising a supplier's application software in a 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 decision also concluded that often the configuration and customisation costs do not result in an intangible asset belonging to 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 separate assets controlled by the customer. If this is the case the asset should be assessed to determine whether it is separately identifiable and if it meets the recognition criteria of IAS 38.

Any changes resulting from this agenda decision are a change in accounting policy. Assessing the impact of the agenda decision on the Group required detailed analysis of the historical amounts capitalised. The Group has now concluded its analysis on the impact of this agenda decision and has subsequently applied a new accounting policy for SaaS costs, consistent with the agenda decision, from 1 January 2022.

SaaS costs capitalised as intangible assets by the Group at 1 January 2022, and impacted by this change in accounting policy, had a net book value of £5.7 million. As the impact of this change in accounting policy is immaterial, and the new policy has been applied prospectively from 1 January 2022, no restatement of prior periods has been necessary. These assets have been written off in the current period as an exceptional cost (see note 2.7). SaaS costs incurred from 1 January 2022 have been recognised in Operating and administrative expenses.

Financial statements continued

Judgements and estimates

The preparation of these Consolidated financial statements requires judgement to be made in selecting and applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenditure. 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 analyses 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 Consolidated 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 as set out on page 120.

See note 2.7 on page 203

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 circumstances. As such, the Group undertook an assessment of whether contracts it holds to buy and sell biomass are 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 readily seek 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 as derivative assets or liabilities in the Consolidated balance sheet prior to 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 increase or decrease in the market price of biomass purchases would result in a £20.5 million fair value gain or loss respectively being recognised. The Group continues to assess developments in the biomass market on an ongoing basis to identify any impact on this assessment.

Capitalisation of development project costs

As the Group executes its strategy, as outlined on page 16, significant investment is likely to be required in large development projects, including bioenergy carbon capture and storage in the UK (UK BECCS) and the development of Cruachan 2. In accounting for this expenditure, judgements are required to determine whether these costs meet the criteria to be capitalised, or whether they should be expensed as incurred. The capitalisation of costs under IAS 16 and IAS 38 are based around the expectation that it is probable that economic benefit will flow to the Group as a result of the costs incurred to bring the asset into working condition. This judgement can be complex as it is dependent on several qualitative factors, including technological feasibility, economic feasibility and availability of finance. At 31 December 2022 the Group had capitalised £24.5 million relating to the UK BECCS development project, including £19.1 million in 2022. Had it been judged that the criteria for capitalisation had not yet been met, these costs would have been expensed as incurred. The Group has not capitalised any costs in relation to Cruachan 2 or any global BECCS projects as the recognition criteria of IAS 16 have not been judged to have been met.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that carry a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year. These are the items where actual outcomes in the next 12 months could vary materially from the estimates made in determining the reported amount of an asset or liability within the Consolidated financial statements.

Property, plant and equipment

Property, plant and equipment at Drax Power Station is depreciated on a straight-line basis over its useful economic life (UEL). UELs are estimated based on past experience, anticipated future replacement cycles and other available evidence and are reviewed at least annually.

Given the continued focus on climate change, renewable 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 UK Government's net zero strategy continues to evolve and become clearer, particularly in relation to UK BECCS, the Group will continue to assess any potential impact of these developments on UELs in relation to Drax Power Station. Once certainty over UK BECCS at Drax Power Station is achieved, UELs will be reassessed. The net book value of fixed assets being depreciated at Drax Power Station at 31 December 2022 is £911.5 million and depreciation on these assets in the year, based on the UELs disclosed in note 3.1, was £74.6 million. If the UELs of assets, that are limited to the current assumed end of station life of 2039, were to increase by ten years the impact on the depreciation charge for the year would be a reduction of approximately £14.2 million.

See note 3.1 on page 211

Pension liabilities

The Group records a net surplus or liability in its Consolidated balance sheet for the fair value of assets held by the pension schemes, less its obligation to provide benefits under approved defined benefit pension schemes. The actuarial valuations of the schemes' liabilities are performed annually by an independent qualified actuary and contain assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change. Three of the key estimates within the valuation are the discount and inflation rates, and life expectancy. Sensitivities in the valuations are discussed in note 6.3. The value of the pension surplus recognised by the Group at 31 December 2022 in relation to the DPG ESPS scheme is £32.4 million and the value of the pension surplus recognised in relation to the Drax 2019 scheme is £6.1 million.

See note 6.3 on page 245

Derivative valuations

Derivative financial instruments are recorded in the Group's Consolidated balance sheet at fair value. The assessment of fair value is derived in part by reference to a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and published prices from third-party sources. However, any forward curve is based, at least in part, upon assumptions about future transactions and market movements. Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases. More detail on the assumptions used in the assessment of fair values is provided in note 7.1, and a range of sensitivities is provided in note 7.2.

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. The APMs glossary table on page 287 provides details of all APMs used, including 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 Consolidated financial statements in evaluating the Group's trading performance and performance against strategic objectives.

Adjusted basic earnings per share

Adjusted basic earnings per share (Adjusted basic EPS) is Adjusted profit from continuing and discontinued operations attributable to the owners of the Parent Company divided by the weighted average number of shares outstanding. This is the same denominator used when calculating basic EPS. 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 excludes gains or losses in disposal of fixed assets, income from associates and amounts directly attributable to non-controlling interests. 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 the Group's operations.

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.

There has been no change to the policy during the year ended 31 December 2022. During the year, the application guidance for this policy was enhanced, in particular setting de minimis thresholds for classifying items as exceptional. These enhancements would not have materially changed the transactions classified as exceptional in the comparative period contained within these Consolidated 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, interest payable and similar charges or foreign exchange gains or 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 prevailing market price, as the Group is not seeking to make trading profits on these contracts 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 associated financial derivative contracts (such as forward foreign currency purchases), in Adjusted results at the time the transaction takes place.

See note 2.7 on page 203

Financial statements continued

Net debt

The Group defines Net debt as total borrowings less cash and cash equivalents. Borrowings denominated in foreign currencies, and where the Group has entered into hedging arrangements associated with this currency exposure, are translated at the hedged rate. This is 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. Borrowings that have no hedging instruments attributed to them are translated at the closing rate. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (RCFs) (see note 4.2) but excludes other financial liabilities such as pension obligations (see note 6.3), trade and other payables (see note 3.5) and lease liabilities calculated in accordance with IFRS 16 (see note 3.2). Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests.

As noted above, 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.

Net debt is a key metric used by debt rating agencies and the investor community as a measure of liquidity and the ability of the Group to manage its current obligations.

Prior to 2022, the Group's definition of Net debt did not include translating borrowings denominated in foreign currencies, for which the Group had entered into hedging arrangements associated with the currency exposure at the hedged rate. The impact of relevant hedging instruments was presented alongside the Net debt figures rather than being included in the definition.

In 2022, the Group has updated its definition of Net debt, which now includes translating borrowings at the hedged rate. This is deemed to provide more useful information and to better reflect the economic reality, as it includes the sterling value of borrowings that will ultimately be settled.

The table below shows Net debt calculated using both the current and prior year definitions:

	Year ended 31 December	
	2022 £m	2021 £m
Current definition	1,206.0	1,108.0
Previous definition	1,203.6	1,043.6

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 2.0 times. The Group's 2.0 times target has not changed as a result of the update in the definition of Net debt described above, nor has the Group's expectations in regard to meeting this target.

The Net debt to Adjusted EBITDA ratio gives an indication of the size of the Group's Net debt in relation to its trading performance.

Section 1: Consolidated financial statements

Consolidated income statement

	Notes	Year ended 31 December 2022			Year ended 31 December 2021		
		Adjusted results ⁽¹⁾ £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results ⁽¹⁾ £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	2.2	8,159.2	(383.9)	7,775.3	5,173.9	(85.9)	5,088.0
Cost of sales		(6,837.7)	85.7	(6,752.0)	(4,331.1)	134.3	(4,196.8)
Gross profit		1,321.5	(298.2)	1,023.3	842.8	48.4	891.2
Operating and administrative expenses	2.3	(542.8)	–	(542.8)	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets		(48.0)	–	(48.0)	(16.3)	–	(16.3)
Depreciation	3.1	(208.0)	–	(208.0)	(164.5)	(0.5)	(165.0)
Amortisation	5.2	(31.4)	–	(31.4)	(34.4)	–	(34.4)
Impairment of non-current assets	2.7	(16.6)	(24.9)	(41.5)	–	–	–
Other losses		(5.8)	–	(5.8)	(9.4)	–	(9.4)
Income from associates		0.5	–	0.5	0.3	–	0.3
Operating profit/(loss)		469.4	(323.1)	146.3	170.1	26.4	196.5
Foreign exchange gains/(losses)	2.5	14.8	(3.8)	11.0	0.9	(5.1)	(4.2)
Interest payable and similar charges	2.5	(83.1)	(0.4)	(83.5)	(70.9)	(0.3)	(71.2)
Interest receivable	2.5	4.3	–	4.3	0.4	–	0.4
Profit/(loss) before tax		405.4	(327.3)	78.1	100.5	21.0	121.5
Tax:							
– Before effect of changes in tax rate	2.6	(64.5)	62.2	(2.3)	(11.7)	(5.7)	(17.4)
– Effect of changes in tax rate	2.6	(2.9)	9.6	6.7	(0.4)	(48.6)	(49.0)
Total tax (charge)/credit		(67.4)	71.8	4.4	(12.1)	(54.3)	(66.4)
Net profit/(loss) from continuing operations⁽²⁾		338.0	(255.5)	82.5	88.4	(33.3)	55.1
Net profit from discontinued operations	5.4	–	–	–	16.7	7.4	24.1
Profit/(loss) for the period		338.0	(255.5)	82.5	105.1	(25.9)	79.2
Attributable to:							
Owners of the Parent Company		340.6	(255.5)	85.1	105.6	(25.9)	79.7
Non-controlling interests		(2.6)	–	(2.6)	(0.5)	–	(0.5)
Earnings per share:		Pence		Pence	Pence		Pence
For net profit from continuing operations attributable to the owners of the Parent Company							
– Basic	2.8	85.1		21.3	22.3		13.9
– Diluted	2.8	82.2		20.5	21.5		13.5
For net profit for the period attributable to the owners of the Parent Company							
– Basic	2.8	85.1		21.3	26.5		20.0
– Diluted	2.8	82.2		20.5	25.6		19.3

Notes:

(1) Adjusted results are stated after adjusting for exceptional items (including impairment of non-current assets, acquisition costs and restructuring costs), and certain remeasurements. See note 2.7 for further details.

(2) The 2022 Adjusted net profit from continuing operations of £338.0 million (2021: £88.4 million) is inclusive of £(2.6) million (2021: £(0.5) million) attributable to non-controlling interests.

Section 1: Consolidated financial statements continued

Consolidated statement of comprehensive income

	Notes	Year ended 31 December	
		2022 £m	2021 £m
Profit for the period		82.5	79.2
Items that will not be subsequently reclassified to profit or loss:			
Remeasurement of defined benefit pension scheme	6.3	(24.4)	30.7
Deferred tax on remeasurement of defined benefit pension scheme	2.6	6.1	(7.2)
Deferred tax on share-based payments	2.6	–	5.4
Net fair value (losses)/gains on cost of hedging	7.4	(19.0)	17.3
Deferred tax on cost of hedging	2.6	2.2	(7.7)
Net fair value gains on cash flow hedges	7.3	205.5	1.1
Deferred tax on cash flow hedges	2.6	(49.5)	3.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations attributable to the owner of the Parent Company	4.4	42.4	8.7
Exchange differences on translation of foreign operations attributable to non-controlling interests		3.4	(2.6)
Net fair value losses on cash flow hedges	7.3	(593.1)	(182.0)
Net gains on cash flow hedges reclassified to profit or loss	7.3	432.9	12.6
Deferred tax on cash flow hedges	2.6	43.9	37.6
Other comprehensive income/(expense)		50.4	(82.5)
Total comprehensive income/(expense) for the year		132.9	(3.3)
Attributable to:			
Owners of the Parent Company		132.1	(0.2)
Non-controlling interests		0.8	(3.1)

Consolidated balance sheet

	Notes	As at 31 December	
		2022 £m	2021 £m
Assets			
Non-current assets			
Goodwill	5.2	424.2	416.3
Intangible assets	5.2	142.3	188.6
Property, plant and equipment	3.1	2,388.0	2,310.7
Right-of-use assets	3.2	138.3	119.8
Investments		6.9	5.5
Retirement benefit surplus	6.3	38.5	48.9
Deferred tax assets	2.6	37.3	28.7
Derivative financial instruments	7.1	421.7	357.5
		3,597.2	3,476.0
Current assets			
Inventories	3.4	348.1	199.1
Renewable certificate assets	3.3	187.8	301.4
Trade and other receivables and contract assets	3.5	1,227.0	641.9
Derivative financial instruments	7.1	796.3	888.6
Cash and cash equivalents	4.1	238.0	317.4
		2,797.2	2,348.4
Liabilities			
Current liabilities			
Trade and other payables and contract liabilities	3.7	(1,527.9)	(1,211.1)
Lease liabilities	3.2	(22.7)	(15.1)
Current tax liabilities		(23.3)	(3.4)
Borrowings	4.2	(44.3)	(40.6)
Derivative financial instruments	7.1	(989.4)	(962.7)
		(2,607.6)	(2,232.9)
Net current assets		189.6	115.5
Non-current liabilities			
Borrowings	4.2	(1,396.6)	(1,320.4)
Lease liabilities	3.2	(130.4)	(110.8)
Provisions	5.3	(58.6)	(86.4)
Deferred tax liabilities	2.6	(141.6)	(225.3)
Derivative financial instruments	7.1	(735.4)	(541.8)
		(2,462.6)	(2,284.7)
Net assets		1,324.2	1,306.8
Shareholders' equity			
Issued equity	4.4	47.9	47.7
Share premium	4.4	433.3	432.2
Hedge reserve	7.3	(152.0)	(177.4)
Cost of hedging reserve	7.4	40.1	78.5
Other reserves	4.4	747.7	706.0
Retained profits	2.10	193.8	198.3
Total equity attributable to the owners of the Parent Company		1,310.8	1,285.3
Non-controlling interests	4.5	13.4	21.5
Total shareholders' equity		1,324.2	1,306.8

The Consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 22 February 2023.

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
At 1 January 2021	47.5	430.0	(76.0)	87.2	697.3	153.4	–	1,339.4
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)
Total comprehensive (expense)/income for the year	–	–	(127.1)	9.6	8.7	108.6	(3.1)	(3.3)
Equity dividends paid (note 2.9)	–	–	–	–	–	(70.9)	–	(70.9)
Issue of share capital (note 4.4)	0.2	2.2	–	–	–	–	–	2.4
Acquisition of subsidiary with non-controlling interests (note 5.1)	–	–	–	–	–	–	39.6	39.6
Contributions from non-controlling interests	–	–	–	–	–	–	6.5	6.5
Acquisition of non-controlling interests without a change in control (note 4.5)	–	–	–	–	–	(0.2)	(21.5)	(21.7)
Total transactions with the owners in their capacity as owner	0.2	2.2	–	–	–	(71.1)	24.6	(44.1)
Movements on cash flow hedges released directly from equity (note 7.3)	–	–	33.2	–	–	–	–	33.2
Deferred tax on cash flow hedges released directly from equity (notes 7.3 and 2.6)	–	–	(7.5)	–	–	–	–	(7.5)
Movements on cost of hedging released directly from equity (note 7.4)	–	–	–	(23.7)	–	–	–	(23.7)
Deferred tax on cost of hedging released directly from equity (notes 7.4 and 2.6)	–	–	–	5.4	–	–	–	5.4
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	7.4	–	7.4
At 1 January 2022	47.7	432.2	(177.4)	78.5	706.0	198.3	21.5	1,306.8
Profit/(loss) for the year	–	–	–	–	–	85.1	(2.6)	82.5
Other comprehensive income/(expense)	–	–	39.7	(16.8)	42.4	(18.3)	3.4	50.4
Total comprehensive income/(expense) for the year	–	–	39.7	(16.8)	42.4	66.8	0.8	132.9
Equity dividends paid (note 2.9)	–	–	–	–	–	(78.9)	–	(78.9)
Issue of share capital (note 4.4)	0.2	1.1	–	–	–	–	–	1.3
Contributions from non-controlling interests	–	–	–	–	–	–	1.3	1.3
Acquisition of non-controlling interests without a change in control (note 4.5)	–	–	–	–	(0.7)	(9.3)	(10.2)	(20.2)
Total transactions with the owners in their capacity as owner	0.2	1.1	–	–	(0.7)	(88.2)	(8.9)	(96.5)
Movements on cash flow hedges released directly from equity (note 7.3)	–	–	(19.1)	–	–	–	–	(19.1)
Deferred tax on cash flow hedges released directly from equity (notes 7.3 and 2.6)	–	–	4.8	–	–	–	–	4.8
Movements on cost of hedging released directly from equity (note 7.4)	–	–	–	(28.8)	–	–	–	(28.8)
Deferred tax on cost of hedging released directly from equity (notes 7.4 and 2.6)	–	–	–	7.2	–	–	–	7.2
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	9.5	–	9.5
Deferred tax on share-based payments released directly from equity (note 2.6)	–	–	–	–	–	7.4	–	7.4
At 31 December 2022	47.9	433.3	(152.0)	40.1	747.7	193.8	13.4	1,324.2

Consolidated cash flow statement

	Notes	Year ended 31 December	
		2022 £m	2021 £m
Cash generated from operations	4.3	320.3	354.5
Income taxes (paid)/refunded		(38.7)	12.4
Interest paid		(77.2)	(60.5)
Interest received		3.3	0.1
Net cash from operating activities		207.7	306.5
Made up of:			
Net cash from continuing operating activities		207.7	322.9
Net cash from discontinued operating activities		-	(16.4)
Cash flows from investing activities			
Purchases of property, plant and equipment		(163.9)	(191.0)
Purchases of intangible assets		(10.8)	(18.7)
Proceeds from the sale of property, plant and equipment		1.6	0.7
Acquisition of businesses net of cash acquired	5.1	(7.6)	(203.5)
Proceeds on disposal of subsidiary net of cash disposed and costs of disposal		-	183.7
Net cash used in investing activities		(180.7)	(228.8)
Made up of:			
Net cash used in continuing investing activities		(180.7)	(412.5)
Net cash used in discontinued investing activities		-	183.7
Cash flows from financing activities			
Equity dividends paid	2.9	(78.9)	(70.9)
Contributions from non-controlling interests		1.3	6.5
Acquisition of non-controlling interests without a change in control		(19.6)	(21.5)
Proceeds from issue of share capital		1.2	2.4
Draw down of facilities	4.2	188.5	302.6
Repayment of facilities	4.2	(186.4)	(256.3)
Payment of principal of lease liabilities		(18.0)	(13.2)
Net cash absorbed by financing activities		(111.9)	(50.4)
Made up of:			
Net cash absorbed by continuing financing activities		(111.9)	(50.4)
Net cash absorbed by discontinued financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(84.9)	27.3
Cash and cash equivalents at 1 January		317.4	289.8
Effect of changes in foreign exchange rates		5.5	0.3
Cash and cash equivalents at 31 December	4.1	238.0	317.4

Non-cash transactions recognised in the Consolidated income statement are reconciled to operating cash flow as part of the disclosure provided in note 4.3. 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 Consolidated income statement items (notes 2.2–2.6) and information regarding the Adjusted and Total results, dividends and retained profits (notes 2.7–2.10). Further commentary on the Group's trading and operational performance during the year can be found in the Strategic report on pages 1 to 91, with particular reference to key transactions and market conditions that have affected the results.

2.1 Segmental reporting

Reportable segments are presented in a manner consistent with internal reporting provided to the chief operating decision maker which is considered to be the Board. The Group is organised into three businesses, with a dedicated management team for each. Central corporate and commercial functions provide certain specialist and shared services, including optimisation of the Group's positions. The Board reviews the performance of each of these businesses separately, and each represents a reportable segment:

- Pellet Production: production and subsequent sale of biomass pellets at the Group's processing facilities in North America;
- Generation: power generation activities in the UK; and
- Customers: supply of electricity and gas to non-domestic customers in the UK.

Operating costs are allocated to the reportable segments to the extent they are directly attributable to the activities of that segment. Central corporate function costs that are not directly attributable to the activities of a reportable segment are included within Innovation, capital projects and other costs. Innovation, capital projects and other costs is not a reportable segment as it does not earn revenues.

When defining gross profit within the Consolidated financial statements, the Group follows the principal trading considerations applied by its Pellet Production, Generation and Customers businesses when making a sale. In respect of the Pellet Production business, this reflects the direct costs of production, being fibre, fuel and drying costs, direct freight and port costs, or third-party pellet purchases. In respect of Generation, this reflects the direct costs of the commodities to generate the power 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.

Accordingly, cost of sales excludes indirect overheads and staff costs (presented within operating and administrative expenses), and depreciation (presented separately on the face of the Consolidated income statement). See note 3.4 for details of the costs 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 higher generation. Conversely, demand is typically lower in the summer months (April to September) when temperatures are milder, and therefore prices are generally lower.

This trend is experienced by all of the Group's UK-based businesses, as they operate within the UK electricity and gas markets. It is most notable within the Generation business due to its scale and the flexible operation of its thermal generation plant.

The Pellet Production business incurs certain costs that are higher in winter months due to the impact of weather conditions, such as fibre drying costs and heating costs. 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 2022. Revenue for each segment is split between sales to external parties and inter-segment sales. Inter-segment sales are eliminated in the intra-group eliminations column along with any adjustment required for unrealised profits.

The financial information in these tables is comprised solely of results from continuing operations. There were no amounts attributable to discontinued operations in the year ended 31 December 2022. Adjusted EBITDA by reportable segment is presented in note 2.7.

	Year ended 31 December 2022							Total results £m
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	
Revenue								
External sales	377.2	3,638.9	4,143.1	–	–	8,159.2	(383.9)	7,775.3
Inter-segment sales	425.4	3,719.3	–	–	(4,144.7)	–	–	–
Total revenue	802.6	7,358.2	4,143.1	–	(4,144.7)	8,159.2	(383.9)	7,775.3
Cost of sales	(501.9)	(6,479.2)	(3,985.0)	–	4,128.4	(6,837.7)	85.7	(6,752.0)
Segment gross profit/(loss)	300.7	879.0	158.1	–	(16.3)	1,321.5	(298.2)	1,023.3
Operating and administrative expenses	(167.3)	(183.5)	(84.3)	(113.6)	5.9	(542.8)	–	(542.8)
Impairment losses on financial assets	–	–	(48.0)	–	–	(48.0)	–	(48.0)
Depreciation and amortisation	(119.9)	(98.6)	(25.5)	(3.3)	7.9	(239.4)	–	(239.4)
Impairment of non-current assets	–	(16.6)	–	–	–	(16.6)	(24.9)	(41.5)
Other losses	(2.0)	(3.8)	–	–	–	(5.8)	–	(5.8)
Income from associates	0.5	–	–	–	–	0.5	–	0.5
Operating profit/(loss)	12.0	576.5	0.3	(116.9)	(2.5)	469.4	(323.1)	146.3

Further information on the main revenue streams of each segment is presented in note 2.2.

The impact of exceptional items and certain remeasurements is set out in note 2.7.

The following is an analysis of the Group's performance by reportable segment for the year ended 31 December 2021:

	Year ended 31 December 2021							Total results £m
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	Adjusted results £m	Exceptional items and certain remeasurements £m	
Revenue								
External sales	163.1	2,651.2	2,359.6	–	–	5,173.9	(85.9)	5,088.0
Inter-segment sales	286.7	2,031.1	–	–	(2,317.8)	–	–	–
Total revenue	449.8	4,682.3	2,359.6	–	(2,317.8)	5,173.9	(85.9)	5,088.0
Cost of sales	(267.0)	(4,131.9)	(2,255.9)	–	2,323.7	(4,331.1)	134.3	(4,196.8)
Segment gross profit	182.8	550.4	103.7	–	5.9	842.8	48.4	891.2
Operating and administrative expenses	(96.9)	(198.9)	(81.7)	(70.9)	–	(448.4)	(21.5)	(469.9)
Impairment losses on financial assets	–	–	(16.3)	–	–	(16.3)	–	(16.3)
Depreciation and amortisation	(61.4)	(103.4)	(30.5)	(3.6)	–	(198.9)	(0.5)	(199.4)
Other losses	(1.0)	(7.8)	(0.4)	(0.2)	–	(9.4)	–	(9.4)
Income from associates	0.3	–	–	–	–	0.3	–	0.3
Operating profit/(loss)	23.8	240.3	(25.2)	(74.7)	5.9	170.1	26.4	196.5

Adjusted operating profit from discontinued operations for the year ended 31 December 2021 was £20.3 million. This amount was attributable entirely to the Generation segment and is described in further detail in note 5.4.

The accounting policies applied for the purpose of measuring the reportable segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Consolidated financial statements.

Section 2: Financial performance continued

2.1 Segmental reporting continued

Capital expenditure by reportable segment

Assets and working capital are monitored on a consolidated basis; however, capital expenditure is monitored by reportable segment.

	Year ended 31 December			
	Additions to intangible assets		Additions to property, plant and equipment	
	2022 £m	2021 £m	2022 £m	2021 £m
Pellet Production	–	8.2	66.0	108.6
Generation	2.8	3.4	171.5	103.2
Customers	2.3	8.9	0.3	0.1
Innovation, capital projects and other	4.3	1.8	8.2	3.6
Total	9.4	22.3	246.0	215.5

Total cash outflows in relation to capital expenditure during the year for continuing operations were £174.7 million (2021: £209.7 million). In 2022, the cash outflow in relation to property, plant and equipment is lower than the cost capitalised in property, plant and equipment (see note 3.1) predominantly as a result of £64.6 million (2021: £nil) of deferred letters of credits issued in relation to the construction of the OCGT assets.

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 2022, the Pellet Production segment sold biomass pellets and provided associated services with a total value of £425.4 million (2021: £286.7 million) to the Generation segment and the Generation segment sold electricity, gas and renewable energy certificates with a total value of £3,719.3 million (2021: £2,031.1 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, in either the current or previous financial year, that represented 10% or more of total revenue.

Geographical analysis of revenue and non-current assets

The geographic information analyses the Group's revenue and non-current assets by the entity'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.

The Group's revenue and non-current assets for the Generation and Customers segments are all UK based. The Group's Pellet Production segment has third-party pellet sales to both the UK and other locations around the world. The Pellet Production segment's non-current assets are located in North America, in both Canada and the US.

	Revenue from continuing operations (based on location of customer)	
	31 December 2022 £m	31 December 2021 £m
North America (Canada and US)	10.6	11.5
Europe	27.6	39.1
Asia	275.4	93.0
UK	7,461.7	4,944.4
Total	7,775.3	5,088.0

	Non-current assets ⁽¹⁾ (based on asset's location)	
	31 December 2022 £m	31 December 2021 £m
Canada	542.6	513.6
US	502.6	473.8
UK	2,054.5	2,053.5
Total	3,099.7	3,040.9

(1) Non-current assets comprise goodwill, intangible assets, property, plant and equipment, right-of-use assets and investments.

2.2 Revenue

The majority of the Group's revenue is within the scope of IFRS 15. The other sources of the Group's revenue outside the scope of IFRS 15 comprise certain remeasurements, amounts reclassified to revenue for gains and losses on UK CPI inflation swaps and income from the Government's Energy Bill Relief Scheme (EBRS). See note 2.7 for further details of certain remeasurements and note 7.2 for inflation risk management.

	Year ended 31 December 2022			Year ended 31 December 2021		
	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 from contracts with customers	7,882.5	–	7,882.5	5,170.3	–	5,170.3
Other revenue	276.7	(383.9)	(107.2)	3.6	(85.9)	(82.3)
Total revenue	8,159.2	(383.9)	7,775.3	5,173.9	(85.9)	5,088.0

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 Consolidated income statement when the Group controls the specified good or service prior to the transfer to the customer.

A summary of the Group's principal revenue streams, along with the nature and timing of performance obligations, payment terms, methods of recognising revenue, and any estimation uncertainties, is given in the table below. Further details on significant elements of revenue, principally how the Contract for Difference (CfD) and Renewable Obligation (RO) schemes operate and the related accounting, are provided below the table.

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
Pellet sales (Pellet Production)	<p>The Group produces biomass pellets which are sold to external customers. Customers generally obtain control of the pellets at the point the pellets are loaded onto the shipping vessel for freight on board (FOB) sales.</p> <p>Where freight is also arranged for the customer, these sales are known as Cost, insurance and freight (CIF) sales. The freight component is considered a separate performance obligation.</p> <p>Invoices are raised in line with contractual terms and are usually payable within four-10 days.</p>	<p>Revenue is recognised at the point that the pellets are loaded onto the shipping vessel. The amount of revenue recognised is based on the contracted price of the pellets.</p> <p>For CIF sales, revenue for the freight portion is recognised over the period the vessel sails.</p>
Electricity sales (Generation)	<p>The Group's Generation business has contracts for wholesale electricity sales. 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. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied.</p> <p>Invoices are raised in line with the Grid Trade Master Agreement (GTMA) contractual terms and are payable on the fifth banking day following the date of invoice.</p>	<p>Revenues are measured based upon metered output at rates specified under contract terms or prevailing market rates as applicable. These are recognised under the output method, whereby revenue is recognised based on the value transferred to the customer.</p>
Renewable certificate sales (Generation)	<p>Renewable Obligation Certificates (ROCs) and Renewable Energy Guarantees of Origins (REGOs) are sold to counterparties at a point in time.</p> <p>ROCs sold to optimise working capital are invoiced in line with contractual terms and are usually payable within two days.</p> <p>Invoices for ROC sales to third parties are raised when the ROCs are transferred, typically four-five months following the end of the compliance period in which they were generated. Invoices are usually payable within seven days.</p>	<p>External ROC and REGO sales are recognised at the point the relevant certificates are transferred to the counterparty.</p> <p>See below for further details.</p>

Section 2: Financial performance continued

2.2 Revenue continued

Revenue stream (Segment)	Nature and timing of performance obligations, including significant payment terms	Method of recognising revenue, including any estimation uncertainties
CfD income/payment (Generation)	<p>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.</p> <p>Invoices are raised seven days following the date of supply and are settled within 10-28 days.</p>	<p>The Group recognises the income or costs arising from the CfD 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.</p> <p>See below for further details.</p>
Ancillary services (Generation)	<p>Ancillary services refers to the provision of a range of system support services to National Grid. Most contracts are for the delivery of a specific service either continually or on an ad-hoc basis over a period of time.</p> <p>Invoices are raised and subsequently settled in line with National Grid Company Ancillary Services settlement calendar, typically monthly.</p>	<p>Revenue is recognised by reference to the stage of completion of the contractual performance obligations, which are calculated by reference to the amount of the contract term that has elapsed.</p> <p>Depending on contract terms, this approach may require judgement in estimating probable future outcomes.</p>
Other income (All segments)	<p>Other income is derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum) or the provision of services. The customer obtains control typically at the point of delivery to their premises or upon collection.</p>	<p>Revenue is recognised at the point the control of the goods is transferred to the customer.</p>
Electricity and gas sales (Customers)	<p>The Group's Customers business sells electricity and gas directly to business customers. Energy supplied is measured based upon metered consumption and contractual rates.</p> <p>The Customers business also has long-term contracts for the sale of electricity and gas, which are deemed as being satisfied over time in line with the progress of the contracts.</p> <p>Invoices are raised in line with contractual terms. For small and medium-sized enterprise (SME) customers, payment is generally due within 10-14 days. For Industrial and Commercial (I&C) customers, payment is generally due between 28-90 days.</p>	<p>Revenue 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 amounts receivable are expected to be recovered.</p> <p>Where supply has taken place but has not yet been measured or billed, 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.</p> <p>Where contracts for the sale of electricity and gas are held, revenue is recognised in line with the progress of the contracts.</p> <p>The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price contracts and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can vary, therefore actual outcomes may vary from initial estimates.</p>
EBRS income (Customers)	<p>The UK Government introduced the EBRS, running from 1 October 2022 to 31 March 2023. Energy supplied to non-domestic customers in this period will have a discount applied for the customer under the scheme to cap their energy tariff. The Customers business is claiming this discount back from the Government.</p> <p>Payment is due 10 days post submission of a claim, which typically occurs monthly.</p>	<p>The discounted price of electricity and gas supplied under the EBRS is recognised in revenue as it is supplied. The discount amount claimed back from the UK Government is recognised within revenue over the same period as the underlying discounted revenue it relates to is recognised.</p> <p>The revenue received from the UK Government is included within EBRS income in the table on page 192. The Group does not recognise any additional revenue from the scheme than it would have done if it were not introduced.</p>

2.2 Revenue continued

Renewable certificate sales

The generation and sale of renewable certificates, primarily ROCs and REGOs, 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 2022 the Group is operating in CP21.

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 rises annually in line with the UK Retail Price Index (RPI). The buy-out price for CP21 is £52.88 (2021: CP20 £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 the suppliers who presented ROCs during a CP.

The financial benefit of a ROC recognised in the Consolidated income statement at the point of generation is 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 also made sales and related purchases of ROCs to help optimise its working capital position.

External sales of ROCs in the table below includes £604.5 million of such sales (2021: £339.8 million), with a similar value reflected in cost of sales.

REGOs are certificates that enable suppliers to prove that energy supplied to their customers came from a renewable source. One REGO is issued to a generator for every MWh of renewable energy they generate.

See note 3.3 for further details of ROCs and REGOs generated and sold by the Generation business and those utilised by the Customers business during the year.

CfD income/payment

The payment is calculated by reference to a strike price 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 2022 was £126.37 per MWh (2021: £118.54).

When market prices (based on average traded prices in the preceding season) are above or below the strike price, the Group makes an additional payment to or receives additional income from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the relevant generating unit. Such payments are in addition to amounts received from the sale of the associated power in the wholesale market.

Gas sales

To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Opus Energy part of the Customers business. Having already ceased acquiring new gas customers, following internal processes and a regulatory driven 60-day grace period, no renewal contracts will be offered after May 2023. It is anticipated that the portfolio will reduce by over 50% by the end of 2023 and be almost entirely gone by the end of 2024.

Section 2: Financial performance continued

2.2 Revenue continued

Further analysis of revenue for the year ended 31 December 2022 is provided in the table below:

	Year ended 31 December 2022		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	369.3	425.2	794.5
Other income	7.9	0.2	8.1
Total Pellet Production	377.2	425.4	802.6
Generation			
Electricity sales	2,633.1	3,293.3	5,926.4
Renewable certificate sales	851.5	426.0	1,277.5
CfD payment	(45.7)	–	(45.7)
Ancillary services	73.0	–	73.0
Other income	127.0	–	127.0
Total Generation	3,638.9	3,719.3	7,358.2
Customers			
Electricity and gas sales	3,853.1	–	3,853.1
EBRS income	289.2	–	289.2
Other income	0.8	–	0.8
Total Customers	4,143.1	–	4,143.1
Elimination of inter-segment sales	–	(4,144.7)	(4,144.7)
Total consolidated revenue in Adjusted results	8,159.2	–	8,159.2
Certain remeasurements	(383.9)	–	(383.9)
Total consolidated revenue in Total results	7,775.3	–	7,775.3

Certain remeasurements losses of £383.9 million (2021: £85.9 million) is 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 £6.6 million (2021: £5.4 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 in the current and previous financial year.

Electricity sales in the Generation segment were net of a £6.1 million payment to a Voluntary Energy Redress Fund.

The following is an analysis of the Group's revenues for the year ended 31 December 2021:

	Year ended 31 December 2021		
	External £m	Inter-segment £m	Total £m
Pellet Production			
Pellet sales	157.4	286.5	443.9
Other income	5.7	0.2	5.9
Total Pellet Production	163.1	286.7	449.8
Generation			
Electricity sales	1,790.2	1,688.5	3,478.7
Renewable certificate 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
Total Generation	2,651.2	2,031.1	4,682.3
Customers			
Electricity and gas sales	2,358.9	–	2,358.9
Other income	0.7	–	0.7
Total Customers	2,359.6	–	2,359.6
Elimination of inter-segment sales	–	(2,317.8)	(2,317.8)
Total consolidated revenue in Adjusted results	5,173.9	–	5,173.9
Certain remeasurements	(85.9)	–	(85.9)
Total consolidated revenue in Total results	5,088.0	–	5,088.0

2.2 Revenue continued

The Group is eligible for, and applies, the practical expedient available under 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.

For accounting policies and other disclosures related to contract assets and liabilities, 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 and administrative expenses

This note sets out certain components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's external auditor, Deloitte LLP, in respect of services they provided to the Group during the year:

	Year ended 31 December	
	2022 £m	2021 £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	248.9	218.6
Repairs and maintenance expenditure on property, plant and equipment	110.3	109.1
Other operating and administrative expenses	183.6	142.2
Total operating and administrative expenses	542.8	469.9

Auditor's remuneration

	Year ended 31 December	
	2022 £'000	2021 £'000
Audit fees:		
Fees payable for the audit of the Group's Consolidated financial statements	1375.0	1,250.0
Fees payable for the audit of the Company's subsidiaries' statutory accounts	40.0	40.0
Total audit fees	1,415.0	1,290.0
Other fees:		
Review of the Group's half-year Condensed consolidated financial statements	115.0	110.0
Assurance services provided to non-material affiliates	18.0	16.4
Other services	46.2	42.3
Total audit and audit-related fees	1,594.2	1,458.7
Other assurance services	65.0	469.0
Total non-audit fees	65.0	469.0
Total auditor's remuneration	1,659.2	1,927.7

The fees payable for the audit of the Group's Consolidated financial statements above relates to the audit of all of the Group's 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' statutory accounts disclosed above.

During 2022 there was a decrease in the level of non-audit services provided by Deloitte LLP in 2022. 2021 fees included agreed upon procedures and other assurance services provided in connection with the acquisition of Pinnacle Renewable Energy Inc. (Pinnacle). See note 5.1 for more information on the acquisition. See the Audit Committee report on page 116 for further details on other assurance services provided by Deloitte LLP.

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill

Accounting policy

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) or group of CGUs expected to benefit from the synergies of the business combination.

The Group reviews its fixed assets (or, where appropriate, groups of assets combined into a 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.

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 if the asset or CGU were sold to 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. It 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 change 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.

As required by IAS 36, the additional value that could be obtained from enhancing the Group's assets and the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to, is not reflected in the value in use calculation. In determining value in use, the estimate of future cash flows is discounted to present value using a pre-tax nominal discount rate reflecting the specific risks attributable to the asset or CGU in question.

The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell, based on its value in use and what a market participant would pay. If the recoverable amount is less than the current carrying amount in the Consolidated financial statements, an impairment charge is recorded to reduce the carrying amount of the asset or CGU to the estimated recoverable amount.

Any impairment loss is recognised immediately in the Consolidated income statement.

An impairment loss relating to a CGU 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. When allocating an impairment loss to the other assets in the CGU, if the recoverable amount of an individual asset within that CGU is determinable, the impairment loss allocated to the individual asset will be limited to reducing the assets, carrying value to its individual recoverable amount. If this results in the impairment loss allocated to an asset being less than its pro-rata share the excess is allocated on a pro-rata basis to the remaining assets in the CGU.

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. Where an impairment reversal is identified, this is reversed immediately in the Consolidated income statement.

CGUs

		Year ended 31 December 2022
Segment name	CGUs contained within segment	Goodwill £m
Pellet Production	Northern Operations and Southern Operations	176.0
Generation	Drax Power Station (biomass)	–
	Lanark	11.3
	Galloway	40.1
	Cruachan	26.9
	OCGTs	–
	Daldowie	–
Customers	Drax Energy Solutions	10.7
	Opus Energy	159.2
		424.2

2.4 Impairment review of fixed assets and goodwill continued

The Pellet Production business consists of two CGUs – Northern Operations and Southern Operations. Goodwill recognised on the acquisition of Pinnacle was 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. Drax Power Station is comprised of two separate CGUs, one for biomass generation assets and one for coal generation assets. The coal CGU was previously fully written down following the decision to cease commercial coal generation. At the request of the UK Government, the Group has entered into an agreement with National Grid to keep its two coal units available to provide a “winter contingency” service to the UK power system from October 2022 until the end of March 2023. The units will not generate commercially for the duration of the agreement and will only operate if, and when, instructed to do so by National Grid. Had no impairment loss been previously recognised on the coal assets, they would have already been fully depreciated at the time the contract with National Grid was agreed. As such, management have assessed the impact of this agreement on the coal CGU and determined no reversal of any prior impairment is required.

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.

The OCGT development projects are considered one CGU due to the intention to operate and contract the plants using a portfolio approach, resulting in forecast cash inflows that are interdependent.

The Innovation, capital projects and other 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 assessment below.

Assessment of indicators of impairment

CGU	Goodwill?	Impairment indicators identified?	Impairment review required?
Northern Operations and Southern Operations	Y	N	Y
Drax Power Station (biomass)	N	N	N
Lanark	Y	N	Y
Galloway	Y	N	Y
Cruachan	Y	N	Y
OCGTs	N	Y	Y
Daldowie	N	Y	Y
Drax Energy Solutions	Y	N	Y
Opus Energy	Y	N	Y

A review of the Group's CGUs gave rise to an indicator of impairment for two CGUs: the Daldowie fuel plant, due to the increase in energy prices resulting in a significant increase in input costs, and the OCGTs, due to a strategic review conducted during the year concluding that it was unlikely the Group's fourth OCGT project at Abergelli would be developed.

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 and regulatory requirements since the previous reporting date, and the impact of such changes on the Group's long-term planning models and future forecast cash flows. In particular, consideration was given to the impact of higher commodity prices and the changes in the economic environment, including market interest rates and inflation.

Whilst higher commodity prices (e.g. power, gas and fibre) were an impairment indicator for Daldowie, they were not deemed an impairment indicator for other CGUs which are less exposed to the impact of these higher prices. This is due to the nature of the industries in which they operate and the corresponding impact on revenues. In the Generation and Customers businesses, higher energy costs are an input cost but these are offset by higher revenues. Additionally, in the Pellet Production segment, higher fibre costs and energy prices have been offset by increased revenues, reflecting strong demand for biomass pellets.

In considering the economic environment, management concluded the Group's CGUs tend to be less sensitive to changes in the economy, as energy and pellet production are required to power and heat homes and businesses in the UK and abroad, which are generally considered essential spend. The Generation, Pellet Production and Drax Energy Solutions CGUs also contract with high quality, stable counterparties. For the Opus Energy CGU, customers are typically in the SME sector and therefore the impact of the economic environment, combined with higher market prices could potentially impact the recoverability of debt. However this impact is offset by the work done to improve the average credit quality of customers, along with achieved operational efficiencies and so was not deemed to be an impairment indicator.

Higher interest rates were also considered, including their impact on discount rates. In the prior year, only the Galloway CGU was sensitive to changes in the discount rate. Therefore, whilst interest rates have increased, any impact on discount rates was not considered to be an impairment indicator. For the Galloway CGU, the impact of increases to power prices during 2022 would more than offset the impact of a higher discount rate and therefore this was not considered to be an impairment indicator.

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill continued

Consideration was also given to assumptions regarding biomass generation and biomass prices post-2027, when current subsidies for biomass generation at Drax Power Station are due to expire, and whether that was an indicator of impairment (See the Principal risks section starting on page 77 for further details on biomass acceptability). The Group aims to reduce biomass costs over time, as part of a strategy to secure a long-term future for biomass generation. Whilst management's forecasts extend beyond 2027, they indicate that a majority of the carrying amount of the Drax Power Station (biomass) CGU is supported by pre-2027 cash flows. Accordingly, the end of current subsidies in 2027 was not deemed to be an indicator of impairment. Drax Power Station is currently deemed to have a useful life until at least 2039 and an expectation of continuing to be in operation until that time.

Impairment review

For the purpose of impairment reviews the recoverable amounts of these CGUs, or groups of CGUs, were measured based on value in use calculations using the Group's established planning models. These calculations depend on a broad range of assumptions, the most significant of which are outlined below for each CGU, or Group of CGUs, to which an impairment test has been performed in the current year. Management's bases for these estimates are also outlined below.

CGUs	Significant assumptions for value in use calculation	Management's bases for determining estimates used in value in use calculation
Northern Operations and Southern Operations	<ul style="list-style-type: none"> Production costs Production volumes Sales prices Discount rate 	<ul style="list-style-type: none"> Future production costs are estimated based on current year actual production costs plus inflation. Production volumes are estimated based on the current capacity of the Group's pellet plants and the historical operational performance of the plants. Sales prices are estimated based on contractual sales agreements. See below for details of the basis used to estimate discount rates.
Drax Energy Solutions and Opus Energy	<ul style="list-style-type: none"> Customer margins Supply volumes Collection rates Power prices Third party cost estimates Discount rate 	<ul style="list-style-type: none"> Customer margin estimates are based on previously achieved profitability. The expectation of future organic volumes is based on past performance and management's expectations of market development. Future wholesale energy price estimates are based on market traded power prices for around three years (the period they are liquid), gas market prices as a proxy for power for another two years, then the Group's long-term power price forecast, which is prepared using externally provided gas price forecast and demand inputs. Third-party cost estimates are based on a combination of externally published rates, management analysis of key market input assumptions, and forecasts from external experts. Collection rates are estimated based on historical data and adjusted for expected changes in future circumstances. See below for details of the basis used to estimate discount rates.
OCGTs, Lanark, Galloway and Cruachan	<ul style="list-style-type: none"> Power prices Sources of stability income Volume of generation (hydros only) Construction cost (OCGTs only) Discount rate 	<ul style="list-style-type: none"> Future wholesale energy price estimates are based on market traded power prices for around three years (the period they are liquid), gas market prices as a proxy for power for another two years, then the Group's long-term power price forecast, which is prepared using externally provided gas price forecast and demand inputs. Stability income assumptions are based on past performance and current agreed prices with National Grid. Volume of generation for the hydro assets is derived from historical rainfall averages. Construction costs are estimated based on agreed contracted prices and obtained quotes. See below for details of the basis used to estimate discount rates.
Daldowie	<ul style="list-style-type: none"> Gas prices Estimated contract end date Discount rate 	<ul style="list-style-type: none"> Future wholesale gas price estimates are based on market traded prices for around five years (the period they are liquid). The end date of the current contract is based on the contractual term and expectations about future extensions or changes to the contract term. See below for details of the basis used to estimate discount rates.

For each group of CGUs, management has projected detailed 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, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the industries in which the Group operates. These longer-term structural changes are mainly linked to climate change and the transition to more renewable forms of energy and net zero. They are explained in more detail in each section below.

Cash flows beyond the 15 year period are inflated into perpetuity using a growth rate of 2% in all models. This growth rate is based on prudent expectations of market share and profitability along with more general macro-economic 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 each of the industries in which the Group operates.

2.4 Impairment review of fixed assets and goodwill continued

The discount rates used reflect the weighted average cost of capital derived using the Capital Asset Pricing Model (CAPM). The estimations use a risk free rate based on government bonds, market participant capital structures and beta estimates adjusted for the specific industry and markets in which the CGU operates (taking into account relevant peer data sets). This calculation uses the relevant tax rates to calculate a pre-tax discount rate.

As the Group does not believe that any reasonably possible change in the key assumptions would result in an impairment it is not considered a key source of estimation uncertainty and therefore any sensitivities provided below are for additional information only.

Further details on the assessments for each group of CGUs are given below.

Pellet Production

The recoverable amount of the Pellet Production group of CGUs, consisting of the Northern Operations and Southern Operations CGUs, is measured at least annually due to the goodwill allocated to the group of CGUs. These CGUs are principally engaged in the production and sale of biomass pellets. Management has projected detailed 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, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the pellet industry such as 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-economic 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 pellet industry.

Group of CGUs	Carrying amount (including allocated goodwill) £m	Discount rate
Pellet Production	1,024.7	10.5%

The pre-tax nominal discount rate of 10.5% (2021: 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. An increase in production costs of \$20 per tonne in the calculation would reduce the headroom by £711.4 million and a 15% decrease in production volumes would reduce the headroom by £572.3 million. Neither scenario would result in an impairment. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than its carrying amount.

Drax Energy Solutions and Opus Energy

The recoverable amounts of the Drax Energy Solutions and Opus Energy CGUs are measured annually due to the existence of goodwill allocated to these CGUs. These businesses are principally focused on renewable electricity sales and therefore consideration of climate and environmental impacts are already a key feature of the business models. Management has projected detailed cash flows based on a period of five years, consistent with the period specified by IAS 36, and the period the Group assesses viability over in the Viability statement. Cash flows beyond the five-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-economic 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 energy supply industry.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate
Drax Energy Solutions	25.7	10.3%
Opus Energy	230.5	10.3%

The expected future cash flows of the Drax Energy Solutions CGU were discounted using a pre-tax nominal discount rate of 10.3% (2021: 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 the business holds.

The value in use of the Drax Energy Solutions CGU was significantly in excess of its carrying amount. An increase in the discount rate to 11.4% combined with factoring in 0% growth in the calculation would reduce the headroom by £36.0 million, which would not result in an impairment. 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.

Section 2: Financial performance continued

2.4 Impairment review of fixed assets and goodwill continued

The expected future cash flows of the Opus Energy CGU were also discounted using a pre-tax nominal discount rate of 10.3% (2021: 8.7%). The forecast future cash flows of the CGU are adjusted to reflect the relative risk profile of its customer base compared to Drax Energy Solutions, for example by incorporating higher levels of expected credit losses. Opus Energy 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. As such, it is considered appropriate to use the same discount rate for both CGUs, supported by independent analysis.

The value in use of the Opus Energy CGU was significantly in excess of its carrying amount. An increase in the discount rate to 11.4% combined with factoring in 0% growth in the calculation would reduce the headroom by £57.9 million. This would not result in an impairment. Reflecting the significant headroom in the analysis and sensitivities performed, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Opus Energy CGU that was lower than its carrying amount.

Lanark, Galloway and Cruachan

The Group tests the Lanark, Galloway and Cruachan CGUs for potential impairment annually due to the existence of goodwill allocated to these CGUs. These CGUs are engaged in hydro and pumped storage power generation. Management has projected detailed 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, and the period the Group assesses viability over in the Viability statement, to align to the Group's long-term strategic planning, which is relevant to take into account future structural changes forecast within the generation industry in the models used, such as climate change, changing weather patterns, and the continued transition to 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-economic 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 generation industry.

CGU	Carrying amount (including allocated goodwill) £m	Discount rate
Lanark	49.9	8.5%
Galloway	169.8	8.5%
Cruachan	250.6	8.5%

The expected future cash flows of these CGUs were discounted using a pre-tax nominal discount rate of 8.5% (2021: 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 hydro and pumped storage generation operations.

The value in use for all three CGUs (Lanark, Galloway and Cruachan) was in excess of their carrying amounts. An increase in the discount rate to 15% in each of the calculations would reduce the headroom for Lanark, Galloway and Cruachan by £26.0 million, £87.2 million and £257.6 million respectively. A decrease in power prices of 25% in each of the calculations would reduce the headroom for Lanark, Galloway and Cruachan by £28.9 million, £101.1 million and £154.4 million respectively. None of these changes would result in an impairment. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than their carrying amount.

Daldowie

The Daldowie CGU does not have any goodwill allocated to it but in the current year had an indicator of impairment present. The impairment indicator was due to higher energy input costs resulting in a reduction in the forecast earnings. A full impairment review was carried out as a result of this impairment indicator. This CGU is engaged in processing wastewater sludge into biomass pellets. Management has projected detailed cash flows based on a period of three years, reflecting the expected contract end date.

The carrying amount and discount rate applied to the CGU is set out in the table below:

CGU	Carrying amount (including allocated goodwill) £m	Discount rate
Daldowie	8.9	8.9%

An independent analysis commissioned by the Group calculated a pre-tax nominal discount rate of 8.9% which was applied to the expected future cash flows to determine the value in use of the fuel plant. The carrying amount of £16.9 million was higher than the value in use calculation and so an impairment charge was therefore recorded. As there is no goodwill associated with the Daldowie fuel plant, this charge of £8.0 million was applied to its fixed assets on a pro rata basis as described in the accounting policy section of this note. An increase in estimated energy input costs of 25% in the value in use calculation would increase the impairment by £4.2 million.

2.4 Impairment review of fixed assets and goodwill continued

OCGTs

The OCGT CGU does not have any goodwill allocated to it but in the current year had an indicator of impairment present. Following a strategic review during the year, it was concluded that it was currently unlikely that the Group would develop its fourth OCGT project at Abergelli. The Abergelli OCGT development does not hold a Capacity Market contract. As a result of this strategic review, the Group has recognised an impairment charge of £8.6 million, representing the previously capitalised development costs for the individual project. The impairment indicator was specific to the Abergelli assets with the CGU. No impairment indicators were identified in relation to the other assets within the CGU, or the CGU as a whole, and therefore a full impairment assessment was not required.

Impairment of non-current assets

Due to a change in accounting policy in the current year an impairment charge has been recognised on intangible assets relating to SaaS costs previously capitalised (See Change in accounting policy section in the Basis of preparation on page 177 for further details). An impairment charge has also been recognised on 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. See note 5.2 for further details.

The Group has incurred impairment losses in the year. It is the Group's policy that any impairments of assets that have not yet been brought into use and depreciated or amortised are reflected in the cost of the asset being impaired. For impairments of assets that have already been brought into use, the impairment is reflected as an accelerated charge in the accumulated depreciation or amortisation of the asset.

Impairment	Daldowie £m	OCGTs £m	Customers billing system £m	SaaS assets £m	Total £m
Property, plant and equipment – cost	–	6.9	–	–	6.9
Property, plant and equipment – accumulated depreciation	8.0	–	–	–	8.0
Intangible assets – cost	–	1.7	19.2	–	20.9
Intangible assets – accumulated amortisation	–	–	–	5.7	5.7
Total impairment of non-current assets	8.0	8.6	19.2	5.7	41.5

The total impairments for the year of £41.5 million are recognised in the impairment of non-current assets line in the Consolidated income statement. The impairment of SaaS intangible assets and the Customers billing system, totalling £24.9 million, have been treated as exceptional items. See note 2.7 for further details.

2.5 Net finance costs

Net 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), interest income on the Group's defined benefit pension scheme surplus (see note 6.3) and lease liabilities (see note 3.2). These are offset by interest income that the Group generates through use of short-term cash surpluses, for example through investment in money market funds.

A reconciliation of net finance costs is shown in the table below:

	Year ended 31 December	
	2022 £m	2021 £m
Interest payable and similar charges:		
Interest payable on borrowings measured at amortised cost	(68.6)	(59.2)
Interest on lease liabilities	(6.8)	(4.9)
Unwinding of discount on provisions	(1.1)	(0.6)
Amortisation of deferred finance costs	(6.1)	(5.7)
Other financing charges	(0.5)	(0.5)
Total interest payable and similar charges included in Adjusted results	(83.1)	(70.9)
Interest receivable:		
Interest income on bank deposits	3.3	0.1
Interest income on defined benefit surplus (note 6.3)	1.0	0.3
Total interest receivable included in Adjusted results	4.3	0.4
Foreign exchange gains included in Adjusted results	14.8	0.9
Net finance costs included in Adjusted results	(64.0)	(69.6)
Certain remeasurements on financing derivatives	(4.2)	(5.4)
Net finance costs in Total results	(68.2)	(75.0)

Section 2: Financial performance continued

2.5 Net finance costs continued

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 reporting date.

Changes in the Group's financing structure during 2022 are described in note 4.2.

The Group has a number of intercompany loans denominated in the functional currency of certain foreign subsidiaries, that are owed to a sterling functional currency entity, and sterling intercompany loans owed by foreign subsidiaries to a sterling functional currency entity. Due to the weakening of sterling during the year, this has resulted in a foreign exchange gain of £29.0 million (2021: gain of £4.2 million) on the retranslation of intercompany loans in the Consolidated income statement of the sterling functional currency entity. The foreign exchange loss (2021: loss) on translating the foreign subsidiaries' intercompany loans into the Group's sterling presentational currency is recognised within the translation reserve. As such, on consolidation, a foreign exchange gain (2021: gain) arises in the Consolidated income statement and is part of the foreign exchange gains included in Adjusted results in the table above.

2.6 Current and deferred tax

The tax credit or charge includes both current and deferred tax. It reflects the estimated tax on the profit before tax for the Group for the year ended 31 December 2022 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the Consolidated income statement, in line with IAS 12.

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 reporting 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 is 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 credited or charged against profit or loss in the Consolidated income statement, except when they relate to items that are recognised in OCI or directly in equity, in which case the current and deferred taxes are recognised in the Consolidated statement of comprehensive income or directly in the Consolidated statement of changes 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 and are recorded in operating profit within the Consolidated income statement. The credit is subject to corporation tax with the corresponding receivable offset against total corporation tax payable.

In accounting for tax, 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. These assumptions are consistent with other assumptions used in these financial statements. Full provision is made for deferred tax at the rates of tax prevailing at the reporting date 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. The recoverability of the deferred tax asset is considered an estimate as it relies on the future profitability of the Group's businesses. See table on page 202 for a breakdown of the net deferred tax asset or liability position for each jurisdiction.

	Year ended 31 December	
	2022 £m	2021 £m
Total tax credit/(charge) from continuing operations comprises:		
Current tax		
– Current year	(66.0)	(7.7)
– Adjustments in respect of prior periods	1.9	(1.4)
Deferred tax		
– Before impact of tax rate changes	61.9	(7.3)
– Adjustments in respect of prior periods	(0.1)	(1.0)
– Effect of changes in tax rate	6.7	(49.0)
Total tax credit/(charge)	4.4	(66.4)

2.6 Current and deferred tax continued

	Year ended 31 December	
	2022 £m	2021 £m
Tax credited/(charged) on items recognised in other comprehensive income:		
Deferred tax on remeasurement of defined benefit pension scheme	6.1	(7.2)
Deferred tax on share-based payments	–	5.4
Deferred tax on cash flow hedges	(5.6)	41.2
Deferred tax on cost of hedging	2.2	(7.7)
Total tax credit	2.7	31.7

	Year ended 31 December	
	2022 £m	2021 £m
Tax credited/(charged) on items released directly from equity:		
Deferred tax on cost of hedging	7.2	5.4
Deferred tax on cash flow hedges	4.8	(7.5)
Deferred tax on share-based payments	7.4	–
Total tax credit/(charge)	19.4	(2.1)

UK corporation tax is the main income tax for the Group and is calculated at 19% (2021: 19%) of the assessable profit or loss for the year.

Due to the Group's overseas operations, the US income tax rate of 21% (2021: 21%) and the Canadian corporate income tax rate of 27% (2021: 27%) are also relevant to the Group's tax charge.

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 UK 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 between 1 April 2021 and 31 March 2023.

Drax Power Limited 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 tax rate of 10% to profits derived from utilisation of the patented technology.

The Finance Act 2021 also contained legislation to increase the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. The impact of this rate increase is a net £6.7 million deferred tax credit through Total results in the Consolidated income statement (2021: £49.0 million charge).

The Group tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2022			Year ended 31 December 2021		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Profit/(loss) before tax from continuing operations	405.4	(327.3)	78.1	100.5	21.0	121.5
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2021: 19%)	77.0	(62.2)	14.8	19.2	4.0	23.2
Effects of:						
Adjustments in respect of prior periods	(1.8)	–	(1.8)	2.4	–	2.4
Expenses not deductible for tax purposes	4.5	–	4.5	2.8	1.7	4.5
Impact of tax rate change	2.9	(9.6)	(6.7)	0.4	48.6	49.0
Difference in overseas tax rates	(1.3)	–	(1.3)	(1.1)	–	(1.1)
Patent Box benefit	(9.6)	–	(9.6)	(8.0)	–	(8.0)
Tax effect of RDEC credit	(0.8)	–	(0.8)	(0.9)	–	(0.9)
UK super-deduction	(3.5)	–	(3.5)	(2.7)	–	(2.7)
Total tax charge/(credit)	67.4	(71.8)	(4.4)	12.1	54.3	66.4

Section 2: Financial performance continued

2.6 Current and deferred tax 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
At 1 January 2021	13.0	(183.0)	2.3	(15.7)	33.5	(23.3)	16.5	(156.7)
(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)
At 1 January 2022	38.8	(292.6)	2.3	(19.9)	60.0	(18.7)	33.5	(196.6)
Credited/(charged) to the income statement	77.3	(24.9)	(1.8)	7.0	15.7	(20.7)	16.0	68.6
Credited to other comprehensive income in respect of actuarial gains	–	–	–	–	–	6.1	–	6.1
Charged to other comprehensive income in respect of cash flow hedges	(5.6)	–	–	–	–	–	–	(5.6)
Credited to other comprehensive income in respect of cost of hedging	2.2	–	–	–	–	–	–	2.2
Credited to equity in respect of cash flow hedges	4.8	–	–	–	–	–	–	4.8
Credited to equity in respect of cost of hedging	7.2	–	–	–	–	–	–	7.2
Credited to equity in respect of share-based payments	–	–	–	–	–	–	7.4	7.4
Impact of acquisition	–	(0.8)	–	–	–	–	–	(0.8)
Effect of changes in foreign exchange rates	–	(3.0)	–	–	4.4	–	1.0	2.4
At 31 December 2022	124.7	(321.3)	0.5	(12.9)	80.1	(33.3)	57.9	(104.3)
Deferred tax balances (after offset) for financial reporting purposes:								
Net Canadian deferred tax asset at 31 December 2022	–	(49.6)	–	0.2	27.1	(1.0)	32.7	9.4
Net US deferred tax asset at 31 December 2022	–	(30.6)	–	–	53.0	–	5.5	27.9
Net UK deferred tax liability at 31 December 2022	124.7	(241.1)	0.5	(13.1)	–	(32.3)	19.7	(141.6)
Net Canadian deferred tax asset at 31 December 2021	–	(38.1)	–	(0.2)	17.5	(0.4)	26.6	5.4
Net US deferred tax asset at 31 December 2021	–	(27.6)	–	–	42.5	(0.3)	8.7	23.3
Net UK deferred tax liability at 31 December 2021	38.8	(226.9)	2.3	(19.7)	–	(18.0)	(1.8)	(225.3)

2.6 Current and deferred tax 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 Consolidated balance sheet. Within the above trade losses deferred tax asset of £80.1 million (2021: £60.0 million) there is £53.0 million (2021: £42.5 million) in relation to losses in the US Pellet Production business. The remaining £27.1 million relates to losses of the Canadian Pellet Production business (2021: £17.5 million).

The future expected reversal of accelerated capital allowances and other timing differences, coupled with the profitability (inclusive of the impact of transfer pricing adjustments), stable output and forecast improvement in operational performance, mean that the US and Canadian businesses expect to generate sufficient profits in the short to medium term against which to utilise the deferred tax assets. The estimates used when assessing the future profitability of the US and Canadian businesses have been approved by the Board and are consistent with estimates used in the going concern assessment and in the Viability statement on page 75.

As at 31 December 2022 the Group held £79.2 million (2021: £79.2 million) of UK capital losses available for offset against future chargeable gains. These losses are unrecognised for deferred tax purposes as the Group does not currently expect UK taxable gains to arise that would be eligible to offset against these losses.

2.7 Alternative performance measures

The APMs glossary to these Consolidated financial statements on page 287 provides details of all APMs used, each APM's 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 as it 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 to present as exceptional. All transactions presented as exceptional are approved by the Audit Committee. See the Audit Committee Report on page 116 for further details.

In these Consolidated financial statements, the following transactions have been designated as exceptional items and presented separately:

- Impairment charges incurred on the application of the Group's new accounting policy for SaaS costs, consistent with the IFRIC agenda decision (see Change in accounting policy section in the Basis of preparation on page 177) (2022, All segments), and on costs associated with the Customers billing system (2022, Customers). See note 5.2 for further information.
- Costs associated with the acquisition and integration of Pinnacle (2021, Pellet Production).
- Costs relating to 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, Generation).
- Impact of UK tax rate change on deferred tax balances (2022 and 2021, Generation and Customers). See note 2.6 for further information.

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 derivative contracts with a maturity in future periods, or ii) are realised in relation to the maturity of derivative contracts in the current period. The effect of excluding certain remeasurements from 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, and financial contracts in the period they are intended to hedge, to reflect the underlying trading performance of the Group in Adjusted results.

Section 2: Financial performance continued

2.7 Alternative performance measures continued

Volatility in financial and commodity markets has continued in 2022, in part due to the conflict in Ukraine. This has resulted in significant movements in the remeasurement gains and losses on certain derivative financial instruments which do not qualify for hedge accounting, or where hedge accounting is ineffective, as shown in the table below, principally relating to gas, certain foreign currency contracts, inflation and oil. Further detail on the Group's derivative financial instruments is provided in Section 7.

	Year ended 31 December	
	2022 £m	2021 ⁽¹⁾ £m
Exceptional items:		
Inventory provision as a result of coal closure	–	(0.3)
Acquisition costs	–	(7.9)
Restructuring costs	–	(5.2)
Integration costs	–	(4.1)
Coal closure costs	–	(4.8)
Impairment of non-current assets	(24.9)	–
Exceptional items included within operating profit and profit before tax	(24.9)	(22.3)
Tax on exceptional items	4.7	2.5
Impact of tax rate change	(9.8)	(50.2)
Exceptional items after tax	(30.0)	(70.0)
Certain remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	(441.4)	(77.0)
Net remeasurements realised on maturity of derivative contracts included in revenue	107.7	(8.9)
Net hedge ineffectiveness reclassified to profit or loss included in revenue	(50.2)	–
Net fair value remeasurements on derivative contracts included in cost of sales	32.6	36.6
Net remeasurements realised on maturity of derivative contracts included in cost of sales	53.1	98.0
Certain remeasurements included within operating profit	(298.2)	48.7
Net remeasurements on maturity of derivative contracts included in interest payable and similar charges	(0.4)	(0.3)
Net fair value remeasurements on derivative contracts included in foreign exchange gains/(losses)	(3.8)	(5.1)
Certain remeasurements included in profit before tax	(302.4)	43.3
Tax on certain remeasurements	57.5	(8.2)
Impact of tax rate change	19.4	1.6
Certain remeasurements after tax	(225.5)	36.7
Reconciliation of profit after tax from continuing operations:		
Adjusted profit after tax	338.0	88.4
Exceptional items after tax	(30.0)	(70.0)
Certain remeasurements after tax	(225.5)	36.7
Total profit after tax	82.5	55.1

⁽¹⁾ Comparative amounts for the year ended 31 December 2021 have been re-presented to split out the impact of tax rate change between exceptionals and certain remeasurements.

2.7 Alternative performance measures continued

For each item designated as exceptional or as a certain remeasurement, the table below summarises the impact of the item on the Adjusted profit after tax and Adjusted basic EPS from continuing operations and the total cash flow from continuing and discontinued operations.

Year ended 31 December 2022								
	Revenue £m	Gross profit £m	Operating profit £m	Profit before tax £m	Tax credit/ (charge) £m	Profit/(loss) for the period £m	Basic earnings/ (loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	7,775.3	1,023.3	146.3	78.1	4.4	82.5	21.3	207.7
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	383.9	298.2	298.2	302.4	(57.5)	244.9	61.2	–
Impact of tax rate change	–	–	–	–	(19.4)	(19.4)	(4.8)	–
Exceptional items:								
Impairment of non-current assets	–	–	24.9	24.9	(4.7)	20.2	5.0	–
Impact of tax rate change	–	–	–	–	9.8	9.8	2.4	–
Total	383.9	298.2	323.1	327.3	(71.8)	255.5	63.8	–
Adjusted results totals	8,159.2	1,321.5	469.4	405.4	(67.4)	338.0	85.1	207.7

Year ended 31 December 2021 ⁽¹⁾								
	Revenue £m	Gross profit/ (loss) £m	Operating profit/(loss) £m	Profit/(loss) before tax £m	Tax (charge)/ credit £m	Profit/(loss) for the period £m	Basic earnings/ (loss) per share Pence	Net cash from operating activities £m
Total results IFRS measure	5,088.0	891.2	196.5	121.5	(66.4)	55.1	13.9	306.5
Certain remeasurements:								
Net fair value remeasurement on derivative contracts	85.9	(48.7)	(48.7)	(43.3)	8.2	(35.1)	(8.8)	–
Impact of tax rate change	–	–	–	–	(1.6)	(1.6)	(0.4)	–
Exceptional items:								
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
Coal closure costs	–	–	4.8	4.8	(0.8)	4.0	1.2	–
Impact of tax rate change	–	–	–	–	50.2	50.2	12.6	–
Total	85.9	(48.4)	(26.4)	(21.0)	54.3	33.3	8.4	15.6
Adjusted results totals	5,173.9	842.8	170.1	100.5	(12.1)	88.4	22.3	322.1

⁽¹⁾ Comparative amounts for the year ended 31 December 2021 have been re-presented to split out the impact of tax rate change between exceptionals and certain remeasurements.

Section 2: Financial performance continued

2.7 Alternative performance measures continued

Adjusted EBITDA from continuing and discontinued operations is a key measure of performance for the Group. A reconciliation from Adjusted operating profit from continuing operations as per the Consolidated income statement is shown below:

	Year ended 31 December 2022		
	Attributable to		
	Owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit/(loss)	472.0	(2.6)	469.4
Depreciation and amortisation	237.2	2.2	239.4
Impairment losses on non-current assets	16.6	–	16.6
Other losses	5.7	0.1	5.8
Income from associates	(0.5)	–	(0.5)
Adjusted EBITDA	731.0	(0.3)	730.7

	Year ended 31 December 2021		
	Attributable to		
	Owners of the Parent Company £m	NCI £m	Total £m
Adjusted operating profit	170.6	(0.5)	170.1
Depreciation and amortisation	198.3	0.6	198.9
Other losses	9.3	0.1	9.4
Income from associates	(0.3)	–	(0.3)
Adjusted EBITDA from continuing operations	377.9	0.2	378.1
Adjusted EBITDA from discontinued operations	20.3	–	20.3
Adjusted EBITDA from continuing and discontinued operations	398.2	0.2	398.4

	Year ended 31 December 2022					Total £m
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	
Segment Adjusted EBITDA:						
Continuing operations	133.7	695.5	25.8	(113.6)	(10.4)	731.0
	Year ended 31 December 2021					Total £m
	Pellet Production £m	Generation £m	Customers £m	Innovation, capital projects and other £m	Intra-group eliminations £m	
Segment Adjusted EBITDA:						
Continuing operations	85.7	351.5	5.7	(70.9)	5.9	377.9
Discontinued operations	–	20.3	–	–	–	20.3
Total	85.7	371.8	5.7	(70.9)	5.9	398.2

Net debt

Net debt is calculated by taking the Group's borrowings (note 4.2), adjusting for the impact of associated hedging instruments, and subtracting cash and cash equivalents (note 4.1).

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). USD and EUR balances are translated at the hedged rate, rather than the rate prevailing at the reporting date, which impacts the carrying amount of the Group's borrowings. Net debt excludes the share of borrowings and cash and cash equivalents attributable to NCI. See the APMs glossary and the APMs section within the Basis of preparation for further details on the calculation of Net debt.

2.7 Alternative performance measures continued

	As at 31 December	
	2022 £m	2021 £m
Borrowings	(1,440.9)	(1,361.0)
Cash and cash equivalents	238.0	317.4
Net cash and borrowings	(1,202.9)	(1,043.6)
NCI's share of cash and cash equivalents in non-wholly owned subsidiaries	(0.7)	–
Net debt excluding the impact of hedging instruments	(1,203.6)	(1,043.6)
Impact of hedging instruments	(2.4)	(64.4)
Net debt	(1,206.0)	(1,108.0)
Collateral posted/(received)	234.0	(172.8)
Net debt excluding collateral	(972.0)	(1,280.8)

The table below reconciles Net debt in terms of changes in these balances across the year:

	Year ended 31 December	
	2022 £m	2021 £m
Net debt at 1 January	(1,108.0)	(819.1)
(Decrease)/increase in cash and cash equivalents	(85.6)	27.3
Increase in borrowings	(8.6)	(310.2)
Effect of changes in foreign exchange rates	(65.8)	15.2
Movement in the impact of hedging instruments	62.0	(21.2)
Net debt at 31 December	(1,206.0)	(1,108.0)

Borrowings include listed bonds, bank debt and RCFs (to the extent drawn in cash), net of any deferred finance costs. Borrowings do not include other financial liabilities such as lease liabilities and trade and other payables (including working capital facilities as described in note 3.7).

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 Consolidated 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.

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.

As explained in the Basis of preparation, the Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times.

	As at 31 December	
	2022	2021
Adjusted EBITDA (continuing and discontinued operations) (£m)	731.0	398.2
Net debt (£m)	(1,206.0)	(1,108.0)
Net debt excluding collateral (£m)	(972.0)	(1,280.8)
Net debt to Adjusted EBITDA ratio	1.6	2.8
Net debt (excluding collateral) to Adjusted EBITDA ratio	1.3	3.2

Section 2: Financial performance continued

2.7 Alternative performance measures continued

Cash and committed facilities

The below table reconciles the Group's available cash and committed facilities:

	As at 31 December	
	2022 £m	2021 £m
Cash and cash equivalents (note 4.1)	238.0	317.4
RCF available but not utilised ⁽¹⁾	260.1	231.4
Liquidity facility available but not utilised	200.0	–
Total cash and committed facilities	698.1	548.8

(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 2022 £46.0 million letters of credit were drawn (2021: £74.4 million).

Further commentary on total cash and committed facilities is contained within the Financial review starting on page 20.

2.8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profit or losses) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings attributable to owners of the Parent Company (profit or loss after tax in accordance with IFRS excluding amounts attributable to NCI) 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 reporting date. Repurchased shares of 13.8 million (2021: 13.8 million) held in the Treasury shares reserve (see note 4.4) 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.

	Year ended 31 December	
	2022	2021
Earnings attributable to equity holders of the Parent Company for the purposes of basic and diluted earnings per share (£m), made up of:	85.1	79.7
Net result from continuing operations	85.1	55.6
Net result from discontinued operations	–	24.1
Number of shares (millions):		
Weighted average number of ordinary shares for the purposes of basic earnings per share	400.4	398.4
Effect of dilutive potential ordinary shares under share plans	14.0	14.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	414.4	412.6

	Year ended 31 December			
	2022		2021	
Earnings per share attributable to the owners of the Parent Company	Adjusted results	Total results	Adjusted results	Total results
Earnings – profit after tax (£m)	340.6	85.1	105.6	79.7
Earnings per share – basic (pence)	85.1	21.3	26.5	20.0
Earnings per share – diluted (pence)	82.2	20.5	25.6	19.3

	Year ended 31 December			
	2022		2021	
Earnings per share from continuing operations attributable to the owners of the Parent Company	Adjusted results	Total results	Adjusted results	Total results
Earnings – profit after tax (£m)	340.6	85.1	88.9	55.6
Earnings per share – basic (pence)	85.1	21.3	22.3	13.9
Earnings per share – diluted (pence)	82.2	20.5	21.5	13.5

There were no discontinued operations in the year. The Total profit after tax from discontinued operations in 2021 of £24.1 million, resulted in Total basic EPS of 6.1 pence and Total diluted EPS of 5.8 pence. Application of the same calculation to Adjusted profit after tax from discontinued operations in 2021 of £16.7 million, resulted in Adjusted basic EPS of 4.2 pence and Adjusted diluted EPS of 4.1 pence.

2.9 Dividends

	Year ended 31 December	
	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2022 of 8.4 pence per share paid on 7 October 2022 (2021: 7.5 pence per share paid on 8 October 2021)	33.7	29.9
Final dividend for the year ended 31 December 2021 of 11.3 pence per share paid on 13 May 2022 (2020: 10.3 pence per share paid on 14 May 2021)	45.2	41.0
Total distributions	78.9	70.9

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 2022 of 12.6 pence per share (equivalent to approximately £50 million) payable on or before 19 May 2023. The final dividend has not been included as a liability as at 31 December 2022. This would bring total dividends payable in respect of the 2022 financial year to approximately £84 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 the Group's dividend, can be found in the Market context section on pages 4 and 5.

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 that are attributable to the equity holders of the Parent Company, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	198.3	153.4
Profit for the year	85.1	79.7
Remeasurement of defined benefit pension scheme (note 6.3)	(24.4)	30.7
Deferred tax on remeasurement of defined benefit pension scheme (note 2.6)	6.1	(7.2)
Deferred tax on share-based payments (note 2.6)	7.4	5.4
Equity dividends paid (note 2.9)	(78.9)	(70.9)
Movements in equity associated with share-based payments (note 6.2)	9.5	7.4
Acquisition of NCI without a change in control (note 4.5)	(9.3)	(0.2)
At 31 December	193.8	198.3

Distributable reserves

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's financial statements are set out on pages 277 to 283 of this Annual report, disclose the Parent Company's distributable reserves of £306.3 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 £238.0 million are set out in note 4.1 and the recent history of cash generation within note 4.3. 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 75 and note 4.2 for further details on the covenants relating to the financing facilities.

Section 3: Operating assets and working capital

This section gives further information on the operating assets the Group uses to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise the Group's 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.

Accounting policy

Property, plant and equipment is stated at net book value, which is its cost less any accumulated depreciation less impairment, if required, charged to date. 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, where required. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any expected residual value, and charging it to the Consolidated income statement on a straight-line basis from the date that the asset is brought into use and over its UEL. Where relevant, this is limited to the expected decommissioning date of the site where the asset is located.

The Group constructs many of its assets as part of long-term development projects. Assets that are under the course of construction are not depreciated until they are ready for use in the way intended by management.

The table below shows the weighted average remaining UELs of the main categories of assets held at the reporting date:

	Average UEL remaining 2022 (years)
Freehold buildings	20
Plant and equipment	
Electricity generation assets:	
Drax Power Station common plant	14
Drax Power Station biomass-specific assets	16
Hydro-electric plants (including pumped storage)	39
Pellet production plant	10
Other plant, machinery and equipment	14
Reinstatement asset	17
Plant spare parts	17

Freehold land held at cost is considered to have an unlimited UEL and is not depreciated. The value of freehold land held at 31 December 2022 is £37.5 million (2021: £26.9 million).

3.1 Property, plant and equipment continued

An impairment charge is recognised immediately if the net book value of an asset exceeds its recoverable amount, which is defined to be the higher of an asset's value in use and its fair value less costs to sell. The Group's policy is to recognise an impairment charge through accumulated depreciation if the asset will continue to be used by the Group or if the asset will be subsequently sold. However, if the asset is still under construction, as no depreciation has yet been charged, the impairment charge is recognised in cost. 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 relevant plant. Certain assets at Drax Power Station are common to the whole plant.

Pellet Production plant includes the US and Canadian based assets of the Group's Pellet Production business and the assets at the Daldowie fuel plant near Glasgow.

Plant spare parts are depreciated over the remaining UEL of the relevant power station or plant.

Occasionally, plant spare parts are required to be used within maintenance projects. In this instance the net book value of the part is transferred from the property, plant and equipment balance and recognised as an expense in the Consolidated income statement within operating and administrative expenses. These issues are reflected on the issues to maintenance projects line in the table below.

Costs relating to major inspections, overhauls and upgrades to assets are included in the carrying amounts or recognised as separate assets, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated UELs and residual values are reviewed annually, taking into account regulatory changes and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the reporting date. Any changes to estimated UELs or residual values are applied prospectively.

At each reporting 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 2022 and disclosures relating to the impairment of Daldowie and Abergelli assets, are set out in note 2.4.

During the year, the Group has capitalised £19.1 million (2021: £5.4 million) of costs relating to the UK BECCS project at Drax Power Station. The Group has also commenced construction of the Group's three OCGT projects that have obtained Capacity Market contracts. The costs capitalised in the year on the OCGT projects total £90.2 million (2021: £7.8 million).

The Group's total commitment for future capital expenditure is disclosed in note 7.7.

Significant estimation uncertainty

Assets' UELs are reviewed annually at each reporting date, taking into consideration the impact of climate and environmental change. See note 3.8 for further details.

As disclosed on page 178, the Group has made an estimate regarding the UEL of Drax Power Station. Given the continued focus on climate change, renewable 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 UK Government's net zero strategy becomes clearer, particularly in relation to UK BECCS, the Group will continue to assess any potential impact of these developments and whether the UEL of Drax Power Station is impacted. The continued rate of change in these areas increases the risk that UELs of Drax Power Station will be updated in the future as new information becomes available. As such, a change in UELs in relation to Drax Power Station's biomass assets has been disclosed as a key source of estimation uncertainty. If UK BECCS is deployed at Drax Power Station this could result in an extension of the end of station life beyond the current assumed end date of 2039. If the UELs of Drax Power Station assets currently limited to end of station life of 2039 were to increase by a further 10 years, the annual depreciation charge for the year would decrease by approximately £14.2 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
Cost:					
At 1 January 2021	389.3	2,836.3	69.6	188.8	3,484.0
Additions at cost	13.9	0.9	5.3	195.4	215.5
Acquired in business combinations	43.8	185.0	–	61.1	289.9
Disposals ⁽¹⁾	(1.4)	(24.1)	–	–	(25.5)
Movement in reinstatement asset ⁽¹⁾	–	(2.7)	–	–	(2.7)
Issues to maintenance projects	–	–	(5.5)	–	(5.5)
Transfers from inventories	–	–	3.7	–	3.7
Transfers from right-of-use assets	0.3	0.7	–	–	1.0
Transfers from intangibles ⁽²⁾	–	–	–	18.1	18.1
Transfers between PPE categories	5.7	156.4	(0.8)	(161.3)	–
Effect of changes in foreign exchange rates	2.2	8.0	–	2.2	12.4
At 1 January 2022	453.8	3,160.5	72.3	304.3	3,990.9
Additions at cost	8.2	2.2	3.8	231.8	246.0
Acquired in business combinations	3.3	4.6	–	–	7.9
Impairment	(0.2)	–	–	(6.7)	(6.9)
Disposals	(1.3)	(23.7)	–	(0.9)	(25.9)
Movement in reinstatement asset	–	(22.4)	–	–	(22.4)
Issues to maintenance projects	–	–	(3.3)	–	(3.3)
Transfers from inventories	–	–	0.5	–	0.5
Transfers from/(to) intangibles	–	0.3	–	(0.3)	–
Transfers between PPE categories	22.3	202.6	7.7	(232.6)	–
Effect of changes in foreign exchange rates	17.2	52.6	–	13.3	83.1
At 31 December 2022	503.3	3,376.7	81.0	308.9	4,269.9
Accumulated depreciation:					
At 1 January 2021	102.4	1,415.6	24.9	–	1,542.9
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 changes in foreign exchange rates	0.4	3.4	–	–	3.8
At 1 January 2022	118.2	1,534.1	27.9	–	1,680.2
Depreciation charge for the year	21.5	171.6	2.5	–	195.6
Impairment	0.5	7.5	–	–	8.0
Disposals	(1.7)	(19.7)	–	–	(21.4)
Issues to maintenance projects	–	–	(0.4)	–	(0.4)
Transfers between PPE categories	(0.3)	(3.2)	3.5	–	–
Effect of changes in foreign exchange rates	4.1	15.8	–	–	19.9
At 31 December 2022	142.3	1,706.1	33.5	–	1,881.9
Net book value:					
At 31 December 2021	335.6	1,626.4	44.4	304.3	2,310.7
At 31 December 2022	361.0	1,670.6	47.5	308.9	2,388.0

(1) The comparative amounts have been re-presented to split out the movement in the reinstatement asset. The reduction in the reinstatement asset of £2.7 million in the year ended 31 December 2021 was previously reported within the disposals line.

(2) The comparative amounts have been re-presented to present the OCGT development costs in assets under the course of construction.

Included in the amount for assets under the course of construction are capitalised borrowing costs of £5.2 million (2021: £nil) related to the construction of the three OCGT projects that have obtained a Capacity Market contract.

In the table above, impairments within cost of £6.9 million relate to the write down of the Group's fourth OCGT project that has not obtained a Capacity Market contract. Impairments within accumulated depreciation of £8.0 million relate to the write down of assets at the Daldowie fuel plant. See note 2.4 for further details of the Group's accounting policy for impairments of fixed assets.

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	Pellet production plants £m	Other £m	Total plant and equipment £m
Cost:					
At 1 January 2021	2,072.9	471.0	276.4	16.0	2,836.3
Additions at cost	–	–	0.8	0.1	0.9
Acquired in business combinations	–	–	185.0	–	185.0
Disposals ⁽¹⁾	(17.5)	–	(5.6)	(1.0)	(24.1)
Movement in reinstatement asset ⁽¹⁾	(2.7)	–	–	–	(2.7)
Transfers from right-of-use assets	–	–	0.7	–	0.7
Transfers between PPE categories	65.1	5.0	82.0	4.3	156.4
Effect of changes in foreign exchange rates	–	–	8.0	–	8.0
At 1 January 2022 ⁽²⁾	2,117.8	476.0	547.3	19.4	3,160.5
Additions at cost	1.0	–	0.9	0.3	2.2
Acquired in business combinations	–	–	4.6	–	4.6
Disposals	(0.1)	–	(21.1)	(2.5)	(23.7)
Movement in reinstatement asset	(22.4)	–	–	–	(22.4)
Transfers from intangibles	–	–	0.3	–	0.3
Transfers between PPE categories	45.0	3.4	154.2	–	202.6
Effect of changes in foreign exchange rates	–	–	52.6	–	52.6
At 31 December 2022	2,141.3	479.4	738.8	17.2	3,376.7
Accumulated depreciation:					
At 1 January 2021	1,298.4	28.1	77.3	11.8	1,415.6
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 changes in foreign exchange rates	–	–	3.4	–	3.4
At 1 January 2022	1,356.5	41.2	122.6	13.8	1,534.1
Depreciation charge for the year	64.3	12.1	92.9	2.3	171.6
Impairment	–	–	7.5	–	7.5
Disposals	–	–	(17.3)	(2.4)	(19.7)
Transfers between PPE categories	(3.5)	–	0.3	–	(3.2)
Effect of changes in foreign exchange rates	–	–	15.8	–	15.8
At 31 December 2022	1,417.3	53.3	221.8	13.7	1,706.1
Net book value:					
At 31 December 2021	761.3	434.8	424.7	5.6	1,626.4
At 31 December 2022	724.0	426.1	517.0	3.5	1,670.6

(1) The comparative amounts have been re-presented to split out the movement in the reinstatement asset. The reduction in the reinstatement asset of £2.7 million in the year ended 31 December 2021 was previously reported within the disposals line.

(2) The comparative amounts have been re-presented to present the OCGT development costs in assets under the course of construction.

The depreciation expense in the Consolidated income statement of £208.0 million comprises of £195.6 million of depreciation charged on property, plant and equipment, £20.3 million charged on right-of-use assets (see note 3.2) offset by £7.9 million of depreciation included in closing inventories.

The increase in depreciation of pellet production plants during the year includes the impact of planned higher levels of capital expenditure in relation to plant upgrades and capacity expansions, and includes some accelerated depreciation for existing equipment that has been, or will be, replaced following capital investments. The UELs of impacted assets were reviewed and updated at the start of 2022 to reflect these plans, and the impact of these updates on the depreciation charge for 2022 was around an additional £22.0 million charge.

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 right-of-use asset and corresponding lease liability are recognised on the Consolidated balance sheet.

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 updated 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 counterparty specific proxies for risk-free rates, such as 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.

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the initial calculation of the lease liability, estimated costs for dismantling or restoring the asset, any initial direct costs, and lease payments made or incentives received prior to commencement of the lease.

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 and lease liability are 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 Consolidated income statement on a straight-line basis over the term of the agreement.

3.2 Leases continued

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Railcars £m	Vessels £m	Total £m
Cost:					
At 1 January 2021	23.7	9.1	8.7	–	41.5
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 changes in foreign exchange rates	0.1	(0.1)	0.7	0.6	1.3
At 1 January 2022	27.9	15.2	30.2	68.5	141.8
Additions at cost	5.1	4.7	2.2	19.8	31.8
Other movements	(3.1)	4.0	(0.8)	–	0.1
Effect of changes in foreign exchange rates	0.5	0.9	2.1	2.5	6.0
At 31 December 2022	30.4	24.8	33.7	90.8	179.7
Accumulated depreciation and impairment:					
At 1 January 2021	6.1	4.2	2.2	–	12.5
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 changes in foreign exchange rates	0.1	–	0.5	–	0.6
At 1 January 2022	8.5	4.8	5.6	3.1	22.0
Depreciation charge for the year	3.9	6.0	4.6	5.8	20.3
Other movements	(1.1)	(0.4)	–	–	(1.5)
Effect of changes in foreign exchange rates	0.2	0.2	0.4	(0.2)	0.6
At 31 December 2022	11.5	10.6	10.6	8.7	41.4
Net book value:					
At 31 December 2021	19.4	10.4	24.6	65.4	119.8
At 31 December 2022	18.9	14.2	23.1	82.1	138.3

Lease liabilities

	Year ended 31 December	
	2022 £m	2021 £m
Carrying amount:		
At 1 January	125.9	30.2
Additions	30.2	44.7
Acquired in business combinations	–	61.1
Interest charge for the year	6.8	4.9
Payments	(24.8)	(17.9)
Other movements	3.4	0.2
Effect of changes in foreign exchange rates	11.6	2.7
At 31 December	153.1	125.9

Section 3: Operating assets and working capital continued

3.2 Leases continued

The existence of termination, extension and purchase options has not had a material impact on the determination of the lease liabilities.

In addition to the payments disclosed above, the Group made payments of £0.1 million during the year (2021: £0.8 million) in relation to short-term and low value leases.

The maturity of the gross undiscounted lease liabilities at 31 December is as follows:

	As at 31 December	
	2022 £m	2021 £m
Within one year	30.3	21.2
Within one to two years	26.7	18.9
Within two to five years	64.3	46.4
After five years	72.0	78.4
Total gross lease liabilities	193.3	164.9
Effect of discounting	(40.2)	(39.0)
Lease liabilities recognised in the Consolidated balance sheet	153.1	125.9
Current portion	22.7	15.1
Non-current portion	130.4	110.8

The Group recognised the following charges from continuing operations relating to leases in the Consolidated income statement:

	Year ended 31 December	
	2022 £m	2021 £m
Expense relating to short-term leases	0.1	0.8
Interest charge for the year	6.8	4.9
Depreciation charge for the year	20.3	15.2

3.3 Renewable certificate assets

The Group earns renewable certificate assets including ROCs and REGOs which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning biomass pellets to generate electricity at Drax Power Station and generating renewable energy at a number of the Group's hydro-electric plants. The Group's ROC and REGO certificates are sold bilaterally to counterparties, including external suppliers, and also internally for utilisation by the Customers business.

This note sets out the value of these certificate assets that the Group held at the reporting date.

Accounting policy

Renewable certificates, principally ROCs and REGOs, are first 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 renewable certificates earned is recognised in the Consolidated income statement as a reduction to cost of sales in the same period they are earned.

Where the Customers business incurs an obligation to deliver renewable certificates, that obligation is provided for in the period incurred within cost of sales.

ROCs and REGOs valuation are comprised of the expected value to be obtained in a sales transaction with a third-party supplier at the point of generation. If the Group has already agreed sales contracts to cover the renewable certificates generated in a period, then they are recognised at the contracted price. Any renewable certificates generated above this, or to be utilised by the Customers business, are recognised at an estimate of the expected market value, which is generally based on the amount to be obtained in a sales transaction with a third-party supplier.

3.3 Renewable certificate assets continued

ROC valuations are comprised of two parts: the expected value to be obtained in a sales 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 CP, which runs from April to March each year. 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 redistributed to the suppliers who presented ROCs in a CP on a pro-rata basis. The estimate of the recycle value is based on assumptions about likely levels of renewable generation and also the demand for ROCs over the CP, and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Historical experience indicates that the assumptions used in the valuations are reasonable, but the recycle value remains subject to possible variation and may subsequently differ from assumptions at 31 December.

At each reporting date, the Group reviews the carrying value of renewable certificate assets held against updated anticipated sales prices or anticipated obligation requirements, and the estimated recycle value. Where relevant, this takes account of agreed forward sales contracts, the likely utilisation of renewable certificates generated to settle the Group's own obligations, and any relevant information about the levels of wider renewable generation. Any impairment loss is recognised in the Consolidated income statement in the period incurred.

	Year ended 31 December	
	2022 £m	2021 £m
Carrying amount:		
At 1 January	301.4	139.6
Earned from generation	652.5	658.2
Purchased from third-parties	486.3	361.3
Utilised by the Customers business	(394.1)	(320.7)
Sold to third-parties	(858.3)	(537.0)
At 31 December	187.8	301.4

Recognition of revenue from the sale of renewable certificates is described in further detail in note 2.2.

3.4 Inventories

The Group holds inventories of fuels and other consumable items that are used in the process of generating electricity, and raw materials used in the production of biomass pellets and waste pellets. This note shows the cost of biomass, coal, other fuels and plant consumables held at the reporting date.

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 inventories 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, and transport and handling costs. The Group uses forward foreign exchange contracts to hedge the costs of fuel 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, to the extent these hedges are effective, 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.

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 validate the accuracy of the weights and efficiency 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. 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.

The valuation of fibre inventory involves estimations of 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.

Section 3: Operating assets and working capital continued

3.4 Inventories continued

	As at 31 December	
	2022 £m	2021 £m
Biomass – finished goods	294.5	144.6
Biomass – fibre and other raw materials	16.5	12.8
Coal	–	8.4
Other fuels and consumables	37.1	33.3
Total inventories	348.1	199.1

The net realisable value of coal in the prior year in the table above was stated after provisions of £0.9 million. No inventory provisions have been recognised in the current year.

The increase in the value of biomass finished goods held at the reporting date results from the planned build-up of inventories due to the reprofiling of generation into winter from summer when it was originally planned, along with higher biomass prices.

At the request of the UK Government, the Group entered into an agreement with National Grid to keep the two coal units at Drax Power Station available to provide a “winter contingency” service to the UK power system from October 2022 until the end of March 2023. The units will not generate commercially for the duration of the agreement and only operate if and when instructed to do so by National Grid. Under the terms of this contract, the Group no longer has control of any coal inventory.

The cost of inventories recognised as an expense in the year ended 31 December 2022 was £1,587.9 million (2021: £1,352.0 million). This includes the value of write downs of inventory in the year.

3.5 Trade and other receivables and contract assets

Trade receivables represent amounts owed by customers for goods or services provided that have been invoiced for but 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 the transaction price and subsequently measured at amortised cost.

The Group has access to a receivables monetisation facility 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. 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 Consolidated income statement as incurred within interest payable and similar charges. At 31 December 2022, the receivables sold under this facility were £400.0 million (2021: £200.0 million), reflecting the increase in the size of the facility during the year. Refer to note 4.3 for further information about the facility.

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).

The UK Government introduced the Energy Bill Relief Scheme (EBRS) from 1 October 2022 to 31 March 2023. Energy supplied to non-domestic customers in this period has a discount applied under the EBRS. The Group claims this discount back from the Government. The amount the Group is entitled to claim from the Government is either recognised in other receivables, if it has been claimed but has not yet been received from the Government, or accrued income if not yet claimed at the reporting date. See note 2.2 for details of energy supplied under the EBRS within the Consolidated income statement.

	As at 31 December	
	2022 £m	2021 £m
Amounts falling due within one year:		
Trade receivables	276.6	187.5
Accrued income	522.5	270.3
Prepayments	127.7	97.4
Other receivables	272.8	59.0
Contingent consideration	27.4	27.7
Total trade and other receivables and contract assets	1,227.0	641.9

At 31 December 2022, the Group had no amounts receivable from significant counterparties which represented 10% or more of total trade receivables and accrued income (2021: one significant counterparty).

3.5 Trade and other receivables and contract assets continued

Of total trade receivables and accrued income at 31 December 2022, £587.0 million (2021: £314.0 million) relates to the Customers business, £168.0 million relates to the Generation business (2021: £125.9 million), and £44.1 million (2021: £17.9 million) relates to the Pellet Production business.

The contingent consideration relates to the Group's disposal of the CCGT generation portfolio in January 2021. Should the acquirer satisfy certain triggers in respect of the option to develop the land at the Damhead Creek 2 site, which was 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 £27.4 million (2021: £27.7 million). Contingent consideration is disclosed within current assets, however, the timing of receipt would be dependent on when a trigger was to occur, which may be in a period greater than 12 months from the end of the reporting period. See note 7.1 for further details on the contingent consideration.

Accrued income includes contract assets which 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. 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 2022 were £20.0 million (2021: £6.0 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 and accrued income (including 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 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 and so a combined probability method is applied. Both of these approaches are described in more detail below.

Under the Group's debt recovery strategy, a breach in terms could lead to the customer being disconnected or pursued legally for recovery of the balance. 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 on an account is exclusively greater than 365 days past due and active recovery attempts have failed, or where there are known insolvency issues relating to the customer.

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 debt on an individual account basis using a broad range of indicators that are specific to the customer. The algorithm forms predictions, based on historical experience, of the debt on each account reaching greater than 365 days past due. A timeframe of 13 months is the normal period of historic data to which the algorithm is trained. The customer's behaviours and performance in this period inform the current provisioning for the existing debt portfolio.

As required by IFRS 9, the calculation of expected credit losses incorporates both historical and forward-looking information. Management considers the 13 month period on which the algorithm is trained and determines whether any additional provision is required as a result of specific factors or forward-looking macro-economic conditions. At 31 December 2022, these factors included, but were not limited to, expectations around future inflation and interest rates, customer pricing and the impact of Government support for customers. In the current period, management concluded that no additional provision was required (2021: no additional provision was required).

Section 3: Operating assets and working capital continued

3.5 Trade and other receivables and contract assets continued

Provision matrix method

Larger consumers within the Customers business and customers within the Generation and Pellet Production businesses 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 movement in the overall allowance for expected credit losses on trade receivables is presented in the following table:

	2022			2021		
	Combined probability method £m	Provision matrix method £m	Total £m	Combined probability method £m	Provision matrix method £m	Total £m
At 1 January	44.4	2.2	46.6	51.4	5.0	56.4
Amounts written off	(39.7)	(2.6)	(42.3)	(41.5)	(2.0)	(43.5)
Net additional amounts provided against	50.2	6.4	56.6	34.5	(0.8)	33.7
At 31 December	54.9	6.0	60.9	44.4	2.2	46.6
Gross trade receivables	189.1	148.4	337.5	144.1	90.0	234.1
Average Expected Credit Loss %	29%	4%	18%	31%	2%	20%

The provision above relates to trade receivables in the Customers business. If the calculated provision rates were 10% higher than the provision rates calculated at the reporting date, the impact to the provision would be an increase of £4.0 million. The provision matrix method has resulted in a £nil provision applied to both Generation and Pellet Production businesses.

The risk of default within the Pellet Production and Generation businesses is considered to be remote. This is supported by strong historic collection rates and timely receipts.

The Pellet Production business has a remote risk of default because the external customer base are high-quality counterparties with long-term supply contracts. Furthermore, invoices are usually settled within seven days with negligible levels of aged debt.

The current economic environment and pressure on energy markets resulted in significantly higher commodity prices during 2022, and in turn higher bills raised to some of the Group's customers. This has resulted in an increase in the total gross value of trade receivables and thus increased the value of the expected loss provision, particularly for SME customers. Prices for the deemed customer portfolio have seen the most significant increases. Deemed supply is where electricity or gas is supplied to a site or customer that is yet to enter into a contract and, as a result, they are charged on a standard variable tariff based on merchant power and gas prices. Given the increases in these standard variable prices during the year, the recoverability of these balances has become more challenging. The expected credit loss provision has been updated to reflect this change. The coverage levels of the provision are in line with the outturn performance experienced during Covid-19, a period which was also significantly impacted by challenging macro-economic conditions.

In October 2022, in response to the significant increase in energy prices, the Government introduced support for non-domestic customers through the EBRs. This has provided financial support to customers during this period as described in more detail in note 2.2. The Group received no incremental revenue over that to which it was contractually entitled, due to this scheme.

The net charge to the Consolidated income statement in 2022 for impairment losses on financial assets was £48.0 million (2021: £16.3 million). This is the net of the additional amounts provided against in relation to trade receivables of £56.6 million (2021: £33.7 million) less an £8.6 million (2021: £17.4 million) benefit in the period in respect of resolution of legacy credit balances.

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:

Probability of default range %	2022		2021	
	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	50.0	40.4	43.3	35.3
50–79	16.8	8.9	10.7	5.7
26–49	18.2	5.5	11.1	3.3
0–25	104.1	0.1	79.0	0.1
Total	189.1	54.9	144.1	44.4

3.5 Trade and other receivables and contract assets continued

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 within the Generation and Pellet Production businesses, the trade receivables of the Group's larger consumers within the Customers business, and accrued income (including contract assets) of the Group at each reporting date.

	As at 31 December 2022			As at 31 December 2021		
	Lifetime expected credit losses	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime expected credit losses	Estimated total gross carrying amount at default	Expected credit loss rate
	£m	£m	%	£m	£m	%
Accrued income balances not yet due	7.6	530.1	1%	8.6	278.9	3%
Trade receivables days past due:						
Balances not yet due	1.8	115.0	2%	0.4	70.8	1%
Between 0-30 days	0.8	22.1	4%	0.1	14.0	1%
Between 31-60 days	0.7	3.3	21%	0.2	1.2	17%
Between 61-90 days	0.6	1.5	42%	0.1	0.8	13%
Over 90 days	2.1	6.5	33%	1.4	3.2	44%
Trade receivables total	6.0	148.4	4%	2.2	90.0	2%
Total	13.6	678.5	2%	10.8	368.9	3%

The expected credit loss provision of £13.6 million (2021: £10.8 million) in the table above wholly relates to the Customers business. The expected credit loss rates above are expressed as a percentage of the gross carrying amount of all of the Group's trade receivables and accrued income balances that are subject to the provision matrix method.

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.

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. The reconciliation from opening to closing contract costs is as follows:

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	23.7	40.1
Additions	30.7	14.0
Amortisation	(24.6)	(30.4)
At 31 December	29.8	23.7

Section 3: Operating assets and working capital continued

3.7 Trade and other payables and contract 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). Contract liabilities represent the Group's obligation to transfer goods and services to its customers whereby the Group has already received the consideration in advance or where the amount is due from the customer at the reporting date.

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 payments. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to cease. 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 an extension to payment terms of less than 12 months for a small fee. The original liability is derecognised and the amount due to the facility provider is recognised in other payables. Fees are either recognised in the Consolidated income statement, or capitalised if they are directly attributable to the construction of a qualifying asset, in the period incurred.

The Group does not include trade and other payables in its calculation of Net debt (see note 2.7).

	As at 31 December	
	2022 £m	2021 £m
Trade payables	152.9	147.8
Fuel accruals	107.7	50.3
Energy supply accruals	511.4	362.1
Other accruals	370.9	269.8
Other payables	351.0	366.5
Contract liabilities	34.0	14.6
Total Trade and other payables and contract liabilities	1,527.9	1,211.1

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.

Trade payables includes £53.9 million (2021: £50.4 million) related to reverse factoring. Other payables includes £214.5 million (2021: £62.2 million) due under other payment facilities which includes amounts due under deferred letters of credit in respect of the construction of the Group's three OCGT assets that obtained a Capacity Market contract.

Energy supply accruals includes £315.0 million (2021: £264.3 million) in relation to the Group's obligation to deliver ROCs arising from activities in the Customers business. The remaining balance principally comprises third-party grid charge accruals of £108.5 million (2021: £48.2 million) and Feed-in-Tariff accruals of £46.8 million (2021: £19.8 million). Energy supply accruals have increased as a result of both higher supply volumes and higher prices.

Other accruals includes £11.1 million (2021: £39.3 million) in respect of the Group's estimated obligation to deliver carbon emissions allowances under the UK Emission Trading Scheme (UK ETS). Allowances are purchased in the market and are recorded at cost.

Other accruals also includes accruals for capital and operating expenditure where the invoices have 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 contract. The balance reduces as revenue is subsequently recognised in the following periods, offset by further advanced consideration received. Additions in the year include £14.4 million in the Generation business in relation to the winter coal contract with the National Grid to provide a 'winter contingency' service to the UK power system. The reconciliation of opening to closing contract liabilities is as follows:

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	14.6	11.1
Revenue recognised in the year that was included in the contract liability at the start of the period	(6.6)	(5.4)
Additions as a result of cash received from customers in the period not yet recognised in revenue	26.0	8.9
At 31 December	34.0	14.6

3.8 Climate change

Climate change, and tackling it, is pervasive to the Group's purpose, as set out in the Strategic report on pages 2 to 91. The Sustainable development report, starting on page 36 sets out how the Group's ambition is to be climate positive and the TCFD disclosures, starting on page 52, set out the Group's approach to managing climate risks, including scenario analysis. Climate change is factored into short, medium and long-term forecasts and estimates used by the Group.

Several areas of the Consolidated financial statements have climate considerations in relation to them, namely:

Area	Description	Page reference
Judgements in relation to key sources of estimation uncertainty	Impairment of assets, UELs of property, plant and equipment and capitalisation of development project costs are all sensitive to climate change. Please see further details below.	178
Impairment of assets	<p>The Group's expectations around the impacts of climate change, and in particular the requirements of the UK Government's commitment to reach net zero by 2050, are integral to the forecasts used to underpin the Group's impairment analyses. For example, the forward power price curves used take into account expectations regarding the impact of climate change and the changing mix of generating assets on the UK power system.</p> <p>Governmental and societal responses to climate change are still developing, and therefore financial statements cannot capture all potential future scenarios as these are not yet known. This presents uncertainty around future cashflows from an IAS 36 perspective. Sensitivities modelled, including around biomass acceptability, seek to capture some of these potential scenarios.</p> <p>Also, operational outages, whether caused by climate related events or other factors, are some of the sensitivities modelled in the impairment testing.</p>	194
Going concern and viability	As above, forecast power prices and operational outages are also incorporated into the going concern and viability assessments.	176 for going concern and 75 for viability
Fixed asset UELs	<p>Climate impacts are one of the factors assessed in determining how long the Group anticipate both additions and existing assets to operate for. For example, the OCGT assets under development will be given a UEL commensurate with the Group's expectations around the UK's transition to a net zero position by 2050.</p> <p>Although, as outlined in the Key sources of estimation uncertainty, the likelihood is that UELs at Drax Power Station will be extended, were UELs to be shortened by 10 years, whether as a result of climate change or otherwise, depreciation would increase by approximately £65 million per year.</p>	210

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 at bank, short-term bank deposits with a maturity of three months or less, and money market funds. 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	
	2022 £m	2021 £m
Cash at bank	102.1	35.9
Short-term deposits	19.5	23.7
Money market funds	116.4	257.8
Total cash and cash equivalents	238.0	317.4

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.

At 31 December 2022, net postings of £234.0 million had been made to counterparties (2021: £172.8 million of net receipts from counterparties) to support energy hedging activity. Cash collateral payments of £234.0 million (2021: £32.8 million) were recognised in other receivables and £nil (2021: £205.6 million) of cash collateral receipts were recognised in other payables. The increase in cash collateral payments is predominantly due to the significant price increases seen in the power, gas and carbon markets as well as an increase in the use of collateralised exchange based trading. See note 7.6 and 4.3 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 that entitle the Group to draw down at any time over a fixed period, with a fixed repayment date regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down if draw down is probable. Loan commitment fees payable to the lender that entitle the Group to draw down at any time over a fixed period, where the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and are recognised over the life of the instrument as part of the effective interest rate if draw down is probable. If drawdown is not probable then loan commitment fees 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 where the amount and timing of draw down can vary at the Group's discretion, such as a revolving credit facility (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 being recognised as a component of foreign exchange gains or losses in the period they arise. The Group hedges foreign currency risk and interest rate risk in accordance with the policies 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 Consolidated balance sheet. Where hedge accounting is applied to foreign exchange risk and interest rate risk on debt instruments, gains and losses are recycled to the Consolidated statement of comprehensive income within either foreign exchange gains/(losses) or interest payable and similar charges, to match the exposure they are hedging, where effective. The borrowings amounts disclosed in the tables below exclude any impact of hedging instruments.

4.2 Borrowings continued

The Group's net borrowings at each reporting date were as follows:

	As at 31 December	
	2022 £m	2021 £m
Secured borrowings at amortised cost:		
2.625% loan notes €250m ⁽¹⁾	219.8	207.2
6.625% loan notes \$500m ⁽²⁾	412.8	367.0
Index-linked loan £35m ⁽³⁾	–	40.6
UK infrastructure private placement facilities (2019) ⁽⁴⁾	372.5	370.0
UK infrastructure private placement facilities (2020) ⁽⁵⁾	207.9	201.2
CAD term facility C\$300m ⁽⁶⁾	183.6	175.0
Unsecured borrowings at amortised cost:		
Uncommitted short-term loan facility €50m ⁽⁷⁾	44.3	–
Total borrowings	1,440.9	1,361.0
Split between:		
Current liabilities	44.3	40.6
Non-current liabilities	1,396.6	1,320.4

- (1) These loan notes mature in 2025. 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 4.6%.
- (2) These loan notes mature in 2025. 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) The index-linked loan facility matured in March 2022. On maturity the principal amount of £35 million plus £6.4 million of indexation was repaid wholly from cash reserves.
- (4) These comprise committed facilities totalling £375 million 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) These comprise committed facilities totalling £98 million and €126.5 million 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 2.5%.
- (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.
- (7) This is an uncommitted short-term facility with a maturity term of one month, however this term may be extended at the option of the lender. The average fixed interest rate for this facility is 2.4%.

The Group has a committed £300 million RCF and C\$10 million RCF. These had no cash drawings as at 31 December 2022 or 31 December 2021. The Group has never had cash drawings under this facility since its inception, three years ago. The Group also has access to certain non-recourse trade receivable monetisation facilities and payment facilities, as described in note 4.3, which are utilised to accelerate working capital cash inflows and defer cash outflows.

In December 2022, the Group secured a new £200 million committed liquidity facility with banks within its lending group. This facility provides an additional source of liquidity to the Group's existing undrawn RCFs, over the 12 months following the reporting date. This facility was temporarily drawn during December, to support optimisation of generation and associated cash collateral postings, but was undrawn at 31 December 2022. The Group has a €50 million uncommitted facility that was drawn during the second half of 2022 and at 31 December 2022 €50 million remained drawn (2021: £nil). This facility was also drawn to support optimisation of generation and associated cash collateral postings. See note 2.7 for further details on the Group's cash and committed facilities.

The Group's secured borrowings are secured against the assets of a number of the Group's subsidiaries, with the exception of property owned by the US subsidiaries.

The weighted average interest rate payable at the reporting date on the Group's borrowings was 4.14% (2021: 3.49%).

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⁽¹⁾. The Group is required to test its financial covenants every six months at financial full-year and half-year reporting periods, and has complied with all financial covenants during the current 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 75 for further details on the scenarios considered. The Group also has conditions placed on its dividend payments as a result of the financing facilities.

- (1) The net debt calculation for financial covenants is based on Net debt including cash and borrowings attributable to non-controlling interests, but excludes the impact of hedging.

Section 4: Financing and capital structure continued

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 2022		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,376.2	(15.2)	1,361.0
Cash movements:			
Repayment of Index-linked loan	(41.4)	–	(41.4)
Draw down of facilities	188.5	–	188.5
Repayment of facilities	(145.0)	–	(145.0)
Non-cash movements:			
Indexation of linked loan	0.8	–	0.8
Amortisation of deferred finance costs (note 2.5)	–	6.1	6.1
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Effect of changes in foreign exchange rates	71.1	0.2	71.3
Borrowings at 31 December	1,449.8	(8.9)	1,440.9

	Year ended 31 December 2021		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,085.3	(19.6)	1,065.7
Cash movements:			
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)
Non-cash movements:			
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 changes in foreign exchange rates	(14.9)	–	(14.9)
Borrowings at 31 December	1,376.2	(15.2)	1,361.0

As disclosed above, the Group has a number of cross-currency interest rate swaps that fix the principal repayment of certain foreign currency denominated borrowings. Accordingly, the foreign exchange losses (2021: gains) on borrowings disclosed in the above tables have been offset by £62.0 million of foreign exchange gains (2021: 21.2 million of losses) on cross-currency interest rate swaps that have been recycled to profit and loss as part of the hedging relationship. See note 2.7 for further details of the impact of the Group's cash flow hedging relationships on Net debt.

4.3 Notes to the consolidated cash flow statement

Accounting policy

In accordance with IAS 7 the Group has elected to classify cash flows from interest paid and interest received as cash flows from operations, dividends paid as cash flows from financing activities, and dividends received as cash flows from investing activities. The interest repayment on lease liabilities is included within interest paid, and the lease principal repayment is presented within cash flows from financing activities.

Cash generated from operations

Cash generated from operations is the starting point of the Group's Consolidated cash flow statement on page 185. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit for the year to the amount of cash generated from the Group's operations.

	Year ended 31 December	
	2022 £m	2021 £m
Profit for the year – continuing	82.5	55.1
Profit for the year – discontinued	–	24.1
Adjustments for:		
Interest payable and similar charges	83.1	70.9
Interest receivable	(4.3)	(0.3)
Tax (credit)/charge	(4.4)	68.1
Research and development tax credits	(5.5)	(7.5)
Income from associates	(0.5)	(0.3)
Depreciation of property, plant and equipment	187.7	149.8
Amortisation of intangible assets	31.4	34.4
Depreciation of right-of-use assets	20.3	15.2
Impairment of non-current assets	41.5	–
Losses on disposal of fixed assets	5.5	9.4
Gain on disposal of subsidiaries	–	(16.2)
Other losses	0.3	–
Certain remeasurements of derivative contracts ⁽¹⁾	288.7	(74.6)
Non-cash charge for share-based payments	9.6	7.4
Effect of changes in foreign exchange rates	(2.2)	1.3
Operating cash flows before movement in working capital	733.7	336.8
Changes in working capital:		
(Increase)/decrease in inventories	(133.4)	37.4
Increase in receivables	(379.0)	(27.4)
Increase in payables	431.8	15.0
Net movement in collateral ⁽²⁾	(406.8)	168.3
Decrease in provisions	(29.1)	(4.2)
Decrease/(increase) in renewable certificate assets	113.7	(161.8)
Total cash (absorbed by)/released from working capital	(402.8)	27.3
Net movement in defined benefit pension obligations ⁽³⁾	(10.6)	(9.6)
Cash generated from operations	320.3	354.5

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the Consolidated income statement and their subsequent cash realisation. It also includes the cash and non-cash impact of deferring and recycling gains and losses on derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve and then released to the Consolidated income statement in the period the hedged transaction occurs.

(2) The £168.3 million increase in collateral received in the prior year has been re-presented. Previously this was included in the movement in receivables as a £30.6 million increase and movement in payables as a £198.9 million increase.

(3) The comparative figure has been re-presented to combine the defined benefit scheme current and past service costs and contributions into a net defined benefit pension obligation.

The Group has generated cash from operations of £320.3 million during the year (2021: £354.5 million). This resulted from a cash inflow from operating activities before working capital of £733.7 million (2021: £336.8 million). This was offset by a £10.6 million (2021: £9.6 million) cash outflow in respect of pension obligations and a net working capital outflow of £402.8 million (2021: £27.3 million inflow), principally due to collateral payments. The most significant factors making up these cash movements are explained in further detail below.

The £288.7 million adjustment for certain remeasurements of derivative contracts (2021: £(74.6) million adjustment) in the current year predominantly relates to net unrealised losses recognised within the Consolidated income statement, where cash has not yet been paid or received by the Group. These net unrealised losses were offset by a net cash outflow due to realised losses on maturing trades.

Section 4: Financing and capital structure continued

4.3 Notes to the consolidated cash flow statement continued

From time to time, where market conditions change, the Group can rebase foreign currency contracts including cross-currency interest rate swaps. Rebasing trades accelerates certain cash flows at the point of rebasing that would have been received on maturity or at contractual payment dates per the original terms of the trade. There is an equal and opposite reduction in cash flows (less rebasing fees) on the original maturity or contractual payment dates. At 31 December 2022 the Group had accelerated £43.1 million of cash flows through the use of rebasing (2021: £48.1 million). The reduction in accelerated cash flows reflects the unwinding of the cash benefit as the original maturity or contractual payment dates pass. The accelerated cash flows related wholly to rebased cross-currency interest rate swaps in the current and prior year. The impact of rebasing is reflected within the Certain remeasurements of derivative contracts line in the table above.

The Group has a strong focus on cash flow discipline and managing liquidity. The Group enhances its working capital position by managing payables, receivables, inventories and renewable certificate assets to make sure the working capital committed is closely aligned with operational requirements. The impact of these actions on the cash flows of the Group is explained further below.

High levels of volatility in power and commodity markets have continued during 2022. 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 Group actively manages the liquidity requirements, including collateral, associated with the hedging of power and other commodities. At 31 December 2022 the Group had a net posting of collateral. However, the design of the Group's trading agreements and methods of posting collateral, such as being able to utilise letters of credit and surety bonds to meet collateral requirements, aims to minimise cash outflows resulting from collateral requirements where possible. The Group has had a net cash outflow of £406.8 million during the year due to collateral (2021: £168.3 million inflow). At 31 December 2022 the Group held £nil in cash collateral receipts (2021: £205.6 million) recognised in payables and had posted £234.0 million (2021: £32.8 million) of cash collateral payments recognised in receivables. The Group also had £54.5 million (2021: £42.5 million) of letters of credit and £165.0 million (2021: £107.1 million) of surety bonds utilised covering commodity trading collateral requirements. Letters of credit and surety bonds utilised at the reporting date have reduced the requirement for cash collateral payments, which has reduced the amount by which receivables has increased. See notes 4.1 and 7.6 for further details on cash collateral receipts and non-cash collateral postings respectively.

The £379.0 million (2021: £27.4 million) cash outflow due to an increase in receivables in 2022 is predominantly related to the Customers business as a result of higher power and gas prices during the year, resulting in higher amounts receivable from customers.

The Customers business has access to a facility which enables it to accelerate cash flows associated with amounts receivable from energy supply customers on a non-recourse basis. The Group has refinanced this facility during the year, extending the maturity to January 2027 and increasing the size of the facility to £300.0 million from £200.0 million. The Group also agreed a further increase to the £300.0 million limit, to £400.0 million, for the period November 2022 to January 2024. Utilisation of the facility was £400.0 million at 31 December 2022 (2021: £200.0 million). The additional utilisation of this facility has resulted in a £200.0 million cash inflow which has offset the increase in receivables described above to lead to the net £379.0 million cash outflow.

The movement in renewable certificate assets during the year includes a combination of generation, utilisation, purchases and sales, as described in note 3.3. The £113.7 million cash inflow is predominantly due to the Group's use of standard renewable certificate sale and renewable certificate purchase arrangements. Cash from renewable certificates, and in particular ROCs, is typically realised several months after they are earned; however, through these arrangements, the Group is able to accelerate cash flows over a proportion of these assets. At 31 December 2022 the Group had accelerated £331.2 million of cash flows using these standard renewable certificate sales (2021: £199.8 million). This cash inflow was offset by a net cash outflow as a result of renewable certificates generated and still held by the Group.

The Group had a £431.8 million (2021: £15.0 million) cash inflow due to an increase in payables during the year. This increase is predominantly due to increased levels of power repurchases within the Generation business in the current year, as well as higher accruals as a result of both increased volumes and higher prices in the Customers business.

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. The Group's 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. At 31 December 2022, the Group had trade payables of £53.9 million (2021: £50.4 million) related to reverse factoring. The facility does not directly impact the Group's working capital, as payment terms remain unaltered with the Group and would remain the same should the facility fall away.

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 of less than 12 months. The amount outstanding under these facilities at 31 December 2022 was £214.5 million (2021: £62.2 million) resulting in a cash inflow of £152.3 million. Utilisation of these payment facilities has reduced the cash outflow in the purchases of property, plant and equipment line in the Consolidated cash flow statement by £64.6 million and has also impacted the movement in payables line in the table above by £87.7 million.

The cash outflow of £133.4 million as a result of the increase in inventories results in part from the planned build-up of inventories due to the reprofiling of generation from summer into winter.

4.3 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 movements is provided below:

	As at 31 December 2022		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	1,361.0	125.9	1,486.9
Cash flows from financing activities	2.1	(18.0)	(15.9)
Effect of changes in foreign exchange rates	71.3	11.5	82.8
Other movements	6.5	33.7	40.2
Balance at 31 December	1,440.9	153.1	1,594.0

	As at 31 December 2021		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	1,065.7	30.2	1,095.9
Cash flows from financing activities	46.3	(13.2)	33.1
Effect of changes in 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
Balance at 31 December	1,361.0	125.9	1,486.9

Other movements principally relate to the amortisation of deferred finance costs, discounting of lease liabilities and lease additions in the year.

4.4 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.

Issued equity

	As at 31 December	
	2022 £m	2021 £m
Issued and fully paid:		
2022: 414,872,491 ordinary shares of 11 ¹⁶ / ₂₉ pence each (2021: 413,068,027)	47.9	47.7

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Year ended 31 December	
	2022 (number)	2021 (number)
At 1 January	413,068,027	410,848,934
Issued under employee share schemes	1,804,464	2,219,093
At 31 December	414,872,491	413,068,027

The Company has only one class of shares, which are ordinary shares of 11 ¹⁶/₂₉ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. Throughout the year, shares were issued in satisfaction of options vesting in accordance with the rules of the Group's employee share schemes (see note 6.2).

Section 4: Financing and capital structure continued

4.4 Equity and reserves continued

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued, net of incremental transaction costs and tax, that are directly attributable to the issue of new shares. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

	Year ended 31 December	
	2022 £m	2021 £m
At 1 January	432.2	430.0
Issue of share capital	1.1	2.2
At 31 December	433.3	432.2

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
At 1 January 2021	1.5	35.4	710.8	(50.4)	697.3
Exchange differences on translation of foreign operations	–	8.7	–	–	8.7
At 1 January 2022	1.5	44.1	710.8	(50.4)	706.0
Exchange differences on translation of foreign operations	–	42.4	–	–	42.4
Exchange differences on acquisition of interest in Alabama Pellets LLC	–	(0.7)	–	–	(0.7)
At 31 December 2022	1.5	85.8	710.8	(50.4)	747.7

The capital redemption and treasury share reserves arose when the Group completed previous share buyback programmes. The 13.8 million shares held in the treasury share reserve have no voting rights attached to them.

Exchange differences relating to the translation of the net assets of the Group's US and Canadian 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.

4.5 Non-controlling interests

Accounting policy

In accordance with IFRS 3, the Group elects on an acquisition-by-acquisition basis whether to measure non-controlling interests (NCIs) at their proportionate share of the identifiable net assets of the acquiree at the acquisition date, or at fair value. The Group treats transactions with NCIs that do not result in a loss of control as transactions with equity owners of the Parent Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling interests and NCIs to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to NCIs and the fair value of any consideration paid or received is recognised in equity, within retained profits.

At 31 December 2022, the Group has two (2021: three) subsidiary undertakings with NCIs. These subsidiaries were acquired during the prior year through the acquisition of Pinnacle. During the year, the Group purchased the remaining 10% of NCI in Alabama Pellets LLC increasing the Group's interest in the subsidiary to 100%. See the Transactions with NCI section below for further information.

4.5 Non-controlling interests continued

Summarised financial information

The summarised financial information disclosed is shown on a 100% basis. It represents the results of each entity below that would be shown in the subsidiaries own financial statements prepared in accordance with IFRS, modified for Group level fair value adjustments at acquisition. The comparative amounts at 31 December 2021 have been re-presented to include the Group level fair value adjustments and these adjustments have no impact to cashflow. All amounts are presented before intercompany eliminations.

	Principal place of business	As at 31 December 2022		As at 31 December 2021	
		Non-controlling interest %	Non-controlling interests £m	Non-controlling interest %	Non-controlling interests £m
Alabama Pellets LLC	North America	0%		10%	7.2
Lavington Pellet Limited Partnership	North America	25%	7.7	25%	8.5
Smithers Pellet Limited Partnership	North America	30%	5.7	30%	5.8
Total			13.4		21.5

No dividends were paid to NCIs in the current or previous reporting period.

Summarised statement of total comprehensive income

	Year ended 31 December 2022					Re-presented Year ended 31 December 2021 ⁽²⁾				
	Revenue £m	Loss for the year £m	Loss for the year attributable to the non-controlling interests £m	Total comprehensive loss for the year £m	Total comprehensive loss attributable to the non-controlling interests £m	Revenue £m	Loss for the year £m	(Loss)/profit for the year attributable to the non-controlling interests £m	Total comprehensive loss £m	Total comprehensive (loss)/income attributable to the non-controlling interests £m
Alabama Pellets LLC ⁽¹⁾	39.5	(9.5)	(1.0)	(9.5)	(1.0)	25.6	(9.4)	(1.7)	(9.4)	(1.7)
Lavington Pellet Limited Partnership	36.5	(1.7)	(0.7)	(1.7)	(0.7)	29.3	(0.6)	0.1	(0.6)	0.1
Smithers Pellet Limited Partnership	13.0	(3.0)	(0.9)	(3.0)	(0.9)	11.8	(1.1)	(0.4)	(1.1)	(0.4)
Total	89.0	(14.2)	(2.6)	(14.2)	(2.6)	66.7	(11.1)	(2.0)	(11.1)	(2.0)

(1) The 2022 Summarised statement of total comprehensive income for Alabama Pellets LLC is for the period up to acquisition of the remaining NCI on 30 September 2022.

(2) The comparative amounts at 31 December 2021 have been re-presented to include Group level fair value adjustments.

Section 4: Financing and capital structure continued

4.5 Non-controlling interests continued

Summarised Balance sheet

	As at 31 December 2022					Re-presented As at 31 December 2021 ⁽¹⁾				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Net assets £m
Alabama Pellets LLC						120.4	14.7	(16.1)	(0.6)	118.4
Lavington Pellet Limited Partnership	27.7	6.8	(3.1)	(0.6)	30.8	29.1	6.9	(2.1)	(0.7)	33.2
Smithers Pellet Limited Partnership	17.3	1.8	(1.1)	–	18.0	17.1	2.0	(0.7)	–	18.4
Total	45.0	8.6	(4.2)	(0.6)	48.8	166.6	23.6	(18.9)	(1.3)	170.0

(1) The comparative amounts at 31 December 2021 have been re-presented to include Group level fair value adjustments.

Summarised Cash flow

	Year ended 31 December 2022				Year ended 31 December 2021			
	Net cash inflow/ (outflow) from operating activities £m	Net cash outflow from investing activities £m	Net cash (outflow)/ inflow from financing activities £m	Net cash inflow/ (outflow) £m	Net cash (outflow)/ inflow from operating activities £m	Net cash outflow from investing activities £m	Net cash inflow/ (outflow) from financing activities £m	Net cash (outflow)/ inflow £m
Alabama Pellets LLC					(2.9)	(47.9)	50.6	(0.2)
Lavington Pellet Limited Partnership	3.5	(0.7)	(2.2)	0.6	2.2	(0.5)	(0.1)	1.6
Smithers Pellet Limited Partnership	(1.9)	(0.2)	1.8	(0.3)	(0.7)	(2.5)	3.6	0.4
Total	1.6	(0.9)	(0.4)	0.3	(1.4)	(50.9)	54.1	1.8

Transactions with NCI

When the Group acquired Pinnacle during 2021, the NCI 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 NCI to 10%. This resulted in a £0.2 million charge recognised in equity, within retained profits, for the difference between the adjustment to NCI and the fair value of any consideration paid. In September 2022, the Group acquired the remaining 10% of NCI in APLL for £20.2 million (\$22.2 million), resulting in the Group now owning 100% of APLL. This resulted in a £9.3 million charge recognised in equity, within retained profits, for the difference between the adjustment to NCI and the fair value of any consideration paid, and a decrease in the translation reserve of £0.7 million.

The following table summarises the impact of changes in the Group's ownership of APLL:

	Year ended 31 December 2022 £m
Carrying amount of non-controlling interest acquired	10.2
Consideration paid to non-controlling interest	(20.2)
Decrease in equity attributable to owners of the Parent Company	(10.0)

Further information on changes during the year in the Group's NCIs 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 Business combinations

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 the fact 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 businesses are recognised in the Consolidated balance sheet, and the revenues and profit or loss of the acquired businesses are recognised in the Consolidated income statement. Acquisition-related costs are recognised as an expense in the Consolidated income statement in the period that they are incurred.

Goodwill is measured as the excess of the:

- consideration transferred; less
- 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 business that are voluntarily replaced are recognised as post-acquisition remuneration. Share-based payment awards held by employees of the acquired business that are obliged to be replaced are allocated between post-acquisition remuneration, which is treated as an expense, and pre-acquisition remuneration, which is treated as part of the overall consideration.

Acquisition of Pinnacle

In the prior year the Group completed the acquisition of Pinnacle. The primary reason for the acquisition was to advance the Group's biomass strategy by more than doubling its production capacity, significantly reducing its cost of biomass production and adding a major biomass supply business underpinned by long-term sales contracts with high-quality Asian and European counterparties. The Group completed the acquisition on 13 April 2021. The purchase consideration was valued on a fully diluted equity basis at £222 million (C\$385 million), 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.

The purchase consideration consisted of the following:

	As at 13 April 2021 £m
Cash paid to ordinary shareholders	218.1
Cash paid to settle existing share-based payment awards	4.2
Total purchase consideration	222.3

There was no contingent consideration in relation to the acquisition.

Acquisition date fair values

The Group's one year measurement period from the acquisition date, to finalise the acquisition accounting, ended in the current reporting period. There were no changes to the provisional fair values of the identifiable assets acquired, liabilities assumed and NCI as at 13 April 2021 that were recognised in the 2021 Consolidated financial statements. Detailed below are the relevant acquisition values and the methods used to estimate them, as presented in the prior year.

	As at 13 April 2021 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)
Net identifiable assets acquired	96.0
NCI	(39.6)
Goodwill	165.9
Net assets acquired	222.3

Section 5: Other assets and liabilities continued

5.1 Business combinations continued

As part of the accounting for the Pinnacle acquisition, the assets and liabilities acquired were measured at fair value on the acquisition date. The valuation was performed by an independent valuation specialist. A fair value uplift of £23.6 million (C\$40.8 million) was 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 were 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 could significantly impact the fair value calculated for these customer contracts. A customer-related intangible asset with a fair value of £35.9 million (C\$62.1 million) was recognised in relation to customer contracts at acquisition and is being amortised over its remaining UEL. See note 5.2 for further details of the valuation approach, the key valuation inputs, the carrying value and remaining amortisation period.

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. 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 was attributed to the settlement of the pre-existing relationship and therefore no gain or loss relating to the pre-existing relationship was recognised in the prior year.

The fair values of the acquired property, plant and equipment, customer-related intangible 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 were performed by specialists, using appropriate methodologies and information.

Goodwill on acquisition predominantly related to the value of uncontracted revenues and synergies expected to be realised by combining Pinnacle with the Group's existing Pellet Production business. The increased size of the Group's Pellet Production business has enabled greater flexibility, opportunities to optimise the Group's operations and logistics across the enlarged portfolio and has increased knowledge. The goodwill is not deductible for tax purposes. 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 rates prevailing at each reporting date into the Group's presentational currency of GBP (see note 5.2 for further details).

The NCI was measured at the proportionate share of the identifiable net assets of the acquiree at the acquisition date (see note 4.5 for further details on NCI).

5.1 Business combinations continued

Acquired receivables

The Group acquired receivables with a fair value and 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, as well as the wider Pellet Production business, being considered to be remote, as explained further in note 3.5.

Contingent liabilities

No contingent liabilities or indemnification assets were recognised on acquisition of Pinnacle.

Reconciliation of net cash outflow from investing activities

	Year ended 31 December 2021
	Cash outflow/ (inflow) £m
Cash paid to acquire Pinnacle	222.3
Less balances acquired:	
Cash	(18.8)
Net cash outflow	203.5

Acquisition of Princeton pellet plant

On 3 August 2022, the Group announced that it had signed an agreement with Princeton Standard Pellet Corporation (PSPC) to acquire its pellet plant in Princeton, British Columbia, Canada for consideration of £7.6 million (C\$11.5 million), subject to customary working capital adjustments. The sale subsequently completed on 1 September 2022. The plant has nameplate capacity to produce 90kt of biomass pellets a year from sawmill residuals and will contribute to the Group's strategy to increase pellet production capacity.

In addition to the pellet plant itself, the Group also acquired certain other assets from PSPC including inventories and other working capital balances. As part of the transaction, the employees of PSPC joined the Group. Although the legal structure of the transaction was that of an asset purchase agreement, it was concluded that the substance of the transaction met the criteria of a business combination as defined by IFRS 3 and therefore the Group accounted for the transaction under the acquisition method.

The fair value of the assets and liabilities acquired were as follows:

	As at 1 September 2022 Fair values £m
Property, plant and equipment	7.9
Inventories	1.0
Trade and other receivables	0.8
Trade and other payables	(1.2)
Deferred tax liabilities	(0.9)
Net identifiable assets acquired	7.6

No goodwill arose from this transaction and no contingent liabilities or indemnification assets have been recognised.

The Group acquired receivables with a fair value and gross contracted value of £0.8 million.

No provision was recognised due to the risk of default within the Princeton business, as well as the wider Pellet Production business, being considered to be remote.

As the transaction is immaterial in its entirety, the full IFRS 3 disclosures are not presented in these Consolidated financial statements.

Section 5: Other assets and liabilities continued

5.2 Goodwill and intangible assets

Goodwill arises on the acquisition of a business when the consideration paid exceeds the fair value of the net assets acquired. Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets other than goodwill can be acquired in business combinations, purchased separately or internally developed.

Accounting policy

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 rate prevailing at each reporting date. Exchange differences arising on retranslation are recognised in the Consolidated statement of comprehensive income.

Goodwill is considered to have an indefinite useful life, is not depreciated, and is assessed annually for impairment (see note 2.4).

Intangible assets acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured initially 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 UELs, which are reviewed at each reporting date. No changes to UELs were made during the period. Amortisation calculations are specific to each category of assets and are explained in further detail below.

	Method of amortisation	Average UEL remaining 2022 (years)
Brand	Straight line	4
Customer-related assets:		
Opus Energy	Reducing balance	5
Pinnacle	Straight line	8
Other	Straight line	11
Computer software and licences	Straight line	3
Other intangibles	Straight line	5

Carrying amounts are assessed for indicators of impairment at each reporting date. The customer-related assets are attributable to the Opus Energy CGU and the Pinnacle CGU. The brand is attributable to the Opus Energy CGU. Details of the impairment tests relating to these CGUs are included in note 2.4.

5.2 Goodwill and intangible assets continued

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Other intangibles £m	Goodwill £m	Total £m
Cost and carrying amount:							
At 1 January 2021	211.0	11.3	131.5	21.0	–	248.2	623.0
Additions at cost (acquired separately)	8.2	–	–	–	–	–	8.2
Additions at cost (internally generated)	–	–	14.1	–	–	–	14.1
Transfers from/(to) tangible fixed assets	–	–	1.2	(19.3)	–	–	(18.1)
Acquired in business combinations	35.9	–	0.4	–	0.2	165.9	202.4
Effect of changes in foreign exchange rates	0.4	–	–	–	0.1	2.2	2.7
At 1 January 2022	255.5	11.3	147.2	1.7	0.3	416.3	832.3
Additions at cost (internally generated)	–	–	9.4	–	–	–	9.4
Disposals	–	–	(8.2)	–	–	–	(8.2)
Impairment	–	–	(19.2)	(1.7)	–	–	(20.9)
Transfers between categories	–	–	(0.5)	0.5	–	–	–
Transfers to property, plant and equipment	–	–	0.5	(0.5)	–	–	–
Effect of changes in foreign exchange rates	2.1	–	0.3	–	–	7.9	10.3
At 31 December 2022	257.6	11.3	129.5	–	0.3	424.2	822.9
Accumulated amortisation:							
At 1 January 2021	126.6	4.5	61.9	–	–	–	193.0
Charge for the year	22.8	1.1	10.5	–	–	–	34.4
Acquired in business combinations	0.1	–	–	–	0.1	–	0.2
Effect of changes in foreign exchange rates	(0.1)	–	–	–	(0.1)	–	(0.2)
At 1 January 2022	149.4	5.6	72.4	–	–	–	227.4
Charge for the year	21.2	1.2	9.0	–	–	–	31.4
Disposals	–	–	(8.2)	–	–	–	(8.2)
Impairment	–	–	5.7	–	–	–	5.7
Effect of changes in foreign exchange rates	–	–	0.1	–	–	–	0.1
At 31 December 2022	170.6	6.8	79.0	–	–	–	256.4
Net book value:							
At 31 December 2021	106.1	5.7	74.8	1.7	0.3	416.3	604.9
At 31 December 2022	87.0	4.5	50.5	–	0.3	424.2	566.5

The Group has incurred research and development expenditure of £12.5 million (2021: £11.4 million), which is included within Operating and administrative expenses in the Consolidated income statement.

Customer-related assets

Customer-related assets primarily reflects 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 acquisition date fair value 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 UEL from acquisition of 11 years, calculated based on customer churn-rate analysis which 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. At 31 December 2022, the Opus Energy asset had a carrying value of £47.8 million (2021: £64.2 million) and a remaining UEL of approximately five years (2021: six years).

The Pinnacle asset acquisition date fair value of £35.9 million (C\$62.1 million) was estimated based on a multi-period excess earnings method. This was 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 represented the required return for fixed assets, net working capital and the assembled workforce that are required to generate the cash flows. The valuation estimates an appropriate margin to apply to the contracts.

Section 5: Other assets and liabilities continued

5.2 Goodwill and intangible assets continued

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
Asset specific discount rate	10.0%
Weighted average tax rate	25.2%
Return on net working capital	1.5%
Return on fixed assets	7.0%
Return on the assembled workforce	8.5%
Useful economic life	10 years

The Pinnacle customer-related asset is being amortised on a straight-line basis to reflect the even spread of contract maturities over the UEL. At 31 December 2022, the Pinnacle asset had a carrying value of £31.5 million (2021: £33.8 million) and a remaining UEL of approximately eight years (2021: approximately nine years).

The Other customer-related assets primarily relate to pellet sales contracts acquired from Pacific BioEnergy on 31 December 2021.

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 UEL from acquisition.

Computer software and licences

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 their estimated UEL ranging from three to 10 years.

In March 2021 The IFRIC finalised its agenda decision regarding how to account for cost of configuring or customising a supplier's application software in a 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. The Group has subsequently applied a new accounting policy for SaaS costs, consistent with the agenda decision, from 1 January 2022.

SaaS costs capitalised by the Group at 1 January 2022, and impacted by this change in accounting policy, had a net book value of £5.7 million. These assets have been impaired during the year, with the charge being recognised against accumulated amortisation in the table above, and recorded as an exceptional cost (see note 2.7). SaaS costs incurred from 1 January 2022 have been recognised in Operating and administrative expenses. See the Change in accounting policy section in the Basis of preparation for further details.

As at 31 December 2022, computer software assets under the course of construction amounted to £18.3 million (2021: £39.3 million). The comparative amount included £19.2 million for a billing system where the Group has stopped development and is engaged in active discussion with the supplier following the supplier's failure to perform under the contract. Proceedings have been issued against the supplier to recover damages for misrepresentation and breach of contract. The Group no longer expects that future economic benefits will be recovered as an ongoing intangible asset and as a result, the asset has been impaired in the current financial period. The impairment charge has been recognised against the cost the asset in the table above, and recorded as an exceptional cost. See notes 2.7 and 7.6 for further information.

See note 2.4 for a summary of impairment charges recognised on fixed assets during the year.

Goodwill

The table below shows the carrying amount of goodwill by CGU:

	As at 31 December	
	2022 £m	2021 £m
CGU allocation:		
Drax Energy Solutions 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	176.0	168.1
Total goodwill	424.2	416.3

A full impairment assessment of CGUs with goodwill allocated to them has been performed as detailed in note 2.4.

5.3 Provisions

The Group makes provisions for reinstatement to cover the estimated costs of decommissioning and demolishing or remediating the sites of its generation assets at the end of their useful economic lives (UELs). The Group has recognised a restructuring provision in respect of coal closure. Other provisions primarily relate to dilapidation provisions for leased assets.

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 required to settle the obligation.

Specifically, a provision is made for the estimated decommissioning costs at the end of the UEL of the Group's generating 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 future costs. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the UELs of the related assets. The unwinding of the discount is included in interest payable and similar charges.

The Group recognises a restructuring provision when it has developed a detailed formal plan for the restructuring and has raised a valid expectation 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.

	Decommissioning provision £m	Restructuring provision £m	Other provisions £m	Total £m
Carrying amount:				
At 1 January 2022	69.5	16.7	0.2	86.4
Additions	–	0.4	0.1	0.5
Utilised	(2.7)	(4.4)	–	(7.1)
Reclass between provision categories	(1.5)	–	1.5	–
Unwinding of discount and changes in the discount rate ⁽¹⁾	(21.3)	–	–	(21.3)
Effect of changes in foreign exchange rates	–	–	0.1	0.1
At 31 December 2022	44.0	12.7	1.9	58.6

(1) The unwinding of discount and changes in the discount rate is comprised of a £1.1m increase to the provision relating to unwinding of the discount (see note 2.5) and a £22.4m decrease in the provision relating to changes in the discount rate (see note 3.1).

Decommissioning provisions are made in respect of Drax Power Station. The decommissioning provision is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected UEL of Drax Power Station, currently estimated to be 2039. This has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis as a minimum, but more regularly where deemed appropriate due to changes in plans for decommissioning the site that would impact the expected costs. The most recent update took place in December 2020.

This cost of decommissioning was estimated to be £56.0 million. An inflation curve was then applied to estimate the decommissioning costs in 2039. This value was then discounted to calculate the present value of the provision to be recognised.

The discount rate used is a nominal risk-free rate that reflects the duration of the liability. The discount rate is estimated using forward UK Gilt curves as a proxy for risk-free rates. The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. The discount rate used for the Group's decommissioning provision is 4.05% (2021: 1.16%).

The decommissioning provision is 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 that would result in a material adjustment. The cost of decommissioning a site the size of Drax Power Station will be impacted by things such as the exact composition and volumes of materials used in the structures to be decommissioned, and the presence of contaminants. Full site surveys and investigations will need to be performed once the site ceases operation to ascertain further information necessary to decommission the site which could impact the potential costs. Notwithstanding this, due to the high degree of estimation and uncertainty regarding the potential costs and timing of decommissioning Drax Power Station, there remains a risk of a material adjustment to the carrying amount in the longer-term.

Section 5: Other assets and liabilities continued

5.3 Provisions continued

The present value recognised for the decommissioning provision is dependent on the inflation rate and discount rate used. Inflation rates are estimated using forward inflation curves. An increase of 10% to the cost estimates would increase the decommissioning provision by £4.7 million (2021: £6.8 million). An increase of 100 basis points in the inflation and discount rates used would result in a £9.5 million (2021: £13.8 million) increase and a £7.0 million (2021: £11.1 million) decrease respectively in the amount recognised.

The relationship between the change in basis points and change in amount recognised is relatively linear therefore the impact of similar sensitivities may be interpolated and extrapolated from these amounts.

The restructuring provision consists of redundancy costs relating to the formal closure of the coal units at Drax Power Station which was initially planned for September 2022. It also includes costs for engineering works required to make the coal units and related assets safe when they cease operating. At the request of the UK Government, the Group has entered into an agreement with National Grid to keep the two coal units available to provide a "winter contingency" service to the UK power system from October 2022 until the end of March 2023. The units will not generate commercially for the duration of the agreement and will only operate if and when instructed to do so by National Grid. This has delayed the formal closure of the coal units and has resulted in the utilisation of certain amounts of the restructuring provision also being delayed. This has not materially impacted the expected costs.

The amount of the restructuring provision utilised in the year predominantly relates to engineering and redundancy costs. Of the balance remaining at 31 December 2022, £11.6 million relates to engineering works, of which £3.2 million is expected to be utilised in 2023 with the remaining amounts expected to be utilised in the period 2024 to 2026. A further £0.6 million relates to redundancy costs, which are expected to be utilised in 2023, and the remaining £0.5 million relates to other costs, which are expected to be utilised in the period 2024 to 2026. The full provision has been presented within non-current liabilities in the Consolidated balance sheet.

5.4 Discontinued operations

A discontinued operation is a component of the Group that has been disposed of or classified as held for sale and meets one of the following criteria outlined in IFRS 5:

- 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.

Accounting policy

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 the comparative period.

Sale of CCGT portfolio

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 represented 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 was amended to £186 million in July 2021 following conclusion of the completion accounts process. The Group recognised an overall net gain on disposal of £8.5 million spread across the financial years ending 31 December 2020 and 31 December 2021.

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 Consolidated income statement is spread across 2020 and 2021, as illustrated below. No amounts have been recognised in the current financial year in relation to this disposal.

	Year ended 31 December			Total £m
	2022 £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)
Net gain/(loss) on disposal	–	15.1	(6.6)	8.5

5.4 Discontinued operations continued

Discontinued operations

The income and expenditure of the CCGT generation portfolio were classified as discontinued operations in the comparative period. There are no items of income or expenditure from discontinued operations in the current financial year.

	Year ended 31 December 2021		
	Adjusted results £m	Exceptional items and certain remeasurements £m	Total results £m
Revenue	51.8	(2.5)	49.3
Cost of sales	(31.6)	(7.2)	(38.8)
Gross profit/(loss)	20.2	(9.7)	10.5
Operating and administrative expenses	0.1	(1.9)	(1.8)
Adjusted EBITDA	20.3		
Other gains	–	17.1	17.1
Operating profit	20.3	5.5	25.8
Profit before tax on discontinued operations	20.3	5.5	25.8
Total tax (charge)/credit	(3.6)	1.9	(1.7)
Profit after tax from discontinued operations and total profit from discontinued operations	16.7	7.4	24.1
Earnings per share	Pence		Pence
For net profit for the period from discontinued operations attributable to owners of the Parent Company			
– Basic	4.2		6.1
– Diluted	4.1		5.8

Section 6: People costs

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 and generation sites), Customers (employees in the Group's Customers segment) and Central corporate and commercial 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 127.

Staff costs (including Executive directors)

	Year ended 31 December	
	2022 £m	2021 £m
Wages and salaries	201.8	167.9
Social security costs	21.6	20.0
Defined benefit pension service cost (note 6.3)	4.7	6.3
Defined contribution pension cost (note 6.3)	16.7	15.7
Share-based payments (note 6.2)	9.6	7.4
Termination benefits	1.4	7.3
Total staff costs	255.8	224.6
Staff costs capitalised	(6.9)	(7.5)
Staff costs included in discontinued operations	–	1.5
Staff costs included in operating and administrative expenses from continuing operations	248.9	218.6

Termination benefits of £1.4 million (2021: £7.3 million) includes a defined benefit past service credit of £nil (2021: credit of £2.6 million). See note 6.3.

Average monthly number of people employed (including Executive directors)

	Year ended 31 December	
	2022 (number)	2021 (number)
Operations (Generation)	685	754
Operations (Pellet Production)	696	520
Customers	866	964
Central corporate and commercial functions	880	884
Total average monthly number of people employed	3,127	3,122

6.2 Share-based payments

The Group operates three share option schemes for employees: the Long Term Incentive Plan (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 Consolidated income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding at the reporting date.

Accounting policy

The LTIP, PSP, DSP, One Drax Awards and SAYE share-based payment schemes are equity-settled. In accordance with IFRS 2, equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant. The corresponding expense is recognised in the Consolidated income statement on a straight-line basis over the relevant vesting period, based on an estimate of the number of shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each reporting date. Market based conditions are factored into the calculation of the fair value of options granted at the date of grant and are not subsequently remeasured.

6.2 Share-based payments continued

Costs recognised in the Consolidated income statement in relation to share-based payments during the year were as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Equity-settled		
LTIP (granted from 2020)	5.6	3.6
PSP (granted from 2017 to 2019)	0.5	0.9
DSP (granted from 2017)	0.4	0.6
One Drax Awards	1.0	0.7
SAYE	2.1	1.6
Total share-based payment expense included within staff costs (note 6.1)	9.6	7.4

Movements in the number of share options outstanding at the reporting date for each scheme is shown below. Only the SAYE options have exercise prices listed as all other schemes have no exercise price.

	LTIP (number)	PSP (number)	DSP (number)	One Drax Awards (number)	SAYE			
					Three-year weighted average exercise price (pence)	SAYE three-year (number)	Five-year weighted average exercise price (pence)	SAYE five-year (number)
At 1 January 2021	3,055,168	1,807,607	690,438	–	137	9,523,816	139	3,649,625
Granted	1,990,385	–	99,367	226,852	331	790,701	331	109,566
Forfeited	(445,760)	(325,362)	(40,568)	(10,083)	141	(813,391)	132	(607,663)
Exercised	–	(627,101)	(135,972)	–	174	(828,697)	180	(516,317)
Expired	(29,565)	(138,722)	(45,839)	(703)	170	(295,606)	164	(95,501)
At 1 January 2022	4,570,228	716,422	567,426	216,066	149	8,376,823	140	2,539,710
Granted	1,399,952	–	71,399	143,439	563	700,799	563	107,122
Forfeited	(238,121)	(46,716)	(5,598)	(11,235)	176	(222,311)	154	(80,928)
Exercised	–	(622,989)	(265,482)	(211,265)	206	(545,220)	188	(72,097)
Expired	(32,688)	(46,717)	–	(258)	304	(146,423)	254	(28,945)
At 31 December 2022	5,699,371	–	367,745	136,747	178	8,163,668	155	2,464,862

The fair value of share options is calculated using either a Monte-Carlo model or a Black-Scholes model, depending on which model is deemed most appropriate for the nature of the share options. The Black-Scholes model compares exercise price to share price at the date of grant. The Monte-Carlo model takes into account the estimated probability of different levels of vesting for share options with market based conditions. The key inputs to the valuation models for the options are the share price at the date of grant, expected volatility and risk-free interest rate. Expected volatility was determined by calculating the historical volatility of the Group's share price. 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.

Section 6: People costs continued

6.2 Share-based payments continued

Information about the valuation models used and relevant inputs to the models is set out in the table below, along with key information about each scheme for options granted and exercised in the current and prior year:

Scheme	Year ended 31 December 2022					
	LTIP	PSP	DSP	One Drax Awards	SAYE three-year	SAYE five-year
Valuation model used	Monte-Carlo		Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Dividend yield for Black-Scholes model	N/A		N/A	N/A	2.85%	3.15%
Annual risk-free interest rate	1.20%		1.20%	1.20%	2.46%	2.38%
Expected volatility	40%		40%	40%	41%	38%
Grant date	18 March 2022		18 March 2022	18 March 2022	12 April 2022	12 April 2022
Share price at grant date (pence)	726		726	726	783	783
Weighted average fair value of options granted at measurement date (pence)	697		726	726	293	291
Fair value of options granted (£m)	9.8		0.5	1.0	2.1	0.3
Vesting period of options granted	3 years		3 years	1 year	3 years	5 years
Weighted average share price of options exercised during the period at the date of exercise (pence)	-	711	729	729	729	722
Number of options exercisable at year end	-	-	17,058	-	605	-
Range of exercise price of options outstanding at year end (pence)					Between 127 and 563	Between 127 and 563
Weighted average remaining contractual life (months)	13	-	11	3	8	30

Scheme	Year ended 31 December 2021					
	LTIP	PSP	DSP	One Drax Awards	SAYE three-year	SAYE five-year
Valuation model used	Monte-Carlo		Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Dividend yield for Black-Scholes model	N/A		N/A	N/A	4.3%	4.7%
Annual risk-free interest rate	0.12%		0.12%	0.12%	0.43%	0.68%
Expected volatility	40%		40%	40%	38%	36%
Grant date	1 April 2021		1 April 2021	1 April 2021	13 April 2021	13 April 2021
Share price at grant date (pence)	418		418	418	413	413
Weighted average fair value of options granted at measurement date (pence)	388		418	418	111	105
Fair value of options granted (£m)	7.7		0.4	0.9	0.9	0.1
Vesting period of options granted	3 years		3 years	1 year	3 years	5 years
Weighted average share price of options exercised during the period at the date of exercise (pence)	-	380	380	-	449	420
Number of options exercisable at year end	-	-	-	-	8,551	-
Range of exercise price of options outstanding at year end (pence)					Between 127 and 331	Between 127 and 331
Weighted average remaining contractual life (months)	21	4	11	3	18	41

6.2 Share-based payments continued

LTIP

The LTIP was introduced in 2020 for Executive directors and senior employees. This replaced the PSP, 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 (defined to be derived from Adjusted results) over three years.

Shares are forfeited due to employees 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 any other reason not exercising their options in the exercise period after they vest. Under IFRS 2 such options still attract a charge.

PSP

The PSP was introduced for Executive directors and senior employees to replace the Bonus Matching Plan 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 TSR matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) was conditional upon performance against the Group Scorecard (see page 147).

DSP

The Group operates the DSP, under which Executive directors receive 40% (2021: 40%) of their annual bonus in shares. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions.

One Drax Awards

One Drax Awards are granted under the rules of the LTIP to certain employees below senior management and vest after one year subject to continuous employment. The number of shares awarded to the employee is equivalent to 10% of their base salary based on the Group's share price as at the grant date.

SAYE

In April 2022, participation in the SAYE plan was offered again to all UK qualifying employees. Options were granted for employees to acquire shares at a discount of 20% to the prevailing market price at the grant date, determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on pages 138 and 139.

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 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	Canada

Trustee governance (defined benefit pension schemes)

The UK defined benefit schemes are administered by a 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 benefit schemes.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The Consolidated income statement charge for the defined contribution scheme represents the total contributions to be paid by the Group in respect of the current period.

Section 6: People costs continued

6.3 Retirement benefit obligations continued

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 Consolidated balance sheet with a charge or credit to the Consolidated 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 Consolidated income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense or credit is recognised in interest payable and similar charges or interest receivable.

Significant estimation uncertainty

Measurement of the defined benefit pension 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 schemes 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 2022 have been prepared in accordance with independent actuarial advice received and are consistent with those applied in the prior period.

Defined contribution schemes

The Group operates five defined contribution schemes for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Total included in staff costs (note 6.1)	16.7	15.7

As at 31 December 2022, contributions of £1.5 million (2021: £1.1 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 in respect of the current reporting period once these contributions have been paid.

Defined benefit schemes

Any pension surplus and obligation are shown gross on the Consolidated balance sheet as there is no legal right of offset between the two defined benefit pension schemes. The net pension surplus for the two defined benefit pension schemes is as follows:

	As at 31 December	
	2022 £m	2021 £m
DPG section of the ESPS (DPG ESPS)	32.4	44.0
Drax 2019 Scheme	6.1	4.9
Total net surplus recognised in the Consolidated balance sheet	38.5	48.9

The DPG ESPS and the Drax 2019 Scheme are collectively referred to as "the Schemes" below. At 31 December 2022, application of the accounting assumptions used in relation to the Schemes, which are described in further detail below, continued to result in a net position of surplus assets over liabilities.

Both of the Schemes 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 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. Employed 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 member's annual pension at retirement.

The Drax 2019 Scheme was set up following a transaction on 31 December 2018, when the Group acquired assets from Scottish Power Limited. Under the terms of the sale and purchase agreement, employees with defined benefit pension rights who moved to the Group as part of the transaction were able to build up a future defined benefit pension and were also able to transfer their defined benefits they had already built up to the Group. The scheme was set up to facilitate this from 1 January 2020. From this date, 96 members joined the Drax 2019 scheme and continued to build up a future defined benefit pension. Of these, 81 members agreed to transfer their past service benefits into the 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.

6.3 Retirement benefit obligations continued

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 Schemes by investing in assets that perform in line with the liabilities to protect against interest rates being lower or inflation being higher than expected, for example.

The Schemes expose the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	<p>The Schemes' liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this creates a deficit. The DPG ESPS 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 Drax 2019 Scheme's long-term investment strategy and strategic asset allocation is 70% in gilts and cash to support liability hedging and equity derivative overlay strategies, 15% allocated to synthetic credit and 15% to credit opportunities. The scheme has moved towards a fully hedged position but continues to maintain return-generating assets such as equity options and credit strategies.</p>
Discount rate risk	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.
Longevity risk	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 Schemes.
Inflation risk	The majority of the Schemes' obligations to pay benefits are linked to inflation and, as such, higher inflation leads 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 (2021: around 85%).
Credit risk	Around 85% of the Schemes' overall funded liabilities are currently hedged against interest rates and inflation using liability-driven investments. The Schemes hedge interest rate risks on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the discount rate and so there is a degree of 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.

During the year, particularly around September and October 2022, there was significant yield volatility. However, with the exception of one week over which hedge ratios reduced for the DPG ESPS, the Schemes were able to maintain their target hedge levels throughout this period.

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 regulation) and other demographic risks (such as making a higher proportion of members with dependents 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 Drax 2019 Scheme as at 31 March 2021. The actuarial review at 31 December 2022 is based on the same membership and other data as these funding valuations. The Schemes' Boards accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the Schemes' costs.

The results of the latest funding valuations have been adjusted to 31 December 2022, 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 Schemes' liabilities, a weighted average is shown.

	As at 31 December	
	2022 % p.a.	2021 % p.a.
Discount rate	4.8	1.9
Inflation (RPI)	3.0	3.0
Rate of increase in pensions in payment and deferred pensions	2.8	2.9
Rate of increase in pensionable salaries	3.6	3.6

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Whilst actual inflation has been high over 2022, long-term expectations as at 31 December 2022 are in line with long-term expectations as at 31 December 2021. The defined benefit obligation for the Schemes allows for expected benefit increases that will be awarded in 2023, based on known 2022 indices.

Mortality assumptions are based on recent actual mortality experience of the Schemes' members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2022 will live, on average, for a further 26 years if they are male (2021: 26 years) and for a further 28 years if they are female (2021: 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 (2021: 27 and 29 years respectively).

The weighted average duration of the DPG ESPS at 31 December 2022 based on the IAS 19 position was 18 years (2021: 20 years). The weighted average duration of the Drax 2019 Scheme at 31 December 2022 based on the IAS 19 position was 21 years (2021: 24 years).

The DPG ESPS defined benefit obligation includes benefits for current employees of the Group (45%), former employees of the Group who are yet to retire (5%) and retired pensioners (50%). The Drax 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 Consolidated 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	
	2022 £m	2021 £m
Fair value of plan assets	219.6	369.8
Defined benefit obligation	(181.1)	(320.9)
Net surplus recognised in the Consolidated balance sheet	38.5	48.9

The total charges and credits recognised in the Consolidated income statement, within other operating and administrative expenses and interest receivable, are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Included in staff costs (note 6.1):		
Current service cost	4.7	6.3
Past service credit	–	(2.6)
Included in interest receivable (note 2.5):		
Interest income on net defined benefit surplus	(1.0)	(0.3)
Total amount recognised in the Consolidated income statement	3.7	3.4

On 31 January 2021, the Group completed the sale of its CCGT generation portfolio to VPI Generation Limited. The past service credit in 2021 relates to this sale, which led to 42 members, of a pre-transaction total of 96, ceasing to accrue benefits in the Drax 2019 Scheme and becoming deferred members.

The past service credit calculation was performed by a qualified independent actuary using the same assumptions as those applied to the rest of the Schemes. The past service credit represents the difference between the liability relating to the standard Drax 2019 Scheme benefits as an active member as per the reserve in the calculation of the Group's IAS 19 position at that time, and the corresponding liability in respect of the equivalent benefits as deferred members (including allowance for two members who were offered enhanced past service benefits).

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation of the Schemes are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Defined benefit obligation at 1 January	320.9	378.1
Current service cost	4.7	6.3
Past service credit	–	(2.6)
Interest cost	5.7	5.3
Actuarial gains	(123.6)	(15.4)
Benefits paid	(26.6)	(50.8)
Defined benefit obligation at 31 December	181.1	320.9

The actuarial gains of £123.6 million (2021: £15.4 million) reflect gains of £133.3 million (2021: £10.3 million) arising from changes in financial assumptions, losses arising from scheme experience of £9.9 million (2021: gains of £4.3 million) and gains of £0.2 million (2021: £0.8 million) arising from changes in demographic assumptions.

The gains due to changes in financial assumptions principally reflect the decrease in the present value of the Schemes' liabilities arising as a result of the movement in discount rate assumption to 4.8% p.a. (2021: 1.9% p.a.) following an increase in corporate bond yields, coupled with a slight decrease in overall long-term inflationary assumptions reflecting market pricing.

Changes in the fair value of plan assets are as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Fair value of plan assets at 1 January	369.8	386.3
Interest on plan assets	6.7	5.7
Remeasurement (losses)/gains on fair value of plan assets	(148.0)	15.3
Employer contributions	17.7	13.3
Benefits paid	(26.6)	(50.8)
Fair value of plan assets at 31 December	219.6	369.8

Employer contributions included payments totalling £7.6 million (2021: £7.2 million) to reduce the actuarial deficit in the DPG ESPS. There were contributions of £3.2 million outstanding at the end of the year (2021: £1.0 million).

The actual return on plan assets in the period was a £141.3 million loss (2021: £21.0 million gain).

Section 6: People costs continued

6.3 Retirement benefit obligations continued

Remeasurement losses on the defined benefit pension scheme of £24.4 million (2021: gains of £30.7 million) were recognised in the Consolidated statement of comprehensive income. These are made up as follows:

	Year ended 31 December	
	2022 £m	2021 £m
Actuarial gains on defined benefit obligation	123.6	15.4
Remeasurement (losses)/gains on fair value of plan assets	(148.0)	15.3
Total remeasurement (losses)/gains recognised in other comprehensive income	(24.4)	30.7

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2022 £m	2021 £m
Gilts	117.2	150.0
Equities ⁽¹⁾	6.5	26.5
Fixed interest bonds ⁽²⁾	4.8	30.3
Property	28.6	32.1
Investment funds	4.3	25.0
Cash and other assets ⁽³⁾	58.2	105.9
Fair value of total plan assets	219.6	369.8

(1) At 31 December 2022 DPG ESPS'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 Drax 2019 Scheme's long-term investment strategy and strategic asset allocation is 70% in gilts and cash to support liability hedging and equity derivative overlay strategies, 15% allocated to synthetic credit and 15% to credit opportunities.

(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds.

(3) Other assets include £29.9 million (2021: £27.1 million) of investments in direct lending, a type of private equity vehicle which is not quoted in an active market.

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 valuation of the pension liabilities has been disclosed as a key source of estimation uncertainty due to the assumptions used in the valuation. 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 Schemes' surpluses. The following table provides an indication of the sensitivity of the net pension surplus at 31 December 2022 to changes in these assumptions, considering the impact on the defined benefit obligation only. If a combination of the below reasonably possible changes to key assumptions were used in the valuation of the pension liabilities, this could result in a material change to the amount recognised.

As at 31 December			Increase/(decrease) in net surplus	
			2022 £m	2021 £m
Discount rate	– Increase	0.25%	8.0	17.3
	– Decrease	0.25%	(8.5)	(19.5)
Inflation rate ⁽¹⁾	– Increase	0.25%	(7.0)	(15.1)
	– Decrease	0.25%	6.6	13.8
Life expectancy	– Increase	1 year	(6.2)	(13.2)
	– Decrease	1 year	6.4	12.7

(1) The sensitivity of the Schemes' liabilities to salary and pension increases is closely correlated with inflation, therefore separate sensitivities have not been performed on salary and pension increases and the inflationary sensitivity incorporates these.

6.3 Retirement benefit obligations continued

The Group is exposed to investment and other risks. However, this risk is mitigated by the Schemes being around 85% hedged against movements in government bonds and inflation of appropriate duration. 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.

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 with reference to 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 £12.8 million to the Schemes during the 12 months ending 31 December 2023.

The latest actuarial valuation of the Drax 2019 Scheme which was carried out as at 31 March 2020 resulted in a funding surplus of £1.3 million and so no deficit recovery plan was required. The last actuarial valuation of the DPG ESPS was carried out 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 ESPS over the period to 31 December 2025 to eliminate the self-sufficiency deficit. At this point, the DPG 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 satisfied that the additional contributions are manageable within the Group's business plan.

The Trust Deeds of the DPG ESPS and the Drax 2019 Scheme provide the sponsors of the 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 ESPS. Based on these rights, any net surplus in the plan is recognised in full in the Consolidated balance sheet.

Post balance sheet event

On 31 January 2023 the DPG ESPS's assets and liabilities were transferred to the Drax 2019 Scheme, and it is expected that the DPG ESPS will be wound-up in due course. The Drax 2019 Scheme will continue to provide the same level of pension benefits to current and former employees as they were previously entitled to, with the combination allowing the resulting scheme to operate in a more efficient and focused manner, with a reduced administrative burden and associated cost.

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 holds a variety of derivative and non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

Accounting classifications and fair values

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 table below shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy as defined by IFRS 13. 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, are approximate to their fair values. 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 are measured at amortised cost.

As at 31 December 2022 £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
Financial assets measured at fair value										
Commodity contracts	549.9	84.2	–	–	–	634.1	–	634.1	–	634.1
Financial contracts	–	232.8	–	–	–	232.8	–	232.8	–	232.8
Foreign currency exchange contracts	166.5	130.6	–	–	–	297.1	–	297.1	–	297.1
Interest rate and cross- currency contracts	54.0	–	–	–	–	54.0	–	54.0	–	54.0
Contingent consideration	–	27.4	–	–	–	27.4	–	–	27.4	27.4
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	1,071.9	–	1,071.9				
Cash and cash equivalents	–	–	–	238.0	–	238.0				
Financial liabilities measured at fair value										
Commodity contracts	(804.3)	(62.5)	–	–	–	(866.8)	–	(866.8)	–	(866.8)
Financial contracts	–	(467.0)	–	–	–	(467.0)	–	(467.0)	–	(467.0)
Foreign currency exchange contracts	(0.4)	(69.0)	–	–	–	(69.4)	–	(69.4)	–	(69.4)
Interest rate and cross- currency contracts	(14.3)	–	–	–	–	(14.3)	–	(14.3)	–	(14.3)
Inflation rate contracts	(307.3)	–	–	–	–	(307.3)	–	(307.3) ⁽¹⁾	–	(307.3)
Financial liabilities not measured at fair value										
Secured bank loans	–	–	–	–	(764.0)	(764.0)	–	(759.9)	–	(759.9)
Unsecured bank loans	–	–	–	–	(44.3)	(44.3)	–	(44.3)	–	(44.3)
Secured loan notes	–	–	–	–	(632.6)	(632.6)	(593.9)	–	–	(593.9)
Lease liabilities	–	–	–	–	(153.1)	(153.1)				
Trade and other payables	–	–	–	–	(1,065.9)	(1,065.9)				

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 contain £23.8 million of derivative liabilities relating to the UK CPI inflation rate contracts.

7.1 Financial instruments and their fair values continued

As at 31 December 2021 £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
Financial assets measured at fair value										
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 ⁽¹⁾	–	1.3
Contingent consideration	–	27.7	–	–	–	27.7	–	–	27.7	27.7
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at fair value										
Trade and other receivables	–	–	–	516.8	–	516.8				
Cash and cash equivalents	–	–	–	317.4	–	317.4				
Financial liabilities measured at fair value										
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) ⁽¹⁾	–	(140.3)
Financial liabilities not measured at fair value										
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 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 contain £1.3 million of derivative assets and £11.5 million of derivative liabilities relating to the UK CPI inflation rate contracts.

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 delivery of the commodity.
- Financial contracts – 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.

Section 7: Risk management continued

7.1 Financial instruments and their fair values continued

Fair value measurement

- **Commodity contracts** – 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 reporting date.
- **Financial contracts** – The fair value of financial contracts is calculated by reference to forward market prices at the reporting date.
- **Foreign currency exchange contracts** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the reporting date.
- **Interest rate contracts** – The fair value of interest rate swaps is calculated by reference to forward market curves at the reporting date for the relevant interest index.
- **Cross-currency interest rate swap contracts** – 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 reporting 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 both the time value of money and credit risk inherent within the instrument.

Derivative financial instruments have been considered to be a key source of estimation uncertainty in 2022. The increased volatility and higher prices in markets during the year has resulted in the fair value of derivative contracts fluctuating significantly. The assessment of fair value is derived in part by reference to a market price for the instrument in question. The Group bases its assessment of market prices upon forward curves that are largely derived from readily obtainable quotations and published prices from third-party sources. However, any forward curve is based at least in part upon assumptions about future transactions and market movements. Due to the increased volatility in the valuations of derivative financial instruments, minor differences in the inputs, assumptions or methodologies used can result in appropriate, but materially different, estimates of fair values to those recognised by the Group. There may be choices to be made of which methodology or data source to use in the calculation of fair value. Assumptions may also need to be made where forward curves are not an exact match for the Group's derivative contracts (e.g. due to quoted product types, maturity dates or time periods not exactly matching the terms of the Group's derivative contracts). Where such instruments extend beyond the liquid portion of the forward curve, the level of estimation increases as the number of observable transactions decreases. Sensitivities are provided in note 7.2 for the impact of changes in inputs on the fair value.

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 2020 Infrastructure private placement 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.

The fair value of commodity contracts, financial contracts, foreign currency exchange contracts, interest rate, cross-currency contracts and inflation swaps are largely determined by comparison between forward market prices and the swap price; therefore, these contracts are categorised as Level 2.

There have been no transfers during the current or prior year between Level 1, 2 or 3 category inputs.

The Group is responsible for determining the policies and approach to valuations required for financial reporting purposes, including Level 3 fair values. Internal or external specialists are 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.

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 have been classified as Level 2.

The valuation technique used for non-listed equity investments comprises unobservable inputs and these are therefore classified as Level 3. However, given the valuation as a whole for Level 3 equity investments are immaterial, it is not deemed necessary to include all Level 3 disclosures in these Consolidated financial statements.

The consideration receivable by the Group for the sale of the CCGT generation portfolio in 2021 includes £29.0 million that is contingent on certain triggers in respect of the option to develop the Damhead Creek 2 land disposed of as part of the sale of these assets. The fair value measurement for the contingent consideration has been categorised as Level 3 based on the inputs to the valuation techniques used.

7.1 Financial instruments and their fair values continued

	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 on the economics of the development.	<p>Forecasted future Capacity Market clearing prices:</p> <p>£7.00/kW – £64.64/kW (£35.91/kW)</p> <p>(2021: £4.81/kW – £64.13/kW) (2021: (£18.70/kW))</p> <p>Estimated bid price at which Damhead Creek 2 is to be entered into the Capacity Market auction:</p> <p>£40.00/kW (2021: £20.00/kW)</p>	<p>The fair value measurement would increase/(decrease) with:</p> <ul style="list-style-type: none"> – higher/(lower) forecasted Capacity Market clearing prices causing a higher/(lower) probability of the option over the Damhead Creek 2 land being exercised. – higher/(lower) estimated bid price required for the Damhead Creek 2 development to proceed causing a higher/(lower) probability of the option over the Damhead Creek 2 land being exercised.

A reconciliation of the contingent consideration is detailed below:

	Year ended 31 December	
	2022 £m	2021 £m
Balance at 1 January	27.7	–
Contingent consideration receivable recognised on the sale of the CCGT generation portfolio	–	27.7
Net change in fair value (unrealised)	(0.3)	–
Balance at 31 December	27.4	27.7

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 before tax	
	Decrease £m	Increase £m
As at 31 December 2022		
Forecasted future Capacity Market clearing prices (25%)	(3.7)	0.7
Estimated bid price (25%)	1.0	(3.2)

	Impact on profit before tax	
	Decrease £m	Increase £m
As at 31 December 2021		
Forecasted future Capacity Market clearing prices (25%)	(2.9)	1.1
Estimated bid price (25%)	1.1	(2.2)

Accounting for derivatives

Derivatives (subject to certain exemptions described below) must be measured at fair value, which represents the difference between the price the Group has secured in the contract, and the price the Group could achieve in the market at the reporting date.

Changes in fair value are recognised either within the Consolidated 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 applies the own-use exemption which allows qualifying contracts to be excluded from fair value mark-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.

Contracts for non-financial assets which do not qualify for the own-use exemption (principally power, gas, financial oil and carbon emissions allowances) are accounted for as derivatives in accordance with IFRS 9 and are recorded in the Consolidated 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, or the hedges are ineffective. 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).

Section 7: Risk management continued

7.1 Financial instruments and their fair values continued

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 and are excluded from fair value mark-to-market accounting.

The derivative financial instruments recognised in the Consolidated balance sheet at the reporting date are:

	As at 31 December	
	2022 £m	2021 £m
Non-current derivative financial instrument assets	421.7	357.5
Current derivative financial instrument assets	796.3	888.6
Total derivative financial instrument assets	1,218.0	1,246.1
Non-current derivative financial instrument liabilities	(735.4)	(541.8)
Current derivative financial instrument liabilities	(989.4)	(962.7)
Total derivative financial instrument liabilities	(1,724.8)	(1,504.5)
Total net derivative financial instruments	(506.8)	(258.4)

The gains and losses recognised in the period relating to derivative financial instruments mandatorily measured at FVTPL are detailed below. The Group had no financial assets or financial liabilities voluntarily designated at FVTPL. 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 or losses recognised	
	2022 £m	2021 £m
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in revenue	(441.4)	(77.0)
Gains on derivative financial instruments not qualifying for hedge accounting – recognised in cost of sales	32.6	36.6
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in interest payable and similar charges	(0.4)	(0.3)
Losses on derivative financial instruments not qualifying for hedge accounting – recognised in foreign exchange gains/(losses)	(3.8)	(5.1)
Total losses on derivative financial instruments not qualifying for hedge accounting	(413.0)	(45.8)

Rebasing is explained in the glossary. 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 of the trade, 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 77) 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, biomass pellets and fibre, 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 or decreases in commodity prices. The analysis assumes all other variables were held constant.

Financial and commodity markets have become increasingly volatile in 2022, in part due to the conflict in Ukraine. This volatility has impacted economies and markets around the world, including the UK energy market, which has in part contributed to rising inflation. The geopolitical environment and concerns over the macro-economic outlook have also contributed to a weakening in sterling during 2022. See the Principal risks and uncertainties section on page 77 for further details on both the conflict in Ukraine and energy market conditions. As a result of these factors, the valuation of the Group's derivative financial instruments, in particular power, gas, foreign currency contracts, inflation and oil, were subject to significant fluctuations during 2022.

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 the hedge reserve.

	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
As at 31 December 2022				
Power	–	–	33.8	(33.8)
Carbon	2.5	(2.5)	(0.8)	0.8
Gas	0.8	(0.8)	–	–
Oil	(10.6)	10.6	–	–

	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
As at 31 December 2021				
Power	–	–	27.8	(27.8)
Carbon	–	–	(0.2)	0.2
Gas	(7.4)	7.4	–	–
Oil	(9.8)	9.8	–	–

Profit after tax is sensitive to increases or 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 or decreases in commodity price risk and the impact on the hedge reserve resulting from these movements.

Commodity risk management

The Group has a policy of securing forward power sales and purchases of fuel when it is profitable to do so and is in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years ahead. 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 biomass pellets and other fuels under either a fixed or variable priced contract 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 FVTPL.

Section 7: Risk management continued

7.2 Financial risk management continued

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. To support the Group's ambition to be carbon negative by 2030, a decision was made in January 2023 to phase out the Group's gas supply contracts in the Opus Energy part of the Group, within the Customers business.

The Group purchases carbon emissions allowances under fixed price contracts to cover the Group's purchase requirements under the UK Emissions Trading Scheme (UK ETS) in relation to the Group's carbon emissions. These are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of carbon emissions allowances. Carbon emissions allowances are also purchased as part of proxy power hedges in the same way as financial gas described above. These proxy hedges are not designated as cash flow hedges.

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 reporting date for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released to the Consolidated income statement as the related contract matures. For power sales contracts, this is at the point that 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 has occurred. No ineffectiveness was recognised in the Consolidated income statement on continuing commodity or financial hedges in the year (2021: £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.

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. All subsequent fair value movements on hedges that had been discontinued were recognised in the Consolidated income statement. 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 occurred in relation to these trades. The remaining CCGT trades matured in the first half of 2022. Prior year amounts relating to these trades are included within discontinued operations, and no further gains or losses were recognised in the current period.

The reconciliation of the reserves and time period when the hedge will affect the Consolidated income statement are disclosed in note 7.3.

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.

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 2022							
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
Commodity contracts							
Sale of power	2,135,909	218.00	(534.4)	549.9	(803.3)	(190.1)	–
Purchase of carbon emissions allowances	148,000	77.5	(4.2)	–	(1.0)	(0.8)	(1.9)

31 December 2022								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging 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
Commodity contracts								
Sale of power	534.4	(534.4)	–	Revenue	–	459.8	–	Revenue
Purchase of carbon emissions allowances	4.2	(4.2)	–	Cost of sales	–	0.1	–	Cost of sales

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
Commodity contracts							
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 (losses)/gains 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
Commodity contracts								
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

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 and Canadian subsidiaries within the Pellet Production business.

Foreign currency sensitivity

The analysis below shows the impact on profit after tax and other components of equity of reasonably possible strengthening or 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
As at 31 December 2022				
USD	41.7	(59.0)	137.1	(112.2)
EUR	12.2	(20.5)	23.6	(14.6)
CAD	24.4	(15.1)	7.8	(13.0)

	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
As at 31 December 2021				
USD	104.2	(140.8)	173.4	(141.9)
EUR	19.24	(47.7)	26.9	(1.5)
CAD	63.7	(11.3)	22.9	(24.7)

Profit after tax is sensitive to the strengthening or 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 or weakening of other currencies in relation to the impact on the hedge reserve of these movements. Prior year foreign currency sensitivities have been restated to fully reflect the impact of option contracts and relevant strike prices, which limit the impact of fluctuations in underlying exchange rates.

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 with the exception of CAD denominated debt.

7.2 Financial risk management continued

Hedge accounting

The Group designates certain foreign currency exchange contracts as hedging instruments, predominantly forwards and swaps. Foreign currency exchange contracts that are designated as hedges are transferred from equity to inventories for hedges of fuel purchases when the Group takes ownership of the fuel.

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 fixed-to-fixed cross-currency interest rate swaps to hedge the future cash flows associated with the \$500 million and €250 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has taken out a combination of fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps in order to fix the sterling cash flows payable on the €126.5 million facilities agreed as part of the 2020 Infrastructure private placement facilities (see note 4.2 for further details on borrowings).

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.

A reconciliation of reserves and the time period when the hedge 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.

A summary of 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 is recognised in foreign exchange gains/(losses) if it relates to the principal repayment, and interest payable and similar charges if the ineffectiveness relates to interest payments.

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 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 2022							
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
Foreign currency purchase contracts							
Purchases in foreign currency – USD	1,586.4	\$1.38	187.2	149.3	–	75.6	–
Purchases in foreign currency – EUR	135.0	€1.16	17.9	3.3	(0.3)	3.3	–
Purchases in foreign currency – CAD	406.1	C\$1.73	0.4	13.9	(0.1)	5.6	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	47.5	12.3	(6.2)	0.8	–
Interest and principal repayments – EUR	376.5	4.55%/ 3M SONIA + 137.2bps	(3.1)	4.2	(8.1)	(1.6)	–

31 December 2022							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains 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	Line item in the income statement/balance sheet affected by the transfer/reclassification
Foreign currency purchase contracts							
Purchases in foreign currency – USD	(187.2)	187.2	–	Cost of sales	(34.2)	–	– Inventories
Purchases in foreign currency – EUR	(17.9)	17.9	–	Cost of sales	5.9	–	– Inventories
Purchases in foreign currency – CAD	(0.4)	0.4	–	Cost of sales	9.2	–	– Inventories
Foreign currency denominated debt							
Interest and principal repayments – USD	(47.5)	47.5	–	Interest payable and similar charges	–	(9.2)	– Interest payable and similar charges
			–	Foreign exchange gains/(losses)	–	(44.7)	– Foreign exchange gains/(losses)
Interest and principal repayments – EUR	3.1	(3.1)	–	Interest payable and similar charges	–	2.6	– Interest payable and similar charges
			–	Foreign exchange gains/(losses)	–	(17.3)	– Foreign exchange gains/(losses)

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
Foreign currency purchase contracts							
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)	–
Foreign currency denominated debt							
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
Foreign currency purchase contracts								
Purchases in foreign currency – USD	(16.3)	16.3	–	Cost of sales	32.9	–	–	Inventories
Purchases in foreign currency – EUR	19.4	(19.4)	–	Cost of sales	0.3	–	–	Inventories
Purchases in foreign currency – CAD	(4.2)	4.2	–	Cost of sales	–	–	–	Inventories
Foreign currency denominated debt								
Interest and principal repayments – USD	(7.6)	7.6	–	Interest payable and similar charges	–	(6.2)	–	Interest payable and similar charges
			–	Foreign exchange gains/(losses)	–	1.7	–	Foreign exchange gains/(losses)
Interest and principal repayments – EUR	10.4	(10.4)	–	Interest payable and similar charges	–	2.6	–	Interest payable and similar charges
			–	Foreign exchange gains/(losses)	–	24.3	–	Foreign exchange gains/(losses)

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 Sterling Overnight Index Average (SONIA) floating-to-fixed interest rate swaps to fix the interest payments on the £375 million private placement issued in 2019. For the 2020 Infrastructure private placement facilities, the Group has fixed the interest rate payable on the £98 million of GBP denominated facilities through floating-to-fixed SONIA interest rate swaps. The Group had a number of GBP London Interbank Offered Rate (LIBOR)-linked derivative and non-derivative financial instruments with maturity dates beyond 31 December 2021, the date LIBOR ceased publication. As such, during the prior year the Group's IBOR programme transitioned these financial instruments away from GBP LIBOR to SONIA.

The Group has also fixed the interest rate payable on the variable rate EUR denominated 2020 Infrastructure private placement debt through Euro Interbank Offered Rate (EURIBOR) 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, and 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 2022, the Group has fixed interest rate payments in GBP on all of its debt instruments through the use of swaps, with the exception of the Group's CAD denominated debt, which is the only outstanding debt that remains variable and does not have fixed interest rate payments.

The returns generated on the Group's cash balance, or payable on amounts drawn on the RCF, are exposed to movements in short-term interest rates. The Group actively manages cash balances to protect against adverse changes in interest 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 sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the reporting 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 or decrease in interest rates. The analysis assumes all other variables are 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
As at 31 December 2022				
Variable rate debt – unhedged	(1.4)	1.4	–	–
Variable rate debt – hedged	(4.2)	4.2	–	–
Interest rate swaps	4.2	(4.2)	10.1	(10.1)
Net impact	(1.4)	1.4	10.1	(10.1)
As at 31 December 2021				
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 impact	(1.4)	1.4	14.6	(11.3)

An increase or decrease in interest rates would affect profit after tax as a result of the impact on the interest payable in the period on any variable 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 or decrease in interest rates in relation to the impact on the hedge reserve of these movements.

Certain amounts 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 in 2021, a 100 basis point increase had a larger impact on profit after tax and other components of equity, than a 100 basis points decrease. Given the increase in interest rates during the year a larger decrease in interest rates would be needed to reach the 0% floor and therefore in the sensitivities above for the current year an increase and a decrease in interest rates have a more comparable impact. The Group also has CAD denominated debt that has a variable rate based on Canadian Dollar Offered Rate (CDOR). At 31 December 2022 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.

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.

7.2 Financial risk management continued

Hedge accounting

The Group designates its floating-to-fixed SONIA interest rate swaps and the floating-to-fixed cross-currency interest rate swaps as hedging instruments against interest rate risk. The SONIA interest rate swaps are hedges of the interest payments relating to the £375 million private placement (2019) and the £98 million GBP facility part of the 2020 Infrastructure private placement. The cross-currency interest rate swaps are hedges of both interest rate risk and foreign currency risk relating to the variable rate €95 million facility part of the 2020 Infrastructure private placement. 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 SONIA linked GBP debt with a principal of £85.8 million. The synthetic floating-to-fixed GBP interest rate then swaps the variable interest rate for a fixed GBP interest rate. Details of the floating-to-fixed SONIA 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 is expensed 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.

A 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 2022

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
Interest rate							
Variable rate GBP debt	558.8	1.06%	39.9	37.5	–	31.7	–

31 December 2022

Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains 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 of 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
Interest rate				Interest payable and similar charges				Interest payable and similar charges
Variable rate GBP debt	(39.9)	39.9	–		–	(3.1)	–	

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
Interest rate							
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 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 of 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
Interest rate				Interest payable and similar charges				Interest payable and similar charges
Variable rate GBP debt	(21.0)	19.3	–		–	3.3	–	

Section 7: Risk management continued

7.2 Financial risk management continued

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 CfD income is linked to UK CPI (see note 2.2 for further information on ROC and CfD income). In addition, a proportion of the Group's fuel costs are linked to either US or Canadian CPI. The Group has UK CPI and RPI swaps to hedge certain revenues linked to inflation.

Inflation risk sensitivity

The sensitivity analysis below has been determined based on the exposure to inflation rates on inflation linked derivatives at the reporting 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 are 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
As at 31 December 2022				
UK CPI inflation swaps	–	–	(34.8)	29.2
UK RPI inflation swaps	(0.7)	1.1	(52.8)	50.9

	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
As at 31 December 2021				
UK CPI inflation swaps	–	–	(6.0)	6.0
UK RPI inflation swaps and swaptions	(38.9)	37.2	(48.5)	46.6

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 the impact on inflation linked derivatives recognised in the hedge reserve of an increase or decrease in UK inflation rates. Profit after tax is sensitive to an increase or decrease in UK inflation rates due to the impact these rate changes would have on the over-hedged portion of the inflation swaps, with this impact being recognised directly in the Consolidated income statement. Profit after tax in 2021 was sensitive to the impact on inflation linked derivatives of an increase or 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 revenue in the Consolidated income statement at the same time the revenue with inflation linked contracts impacts on the Consolidated income statement or if the hedged item is on longer expected to occur.

The main sources of ineffectiveness relating to the inflation swaps are the basis point difference between the RPI swaps and the CPI-linked revenues they are hedging, calculation differences, and the hedged item no longer being expected to occur. 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.

During the current year, as a result of a decrease in the forecast CfD generation, the Group has recycled £39.5 million of losses on hedge accounted inflation linked derivative contracts to the Consolidated income statement, due to the hedged item no longer being expected to occur. The Group has also recognised £18.5 million of ineffectiveness due to the basis difference between the RPI hedging instruments and the CPI exposure.

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 2022							
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
Inflation							
Inflation linked sales	30.3	CPI – 2.72%	(13.3)	–	(23.8)	(18.1)	14.6
contracts – CPI	440.0	RPI – 3.45%	(144.0)	–	(283.5)	(71.1)	–

31 December 2022								
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains 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
Inflation								
Inflation linked sales	13.3	(13.3)	–	Revenue	–	(2.0)	(3.5)	Revenue
contracts – CPI	125.5	(125.5)	(18.5)	Revenue	–	7.2	43.0	Revenue

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
Inflation							
Inflation linked sales	30.3	CPI – 2.72%	(15.7)	1.3	(11.5)	(10.9)	22.0
contracts – CPI	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 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
Inflation								
Inflation linked sales	15.7	(15.7)	–	Revenue	–	(2.2)	–	Revenue
contracts – CPI	21.7	(19.5)	–	Revenue	–	–	–	Revenue

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 ROC assets and other items are derecognised from the Consolidated 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 4.3.

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 payments or receipts are floating rate, the undiscounted amount is derived from interest rate curves at the reporting date.

Section 7: Risk management continued

7.2 Financial risk management continued

As at 31 December 2022						
	Within 3 months £m	3 months– 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £m
Term loans, gross value	10.5	32.4	353.3	338.5	144.9	879.6
Loan notes, gross value	–	33.3	33.3	663.6	–	730.2
Borrowings, contractual maturity	10.5	65.7	386.6	1,002.1	144.9	1,609.8
Trade and other payables	920.0	143.3	2.0	0.6	–	1,065.9
Lease liabilities	8.3	22.0	26.7	64.3	72.0	193.3
	938.8	231.0	415.3	1,067.0	216.9	2,869.0

Trade and other payables of £1,065.9 million (2021: £869.5 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

As at 31 December 2021						
	Within 3 months £m	3 months– 1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Total £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
Borrowings, contractual maturity	46.4	44.7	47.5	1,290.5	138.7	1,567.8
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
	878.8	100.5	67.0	1,337.6	218.3	2,602.2

Interest payments are calculated based on forward interest rates estimated at the reporting date using publicly available information.

The weighted average interest rate payable at the reporting date on the Group's borrowings was 4.14% (2021: 3.49%).

The following tables set out details of the expected contractual maturity of derivative financial liabilities which are marked-to-market. Where the amount payable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, foreign currency exchange rates, inflation rates or interest 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 undiscounted net cash flows expected to occur based on the current fair value have been disclosed. Financial contracts and other foreign exchange contracts (excluding forwards and swaps) 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 both the interest and principal on cross-currency interest rate swaps is expected and as such this element of the swap is presented gross.

As at 31 December 2022				
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	1,006.0	12.1	3.6	1,021.7
Financial contracts	322.8	161.7	1.0	485.5
Foreign currency exchange contracts	921.4	45.4	47.8	1,014.6
Interest rate and cross-currency contracts	8.2	0.1	0.2	8.5
Inflation contracts	67.3	83.1	203.8	354.2
	2,325.7	302.4	256.4	2,884.5

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
	2,583.0	285.9	788.1	3,657.0

7.2 Financial risk management continued

7.2.6 Credit risk

The Group's gross exposure to credit risk for financial instruments is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	As at 31 December	
	2022 £m	2021 £m
Financial assets:		
Cash and cash equivalents (note 4.1)	238.0	317.4
Trade and other receivables (note 3.5)	1,167.8	599.7
Derivative financial instruments (note 7.1)	1,218.0	1,246.1
	2,623.8	2,163.2

Trade and other receivables are stated gross of the provision for expected credit losses on trade receivables of £60.9 million (2021: £46.6 million), expected credit losses on accrued income of £7.6 million (2021: £8.6 million) and contingent consideration of £27.4 million (2021: £27.7 million). The balance excludes non-financial receivables such as prepayments.

The Group's three reportable segments (Pellet Production, Generation and Customers) are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers.

The Pellet Production segment sells biomass pellets both intra-group and to 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.

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, deeds 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 highest credit risk exposure is in the Customers segment, with a large 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 of smaller retail and commercial entities. 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.

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 and maximum investments 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 as the fair value requirements of IFRS 13 are applicable. The carrying amount of these financial assets, disclosed above, represents the Group's maximum credit risk exposure.

Section 7: Risk management continued

7.2 Financial risk management continued

Counterparty risk

As the Group relies on third-party suppliers and counterparties for the delivery of currency, biomass pellets and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. For financial instruments this risk is limited to the credit risk, as discussed above. The Group is also exposed to counterparty risk on non-financial instruments, such as the purchases of biomass and capital expenditure. 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 purchase and sale contracts for a wider variety of goods and services, for example the sale of power to a number of counterparties. The failure of one or more of these counterparties to perform under their contractual obligations may cause the Group financial distress or increase the risk profile of the Group. The Group has acceptance procedures in place to ensure the counterparties the Group contracts with are appropriate. The Group also has limits in place, and actively monitors its exposures to individual counterparties to minimise this risk.

Capital management

The Group is disciplined in its management of capital to ensure it is able to continue as a going concern; maintain a strong credit rating underpinned by robust financial metrics; invest in its core business and pay a sustainable and growing dividend whilst 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, cash and cash equivalents attributable to owners of the Parent Company and is inclusive of the impact of associated hedging instruments as disclosed in note 2.7.

See note 4.2 for details of loan covenants, and the Viability statement on page 75 for details of scenario analysis performed on covenant restrictions of the Group's financing facilities.

	As at 31 December	
	2022 £m	2021 £m
Borrowings (note 4.2)	1,440.9	1,361.0
Cash and cash equivalents (note 4.1)	(238.0)	(317.4)
Non-controlling interests share of cash and cash equivalents in non-wholly owned subsidiaries	0.7	–
Impact of hedging instruments	2.4	64.4
Net debt (note 2.7)	1,206.0	1,108.0
Total shareholders' equity attributable to the owners of the Parent Company, excluding hedge and cost of hedging reserves	1,422.7	1,384.2

In 2022, the Group has updated its definition of Net debt. The above table has been re-presented to reflect this updated definition. See the Net debt section in the Basis of preparation for further details on this change in definition.

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 and (losses) recognised in the current and prior year on hedging instruments, the amounts reclassified from equity due to the hedged item affecting the Consolidated income statement, 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	
At 1 January 2021	(3.4)	(84.8)	(13.8)	26.0	(76.0)
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	(163.3)	(1.7)	19.3	(35.2)	(180.9)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventory	–	33.2	–	–	33.2
– Reclassified to the Consolidated income statement – included in cost of sales	(17.2)	–	–	–	(17.2)
– Reclassified to the Consolidated income statement – included in revenue	6.3	–	–	(2.2)	4.1
– Reclassified to the Consolidated income statement – included in interest payable and similar charges	–	(3.6)	3.3	–	(0.3)
– Reclassified to the Consolidated 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
At 1 January 2022	(138.2)	(39.3)	4.2	(4.1)	(177.4)
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	(538.6)	249.9	39.9	(138.8)	(387.6)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventories	–	(19.1)	–	–	(19.1)
– Reclassified to the Consolidated income statement – included in cost of sales	0.1	–	–	–	0.1
– Reclassified to the Consolidated income statement – included in revenue	459.8	–	–	5.2	465.0
– Reclassified to the Consolidated income statement – included in interest payable and similar charges	–	(6.6)	(3.1)	–	(9.7)
– Reclassified to the Consolidated income statement – included in foreign exchange gains/(losses)	–	(62.0)	–	–	(62.0)
– Reclassified to Revenue as hedged item no longer expected to occur	–	–	–	39.5	39.5
Related deferred tax, net (note 2.6)	24.1	(39.2)	(9.3)	23.6	(0.8)
At 31 December 2022	(192.8)	83.7	31.7	(74.6)	(152.0)

Section 7: Risk management continued

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 2022			Total £m
	Within 1 year £m	1–2 years £m	>2 years £m	
Commodity risk	(167.4)	(22.3)	(3.1)	(192.8)
Foreign currency exchange risk	49.6	23.3	10.8	83.7
Interest rate risk	11.2	11.9	8.6	31.7
Inflation risk	(3.3)	(17.1)	(54.2)	(74.6)
	(109.9)	(4.2)	(37.9)	(152.0)

	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)

7.4 Cost of hedging reserve

The Group allocates unrealised gains and losses on the forward rate of hedge accounted 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 currency exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, for foreign currency exchange contracts to which the Group has applied hedge accounting, the Group has continued to designate the change in the spot rate as the hedged risk 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 or (losses) recognised in the year on hedging instruments and the amounts reclassified from equity due to the hedged item affecting the Consolidated income statement:

	Cost of hedging	
	2022 £m	2021 £m
At 1 January	78.5	87.2
(Losses)/gains recognised:		
– Change in fair value of hedging instrument recognised in the Consolidated statement of comprehensive income	(19.0)	17.3
Reclassified from equity as the hedged item has affected profit or loss:		
– Reclassified to cost of inventories	(28.8)	(23.7)
Related deferred tax, net (note 2.6)	9.4	(2.3)
At 31 December	40.1	78.5

The expected release profile from equity of post-tax cost of hedging gains and (losses) is as follows:

	As at 31 December 2022			Total £m
	Within 1 year £m	1–2 years £m	>2 years £m	
Foreign currency exchange risk	21.7	13.0	5.4	40.1

	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

7.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the Consolidated 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 assets 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 reporting 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 2022				As at 31 December 2021			
	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
Financial assets								
Derivative financial instruments	1,218.0	(1,278.6)	234.0	173.4	1,246.1	(1,008.3)	(183.0)	54.8
Financial liabilities								
Derivative financial instruments	(1,724.8)	1,278.6	–	(446.2)	(1,504.5)	1,008.3	10.2	(486.0)

The aforementioned collateral assets and liabilities are recorded in other receivables and other payables respectively, see note 4.3.

7.6 Contingent assets and liabilities

Contingent assets are potential future inflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any receipt is uncertain and cannot be measured reliably.

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 amounts 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 2022, the Group's contingent liability in respect of letters of credit issued amounted to £85.9 million (2021: £74.4 million), of which £46.0 million (2021: £74.4 million) was issued under the RCF.

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £202.0 million (2021: £142.1 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 figures above include amounts utilised to cover commodity trading collateral requirements of £54.5 million (2021: £42.5 million) and £165.0 million (2021: £107.1 million) respectively. See note 4.1 for details on net cash collateral the Group has paid to or received from counterparties.

Contingent liabilities

Smart meter targets

In late February 2023, the Group received notice from Ofgem that its failure to fully achieve installation targets for Smart Meter installations in the Opus Energy business during 2022 had been referred to Ofgem's Enforcement team. They will consider this matter in due course and make a decision on any future action. No amount has been provided in respect of this matter in the Consolidated financial statements, given the early stage of the process and the uncertainty in future outcome.

Contingent assets

Billing system

Drax Energy Solutions Limited has lodged a claim against a supplier for damages caused by the supplier's misrepresentation and failure to perform under a contract for delivery of a new billing system. The directors have considered the potential legal outcomes of the claim with external professional advisors and believe that a favourable outcome is probable. However, a contingent asset is disclosed rather than a receivable recognised at 31 December 2022, as receipt of the amount is dependent on the outcome of the claim and therefore it is not virtually certain to be received.

Section 7: Risk management continued

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 Consolidated balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of sustainable biomass, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2022 £m	2021 £m
Contracts placed for future capital expenditure not provided in the Consolidated financial statements – Property, plant and equipment	267.9	28.6
Contracts placed for future capital expenditure not provided in the Consolidated financial statements – Intangible assets	0.2	–
Future support and service contracts not provided in the Consolidated financial statements	60.1	51.2
Future commitments to purchase ROCs	331.9	200.5
Future commitments to purchase biomass under fixed and variable priced contracts	3,250.0	3,466.9
Future commitments to purchase fibre under fixed and variable priced contracts	242.5	356.8

Commitments for future capital expenditure of property, plant and equipment have increased predominantly due to the construction of the OCGT plants.

The contractual maturities of the future commitments to purchase biomass are as follows:

	As at 31 December	
	2022 £m	2021 £m
Within one year	829.5	828.4
Within one to five years	1,123.4	2,623.7
After five years	1,297.1	14.8
	3,250.0	3,466.9

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable biomass pellets for use in electricity generation at Drax Power Station. To the extent these contracts relate to the purchase of biomass pellets, they are not reflected elsewhere in the financial statements owing as they are not within the scope of IFRS 9, and are therefore not required to be measured at fair value. See the Critical accounting judgements section in the Basis of preparation for further details on this judgement.

Section 8: Reference information

This section details reference information relevant to the compiling of the Consolidated financial statements and provides general information about the Group (e.g. operations and registered office). This section also sets 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 2006. The Company and its subsidiaries (together, the Group) have three principal activities:

- Production and subsequent sale of biomass pellets for use in electricity production;
- Electricity generation; and
- Electricity and gas supply to business customers.

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 Adoption of new and revised accounting standards

The following amendments became effective for the first time in 2022. The Group adopted the following from 1 January 2022:

- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.
- IAS 37 (amended) – Onerous Contracts: Cost of Fulfilling a Contract – effective from 1 January 2022.
- IAS 16 (amended) – Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022.
- IFRS 3 (amended) – Reference to the Conceptual Framework – effective from 1 January 2022.

The adoption of these amendments in the current year has not had a material impact on the Consolidated financial statements.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these Consolidated financial statements, were in issue but not yet effective.

- IFRS 10 (amended) – Consolidated Financial Statements – effective date deferred indefinitely.*
- IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*
- IFRS 16 (amended) – Lease Liability in a Sale and Leaseback – effective from 1 January 2024.*
- IFRS 17 Insurance Contracts – effective from 1 January 2023.
- IAS 1 (amended) – Classification of Liabilities as Current or Non-Current – effective from 1 January 2024.*
- IAS 1 (amended) – Non-current Liabilities with Covenants – effective from 1 January 2024.*
- 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.

* Pending endorsement by the UK Endorsement Board (UKEB).

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the Consolidated 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.

Section 8: Reference information continued

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 Group and 70% by non-related third parties. The Group purchases biomass pellets from HPLP. The Group manages and administers the business affairs of HPLP and charges a management fee. These transactions are at negotiated amounts between the Group and the non-related third parties.

The transactions in the period and the balances at the reporting date with the related party are summarised below:

		Transactions in the period to 31 December 2022			Balances as at 31 December 2022 ⁽¹⁾	
		Drax Ownership	Management fee income £m	Purchases £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.1	18.2	1.7	0.4

		Transactions in the period to 31 December 2021 ⁽²⁾			Balances as at 31 December 2021 ⁽¹⁾	
		Drax Ownership	Management fee income £m	Purchases £m	Payable £m	Receivable £m
Houston Pellet Limited Partnership	HPLP	30%	0.2	10.3	1.4	0.6

(1) The amounts payable to and receivable from HPLP are unsecured and non-interest bearing.

(2) The transactions in the period to 31 December 2021 represent the transactions from the acquisition date of 13 April 2021 to the reporting date.

Remuneration of key management personnel

The remuneration of the Directors and Executive management, 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. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of the Company, is provided in the audited part of the Remuneration Committee report.

	Year ended 31 December	
	2022 £000	2021 £000
Short-term employee benefits	7,531	6,755
Share-based payments	3,964	2,826
Post-employment benefits	489	635
Total remuneration	11,984	10,216

Compensation of the Group's key management personnel includes short-term employee benefits, which includes salaries, other short-term benefits, and contributions to post-employment money purchase pension schemes.

Share-based payments compensation represents the amounts receivable under share-based incentive schemes as disclosed in note 6.2.

Amounts included in the table above reflect the remuneration of the 17 (2021: 17) members of the Board and Executive management. 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	
		2022 £000	2021 £000
Non-current assets			
Investment in subsidiaries	5	742,016	732,400
Deferred tax assets		–	1
		742,016	732,401
Current assets			
Other receivables		100	114
Amounts due from other Group companies		110,801	3,638
Cash and cash equivalents		2,056	3,939
		112,957	7,691
Current liabilities			
Amounts due to other Group companies		(719)	(4,248)
Net current assets		112,238	3,443
Net assets		854,254	735,844
Shareholders' equity			
Issued equity	6	47,925	47,716
Share premium		433,281	432,191
Treasury shares		(50,440)	(50,440)
Capital redemption reserve		1,502	1,502
Retained profits		421,986	304,875
Total shareholders' equity		854,254	735,844

The Company reported a profit for the financial year ended 31 December 2022 of £186.5 million (2021: £78.1 million).

These financial statements were approved and authorised for issue by the Board of directors on 22 February 2023.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Company financial statements continued

Company statement of changes in equity

	Issued equity £000	Share premium £000	Treasury shares ⁽¹⁾ £000	Capital redemption reserve £000	Retained profits £000	Total £000
At 1 January 2021	47,460	429,974	(50,440)	1,502	290,283	718,779
Issue of share capital (note 6)	256	2,217	–	–	–	2,473
Profit and total comprehensive income for the year	–	–	–	–	78,103	78,103
Movement in equity associated with share-based payments	–	–	–	–	7,388	7,388
Equity dividends paid (note 7)	–	–	–	–	(70,899)	(70,899)
At 1 January 2022	47,716	432,191	(50,440)	1,502	304,875	735,844
Issue of share capital (note 6)	209	1,090	–	–	–	1,299
Profit and total comprehensive income for the year	–	–	–	–	186,533	186,533
Movement in equity associated with share-based payments	–	–	–	–	9,479	9,479
Equity dividends paid (note 7)	–	–	–	–	(78,901)	(78,901)
At 31 December 2022	47,925	433,281	(50,440)	1,502	421,986	854,254

(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 principal activity of the Company is being the ultimate Parent Company of the Drax Group plc group of companies.

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 2022. 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 Company 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 profits.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Impairment of financial assets

The Company applies the impairment model in IFRS 9 to provide for expected credit losses on its financial assets including amounts due from other Group companies and other financial assets. The provision for impairment of amounts owed by Group companies is measured at an amount equal to the lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If there has not been a significant increase in credit risk since initial recognition, a 12-month expected credit loss provision is recognised.

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 the Company's financial statements.

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 years ended 31 December 2022 and 31 December 2021. The Company's financial statements were approved by the Board on 22 February 2023. The net profit attributable to the Company is £186.5 million (2021: £78.1 million).

The Company received dividend income from its subsidiary undertakings totalling £185.0 million in 2022 (2021: £80.0 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 2022 was £26,078 (2021: £23,774).

Notes to the Company financial statements continued

5. Fixed asset investments

	Year ended 31 December	
	2022 £000	2021 £000
Carrying amount:		
At 1 January	732,400	724,911
Capital contribution	9,616	7,489
At 31 December	742,016	732,400

Investments in subsidiary undertakings

The capital contribution in 2022 and 2021 relates to the share-based payment charges associated with the employee share schemes, which arise because the beneficiaries of the schemes 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 2022:

Name and nature of business	Principal activity	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
Alabama Pellets LLC*	Fuel supply	Delaware, USA	Common	7064679	100
Amite BioEnergy LLC*	Fuel supply	Delaware, USA	Common	5128116	100
Arkansas Bioenergy LLC*	Fuel supply	Delaware, USA	Common	7881707	100
Baton Rouge Transit LLC*	Fuel supply	Delaware, USA	Common	5128759	100
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	5305470	100
Demopolis Pellets LLC*	Fuel supply	Delaware, USA	Common	6314280	100
Donnington Energy Limited	Dormant	England and Wales	Ordinary	07109298	100
Drax Asia (Japan) K.K.>	Provision of corporate services	Japan	Common	0100-01-227551	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 Cruachan Expansion Limited***	Non-trading company	England and Wales	Ordinary	06657393	100
Drax Energy Solutions Limited	Power retail	England and Wales	Ordinary	05893966	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 Group Holdings Limited	Holding company	England and Wales	Ordinary	09887429	100
Drax Holdings Limited+	Holding company	Cayman Islands	Ordinary	92144	100
Drax Hydro 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	Power generation	England and Wales	Ordinary	04883589	100
Drax Pumped Storage Limited	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	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

5. Fixed asset investments continued

Name and nature of business	Principal activity	Country of incorporation and registration	Type of share	Registered number	Ownership & voting %
Farmoor Energy Limited***	Power retail	England and Wales	Ordinary	07111074	100
Haven Heat Limited	Dormant	England and Wales	Ordinary	06657428	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
Houston Pellet Inc.**	General partner	Richmond, Canada	Common	BC0730544	33
Houston Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP0428310	30
Iberia Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881704	100
Jefferson Transit LLC*	Dormant	Delaware, USA	Common	6297176	100
LaSalle Bioenergy LLC*	Fuel supply	Delaware, USA	Common	6297174	100
Lavington Pellet Inc.**	General partner	Richmond, Canada	Common	BC1022038	75
Lavington Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP0649393	75
Millbrook Power Limited***	Power generation	England and Wales	Ordinary	08920458	100
Morehouse BioEnergy LLC*	Fuel supply	Delaware, USA	Common	5128117	100
Northern Pellet Inc.**	General partner	Richmond, Canada	Common	BC1213828	50
Northern Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Class A and Class C	LP781774	50
Opus Energy (Corporate) Limited	Power retail	England and Wales	Ordinary	05199937	100
Opus Energy Limited	Power retail	England and Wales	Ordinary	04382246	100
Opus Energy Group Limited	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	Power retail	England and Wales	Ordinary	07126582	100
Opus Gas Limited***	Non-trading company	England and Wales	Ordinary	05680956	100
Opus Gas Supply Limited	Power retail	England and Wales	Ordinary	06874709	100
Opus Water Limited	Dormant	England and Wales	Ordinary	09425319	100
Pinnacle Renewable Energy Inc.**	Fuel supply	Richmond, Canada	Common	BC1300366	100
Pinnacle Renewable Holdings (USA) Inc.*	Holding company	Delaware, USA	Common	7043656	100
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	10769036	100
Progress Power Limited***	Power generation	England and Wales	Ordinary	08421833	100
Smithers Pellet Inc.**	General partner	Richmond, Canada	Common	BC1135983	70
Smithers Pellet Limited Partnership**	Fuel supply	Richmond, Canada	Units	LP730047	70
SMW Limited^	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

Registered Office

Incorporated in England and Wales

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 of all related undertakings incorporated in the USA is 850 New Burton Road, Suite 201, Dover DE 19904.

**Incorporated in Canada

The registered address of all related undertakings incorporated in Canada is 2800 Park Place, 666 Burrard Street, Vancouver, BC V6C 2Z7

^Incorporated in Scotland

The registered address of all related undertakings incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

+Registered in Cayman Islands

The registered address of Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, One Nexus Way, Camana Bay, George Town, Grand Cayman KY1 9005, Cayman Islands.

~Registered in Netherlands

The address of Drax Netherlands B.V. registered in Netherlands is Barbara Strozilaan 101, Amsterdam, 1083HN.

Notes to the Company financial statements continued

5. Fixed asset investments continued

>Registered in Japan

The address of Drax Asia (Japan) K.K. registered in Japan is Level 2, Marunouchi Nijubashi Building, 3-2-2 Marunouchi, Chiyoda-ku, Tokyo.

***Exempt from audit

These subsidiaries have taken advantage of the exemption from audit available under section 479A of the Companies Act 2006 for the 2022 statutory accounts. These companies are all incorporated in England and Wales.

Abbott Debt Recovery Limited, Opus Energy Marketing Limited and all undertakings incorporated in Canada have 30 December 2022 year ends. All other related undertakings have 31 December 2022 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; and
- Houston Pellet Inc. and Houston Pellet Limited Partnership which are equity accounted.

6. Issued equity

	As at 31 December	
	2022 £000	2021 £000
Issued and fully paid:		
2022: 414,872,491 (2021: 413,068,027) ordinary shares of 11 ¹⁶ / ₂₉ pence each	47,925	47,716

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Year ended 31 December	
	2022 (number)	2021 (number)
At 1 January	413,068,027	410,848,934
Issued under employee share schemes	1,804,464	2,219,093
At 31 December	414,872,491	413,068,027

The Company has only one class of shares, which are ordinary shares of 11 ¹⁶/₂₉ pence each, carrying no right to fixed income. No shareholders have waived their rights to dividends. From January to December 2022, shares were issued in satisfaction of options vesting in accordance with the rules of the Company's employee share schemes.

The total cash received, split between nominal value and share premium, is shown in the Company statement of changes in equity on page 278.

Full details of share options outstanding are included in note 6.2 to the Consolidated financial statements.

7. Dividends

	Year ended 31 December	
	2022 £m	2021 £m
Amounts recognised as distributions to equity holders in the year (based on the number of shares in issue at the record date):		
Interim dividend for the year ended 31 December 2022 of 8.4 pence per share paid on 7 October 2022 (2021: 7.5 pence per share paid on 8 October 2021)	33.7	29.9
Final dividend for the year ended 31 December 2021 of 11.3 pence per share paid on 13 May 2022 (2020: 10.3 pence per share paid on 14 May 2021)	45.2	41.0
	78.9	70.9

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 2022 of 12.6 pence per share (equivalent to approximately £50 million) payable on or before 19 May 2023. The final dividend has not been included as a liability as at 31 December 2022.

8. Distributable reserves

The Company considers its distributable reserves to be comprised of the retained profits, less credits in respect of share schemes, less treasury shares, with a total value of £306.3 million (2021: £198.7 million). Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current proposed final dividend for 2022 of approximately £50 million. Based on a total dividend for 2022 of approximately £84 million, the Company has sufficient distributable reserves to pay three 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).

9. Contingent liabilities

The Company has provided unsecured guarantees to third parties in respect of contracts held by subsidiary companies.

The guarantees have been issued for £nil consideration and the Company has not charged the subsidiaries for the guarantees.

The Company has provided guarantees over the liabilities of its subsidiaries that have taken 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 economic 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 borrowings (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 borrowings.

Shareholder information

Key dates for 2023

At the date of publication of this document, the following are the proposed key dates in the 2023 financial calendar:

Ordinary shares marked ex-dividend	20 April
Record date for entitlement to the final dividend	21 April
Annual General Meeting	26 April
Payment of final dividend	19 May
Financial half year end	30 June
Announcement of half year results	27 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Group's website www.drax.com 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 Investors section on the Group's website.

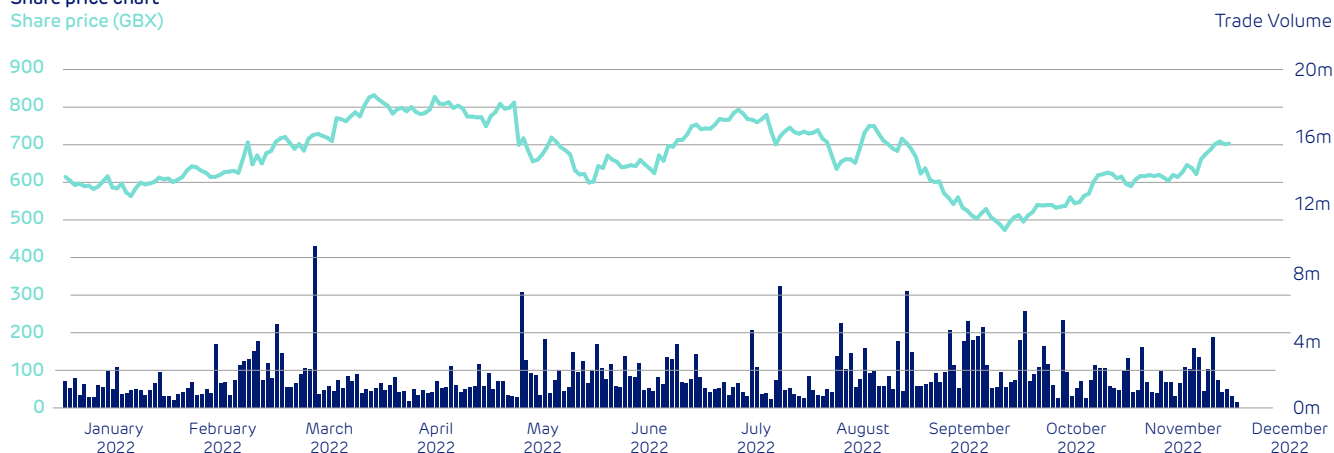
Share price

Shareholders can access the current share price of Drax Group plc ordinary shares on the Company's website. 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 2022, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2021	Low during the year 21 October 2022	High during the year 6 April 2022	Closing price on 31 December 2022
605.0 pence	473.4 pence	831.5 pence	703.0 pence

Share price chart



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 2022 was approximately £2,916 million (2021: £2,499 million).

Financial reports

Copies of all financial reports published by the Group are available from the date of publication and can be downloaded from the Company's website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on Contact Us on the website, or direct by e-mail to Drax.Enq@drax.com.

Drax shareholder queries

The Company's share register is maintained by Equiniti Limited (Equiniti), who are 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.

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. Equiniti 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 the Company's website at www.drax.com/investors/investor-resources/equity-investors-faq/.

Tax on dividends

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 2022-2023 tax year (2021-2022: £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 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

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.

Shareholder information continued

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 (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 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 them 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.
- 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, 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 and Adjusted diluted EPS.</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 ⁽¹⁾	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 the Group's operations.	<p>Earnings before interest, tax, depreciation and amortisation, gains or losses on disposal of assets, fair value adjustments on contingent consideration, and impairment of non-current assets, excluding the impact of exceptional items and certain remeasurements (defined in note 2.7). Adjusted EBITDA excludes any earnings from associates and Adjusted EBITDA attributable to non-controlling interests.</p> <p>Adjusted EBITDA is stated from both continuing operations and discontinued operations, where appropriate.</p>
Adjusted basic EPS	Basic EPS	Adjusted basic EPS represents the amount of Adjusted earnings (Adjusted post-tax earnings) attributable to each ordinary share.	Adjusted basic EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period.

Alternative performance measures (APMs) glossary table continued

APM	Closest IFRS equivalent measure	Purpose	Definition
Adjusted diluted EPS	Diluted EPS	Adjusted diluted EPS demonstrates the impact upon the Adjusted basic EPS if all outstanding share options, that are expected to vest on their future maturity dates and where the shares are considered to be dilutive, were exercised and treated as ordinary shares as at the reporting date.	Adjusted diluted EPS is calculated by dividing the Group's Adjusted earnings attributable to the owners of the Parent Company (Adjusted profit after tax) by the weighted average number of ordinary shares in issue during the period and dilutive potential ordinary shares under share plans.
Net debt	Borrowings less cash and cash equivalents	<p>Net debt is a key measure of the Group's liquidity and its ability to manage current obligations.</p> <p>Net debt is used as a basis by debt rating agencies and in the calculation of the Group's financial covenant requirements.</p> <p>The impact of hedging instruments included within Net debt shows the economic substance of the Net debt position, in terms of actual expected future cash flows to settle that debt.</p>	<p>Total borrowings including the impact of hedging instruments 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 but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations (see note 6.3) and trade and other payables (see note 3.7). Net debt excludes the proportion of cash and borrowings in non-wholly owned entities that would be attributable to the non-controlling interests.</p> <p>Net debt includes the impact of hedging instruments meaning that any borrowings that have hedging instruments in place are adjusted to reflect those borrowings at the hedged rate.</p>
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 Adjusted EBITDA are held constant.</p> <p>The Group has a long-term target for Net debt to Adjusted EBITDA of around 2.0 times.</p>	Net debt divided by Adjusted EBITDA. Expressed as a multiple.
Cash and committed facilities	Cash and cash equivalents	<p>This is a key measure of the Group's available 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 committed but undrawn facilities (including the Group's RCFs, loan facilities and the Customers trade receivable factoring facility).
Cost of production	Cost of sales	<p>A key metric showing the cost of produced biomass.</p> <p>Also, a key metric in monitoring the Group's strategy to reduce biomass costs.</p>	<p>Costs of sales attributable to biomass production plus an allocation of operating expenses not directly attributable to biomass production, divided by tonnes of biomass produced.</p> <p>Expressed as a cost per tonne produced.</p>
Capital expenditure	Property, plant and equipment (PPE) additions and intangible asset additions	Used to show the Group's total spend on PPE and intangible assets in a year.	PPE additions plus intangible asset additions.

(1) Operating profit is presented on the Group's Consolidated income statement; however, it is not defined per IFRS. It is a generally accepted measure of profit.

Glossary

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 UK Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy science, innovation, energy and climate change.

In February 2023, BEIS was split into three new departments: the Department for Business and Trade, the Department for Energy Security and Net Zero, and the Department for Science, Innovation and Technology.

Black start

Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

Biogenic carbon cycle

Biogenic refers to something that is produced by, or originates from, a living organism. The biogenic carbon cycle is the natural process of plants and animals releasing CO₂ into the atmosphere through respiration and decomposition, and plants absorbing CO₂ via photosynthesis.

Biomass

Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. The Group uses low-grade roundwood, sawmill residues and forest residues in the form of compressed wood pellets, to generate electricity at Drax Power station or sell the pellets to third-parties.

Capacity Market

Part of the UK 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.

CCC

The UK's Climate Change Committee.

Clear-cutting

An important forest regeneration technique that supports sustainable forest management. It happens when most (or all) trees in an area are harvested simultaneously. It is a well-established forestry practice in many regions, including the UK, Europe and North America.

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 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.

Dispatchable power

An electricity generator produces dispatchable power when the power can be ramped up and down, or switched on or off, at short notice to provide a flexible response to changes in electricity demand. Biomass, pumped storage, coal, oil, and gas electricity generation can meet these criteria and hence can be dispatchable power sources. Nuclear can be dispatched against an agreed schedule but is not flexible. Wind and solar electricity cannot be scheduled and hence are not Dispatchable. An electricity system requires sufficient dispatchable power to operate and remain safe.

EBRS

The UK Government's Energy Bill Relief Scheme.

ESG

Environmental, Social and Governance.

First Nations

Any of the groups of indigenous peoples in Canada.

Forced outage/Unplanned outage

Any reduction in plant availability, excluding planned outages.

FSC®

Forest Stewardship Council: an international non-governmental organisation which promotes responsible management of the world's forests.

Frequency response

The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz.

GHG

Greenhouse Gas.

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.

Glossary continued

IAB

Independent Advisory Board, comprising scientists, academics, and forestry experts who provide independent challenge, insight and advice into the Group's activities.

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.

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.

PEFC

Programme for the Endorsement of Forest Certifications: an independent, non-profit, non-governmental organisation that promotes sustainable forest management through independent third-party certification.

Pulp wood

A low value and bulky product, generally produced from the top of trees or from production thinnings, with the principal use of making wood pulp for paper production.

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.

ROC

A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

Sawlog

A felled tree trunk suitable for being processed at a sawmill for cutting up into lumber.

SBP

Sustainable Biomass Program: a certification system designed for woody biomass used in industrial energy production.

Summer

The calendar months April to September.

Sustainable biomass

Biomass which complies with the definition of "sustainable source", Schedule 3, Land Criteria, UK Renewables Obligation Order 2015.

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

Taskforce on Climate-related Financial Disclosures.

Thinning

Thinning operations correct overcrowding, and improve the health and vigour of those trees which remain. Thinning targets small, malformed, and diseased trees for removal, allowing the healthier trees the space, light, and soil to reach maturity sooner. Thinning also mitigates the risk of pest infestation and wildfire, while speeding the development of a more mature forest with increased plant diversity.

Total recordable incident rate (TRIR)

The frequency rate is calculated on the following basis: (fatalities, lost time injuries and 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 Scheme is a mechanism introduced across the UK to reduce carbon emissions; 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

United Kingdom
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

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1 Churchill Place, Canary Wharf, London E14 5HP

Brokers

Royal Bank of Canada

100 Bishopsgate, London EC2N 4AA

J.P. Morgan Cazenove

25 Bank Street, Canary Wharf, London E14 5JP

Financial PR

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Registrars

Equiniti Limited

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Remuneration advisers

Korn Ferry

Ryder Court, 14 Ryder Street, London, SW1Y 6QB

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One Bunhill Row, London EC1Y 8YY



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CONRAN
DESIGN GROUP

Cautionary note regarding forward looking statements

This Annual Report and Accounts 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; uncertainty as to future investment and support achieved in enabling the realisation of strategic aims and objectives; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected, including the impact of prevailing economic and political uncertainty. 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.



www.drax.com

Drax Group plc

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Drax Group plc Annual report and accounts 2022

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take you are recommended to seek your own financial advice from your stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your holding of ordinary shares in Drax Group plc please forward this document and the accompanying documents (but not the personalised Form of Proxy), as soon as possible, to the purchaser or the transferee or to the person through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



DRAX GROUP PLC NOTICE OF THE ANNUAL GENERAL MEETING (AGM)

TO BE HELD AT 12.30PM ON WEDNESDAY 26 APRIL 2023
AT ETC.VENUES ST PAUL'S, 200 ALDERSGATE, LONDON, EC1A 4HD

For shareholders, a Form of Proxy is enclosed with this document. Whether or not you propose to attend the AGM (either in person or online), you are requested to complete and submit a Form of Proxy to the Company's Registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA to arrive by no later than 12.30pm on Monday 24 April 2023.

If you hold shares in CREST you may appoint a proxy by completing and transmitting a CREST proxy instruction to Equiniti Limited (CREST participant ID RA19) so that it is received by no later than 12.30pm on Monday 24 April 2023.

The return of a completed Form of Proxy or CREST proxy instruction will not prevent you from attending the AGM and voting on the day if you wish to do so.

Contents and expected timetable of principal events 2023

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Expected timetable of principal events 2023

Record date for entitlement to the final dividend	21 April
Latest time for receipt of Forms of Proxy and CREST proxy instructions to be valid at the AGM	12.30pm on 24 April
AGM	12.30pm on 26 April
Dispatch of the final dividend warrants and tax vouchers	18 May
Payment date for the final dividend	19 May

Part A

Letter from the Chair



Registered Office:
Drax Power Station
Selby

North Yorkshire
YO8 8PH

Registered in England and Wales
Number 5562053

Directors

Philip Cox CBE (Chair)
Will Gardiner (CEO)
Andy Skelton (CFO)
David Nussbaum
Erika Peterman
John Baxter CBE
Kim Keating
Nicola Hodson
Vanessa Simms

16 March 2023

Dear Shareholder,

Annual General Meeting (AGM)

I am pleased to enclose the Notice of the AGM of Drax Group plc (the Company or Drax), which will be held at 12.30pm on Wednesday 26 April 2023 at etc.venues St Paul's, 200 Aldersgate, London EC1A 4HD. The Notice of the AGM is set out in Part B on pages 3 and 4.

I am very pleased to be able to invite you to attend the meeting either in person or online by logging on to <https://web.lumiagm.com>. A user guide detailing the arrangements on how to join, submit questions and vote at the meeting online is set out in Appendix 1 on pages 16 and 17.

Your vote is important to us. All votes will be by poll, which means that each share carries one vote and all votes count, and we strongly encourage you to vote in advance or to appoint the Chair as your proxy by submitting your enclosed Form of Proxy by post or electronically as further detailed in Part D on pages 9 to 12.

Explanatory notes

The explanatory notes to the Resolutions are set out in Part C on pages 5 to 8.

Annual Report and Accounts

A copy of the Company's Annual Report and Accounts for the year ended 31 December 2022 is now available on our website at www.drax.com/investors/announcements-events-reports/annual-reports-and-accounts/. Our website is one of the means by which we communicate with our shareholders. As well as the Annual Report and Accounts, you can find further information about our carbon negative ambitions and progress, our approach to sustainability, the latest news and press releases, investor presentations and dividend history. You can sign up for news alerts about Drax on our website www.drax.com by selecting 'Subscribe'.

If you have requested to receive a hard copy of the Annual Report and Accounts, this is enclosed. If you no longer wish to receive a hard copy, and instead wish to receive communications electronically, please contact our Registrar, Equiniti, on 0371 384 2030 from within the UK or +44 121 415 7047 from outside the UK (lines are open from 8.30am to 5.30pm, Monday to Friday – excluding public holidays in England and Wales).

Any changes to the arrangements for the meeting will also be communicated to shareholders via our website as soon as possible, and shareholders are encouraged to monitor www.drax.com/investors/announcements-events-reports/agms-and-general-meetings/ for updates.

Letter from the Chair continued

Proposed new Directors' Remuneration Policy (Policy)

The Policy sets out the Company's forward-looking policy on Directors' remuneration and is subject to a binding shareholder vote by ordinary resolution at least once every three years. Drax has continued to evolve since the last full review of the Directors' Remuneration Policy in 2020.

To ensure that our approach to remuneration supports the strategy, in 2022 the Remuneration Committee undertook a full review of the existing policy, taking into account the Group's ambitious growth strategy, shareholder feedback on the current policy, the UK Corporate Governance Code and wider best practice. Our principal aims are to ensure that executive pay is closely linked to Group performance, underpins our purpose of enabling a zero carbon, lower cost energy future and aligns reward with delivering the strategy.

Following this review, we are inviting you to approve our proposed new Policy this year, further details of which can be found on pages 135 to 146 of the Annual Report and Accounts.

Action to be taken

Ordinary shareholders

Whether or not you propose to attend the AGM in person or online, you are requested to:

- (a) complete and sign the enclosed Form of Proxy in accordance with the instructions printed thereon. Completed Forms of Proxy should be returned to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and in any event so as to be received by Equiniti Limited no later than 12.30pm on Monday 24 April 2023; or
- (b) register the appointment of your proxy electronically at www.sharevote.co.uk. You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed on your Form of Proxy). Alternatively, if you have already registered with Equiniti's online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk using your usual user ID and password. Full instructions are given on both websites and your Form of Proxy must be received by no later than 12.30pm on Monday 24 April 2023.

If you hold shares in CREST you may appoint a proxy by completing and transmitting a CREST proxy instruction to Equiniti Limited (CREST participant ID RA19) so that it is received by no later than 12.30pm on Monday 24 April 2023.

The return of a completed Form of Proxy will not prevent you from attending and voting at the AGM in person or online should you choose to do so.

Voting arrangements

Voting on each of the Resolutions to be put to the AGM will be by poll so that all votes are included whether or not the shareholder is able to attend the meeting.

The results of the voting at the meeting will be announced to the London Stock Exchange as soon as practicable following the meeting and will also appear on the Company's website www.drax.com/investors/announcements-events-reports/regulatory-news-alerts/.

The Company has included on the Form of Proxy a 'Vote withheld' option in order for shareholders to abstain from voting on any particular Resolution. You should note, however, that a 'Vote withheld' is not a vote in law and will not be counted in determining the proportion of votes cast 'For' and 'Against' a Resolution on a poll.

Recommendation

The Directors of the Company consider that the Resolutions to be put to shareholders at the AGM are in the best interests of the Company and its members as a whole.

Accordingly, the Directors unanimously recommend that you vote in favour of all the proposed Resolutions as they intend to do so in respect of their own beneficial interests.

Yours sincerely

Philip Cox CBE
Chair

Part B

Notice of the Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of Drax Group plc (the Company) will be held at 12.30pm on Wednesday 26 April 2023 at etc.venues St Paul's, 200 Aldersgate, London EC1A 4HD.

The shareholders of the Company are asked to consider and, if thought fit, pass Resolutions 1 to 17 as ordinary Resolutions, and to consider and, if thought fit, pass Resolutions 18, 19, 20 and 21 as special Resolutions.

1. To receive the Annual Report and Accounts of the Company for the year ended 31 December 2022, including (i) the Directors' report; (ii) the Strategic report; and (iii) the report of the auditor of the Company on those audited accounts and the auditable part of the Directors' Remuneration Report.
 2. To approve the annual statement to shareholders by the Chair of the Remuneration Committee and the Annual Report on Remuneration for the year ended 31 December 2022 set out on pages 127 to 157 of the Annual Report and Accounts.
 3. To approve the Directors' Remuneration Policy set out on pages 136 to 146 of the Annual Report and Accounts.
 4. To approve the final dividend of 12.6 pence per share for the year ended 31 December 2022, payable to shareholders who are on the register of members (Register) of the Company at 6.30pm on 21 April 2023.
 5. To re-elect Philip Cox as a Director of the Company.
 6. To re-elect Will Gardiner as a Director of the Company.
 7. To re-elect Andy Skelton as a Director of the Company.
 8. To re-elect David Nussbaum as a Director of the Company.
 9. To re-elect Erika Peterman as a Director of the Company.
 10. To re-elect John Baxter as a Director of the Company.
 11. To re-elect Kim Keating as a Director of the Company.
 12. To re-elect Nicola Hodson as a Director of the Company.
 13. To re-elect Vanessa Simms as a Director of the Company.
 14. To re-appoint Deloitte LLP as auditor of the Company to hold office from the conclusion of the 2023 AGM until the conclusion of the next meeting at which accounts are laid before the Company.
 15. To authorise the Directors to determine the auditor's remuneration.
 16. That in accordance with Sections 366 and 367 of the Companies Act 2006 (CA 2006), the Company and all of the companies that are or become subsidiaries of the Company from time to time during the period for which this Resolution is effective are authorised to:
 - a. make political donations to political parties and/or independent election candidates, as defined in Sections 363 and 364 CA 2006, not exceeding £100,000 in total; and/or
 - b. make political donations to political organisations other than political parties, as defined in Sections 363 and 364 CA 2006, not exceeding £100,000 in total; and/or
 - c. incur political expenditure, as defined in Section 365 CA 2006, not exceeding £100,000 in total,in each case provided that the aggregate amount of any such donations and expenditure shall not exceed £125,000.
- This authority shall commence on the date of the passing of this Resolution and remain in force until the conclusion of the 2024 AGM (or, if earlier, until the close of business on 30 June 2024).
17. That in substitution for all subsisting authorities, to the extent unused, the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 CA 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company:
 - a. up to an aggregate nominal amount of £15,444,255 (such amount to be reduced by the nominal amount of any equity securities (as defined in Section 560 CA 2006) allotted or granted under paragraph (b) of this Resolution in excess of £15,444,255); and
 - b. comprising equity securities (within the meaning of Section 560 CA 2006) up to an aggregate nominal amount of £30,888,510 (such amount to be reduced by the aggregate nominal amount of any shares allotted or rights granted under paragraph (a) of this Resolution) in connection with an offer by way of a rights issue:
 - i. to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements or securities represented by depositary receipts, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter.

The authorities conferred on the Directors under paragraphs (a) and (b) above shall commence on the date of the passing of this Resolution and remain in force until the conclusion of the 2024 AGM (or, if earlier, until the close of business on 30 June 2024), save that under each authority the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for, or to convert any security into, shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for, or to convert any security into, shares (as the case may be) in pursuance of such an offer or agreement as if the relevant authority conferred hereby had not expired.

Notice of the Annual General Meeting continued

18. That, if Resolution 17 above is passed, the Directors be authorised to allot equity securities (as defined in CA 2006) for cash under the authority conferred by Resolution 17 and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 CA 2006 did not apply to any such allotment or issue, such authority to be limited:

- a. to the allotment of equity securities in connection with an offer of equity securities (but in the case of the authority granted under paragraph (b) of Resolution 17, by way of a rights issue only):
 - i. to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - ii. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with any treasury shares, fractional entitlements or securities represented by depositary receipts, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or the requirements of any regulatory body or stock exchange or any other matter; and
- b. to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph (a) of this Resolution 18) up to a nominal amount of £4,633,277

such authority to expire at the end of the 2024 AGM (or, if earlier, until the close of business on 30 June 2024) but, prior to its expiry the Company may make offers, and enter into agreements, which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

19. That, if Resolution 17 above is passed, the Directors be authorised in addition to any authority granted under Resolution 18 above, to allot equity securities (as defined in CA 2006) for cash under the authority conferred by Resolution 17 and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 CA 2006 did not apply to any such allotment or sale, such authority to be limited to the allotment of equity securities or sale of treasury shares up to an aggregate nominal amount of £4,633,277, such authority to be used only for the purposes of financing (or refinancing, if the authority is to be used within 12 months after the original transaction) a transaction which the Board of the Company determines to be either an acquisition or a specified capital investment of a kind contemplated by the Pre-Emption Group's Statement of Principles as revised in November 2022, such authority to expire at the end of the 2024 AGM (or, if earlier, until the close of business on 30 June 2024) but, in each case, prior to its expiry the Company may make offers, and enter into agreements which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the authority expires and the Directors may allot equity securities (and sell treasury shares) under any such offer or agreement as if the authority had not expired.

20. That the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 CA 2006, to make market purchases (within the meaning of Section 693(4) CA 2006) of ordinary shares with nominal value of 11 16/29 pence each in the capital of the Company (ordinary shares) on such terms and in such manner as the Directors of the Company shall from time to time determine, provided that:

- a. the maximum aggregate number of ordinary shares hereby authorised to be purchased is 40,108,970;
- b. the minimum price (exclusive of expenses) which may be paid for an ordinary share is its nominal value; and
- c. the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than the higher of:
 - i. an amount equal to 105% of the average of the middle market quotations of an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which that ordinary share is contracted to be purchased; and
 - ii. the amount stipulated by Article 5(6) of the Market Abuse Regulation (EU) No 596/2014 as onshored into UK law on 31 December 2020 by the European Union (Withdrawal) Act 2018.
- d. the authority hereby conferred shall commence on the date of the passing of this Resolution and remain in force until the conclusion of the 2024 AGM (or, if earlier, until the close of business on 30 June 2024), unless previously revoked, varied or renewed by the Company in general meeting; and
- e. the Company may at any time prior to the expiry of such authority enter into a contract or contracts under which a purchase of ordinary shares under such authority will or might be completed or executed wholly or partly after the expiration of such authority and the Company may purchase ordinary shares in pursuance of any such contract or contracts as if the authority conferred hereby had not expired.

21. That a general meeting of the Company, other than an AGM, may be called on not less than 14 clear days' notice.

By order of the Board

Brett Gladden
Group Company Secretary
Drax Group plc,
Drax Power Station,
Selby,
North Yorkshire,
YO8 8PH

16 March 2023

Part C

Explanatory notes to the Notice of the AGM

Resolution 1

To receive the Company's Annual Report and Accounts

The Directors are required to present to the meeting the Annual Report and Accounts for the financial year ended 31 December 2022. This includes: (i) the audited accounts; (ii) the Directors' report; (iii) the Strategic report; and (iv) the report of the auditor of the Company on the audited accounts and the auditable part of the Directors' Remuneration Report. A separate Resolution seeks approval by the shareholders of the Directors' Remuneration Report, which vote is advisory in nature.

Resolution 2

Directors' Remuneration Report

Resolution 2 seeks shareholder approval for the annual statement to shareholders by the Chair of the Remuneration Committee and the Annual Report on Remuneration which can be found on pages 127 to 157 of the Annual Report and Accounts. The Annual Report on Remuneration gives details of the implementation of the Company's existing Directors' Remuneration Policy in terms of the payments and share awards

made to the Directors in connection with their performance and that of the Company in respect of the year ended 31 December 2022. This vote is advisory and will not affect the way in which the Directors' Remuneration Policy has been implemented.

The Company's auditor during the year, Deloitte LLP, has audited those parts of the Directors' Remuneration Report that are required to be audited and their report can be found on pages 167 to 175 of the Annual Report and Accounts.

Resolution 3

Directors' Remuneration Policy

Resolution 3 seeks shareholder approval for the Directors' Remuneration Policy. The Remuneration Committee believes that the proposed changes strengthen the alignment of executive remuneration with delivery of the business strategy and shareholder value.

A summary of the key changes to the Policy are highlighted below. For further information on the proposed Policy, please see pages 136 to 146 of the Annual Report and Accounts.

Element	Summary of changes	Rationale
Base salary	<ul style="list-style-type: none"> Adopt consistent wording for the ability to move base salaries to the market rate where Executive Directors are either (i) an external appointment made on a below market base salary; or (ii) an internal promotion on a below market base salary. 	<ul style="list-style-type: none"> The change aligns Drax with standard FTSE 350 market practice. The default base salary increase for Executive Directors remains an increase up to the rate typically applied to the workforce. Where the quantum increase exceeds the norm, an explanation will be provided by the Remuneration Committee.
Annual bonus	<ul style="list-style-type: none"> Simplifying the wording on the choice of performance metrics. The majority of the annual bonus must still be earned based on performance against financial targets as opposed to the current approach that defined a set percentage of the bonus (60%) as being subject to financial targets. Simplification of current approach to that part of annual bonus which is deferred in shares. The change will specify that 40% of any annual bonus earned is deferred into the Company's shares. This approach replaces the prevailing more complex approach whereby 100% of any bonus earned against strategic targets takes place subject to 40% of the total bonus outcome being deferred. Removal of the two-year holding period on deferred bonus shares so that any deferred shares that vest will be released at the end of the three-year vesting period. These shares will need to continue to be held (as a minimum on a net of tax basis) until the Company's share ownership guidelines have been met. 	<ul style="list-style-type: none"> The changes to the operation of the annual bonus plan align Drax with standard FTSE 350 market practice. Requiring at least half the bonus to be subject to financial targets provides greater flexibility for the Remuneration Committee in operating the annual bonus plan and mirrors standard market practice. The current approach to bonus deferral was overly complex with differing proportions of the parts of the bonus subject to financial and strategic targets taking place dependent upon the level of bonus earned against each measure. This was administratively complex with the change simplifying the deferral process. Deferring a proportion of any bonus into shares which vest at a future date is standard practice. Holding periods are not typically applied to deferred share bonus awards at the point of release. To note, the holding period will continue to apply to shares vesting under the Long-Term Incentive Plan (LTIP). The change brings the Company into line with standard FTSE 350 market practice.
Pension	<ul style="list-style-type: none"> The policy is being updated to reference that Executive Director pensions are now aligned with the rate typically provided to the UK wider workforce for new joiners at 10% of base salary. 	<ul style="list-style-type: none"> The change conforms the policy with institutional investors best practice expectations with Executive Director pensions being reduced to the rate typically provided to the UK wider workforce of 10% from their prior rates of 20% (CEO) and 16% (CFO) of base salary.

Explanatory notes to the Notice of the AGM continued

Element	Summary of changes	Rationale
LTIP	<ul style="list-style-type: none"> The overall LTIP structure remains the same. 	<ul style="list-style-type: none"> N/a
Non-Executive Directors	<ul style="list-style-type: none"> The changes to the current Policy provide flexibility for the Company to provide a limited range of benefits and travel allowances to Non-Executive Directors. The Policy will also specify that the default is to increase Non-Executive Directors' base fees at a rate that is up to the rate typically applied to the UK wider workforce 	<ul style="list-style-type: none"> The changes to the Non-Executive Directors' Policy mirror standard practice for FTSE 350 companies with an international footprint. The ability to provide a limited range of benefits and allowances will ensure that Drax has the flexibility to appoint international Non-Executive Directors of an appropriate calibre to support Drax through the next phase of its development. The change will enable Drax to provide support to Non-Executive Directors (specifically from outside the UK) in relation to initial set up and ongoing support with filing tax returns such that this is cost neutral to the individual. Introducing the ability to increase Non-Executive Director fees up to the rate of increase awarded to the wider workforce brings the Company's Policy into line with standard market practice.

If Resolution 3 is approved, the Directors' Remuneration Policy will be effective immediately following the meeting. If shareholders do not approve the revised Remuneration Policy for any reason, the Company will continue to make payments to Directors and former Directors (in their capacity as Directors) under the existing Directors' Remuneration Policy approved on the 22 April 2020 and will seek shareholder approval for a revised policy at the 2024 AGM.

Resolution 4

To approve the final dividend

Resolution 4 seeks shareholder approval to pay the final dividend of 12.6 pence per ordinary share, which is recommended by the Directors for payment to those shareholders who are on the Register of the Company at 6.30pm on 21 April 2023. If approved by shareholders at the AGM, the final dividend will be paid on 19 May 2023.

Resolutions 5 to 13

To re-elect the Directors

In accordance with the Company's articles of association, and in line with the recommendations of the UK Corporate Governance Code (the Code), each of the Directors will retire and offer themselves for re-election by shareholders.

The skills and experience for each of the Directors are set out in Part F of this Notice (and on pages 97 to 99 of the Annual Report and Accounts).

The Board has determined that all of the Non-Executive Directors being proposed for re-election are independent in character and judgement, and there are no relationships or circumstances which are likely to affect, or could appear to affect, their independence.

During 2022, the Board completed an externally-led evaluation of the performance of both the Board as a whole and of individual Directors. Following that evaluation, the Chair is satisfied that the performance of each Director standing for re-election continues to be effective and that each Director continues to demonstrate commitment to the role. A separate assessment of the

performance of the Chair was conducted, led by the Senior Independent Director, which concluded that the performance of the Chair continues to be effective, and the Chair continues to demonstrate commitment to the role and has the time required to devote to the performance of the function of Chair. More information about this can be found on pages 107 and 108 of the Annual Report and Accounts.

Resolutions 14 and 15

Re-appointment of auditor and determination of their remuneration

The Company must appoint or re-appoint an auditor at every general meeting at which accounts are presented and it is normal practice for the Company's Directors, acting through the Audit Committee, to be authorised to determine the auditor's remuneration.

The Board further recommend that Deloitte LLP be appointed as auditor of the Company for the year ending 31 December 2023. Deloitte LLP has advised its willingness to continue in office as auditor of the Company.

Resolution 16

Political donations and expenditure

Part 14 of the CA 2006 contains restrictions on companies making political donations or incurring political expenditure.

Drax is a politically neutral organisation and did not make any political donations or incur any political expenditure (within the ordinary meaning of those words) in 2022.

It is not the policy of the Company to make donations to political parties, and the Directors have no intention of changing that policy. However, the CA 2006 defines political donations and political expenditure terms very widely. This means that activities that form part of the normal relationship between the Company and bodies concerned with policy review, law reform and other business matters affecting the Company, which might not be thought to be political expenditure in the usual sense, could require shareholders' consent under the CA 2006.

In view of the broad wording adopted in the CA 2006, and the Board's wish to avoid any inadvertent infringement of it, it is seeking shareholders' consent for the Company, and any wholly owned subsidiary company, to incur total annual expenditure for such purposes, provided that the aggregate amount of any such donations and expenditure shall not exceed £125,000, in order that the Company may continue to engage with regulators and policymakers without inadvertently breaching the applicable legislation. Further information on how the Company engaged with political parties in 2022 can be found on pages 29 and 160 of the Annual Report and Accounts, and the Political Engagement Policy is available on our website at www.drax.com/about-us/corporate-governance/compliance-and-policies/drax-political-engagement-policy/.

It is the intention that the Company will seek to renew this authority, if appropriate, at each subsequent AGM.

Resolution 17

Authority of Directors to allot shares

Resolution 17 seeks renewal of the Directors' authority to allot shares, as required under Section 551 CA 2006. Upon the passing of Resolution 17, the Directors will have authority (pursuant to paragraph (a) of the Resolution) to allot shares up to an aggregate nominal value of £15,444,255, which is approximately one-third of the issued ordinary share capital of the Company (excluding treasury shares) as at 1 March 2023 (being the latest practicable date before the publication of this Notice). This authority will expire immediately following the AGM in 2024 or on 30 June 2024, whichever is the earlier.

In addition, in accordance with the Investment Association Share Capital Management Guidelines (which set out the expectations of institutional investors in relation to, among other things, the authority of Directors to allot shares), upon the passing of Resolution 17, the Directors will have authority (pursuant to paragraph (b) of the Resolution) to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to a maximum nominal value of £30,888,510, as reduced by the nominal amount of any shares issued under paragraph (a) of Resolution 17.

This amount (before any reduction in respect of issuances under paragraph (a)) represents approximately two-thirds of the Company's issued ordinary share capital (excluding treasury shares) as at 1 March 2023 (being the latest practicable date before the publication of this Notice). This authority will also expire immediately following the AGM in 2024 or on 30 June 2024, whichever is the earlier. In line with guidance issued by the Investment Association, Resolution 17 will give the Directors authority to allot ordinary shares representing up to approximately two-thirds of the Company's current issued share capital pursuant to a rights issue.

The Directors will continue to seek to renew these authorities at each AGM, in accordance with current best practice from time to time. The Directors have no current plans to exercise this authority, except in connection with employee share plans, but consider it prudent to have the flexibility that this authority provides.

As at 1 March 2023, being the latest practicable date before publication of this Notice, the Company held 13,841,295 treasury shares, which represented 3.34% of the Company's issued share capital at that date.

Resolution 18

General disapplication of pre-emption rights

If the Directors wish to exercise the authority granted under Resolution 17 and offer shares (or sell any shares which the Company may purchase and elect to hold as treasury shares) for cash, the CA 2006 requires that, unless shareholders have given specific authority for the waiver of their statutory pre-emption rights, the new shares must be offered first to existing shareholders in proportion to their existing shareholdings. In certain circumstances, it may be in the best interests of the Company to allot new shares (or to grant rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings.

Resolution 18 will authorise the Directors to do this by allowing the Directors to allot shares for cash: (i) by way of a rights issue (subject to certain exclusions); (ii) by way of an open offer or other offer of securities (not being a rights issue) in favour of existing shareholders in proportion (as nearly as may be practicable) to their shareholdings (subject to certain exclusions) and (iii) otherwise than under (i) or (ii), up to an aggregate nominal value of £4,633,277 which is equivalent to approximately 10% of the issued ordinary share capital of the Company (excluding treasury shares) on 1 March 2023 (being the latest practicable date prior to the publication of this Notice). The Resolution also applies to the sale and re-issue of ordinary shares held as treasury shares by the Company. As at 1 March 2023, being the latest practicable date before the publication of this Notice, the Company held 13,841,295 treasury shares.

The authority sought is in line with institutional shareholder guidance, including the Pre-Emption Group's Statement of Principles as revised in November 2022 (the Statement of Principles). The Directors acknowledge the provisions of the Statement of Principles and confirm that the Board will follow the general principles set out therein.

If approved by the shareholders, the authority contained in Resolution 18 will expire on the earlier of the conclusion of the AGM in 2024 or on 30 June 2024. The Directors intend to renew such power at successive AGMs, in accordance with current best practice.

The Directors have no current plans to exercise this authority but consider it prudent to preserve maximum flexibility for the future whilst ensuring that existing shareholders' interests are protected in line with institutional investor body guidance.

Resolution 19

Additional disapplication of pre-emption rights

Resolution 19 authorises the Directors to allot new shares (or sell treasury shares) for cash, without the shares first being offered to existing shareholders in proportion to their existing holdings, in addition to the authority set out in Resolution 18, in connection with the financing (or refinancing, if the authority is to be used within 12 months of the original transaction) of an acquisition or specified capital investment which is announced contemporaneously with the allotment or which has taken place in the preceding 12-month period and is disclosed in the announcement of the allotment.

Explanatory notes to the Notice of the AGM continued

The authority under Resolution 19 is limited to an aggregate nominal value of £4,633,277 which is equivalent to approximately 10% of the issued ordinary share capital of the Company (excluding treasury shares) on 1 March 2023 (being the latest practicable date prior to the publication of this Notice).

The Resolution also applies to the sale and re-issue of ordinary shares held as treasury shares by the Company. As at 1 March 2023, being the latest practicable date before the publication of this Notice, the Company held 13,841,295 treasury shares.

The authority sought is in line with institutional shareholder guidance, including the Statement of Principles. The Directors acknowledge the provisions of the Statement of Principles and confirm that the Board will follow the general principles set out therein.

If approved by the shareholders, the authority contained in Resolution 19 will expire on the earlier of the conclusion of the AGM in 2024 or on 30 June 2024. The Directors intend to renew such power at successive AGMs, in accordance with current best practice.

As with Resolution 18, the Directors have no current plans to exercise this authority, but consider it prudent to preserve maximum flexibility for the future whilst ensuring that existing shareholders' interests are protected in line with institutional investor body guidance.

Resolutions 18 and 19 have been separated in accordance with the guidance issued by the Pre-Emption Group.

Resolution 20

To authorise the Company to purchase its own shares

Resolution 20 is to authorise the Company to buy back up to 40,108,970 ordinary shares. The authority will expire at the conclusion of the 2024 AGM or, if earlier, on 30 June 2024. The Directors intend to seek renewal of this power at subsequent AGMs in accordance with current best practice.

Resolution 20 specifies the maximum number of ordinary shares which may be purchased (representing 10% of the Company's issued ordinary share capital as at 1 March 2023) and the maximum and minimum prices at which they may be bought, exclusive of expenses, reflecting the requirements of the CA 2006 and the Listing Rules.

The Directors have no present intention of exercising this authority, other than in relation to employee share plans or where it is considered appropriate in order to return value to shareholders. The granting of this authority should not be taken to imply that any ordinary shares will be purchased. Except in relation to the above, no purchase of ordinary shares will be made unless it is expected that the effect will be to increase earnings per share and the Directors consider it to be in the best interests of shareholders.

Under the CA 2006, the Company is allowed to hold its own shares in treasury following a buy back, instead of having to cancel them. This gives the Company the ability to re-issue treasury shares quickly and cost-effectively (including pursuant to the authority under Resolution 17 above) and provides the Company with additional flexibility in the management of its capital base. The Company currently holds 13,841,295 shares in

treasury following a buy back programme between April 2018 and January 2019.

Such shares may be re-sold for cash but all rights attaching to them, including voting rights and any right to receive dividends, are suspended whilst they are held in treasury. If the Directors exercise the authority conferred by Resolution 20, the Directors intend to hold such shares in treasury, but will assess which option to pursue at the relevant time and form a decision.

The total number of options to subscribe for, and awards over, shares, outstanding at 1 March 2023, being the last practicable date before the publication of this Notice was 16,761,392. This represents approximately 4.18% of the issued share capital (excluding treasury shares) at that date. If the Company was to buy back the maximum number of ordinary shares permitted pursuant to this Resolution then the total number of options to subscribe for ordinary shares, outstanding at 1 March 2023, would represent approximately 4.64% of the reduced share capital (excluding treasury shares) at that date.

Of the total share options outstanding as at 1 March 2023 (16,761,392), an aggregate number of approximately 9.7m are expected to vest in 2023 under the Company's various share plans. This includes approximately 6.8m under the all UK-employee Sharesave Plan which matures in June 2023 when the three year savings contract period concludes for approximately 900 participating employees. More information on outstanding awards and associated share-based payments can be found in note 6.2 to the Consolidated financial statements in the Annual Report and Accounts for the year ended 31 December 2022.

Resolution 21

To allow general meetings to be held on 14 clear days' notice in certain circumstances

Resolution 21 is a resolution to allow the Company to hold general meetings (other than AGMs) on 14 clear days' notice.

The Shareholders' Rights Regulations state that the notice period required for general meetings of the Company is 21 clear days, unless shareholders approve a shorter notice period, which cannot, however, be less than 14 clear days. AGMs will continue to be held on at least 21 clear days' notice.

In order to preserve the Company's ability to call general meetings (other than an AGM) on 14 clear days' notice, Resolution 21 seeks such approval. The shorter notice period would not be used as a matter of routine for such meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

The CA 2006 requires that, in order to be able to call a general meeting on less than 21 clear days' notice, the Company must make a means of electronic voting available to all shareholders for that meeting. The Company provides this facility currently and would do so at any such meeting (see Part D of this document for the Company's arrangements for electronic voting).

Part D

Administrative notes relating to the AGM

Attendance

1. We have made arrangements for shareholders to attend the AGM either in person or online using the Lumi AGM platform. The doors of the AGM venue will open at 12.00pm and the AGM will start promptly at 12.30pm. Please bring the Attendance Card which is attached to the Form of Proxy with you if you attend the meeting in person. It will authenticate your right to attend, speak and vote and will speed up your admission to the meeting. You may also be asked to provide proof of identity. If you do not have your Attendance Card, you may be asked to provide two forms of identity (which may require photo identity and verification of your address). If you have been appointed as a proxy for a shareholder entitled to vote and you attend the AGM in person, please let the admission staff know. You should bring proof of identity with you and you will be asked to confirm the details of the shareholder you are representing. Further details on how you can join us online using the Lumi AGM platform are set out in Appendix 1 of this Notice.
2. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) and for the purposes of Section 360B CA 2006, the Company specifies that only those shareholders registered on the Register at 6.30pm on the day two business days before the date of the meeting (the Specified Time) (or if the meeting is adjourned to a time more than 48 hours after the Specified Time, by 6.30pm on the day which is two business days prior to the time of the adjourned meeting) shall be entitled to attend and vote thereat in respect of the number of shares registered in their name at the Specified Time. If the meeting is adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purposes of determining the entitlement of members to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. Changes to the Register after the relevant deadline shall be disregarded in determining rights to attend and vote.
3. If you have sold or transferred all your shares, this booklet and any accompanying documents (but not the personalised Form of Proxy or Form of Direction) should be passed to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.

Voting

4. Voting on each of the Resolutions to be put to the AGM will be by poll, so that all shares voted are included, whether or not the member is able to attend the meeting. The results of the voting at the meeting and the number of proxy votes cast for and against and the number of votes abstained in respect of each of the Resolutions proposed at the meeting will be announced to the London Stock Exchange as soon as practicable following the meeting and also will be published on the Company's website www.drax.com.
5. Members are reminded of their right under section 360BA CA 2006 to request, within 30 days of a general meeting, information which enables them to determine that their vote on a poll at the general meeting was validly recorded and counted by the Company.

Questions at the meeting

6. Questions for the Board can be submitted in advance or at the AGM through the Lumi platform. To enable the Board to address as many member questions as possible, we would request that where possible, questions are submitted in advance of the AGM.
7. If multiple questions on the same topic are received in advance of the AGM, the Chair may choose to provide a single answer to address member queries on the same topic.
8. Any member joining the meeting has the right to ask questions. The Company must cause to be answered any question relating to the business being dealt with at the meeting put by a member joining the meeting. However, members should note that no answer need be given in the following circumstances:
 - if to do so would interfere unduly with the preparation of the meeting or would involve a disclosure of confidential information;
 - if the answer has already been given on a website in the form of an answer to a question; or
 - if it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Appointment of proxies

9. If you are a member of the Company at the time set out in note 2 above, you are entitled to appoint one or more proxies to exercise all or any of your rights to join and ask questions at the meeting. Your proxy does not need to be a member of the Company. If a member appoints more than one proxy to join the meeting, each proxy must be appointed to exercise the rights attached to a different share or shares held by that member.
10. If a member wishes to appoint more than one proxy and so requires additional proxy forms, the member should contact the Company's Registrars, Equiniti Limited, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by using their telephone helpline service on 0371 384 2030 from within the UK or +44 121 415 7047 from outside the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday – excluding public holidays in England and Wales.
11. You can only appoint a proxy using the procedures set out in these notes and the notes on the Form of Proxy. A Form of Proxy is enclosed. To be effective, the Form of Proxy must be completed and signed and, together with the power of attorney or authority, if any, under which it is signed (or a duly certified copy of any such power or authority) must be lodged with the Company's Registrars not later than 48 hours, excluding non-business days, before the time of the meeting or must be lodged using the CREST proxy voting services (see note 13 below).

Administrative notes relating to the AGM continued

12. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Register in respect of the joint holding (the first-named being deemed the most senior).
 13. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof utilising the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual.
 14. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (Equiniti Limited CREST participant ID RA19) by the latest time(s) for receipt of proxy appointments specified in note 11 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.
 15. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings www.euroclear.com.
 16. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
 17. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the Resolution. If you either select the "discretionary" option or if no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
 18. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.
- ### Appointment of proxy electronically
19. Alternatively, members may register the appointment of a proxy for the meeting electronically by accessing the website www.sharevote.co.uk. **You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed on your Form of Proxy).** Alternatively, if you have already registered with Company's Registrars' online portfolio service, Shareview, you can submit your Form of Proxy at www.shareview.co.uk using your usual user ID and password. Full instructions are given on both websites, which are operated by the Company's Registrars.
 20. The proxy appointment and any power of attorney or other authority under which the proxy appointment is made must be received by the Company's Registrars not less than 48 hours, excluding non-business days, before the time for holding the meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used. Please note that any electronic communication sent to the Company or to the Company's Registrars that is found to contain a computer virus will not be accepted. The use of the internet service in connection with the AGM is governed by the Company's Registrars' conditions of use set out on the Sharevote website, www.sharevote.co.uk, and may be read by logging on to that site. If you want to appoint more than one proxy electronically, please contact the Company's Registrars on 0371 384 2030 from within the UK or +44 121 415 7047 from outside the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday – excluding public holidays in England and Wales.
- ### Website giving information regarding the meeting
21. A copy of this Notice and other information required by Section 311A CA 2006 can be found on the Company's website www.drax.com/investors/announcements-events-reports/agms-and-general-meetings/.

Changing proxy instructions

22. To change your proxy instructions simply submit a new proxy appointment. You will need to request a new Form of Proxy from the Company's Registrars, Equiniti Limited, by contacting them at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA or by using their telephone helpline service on 0371 384 2030 from within the UK or +44 121 415 7047 from outside the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday – excluding public holidays in England and Wales. Note that the cut-off time for receipt of Forms of Proxy (see note 20 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
23. If you submit more than one valid proxy appointment in respect of a single share, the appointment received last before the latest time for the receipt of proxies will take precedence.

Nominated persons

24. Any person receiving a copy of this Notice of Meeting as a person nominated by a member to enjoy information rights under Section 146 CA 2006 (a Nominated Person) should note that the provisions in this Notice concerning the appointment of a proxy or proxies to attend the meeting in place of a member, do not apply to a Nominated Person as only shareholders have the right to appoint a proxy. However, a Nominated Person may have a right under an agreement between the Nominated Person and the member by whom he or she was nominated to be appointed, or to have someone else appointed, as a proxy for the meeting. If a Nominated Person has no such proxy appointment right, or does not wish to exercise it, he or she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights at the meeting. If you are a person who has been nominated under Section 146 CA 2006 to enjoy information rights:

- you may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (Relevant Member) to be appointed or to have someone else appointed as a proxy for the meeting; and
- if you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights. Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the member who nominated the Nominated Person to enjoy information rights (or, perhaps the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that member, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

Issued shares and total voting rights

25. As at 1 March 2023, being the latest practicable date prior to the publication of this Notice, the Company's issued share capital comprised 414,930,995 ordinary shares of 11 16/29 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company. The Company holds 13,841,295 shares in treasury, therefore the total number of voting rights in the Company is 401,089,700.
26. This Notice, together with information about the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting as at 1 March 2023 (being the latest practicable date prior to the publication of this Notice) and, if applicable, any members' statements, members' Resolutions or members' matters of business received by the Company after the date of this Notice, will be available on the Company's website www.drax.com.

Website publication of audit concerns

27. Under Section 527 CA 2006, members meeting the threshold requirements set out in that Section have the right to require the Company to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 CA 2006.
28. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 CA 2006. Where the Company is required to place a statement on a website under Section 527 CA 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under Section 527 CA 2006 to publish on a website.

Corporate representatives

29. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that it does not do so in relation to the same shares.

Electronic address

30. Any electronic address provided either in this Notice or in any related Documents (including the Form of Proxy) may not be used to communicate with the Company for any purposes other than those expressly stated.

Administrative notes relating to the AGM continued

Documents available for inspection

31. A copy of each of the Executive Directors' service contracts and the Non-Executive Directors' appointment letters and conditions of appointment will be available for inspection at the Company's registered office during normal business hours from the date of this Notice until the close of the meeting. So that appropriate arrangements can be made for members wishing to inspect documents, we request that members contact the Company Secretary by email at companysecretary@drax.com in advance of any visit to ensure that access can be arranged.

Members' right to have a matter of business dealt with at the meeting

32. Under Sections 338 and 338A CA 2006, members meeting the threshold requirements in those Sections have the right to require the Company to:

- give, to members of the Company entitled to receive notice of the meeting, notice of a Resolution which may properly be moved and is intended to be moved at the meeting; and/or
- include in the business to be dealt with at the meeting any matter (other than a proposed Resolution) which may be properly included in the business. A Resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a Resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious.

33. Such a request may be in hard copy form or in electronic form, must identify the Resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than the date which is six clear weeks before the meeting (or, if later, the time at which notice is given of the meeting), and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Processing your personal data

34. Personal data provided by or on behalf of members in connection with the AGM may be processed by the Company and any third-party to whom it discloses such data in connection with the holding of the AGM (including the Company's Registrars) for the purposes of compiling and updating the Company's records in connection with the AGM, fulfilling its legal obligations and handling the rights exercised by members. The Company shall process such personal data in accordance with its privacy policy, a copy of which is available at www.drax.com/privacy-notice/site-visitor-privacy-notice/.

General enquiries

35. If you have any queries about voting or about your shareholding you can contact Equiniti Limited, who maintain the Register as follows:

- by using their telephone helpline service:
- from within the UK on 0371 384 2030; or
- from outside the UK on +44 121 415 7047; or
- by writing to them at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

The telephone helpline service will be available between 8.30am and 5.30pm Monday to Friday – excluding public holidays in England and Wales.

The telephone helpline service will not be able to provide legal, financial or personal taxation advice. Calls may be recorded and randomly monitored for security and training purposes.

Part E

Definitions

The following definitions apply throughout this document and in the accompanying Form of Proxy, unless the context requires otherwise:

"Annual General Meeting" or "AGM" or "meeting"	the Annual General Meeting of the Company to be held at 12.30pm on 26 April 2023 (and any adjournment thereof)
"Board" or "Directors"	the Directors of Drax Group plc
"CA 2006"	the Companies Act 2006
"Code"	the UK Corporate Governance Code 2018
"Company" or "Drax Group" or "Drax"	Drax Group plc
"Company's Registrars"	Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
"CREST"	the relevant systems (as defined in the CREST Regulations) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in such regulations)
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
"Form of Proxy"	the proxy form enclosed with this document for use by shareholders to vote on the Resolutions
"London Stock Exchange"	London Stock Exchange plc
"Official List"	the official list of the UK Listing Authority
"ordinary shares"	ordinary shares with nominal value of 11 16/29 pence each in the capital of the Company
"Register"	the register of members of the Company
"Resolutions"	the Resolutions set out in the notice convening the AGM
"shareholders" or "members"	holders of ordinary shares
"UK Listing Authority"	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000
"UK"	the United Kingdom of Great Britain and Northern Ireland

Part F

Skills and experience of the Board

Philip Cox CBE Chair

Contribution and Experience

Philip's 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 Director, 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.

Philip is an experienced leader of large businesses, particularly in the energy sector. As Chair, Philip cultivates a culture of openness, transparency and honesty on the Board in which constructive debate and challenge occurs and all Directors contribute fully. Philip has an in-depth knowledge of energy markets and the related regulation. He also has extensive experience in stakeholder engagement.

Appointment to the Board: January 2015

Appointment as Chair: April 2015

Will Gardiner CEO

Contribution and Experience

Will has driven the vision and operations of the Company since becoming CEO in January 2018, inspiring Drax's transformation from a leading UK renewable energy company to global leadership in sustainable biomass with the ambition to be a global leader in carbon dioxide removals.

Sustainability considerations are at the core of everything at Drax. Will is driving Drax's sustainability agenda, taking a thought leadership role in defining sustainability criteria for woody biomass. Working with stakeholders across the spectrum, Will is creating a purpose led company at Drax to ensure outcomes that are positive for people, nature and the climate.

In addition to being CEO of Drax, Will is a Commissioner of the Energy Transitions Commission, is a member of the World Economic Forum's (WEF) Alliance of CEO Climate Leaders, and is also a Non-Executive Director 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

Andy Skelton CFO

Contribution and Experience

Using his strong financial and commercial skills built over 25 years, Andy provides the financial oversight and controls that has supported the growth of Drax from a renewable energy company to an international company with a differentiated portfolio.

Andy is highly values driven, with a personal commitment to Drax's climate, nature and people positive ambitions. Andy represents Drax as a member of the Northern Powerhouse Partnership, helping create more opportunities and a better economy for the people of the North of England, where he also lives.

Previously Andy was 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

David Nussbaum Senior Independent Non-Executive Director Contribution and Experience

David holds a portfolio of other Board appointments, including Chair of International Alert and of the Joffe Trust. He also serves as a member of the Board ('Council') of Chatham House, and of the International Budget Partnership; is President of the Advisory Council of Transparency International UK; and is a member of the Ethical Investment Advisory Group of the Church of England.

David's 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 CFO of Field Group plc. In a Non-Executive capacity, David has been Deputy Chair of the International Integrated Reporting Council, Deputy Chair of Shared Interest Society, a Non-Executive Director of Low Carbon Accelerator Limited, and Chair of Traidcraft plc.

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

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

David has a particular interest in sustainability and climate issues. His long career spent working with leading NGO's has given him a passion for the importance of companies and governments delivering on their carbon reduction goals – crucial components of our response to climate change.

Appointment to the Board: August 2017

Erika Peterman Independent Non-Executive Director Contribution and Experience

Erika's extensive experience, gained from over 25 years working in global organisations, enables the delivery of change and growth in complex, world-leading businesses. Her broad knowledge has been built 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 senior Executive roles with BASF, covering manufacturing and production, engineering, strategy, and commercial business management. Passionate about STEM

and DEI, she actively supports BASF's talent and workforce development programs, as well as a range of diversity and inclusion initiatives.

Erika sits on a variety of College of Engineering Advisory Boards, including those for the University of Houston and the Georgia Institute of Technology. She serves as a Board Trustee at Chatfield College in Cincinnati, Ohio. She is also a member of the Executive Leadership Council, a non-profit organization 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

John Baxter CBE

Independent Non-Executive Director

Contribution and Experience

John has 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 Committees on Environment, Health, Safety & Security and also People & Remuneration.

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

John has broad and expert level experience in engineering, health and safety, and energy generation experience. John is passionate about people development, particularly advancing the opportunities for young people in STEM careers, including via apprenticeships. His dedication to charity work and fundraising to support young people, provides a depth of understanding during Board discussions on stakeholder engagement and culture matters. Also, having been born and brought up in Scotland he brings important insights to Drax on the local environment and culture.

Appointment to the Board: April 2019

Kim Keating

Independent Non-Executive Director

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. 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.). She is currently a Non-Executive Director of Yamana Gold Inc. and Board chair of Major Drilling International Inc. Kim is also a founding member of Makwa-Cahill Limited Partnership, a nuclear qualified indigenous fabrication company. 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 and Diligent Climate Leadership certification. She is a graduate of the Rotman-Institute of Corporate Directors Education Program and was awarded her ICD.D designation.

Throughout her career, Kim has made significant engineering and project management contributions to complex major projects in the Canadian, Norwegian and UK energy sectors, bringing a wealth of strategy, operational leadership, and technical expertise to her roles. She has a deep appreciation and insight into the value of community partnerships particularly with indigenous groups.

Appointment to the Board: October 2021

Nicola Hodson

Independent Non-Executive Director

Contribution and Experience

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.

Nicola is currently Chief Executive of IBM UK and Ireland and Deputy President of TechUK. Previously she was Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, Chief Operating Officer of Microsoft UK and previously held P&L and sales roles at Siemens, CSC (now DXC) and EY. Nicola is a Non-Executive Director of Beazley plc.

Nicola brings expert level technology knowledge, with her current working experience at the forefront of global organisations. She is also skilled in business and digital transformation, and sales. Nicola is committed to inclusivity and enabling people to realise their full potential, irrespective of their background.

Appointment to the Board: January 2018

Vanessa Simms

Independent Non-Executive Director

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.

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.

Vanessa has broad and expert level experience in strategic capital allocation, finance, risk and internal controls at highly successful companies in the UK which is invaluable in her role as Chair of the Audit Committee. She has a comprehensive understanding of large, listed companies' requirements and brings a rich insight into a broad range of stakeholder perspectives.

Appointment to the Board: June 2018

Appendix 1 – Information for the day

User guide to joining the AGM online

Electronic meeting

For the Annual General Meeting, Drax Group plc will be enabling members to join the meeting electronically, should they wish to do so. This can be done by accessing the AGM website, [https:// web.lumiagm.com](https://web.lumiagm.com).

Accessing the AGM Website

Lumi AGM can be accessed online using most well-known internet browsers such as Edge, Chrome, Firefox and Safari on a PC, laptop or internet-enabled device such as a tablet or smartphone. If you wish to join the AGM using this method, please go to <https://web.lumiagm.com> on the day.

Logging in

On accessing the AGM website, you will be asked to enter a Meeting ID which is 110-637-161.

You will then be prompted to enter your unique Shareholder Reference Number (SRN) and PIN which is the first two and last two digits of your SRN. These can be found printed on your Form of Proxy. Access to the meeting via the website will be available from 11.30am on 26 April 2023.

Broadcast

The meeting will be broadcast with presentation slides. Once logged in, and at the commencement of the meeting, you will be able to listen to the proceedings of the meeting on your device, as well as being able to see the slides of the meeting which will include the Resolutions to be put forward to the meeting, these slides will progress automatically as the meeting progresses.

Questions

Members joining electronically may ask questions via the website by typing and submitting their question in writing. Select the messaging icon from within the navigation bar and type your question at the top of the screen, once finished, press the 'send' icon to the right of the message box to submit your question.

Voting

Once the Chair has formally opened voting, the list of Resolutions will automatically appear on your screen. Select the option that corresponds with how you wish to vote.

Once you have selected your vote, the option will change colour and a confirmation message will appear to indicate your vote has been cast and received, there is no submit button.

To vote on all Resolutions displayed select the "vote all" option at the top of the screen. To change your vote, re-select your choice. To cancel your vote, select the "cancel" button. You will be able to do this at any time whilst the poll remains open and before the Chair announces its closure.

Requirements

An active internet connection is required in order to allow you to submit questions and listen to the audiocast. It is the user's responsibility to ensure you remain connected for the duration of the meeting.

Duly appointed proxies and corporate representatives

Please contact the Company's Registrar before 12:30pm on 24 April 2023 on 0371 384 2030 or +44 121 415 7047 if you are calling from outside the UK for your SRN and PIN.

Lines are open 8.30am to 5.30pm Monday to Friday (excluding public holidays in England and Wales).

Meeting ID: 110-637-161
To login you must have your SRN and PIN

1



Open the Lumi AGM website and you will be prompted to enter the Meeting ID. If a shareholder attempts to login to the website before the meeting is live*, a pop-up dialogue box will appear.

* 12:30pm on 26 April 2023

2



After entering the Meeting ID, you will be prompted to enter your unique SRN and PIN (see "Logging In" on page 16).

3



When successfully authenticated, you will be taken to the Home Screen.

4



To view the meeting presentation, expand the "Broadcast Panel", located at the bottom of your device. If viewing through a browser, it will appear automatically.

This can be minimised by pressing the same button.

5



If you would like to ask a question, select the messaging icon.



Type your message within the chat box and click the send button to submit.

6



To vote, select the voting icon. Once you have selected your vote, the option will change colour and a confirmation message will appear to indicate your vote has been cast and received. To cancel your vote, select the "cancel" button.

Notes