

drax

Drax Group plc

EU Taxonomy Report

Version 4.0

DECEMBER 2024

POSITIVE ACTION

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Introduction

Sustainability is at the heart of Drax Group plc (the Group), and we believe that achieving a positive economic, social, and environmental impact helps us create sustainable long-term value. We are pleased to present our first EU Taxonomy Report, for the year ended 31 December 2023, reflecting a continued desire for effective and transparent reporting, we are reporting on a voluntary basis.

Our Sustainable Development Framework is designed to ensure our business model and commercial transition produces positive outcomes for climate, nature, and people. These outcomes will be evident in our value chains and the locations in which we operate.

We seek to ensure transparent, robust, and accurate external reporting and are committed to continually enhancing the transparency of this reporting. As such, this document sets out our alignment to the EU Taxonomy. This framework is designed to reduce the fragmentation in sustainable financing practices that exists throughout the EU and to prevent greenwashing in financial products.

This is our first such disclosure, covering the year ended 31 December 2023. Future disclosures will form part of our annual reporting cycle.

Purpose of EU Taxonomy

The EU Taxonomy is a new regulation designed to support the transformation of the EU economy to meet its European Green Deal objectives, including the 2050 climate-neutrality target. The Taxonomy is a classification system that provides clarity for companies, capital markets, and policy makers on which economic activities are considered sustainable. The Taxonomy is based upon six climate objectives that are linked to the EU's commitments on climate change such as the Paris Climate Agreement:

1. Climate change mitigation
2. Climate change adaptation
3. Protection of water and marine resources
4. Transition to a circular economy

5. Pollution prevention
6. Protection of biodiversity

The EU has begun implementing the Taxonomy for various reasons:

1. To clearly define what economic activities are sustainable and ensure the definitions are derived from the EU's climate-related pledges.
2. To help scale up sustainable investments. To achieve its climate goals, the EU needs investors to redirect a large amount of capital into the right type of projects, assets and companies.
3. To reduce the fragmentation in sustainable financing practices that exists throughout the EU and to prevent greenwashing in financial products. Prior to the introduction of the Taxonomy Regulation, there was no common language in this area.

The Taxonomy Regulation provides an EU-wide classification system which will enable businesses and investors to assess the degree of sustainability of economic activities. Its aims are to provide financial market participants with a common language for environmentally sustainable activities; to encourage financial investments to businesses engaged in or moving towards more sustainable activities.

On the borrower side, the Taxonomy Regulation provides clarity regarding green / sustainable obligations. These should, in turn, improve lenders' confidence in offering loan terms that meet the criteria required under the Taxonomy Regulation.

Our EU Taxonomy Disclosure

Executive summary

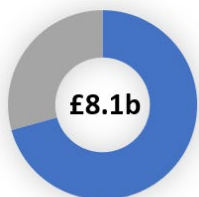
We are pleased to present our first EU Taxonomy Report, for the year ended 31 December 2023. With sustainability at the heart of Drax Group plc and reflecting a continued desire for effective and transparent reporting, we are reporting on a voluntary basis.

In line with the mandatory reporting requirements of the EU Taxonomy, we have disclosed the proportion of our Group revenue, operating expenditure (Opex) and capital expenditure (Capex) that is taxonomy aligned.

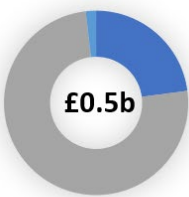
EBITDA is the primary measure used by the Board and Executive management to assess the financial performance of the Group as it provides a more comparable assessment of the Group’s year-on-year trading performance. Therefore, we have also included this as an additional, bespoke Alternative Performance Measure, which is not a reporting requirement of the EU Taxonomy. This is Drax’s first EU Taxonomy Report, and as such no comparative results have been presented.

Results Summary

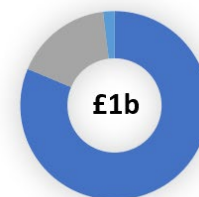
Taxonomy aligned proportion of turnover - 71%



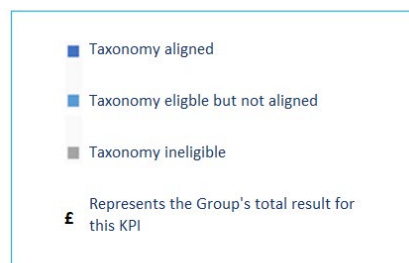
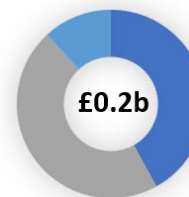
Taxonomy aligned proportion of capital expenditure - 23%



Taxonomy aligned proportion of EBITDA - 81%



Taxonomy aligned proportion of operating expenditure - 42%



We have obtained independent third party limited assurance from PricewaterhouseCoopers LLP (“PwC”) over the three EU Taxonomy aligned key performance indicators (KPIs), and the Alternative Performance Measure EU Taxonomy aligned EBITDA, marked with the symbol **(A)**. PwC’s Independent Assurance Report can be found on pages 8 to 12.

71% of Drax’s revenue, for the year ended 31 December 2023, is considered eligible and aligned under the EU Taxonomy. Of the revenue generated from activities that are eligible under the Taxonomy 99% qualifies as aligned to the sustainability principles of the Taxonomy. For EBITDA, those percentages are 81% and 98% respectively.

In addition to the disclosures made in our report, the EU Taxonomy requires a supplementary table for each KPI to be disclosed. The purpose of this table is to provide an additional split, for each KPI, detailing the relative proportions of the KPI derived from each product or service associated with Taxonomy-aligned economic activity.

As elements of this requirement would require disclosure of potentially commercially sensitive information, we have not included these tables in our report.

Post balance sheet event

On 26 June 2024, Drax announced that Opus Energy Ltd, our SME energy supply business, has agreed to the sale of the majority of the Opus customer accounts to EDF Energy Customers Ltd. From a revenue perspective, the applicable Taxonomy activity for sales generated through this business is “Electricity generation from bioenergy (4.8)”.

There are no required adjustments to the results presented in this report, for the year ended 31 December 2023, and we will reflect this sale in our 2024 EU Taxonomy Report and results, including the impact on comparatives, as required.

Independent Limited Assurance Report to the Directors of Drax Group plc on selected EU Taxonomy information

Our limited assurance conclusion

Based on the procedures we have performed, as described under the “Summary of work performed” and the “Key Assurance Matters” sections below, and the evidence we have obtained, nothing has come to our attention that causes us to believe that the information marked with the **A** symbol in Drax Group plc (“Drax”)’s EU Taxonomy Report for the year ended 31 December 2023 (the “Report”) and summarised below (together, the “Subject Matter Information”), has not been prepared, in all material respects, in accordance with Drax’s Reporting Criteria (the “Reporting Criteria”) set out on pages 11 to 21 of the Report.

Emphasis of matter – Disclosure omissions

We draw attention to page 5 which sets out how Drax has voluntarily reported under Article 8 of EU Regulation 2020/852 for the year ended 31 December 2023 and selectively applied the disclosure requirements. Specifically, Drax has not included the associated tables of data for non-financial undertakings in relation to turnover, operating expenditure and capital expenditure, as set out in Annex II of the Commission Delegated Regulation (EU) 2021/2178. Our conclusion is not modified in respect of this matter.

What we were engaged to assure

The Subject Matter Information needs to be read and understood together with the Reporting Criteria which Drax’s Directors are solely responsible for selecting and applying. The Subject Matter Information and the Reporting Criteria are as set out in the table below:

<i>Subject Matter Information</i>	<i>Location of Subject Matter Information</i>	<i>Reporting Criteria</i>
Total Taxonomy aligned proportion of turnover – 71%	Page 4 of the Report	Prepared in accordance with Drax’s EU Taxonomy Accounting Policy, as stated on pages 11 to 21 of the Report, which details Drax’s interpretation and selective application of Article 8 of EU Regulation 2020/852, as supplemented by the Disclosures Delegated Act (EU) 2021/2178, the Climate Delegated Act (EU) 2021/2139 and the Environmental Delegated Act (EU).
Total Taxonomy aligned proportion of operating expenditure – 40%		
Total Taxonomy aligned proportion of capital expenditure (%) – 23%		
Alternative Performance Measure: Total Taxonomy aligned proportion of EBITDA – 81%		

The scope of our work did not extend to information in respect of earlier periods or to any other information included in, or linked from, the Report including any images, audio files or videos.

Our work

Professional standards applied

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board.

Our independence and quality control

We have complied with the Institute of Chartered Accountants in England and Wales Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, that are at least as demanding as the applicable provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code).

We apply International Standard on Quality Management (UK) 1 and accordingly maintain a comprehensive system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

We performed a limited assurance engagement. Because the level of assurance obtained for limited assurance can vary, we give more detail about the procedures performed, so that the intended users of the Subject Matter Information can understand the nature, timing and extent of procedures we performed as context for our conclusion. These procedures performed vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

In performing our assurance procedures, which were based on our professional judgement, we performed the following:

- evaluated the suitability in the circumstances of Drax's use of the Reporting Criteria as the basis for preparing the Subject Matter Information including the associated reporting boundaries;
- through inquiries, obtained an understanding of Drax's control environment, processes and systems relevant to the preparation of the Subject Matter Information. Our procedures did not include evaluating the suitability of design, obtaining evidence about their implementation or testing operating effectiveness of particular control activities;
- undertook site visits to three of Drax's 10 generation assets (Drax Power Station (biomass), Cruachan (pumped storage), and Lanark (hydro)) to understand the operations within the electricity generation processes;
- evaluated whether Drax's methods for developing estimates are appropriate and have been consistently applied, noting that our procedures did not involve testing the data on which the estimates are based or separately developing our own estimates against which to evaluate Drax's estimates;
- assessed the appropriateness of Drax's identification of eligible economic activities;
- for the eligible economic activities as interpreted by Drax, inspected evidence that supports Drax's assessment that the (i) Substantial Contribution, (ii) Do No Significant Harm, and (iii) Minimum Safeguards criteria have been met;
- inspected records maintained in Drax's accounting systems to confirm the classification of turnover, operating expenditure and capital expenditure within an eligible and aligned economic activity was consistent with the Reporting Criteria;
- reformed the reconciliation of Drax's Taxonomy aligned turnover, operating expenditure, capital expenditure, and EBITDA to Drax's Annual Report and Accounts; and
- evaluated the disclosures in, and overall presentation of, the Subject Matter Information.

For the year ended 31 December 2023, we were not the statutory financial auditor of Drax and as such our assurance procedures specifically did not include performing procedures on financial information extracted from the audited financial statements of Drax and used in the calculation of the Subject Matter Information.

Further, within the Minimum Safeguards criteria, there are requirements for companies to have policies and procedures in place to comply with relevant laws and regulations. Our testing was limited to inspecting that Drax had relevant policies and procedures in place, but no assessment has been made whether these comply with all laws and regulations,

nor did we perform testing that these policies and procedures are applied consistently and effectively by Drax and its employees. As such our conclusions do not constitute assurance over compliance with those laws and regulations.

Materiality

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the Subject Matter Information is likely to arise. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our procedures in support of our conclusion. We believe that it is important that the intended users have the information they need to understand the concept and the level of materiality to place our conclusion in context. Based on our professional judgement, we determined materiality for the Subject Matter Information as follows:

<i>Overall materiality</i>	<p>Materiality may differ depending upon the nature of the Subject Matter Information. We apply professional judgement to consider the most appropriate materiality benchmark for each aspect of the Subject Matter Information, having considered how the intended users may use the information.</p> <p>With regards to the classification of economic activities’ eligibility and alignment to criteria, a binary materiality has been applied meaning that any assessment or criterion that has been incorrectly determined would be a material misstatement regardless of the quantitative impact.</p> <p>For quantitative data, which are expressed as percentages, a benchmark materiality of 5% has been applied to the percentage reported as a whole - for example, 5% of a figure reported as 50% would be 2.5 percentage points. This threshold means that a misstatement of 5%, either as an individual misstatement, or as an aggregate of smaller misstatements, would lead us to conclude that the Subject Matter Information had not been prepared in all material respects in accordance with the Reporting Criteria.</p>
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We also agreed to report to the Directors misstatements (“reportable misstatements”) identified during our work at a level below overall materiality, as well as misstatements below that lower level that in our view warranted reporting for qualitative reasons. The Directors are responsible for deciding whether adjustments should be made to the Subject Matter Information in respect of those items.

Key Assurance Matters

Key Assurance Matters are those areas of our work that in our professional judgement required particular focus and attention, including those which had the greatest effect on the overall assurance strategy, the allocation of resources, and directing the efforts of the engagement team.

We considered the following areas to be a Key Assurance Matter and discussed these with Drax’s management.

Inclusion of turnover associated with ‘buybacks’ within the EU Taxonomy KPIs	
Nature of the issue	<p>Within the KPI ‘percentage of EU Taxonomy aligned turnover’ reported by Drax, one of the economic activities included is ‘4.8 Electricity generation from bioenergy’. Within this economic activity, a significant proportion of turnover is included in relation to ‘buybacks’ - the energy industry mechanism whereby generating companies enter into multiple forward contracts to continually refine the electricity profile to be supplied for any given period. Classifying this turnover as EU Taxonomy aligned is highly judgemental, and dependent on how the EU Taxonomy guidance is interpreted.</p>

<p>How our work addressed the key assurance matter</p>	<p>To assess whether the inclusion of turnover associated with ‘buybacks’ is appropriate, we performed the following key procedures:</p> <ul style="list-style-type: none"> ● Obtained a detailed understanding from management of ‘buybacks’, including: the business and industry rationale for their use; Drax’s policies and processes for entering into buyback contracts; and the corresponding accounting transactions when they do so; ● Using the understanding obtained, performed an assessment as to whether turnover from ‘buybacks’ is eligible and aligned as per Article 8 of EU Regulation 2020/852 and the supplemental acts. This included: <ul style="list-style-type: none"> ○ Considering whether ‘buybacks’ are required for the operation of a commercial electricity generation installation that produces electricity exclusively from biomass; ○ Understanding the revenue (“turnover”) recognition policy and accounting under International Financial Reporting Standards; and ○ Considering the extent to which ‘buybacks’ turnover is attributable to electricity generation activity or a non-generating activity, e.g. a form of electricity trading.
<p>Element(s) of the Subject Matter Information most significantly impacted</p>	<ul style="list-style-type: none"> ● Total Taxonomy aligned proportion of turnover ● Total Taxonomy aligned proportion of operating expenditure ● Total Taxonomy aligned proportion of capital expenditure ● Total Taxonomy aligned proportion of EBITDA

Inherent limitations

The EU Taxonomy Regulation and the Delegated Acts issued thereunder contain wording and terms that are still subject to considerable interpretation uncertainties and for which clarifications have not yet been published in every case, including but not limited to the undefined legal terms in Article 8 of the EU Taxonomy Regulation. Therefore, Drax’s Directors have disclosed in Drax’s Reporting Criteria their interpretation of the EU Taxonomy Regulation and the Delegated Acts. The Directors alone are responsible for this interpretation.

Reporting on Other Information

The other information comprises all of the information in the Report other than the Subject Matter Information and our assurance report. The Directors are responsible for the other information. As explained above, our conclusion does not extend to the other information and, accordingly, we do not express any form of assurance thereon. In connection with our assurance of the Subject Matter Information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the Subject Matter Information or our knowledge obtained during the assurance engagement, or otherwise appears to contain a material misstatement of fact. If we identify an apparent material inconsistency or material misstatement of fact, we are required to perform procedures to conclude whether there is a material misstatement of the Subject Matter Information or a material misstatement of the other information, and to take appropriate actions in the circumstances.

Responsibilities of the Directors

As explained in the Directors’ Statement on page 3 of the Report, the Directors of Drax are responsible for:

- determining appropriate reporting topics and selecting or establishing suitable criteria for measuring or evaluating the underlying subject matter;
- ensuring that those criteria are relevant and appropriate to Drax and the intended users of the Report;
- the preparation of the Subject Matter Information in accordance with the Reporting Criteria including designing, implementing and maintaining systems, processes and internal controls over the evaluation or measurement of the underlying subject matter to result in Subject Matter Information that is free from material misstatement, whether due to fraud or error;
- documenting and retaining underlying data and records to support the Subject Matter Information;



- producing the Report that provides a balanced reflection of Drax's performance in this area and discloses, with supporting rationale, matters relevant to the intended users of the Report; and
- producing a statement of Directors' responsibility.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Subject Matter Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Drax.

Use of our report

Our report, including our conclusion, has been prepared solely for the Directors of Drax in accordance with the agreement between us dated 9 November 2023, as varied on 14 February 2024 and 27 February 2024 (collectively the "agreement"). To the fullest extent permitted by law, we do not accept or assume responsibility or liability to anyone other than the Board of Directors and Drax for our work or our report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds
19 December 2024

EU Taxonomy Accounting Policy

This page details the criteria we've applied to assess our business operations within the framework of the EU Taxonomy. We've assessed our activities against its eligibility and alignment criteria which form the basis for calculating our EU Taxonomy aligned KPIs and EU Taxonomy aligned EBITDA results.

Taxonomy eligibility

Our eligibility assessment reviewed the key activities that comprise the largest proportion of our revenue, operating expenditure (Opex) and capital expenditure (Capex). Six primary activities in annexes I and II of the Climate Delegated Act (Commission Delegated Regulation (EU) 2021/2139) (the 'Climate Delegated Act') have subsequently been assessed on:

- Electricity generation from bioenergy (4.8)
- Electricity generation from hydropower (4.5)
- Storage of electricity (4.10)
- Electricity generation from fossil gaseous fuels (4.29)
- Transport of carbon dioxide (CO₂) (5.11)
- Underground permanent geological storage of CO₂ (5.12)

Our Pellet Production activities are also a key contributor to our revenue and Capex, which was in scope for assessment of Taxonomy eligibility. However, there is currently no economic activity listed in the Taxonomy that is aligned to our Pellet Production activity, which has meant it has been classed as ineligible. As the EU Taxonomy list of eligible activities is expanded, we will reconsider the assessment in future to ensure it remains appropriate.

Taxonomy-alignment of our material activities has subsequently been assessed using annexes I and II of the Climate Delegated Act. The Technical Screening Criteria (TSC) for Substantial Contribution, Do No Significant Harm (DNSH) principles and Minimum Safeguards have been assessed per activity.

Further details of our eligibility assessment are included on pages 14 to 18.

Taxonomy alignment

Regulation (EU) 2020/852, article 3, sets out criteria which an economic activity shall meet to qualify as taxonomy aligned. These are economic activities that:

- 1) Substantially contribute to one or more of the six environmental objectives;
- 2) Do no significant harm to the other five objectives; and
- 3) Comply with minimum safeguards covering social and governance standards.

Further details of our alignment assessment are included from page 13.

Eligibility assessment

We have compared the material economic activities of Drax with the sustainable activity definitions set out in the Climate Delegated Act, our interpretation of the Disclosures Delegated Act Annex I (Commission Delegated Regulation (EU) 2021/4987) and available guidelines from the European Commission.

This allowed us to determine whether each economic activity was eligible or ineligible under EU Taxonomy. The total revenue figures analysed were reconciled back to the Group financial statements for that year, ensuring no double counting.

Assessment of revenue generating activities

Generation (Drax Power Station {DPS})

Economic activity	Taxonomy activity	Eligible?	Description and reason
Electricity sales - Biomass Renewables Obligation (RO) and Contracts for Difference (CfD)	Electricity generation from bioenergy (4.8)	Eligible	98% of revenue relates to sales of electricity generated from bioenergy, an eligible activity.
	n/a	Ineligible	2% of electricity revenue is associated with optimisation, as described in the ‘DPS electricity sales’ section below this table, and is not eligible under the Taxonomy.
Buybacks	Electricity generation from bioenergy (4.8)	Eligible	Aligned with the 98%/2% split of electricity sales from RO and CfD, revenue generated from buybacks, as described in the ‘DPS electricity sales’ section below this table, contains an element associated with optimisation which is not eligible under the Taxonomy.
	n/a	Ineligible	
Renewable Obligation Certificates (ROCs) Sales	Electricity generation from bioenergy (4.8)	Eligible	Sale of ROCs from the generation of electricity from bioenergy so is deemed eligible under the Taxonomy.
Contracts for Difference (CfD)	Electricity generation from bioenergy (4.8)	Eligible	CfD from renewable generation are eligible under the Taxonomy.

Generation (Drax Power Station {DPS}) (Continued)

Economic activity	Taxonomy activity	Eligible?	Description and reason
Intercompany	Electricity generation from bioenergy (4.8)	Eligible	Revenue generated, through intercompany sales, relating to electricity generated from bioenergy, an eligible activity. <i>Note: Intercompany revenue eliminated on consolidation.</i>
	n/a	Ineligible	An amount of intercompany revenue relates to the sale of purchased energy, not an eligible activity under the Taxonomy.
Electricity sales (coal)	n/a	Ineligible	The generation of energy through combustion of coal is not an eligible activity under the Taxonomy.
Gas sales	n/a	Ineligible	The sale of gas is not an eligible activity under the Taxonomy.

Generation (Hydro and Pumped Storage)

Economic activity	Taxonomy activity	Eligible?	Reason
Generation (run-of-river hydro)	Electricity generation from hydropower (4.5)	Eligible	Revenue from the generation of electricity from hydropower is an eligible activity under the Taxonomy.
Generation (pumped storage)	Storage of electricity (4.10)	Eligible	Revenue from pumped storage is an eligible activity under the Taxonomy.

Other

Economic activity	Taxonomy activity	Eligible?	Reason
Pellet Production	n/a	Ineligible	<p>The EU Taxonomy does not currently have an economic activity which is applicable to our Pellet Production business, despite the link to electricity generation from bioenergy (4.8).</p> <p>The percentages of Revenue, Opex, Capex, and EBITDA relating to Pellet Production are 5%, 10%, 40% and 31% respectively.</p>
Customers	4.8, 4.5 and 4.10 above, to the extent this electricity is generated from one of those activities	Eligible	Revenue generated from the sale of electricity generated from bioenergy, purchased from DPL. This is therefore eligible under the Taxonomy.
	n/a	Ineligible	Revenue generated from the sale of market purchased energy, which is not an eligible activity under the Taxonomy.

Non-revenue generating activities

We also assessed the following non-revenue generating activities that only have related Capex and Opex.

Economic Activity	Description	Economic activity	Revenue £m	Opex £m	Capex £m
BECCS	Capex in relation to BECCS – not yet at the stage where the EU Taxonomy criteria can be proved, despite the criteria	Transport of CO ₂ (5.11) and underground permanent geological storage of CO ₂ (5.12)	-	3.8	18.3

	being a requirement for BECCS projects in the future.				
OCGTs	There are no plans in place to burn an alternative fuel (hydrogen) to natural gas and therefore this is eligible but not aligned.	Electricity generation from fossil gaseous fuels (4.29)	-	-	207.6

Whilst many of the activities above are straightforward when considering eligibility, others have an element of complexity, warranting the further explanation below:

Drax Power Station (DPS) electricity sales

The primary activity at DPS is the generation of flexible, renewable electricity from biomass. The plant can sell its power forward, up to its generation capacity, to secure prices for a season. As it gets closer to the time, DPS can buy back and sell for different periods. Therefore, to the extent they are linked to biomass generation, these transactions have been classed as eligible. On occasion, for operational or economic purposes, biomass pellets which would otherwise be used for generation are sold on to third parties. As described above, this activity (Pellet Production), is ineligible. However, the forward contract related to that generation would still have been honoured, through market purchases and subsequent sales. Therefore, electricity sales representing the net cost of biomass sold as a proportion of the cost of biomass burned has been designated as ineligible, as this would be satisfied from open market purchases which cannot be determined to be eligible. This represented 1.8% (2022: 6.3%) of the plant’s electricity sales. Note that a significant proportion of DPS sales are removed through the intercompany adjustment, as described in the ‘Intercompany’ section of the ‘Generation (Drax Power Station {DPS})’ table above.

Customers

Revenue Stream	Source Of Energy	Eligible?
Electricity sales	Generation segment generation	Yes
	Generation segment market purchases subsequently sold to the Drax Customers business	No (Drax hasn't formally assessed, see comment below)
	Third party Power Purchase Agreements (PPAs)	No (Drax hasn't formally assessed, see comment below)
Gas sales	Intercompany purchases	No

Our Customers business either buys power and gas from within the Group or procures power from smaller third parties through power purchase agreements (PPAs). The proportion of revenue from our Customers business that has been determined to be eligible has been calculated in accordance with the amount associated with aligned intercompany purchases. (This is the other side of the intercompany revenue removed from DPS sales, as described above, and – in essence – the eligible generation that happens within the Generation segment).

The constituent parts of the remainder were then considered. Drax Power Limited (DPL) sells either electricity it generates itself, purchased gas or purchased power to the Customers business (which the Customers business then sells on). Gas sales are ineligible and therefore have been adjusted in both the numerator and denominator for the Customers proportion of eligible electricity revenue. Likewise, Customers power purchased from the open market has been removed, even if this has an associated Renewable Energy Guarantees of Origin (REGO) for fuel mix disclosure purposes, because it has not necessarily been generated from an eligible activity. This means that the proportion of aligned revenue is lower than the 'renewable' proportion per the Customers businesses fuel mix disclosures.

Alignment assessment

To be EU Taxonomy aligned, eligible activities must meet the following criteria:

- Comply with the substantial contribution criteria established for at least one of the EU Taxonomy environmental objectives.
- Not significantly harm any of the other EU Taxonomy environmental objectives.
- Be carried out in compliance with the minimum safeguards, by ensuring alignment with the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations (UN) Guiding Principles on Business and Human Rights. The activity should also comply with the principles and rights set out in the eight fundamental conventions identified in the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

We have considered our EU Taxonomy eligible activities against each of these criteria, as set out below:

1. Substantial contribution

Climate Change Mitigation

We have assessed and documented whether our Taxonomy-eligible activities fulfil the substantial contribution criteria to climate change mitigation. Our assessment below details how our activities contribute towards climate change mitigation and meet the criteria.

For activity 4.8, the forest and agricultural material consumed at Drax Power Station (DPS) complies with the land criteria laid down in Article 29 paragraphs 2 to 7 in the Directive (EU) 2018/2001 and meets the electrical efficiency criteria. The greenhouse gas (GHG) emissions from the use of biomass at DPS meet the GHG emission saving methodology set out in Annex VI to Directive (EU) 2018/2001. The remaining substantial contribution criteria is not applicable to Drax as DPS has a total-rated thermal input above 100MW and does not rely upon anaerobic digestion.

For activity 4.5, seven out of eight of our facilities complied with the substantial contribution to climate change mitigation. The final facility did not meet the criteria as the lifecycle GHG emissions have not been calculated as below 100g CO₂ e/kWh using an EU Taxonomy approved method.¹

For activity 4.10, our pumped storage asset – Cruachan Power Station – automatically meets the climate change mitigation substantial contribution criteria, given that it does not use chemical storage and therefore Sections 3.7 to 3.17 of the Annex set out in the Delegated Act are not applicable.

2. Do No Significant Harm (DNSH)

We reviewed all economic activities where we are able to demonstrate a substantial contribution to climate change mitigation in relation to the DNSH principles. This was to ensure the activities did not significantly harm any environmental or social objectives.

Climate adaption

To comply with this DNSH principle, our Generation assets within activities 4.8, 4.10 and 4.5 must meet the criteria set out within Appendix A to Annex I of the Climate Delegated Act.

Through our assessment, our assets meet the DNSH principal requirements as we have completed climate risk assessments, based on best practice and available guidance, for each of the sites. The assessments identify which physical climate risks may affect the performance of the economic activity during each site's lifetime, by using a scenario analysis vulnerability assessment. They also assess the materiality of the risk prioritised based on the Group risk scoring matrix, which considers likelihood and impact on the surrounding environment.

¹ We have used the GHG Protocol methodology to calculate the lifecycle emissions for the Hydro sites, and using this method, the emissions are below 100g CO₂e/kWh

All Drax assets are also deemed to have a life expectancy of over ten years, including Drax Power Station, which has an average useful economic life remaining of 15 years. This was disclosed in note 3.1 of the Drax Group plc Annual Report and Accounts 2023.

Sustainable use and protection of water and marine resources

To comply with this DNSH principle, the activities 4.8 and 4.10 must meet the criteria set out within Appendix B to Annex I and 4.5 of the Directive 2000/60/EC and in particular paragraph 7.

The DNSH principle requires an Environmental Impact Assessment (EIA) to be carried out in accordance with Directive 2011/92/EU of the European Parliament and of the Council, and includes an assessment of the impact on water in accordance with Directive 2000/60/EC. Due to the age of Generation's assets, EIAs were not a requirement prior to their construction. However, through subsequent expansions to the sites, an EIA was completed for each of the assets in activities 4.8, 4.10 and 4.5. In addition, further water assessments have been completed in order for the sites to obtain water abstraction and discharge permits or water licences have been obtained, satisfying the above criteria.

Transition to a circular economy

There are no DNSH principal criteria to be met for activities 4.5 and 4.8 regarding transition to a circular economy. The DNSH principal criteria for 4.10 requires that the site has a waste management plan in place and ensures maximal reuse or recycling at end of life, in accordance with the waste hierarchy. We meet this DNSH principle for 4.10, as we have waste management procedures in place at the site.

Pollution prevention and control regarding use and presence of chemicals

To comply with this DNSH principle, the emissions for nitrogen oxides (NO_x) and sulphur oxides (SO_x) produced by the Generation asset (Drax Power Station) must be within or lower than the associated emission levels (AEL) associated with the best available techniques (BAT) ranges set out in the latest

relevant BAT conclusions for large combustion plants. We meet this DNSH principle as the emissions are within or lower than the BAT-AEL ranges.

To track the emissions at the asset, we have a continuous emission monitor system (CEMS) on site. This measures the flue gas concentrations of sulphur dioxide (SO₂), NO_x, carbon monoxide (CO), hydrogen chloride (HCl) and Total Particulate Matter. They also measure peripheral parameters to “normalise” the measurements and allow it to convert the concentration measured to a mass emission. These peripherals are flow rate, oxygen (O₂), moisture and temperature. The CEMS records a reading for each parameter every 5 seconds and, using an industry standard and Environment Agency approved averaging calculation, allows us to build hourly, daily, monthly or annual averages for each unit or for the station as a whole on each peripheral.

The emission monitors and the software are MCERTS (*Environment Agency’s Monitoring Certification Scheme for equipment, personnel and organisations*) accredited. The CEMS is checked weekly against gases of known concentration to ensure it is still measuring accurately (these are known as Quality Assurance Level 3 or QAL3 checks). The CEMS also has an annual surveillance test by an accredited third party and four-yearly calibrations, again by an accredited third party (QAL2). We provide these levels to the Environment Agency annually, as required by our Environmental Permit.

Within the Directive, for this DNSH principle, there is no criteria to be met for activities 4.5 and 4.10.

Protection and restoration of biodiversity and ecosystems

To comply with this DNSH principle, our Generation assets within activities 4.8, 4.10 and 4.5 must meet the criteria set out within Appendix D to Annex I of the Taxonomy Regulation Delegated Act 2021-2800.

The requirement is that an EIA has been completed in accordance with Directive 2011/92/EU, as highlighted within the ‘Sustainable use and protection of water and marine resources’ principle. Due to the age of the Generation’s assets, EIAs were not a requirement prior to their construction. However, through subsequent expansions to the sites, an EIA was completed for each of the assets in activities 4.8, 4.10 and 4.5. In addition, a Biodiversity Action Plan has been implemented for 4.5, with an annual summary detailing

required actions and status. The required mitigation and compensation measures for protecting the environment are implemented.

3. Minimum safeguards

The final requirement of all activities to be labelled as “Taxonomy-aligned” is that they meet the “minimum safeguards”. In order to determine this, an assessment is required to be performed, with four key topics taken into account: human rights, anti-bribery and corruption, fair competition and taxation. The assessment ensures the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Also included are the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Our principles relating to human rights are set out in the Drax Code of Conduct for our employees². Our Code of Conduct for suppliers sets out the expectations for non-permanent workers and suppliers². The Drax Human Rights policy³ articulates our commitment to comply with applicable legislation and zero tolerance of behaviour that could lead to a failure to comply with Human Rights law. It is aligned to the OECD multinational enterprises (MNE) Guidelines, United Nations Guiding Principles (UNGPs), The International Bill of Human Rights and The Declaration of the International Labour Organisation on Fundamental Principles and Right of Work labour standards. As with all mandatory policies, the Human Rights policy is subject to annual review, and is governed by our Executive Committee. The Human Rights policy includes sections on ‘Addressing Human Rights’ and ‘Assessing Risk’ that refer to Drax due diligence activity and our Supplier Code.

We have dedicated Supply Chain Human Rights (SCHR) and Ethical Due Diligence (EDD) programmes which underpin the policy. These are all under the governance of our Ethics and Business Conduct Committee (EBCC), a sub-committee of the Executive Committee (ExCom). Our measures towards human rights are set out within our annual Modern Slavery Statement¹, which details our commitments for the upcoming 12

²1. Drax’s “Code of Conduct” available at [DR1545-2 Code-of-Conduct-2022 AS V209-external-1.pdf \(drax.com\)](#)

2. Drax’s “Supplier Code of Conduct” available at [Supplier-Code-of-Conduct Edited-0922.pdf \(drax.com\)](#)

3. Drax’s “Human Rights” policy available at [Human Rights \(drax.com\)](#)

months and progress in the previous year. We also have a dedicated “Speak Up” programme, which is our grievance mechanism, set out within our Code of Conduct².

At Drax, we do not condone any behaviour that could lead to actual or perceived bribery or corruption. Our ABC programme is based on “Adequate Procedures” guidance. In 2023, we conducted an annual review of our Gifts, Hospitality, and Conflicts of Interests records. We updated guidance on gifts and hospitality, introducing additional thresholds and approaches regarding gifts and hospitality in Drax Asia, Japan, and to indigenous people. We also created and deployed dedicated ABC eLearning to colleagues considered ‘higher-risk’ of encountering bribery due to the nature of their roles. Our Code of Conduct outlines our Due Diligence approach for ABC³.

We are committed to competing fairly and in accordance with applicable fair competition law. Our Fair Competition programme now covers UK and Japanese competition law, US anti-trust law, and Canadian laws, and includes dedicated training for ‘at higher risk’ teams. Fair competition awareness is raised via our Code of Conduct and there is specific Fair Competition policy in place, including associated guidance processes.

We invest significant time focusing on tax governance and compliance to ensure that all laws are complied with in full for all the jurisdictions we operate in. Tax governance and risk is managed through controls such as process notes and policies, risk registers and annual board updates. We also publish an annual tax strategy setting out our approach to tax governance and risk management.

Drax has not been convicted or in court for violating human rights, labour law, tax laws, competition laws. Neither the company or the senior management has been convicted in court on violating anti-corruption and anti-bribery laws. No allegations have been made to Drax by the Business and Human Rights Resource Centre (BHRRRC) for Drax to respond. In 2021, a complaint was brought against Drax by a group of non-governmental organisations (NGOs) in relation to the OECD Guidelines. The UK National Contact Point

(NCP) issued its Initial Assessment of the complaint on 27 July 2022. The decision in its initial assessment does not mean the UK NCP considers Drax to have acted inconsistently with the OECD Guidelines.³

Taxonomy aligned Opex

The EU Taxonomy Article 8(2) criteria for Opex was reviewed and used to identify and extract balances with the following characteristics from the Group accounting records:

- Research and Development (R&D);
- Renovation;
- Short-term lease;
- Maintenance; and
- Other direct expenditures relation to day-to-day servicing of assets of personal protective equipment (PPE).

Other direct expenditures included cost of consumable parts and certain costs related to planned outages.

This list was then analysed by entity and the split of eligible versus ineligible Opex determined in line with the revenue split for that entity. This was deemed an appropriate proxy for the split of Opex as it was determined efforts to maintain the assets broadly reflected the value they generate at a revenue level. From the eligibility assessment the aligned proportion was then determined.

The proportion was then calculated as the total Opex related to aligned activities versus the total EU Taxonomy Opex, with the non-aligned proportion then being split between ineligible and eligible but not aligned.

³1. The Drax “Modern Slavery Statement” is available at [2023-Modern-Slavery-Statement.pdf \(drax.com\)](#)

2. Details on the Drax “Speak Up” programme are available on page 8 of the [DR1061 Code-of-Conduct-external_GB_V003.pdf \(ctfassets.net\)](#)

3. Details on the Drax due diligence approach to ABC is on page 24 of the [DR1545-2 Code-of-Conduct-2022_AS_V209-external-1.pdf \(drax.com\)](#)

The BECCs project is not yet at the stage where the EU Taxonomy alignment criteria can be proven, despite the criteria being a requirement for BECCS projects in the future and therefore associated Opex has not been assessed as aligned.

Taxonomy aligned Capex

This analysis considered additions to Property, Plant and Equipment, and Intangible Assets.

Capex was determined to be broadly in line with the revenue split, where appropriate, in that the rate of return generated by the Capex would be broadly similar across revenue streams. The exception to this was Pumped Storage, where ancillary services do not incur explicit Capex. They are ancillary to generation, and therefore the revenue from electricity sales proportion was taken as the determiner.

The BECCs project is not yet at the stage where the EU Taxonomy alignment criteria can be proven, despite the criteria being a requirement for BECCS projects in the future and therefore associated Capex has not been assessed as aligned. Further, there are no plans in place to burn an alternative fuel (hydrogen) to natural gas and therefore the Capex associated with OCGTs has not been assessed as aligned.

Taxonomy aligned EBITDA (voluntary)

For the reasons set out in the executive summary, in addition to the three mandatory KPIs, we have chosen to report an Alternative Performance Measure EU Taxonomy aligned KPI (EBITDA) on a voluntary basis.

Other than for Pumped Storage, EBITDA was split on the same basis as revenue. This is because all revenue streams were deemed to generate similar margins, unless there was a reason to believe they should be different.

Pumped storage was considered separately as it generates a significant proportion of its value through ancillary services and system support. Ancillary services are stripped out at a revenue level, but EBITDA is shown with the impact of ancillary services. Therefore, the aligned percentage was determined by taking the aligned revenue generation proportion of the total Pumped Storage revenue.

