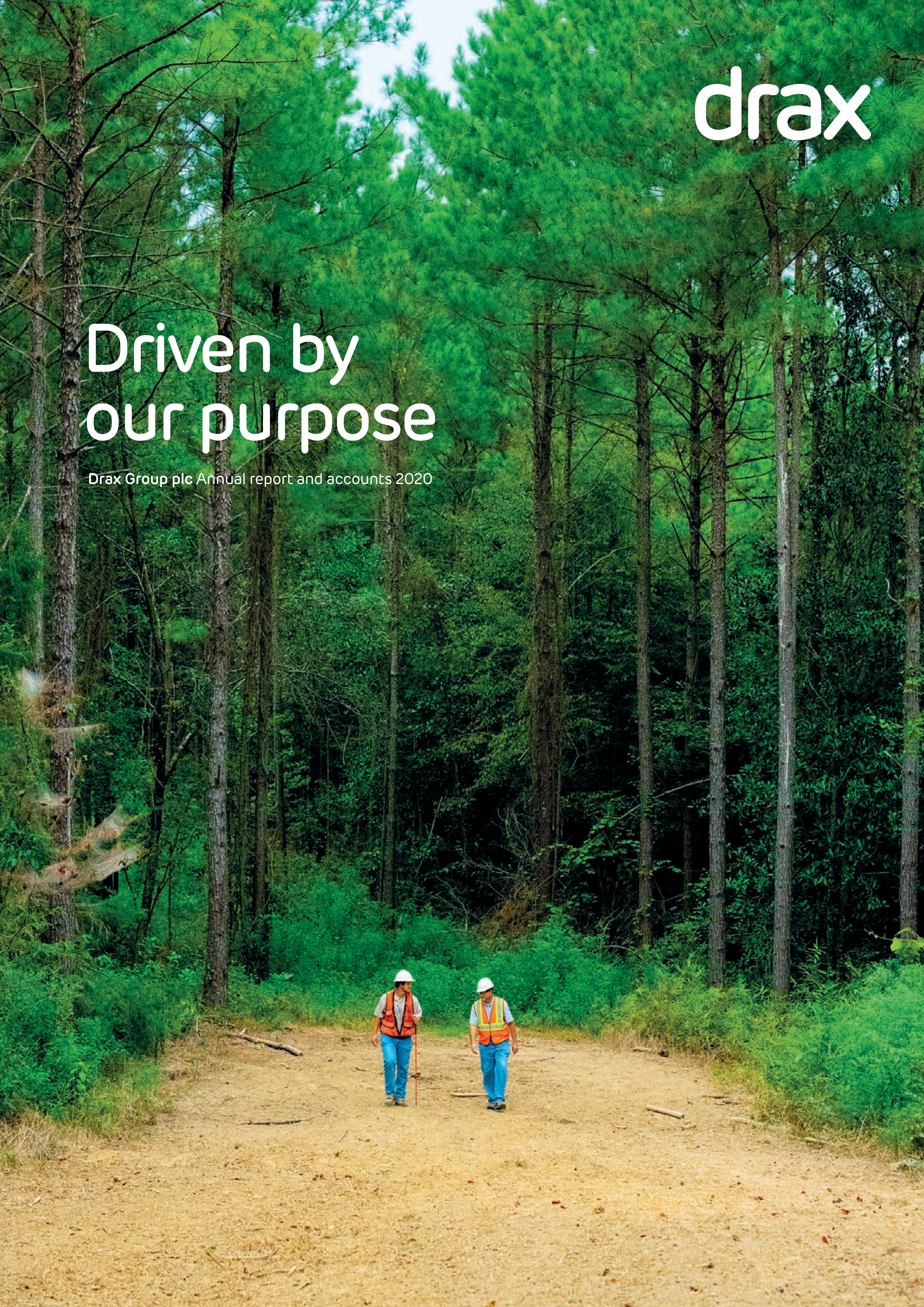
drax

Driven by our purpose

Drax Group plc Annual report and accounts 2020



Welcome to Drax Group

Our purpose

To enable a zero carbon, lower cost energy future

Our ambition

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

Read more about how we plan to achieve our ambition from our Chair and CEO on **pages 8 and 10**

Our strategic aims

To build a long-term future for sustainable biomass

By expanding our sustainable bioenergy supply chain and reducing costs we are developing options for long-term biomass operations – renewable generation, negative carbon emissions, system support services and third party supply of biomass to international markets.

Read more on **page 16**

To be the leading provider of power system stability

Through a portfolio of flexible and renewable generation, and large industrial and commercial customer supply business, we will provide system support services to allow the power system to utilise intermittent renewable energy accelerating the UK's decarbonisation en route to 2050.

Read more on **page 36**

To give our customers control of their energy

We provide our customers with renewable energy, and the opportunity to control and optimise energy use and cost, helping us support the energy system.

Read more on **page 38**

See more online at **www.drax.com**

Front cover: Foresters in Weyerhaeuser working forest, Mississippi, USA, where more carbon is stored and more wood inventory is grown each year than is extracted for wood products such as biomass pellets.

2020 highlights

Adjusted revenue[1]	Adjusted gross profit[1]	Adjusted EBITDA from continuing and discontinued operations[1]	Percentage of total UK renewable electricity generated
£4,235m	£800m	£412m	11%
(2019 re-presented: £4,457m)	(2019 re-presented: £798m)	(2019: £410m)	(2019: 12%)

Total revenue	Total gross profit	Total operating (loss)/profit	Net debt[2]
£4,245m	£726m	£(156)m	£776m
(2019 re-presented: £4,468m)	(2019 re-presented: £677m)	(2019 re-presented: £48m)	(2019: £841m)

Total recordable incident rate	Dividend per share	Customer meter points	Wood pellets produced
0.29	17.1p	425k	1.5Mt
(2019: 0.22)	(2019: 15.9p)	(2019: 419k)	(2019: 1.4Mt)

Contents

(1) We calculate Adjusted financial performance measures, which are specific to Drax and exclude income statement volatility arising from derivative financial instruments and the impact of items we consider to be exceptional, to provide additional information about the Group's performance. Adjusted financial performance measures are described more fully on page 153, with a reconciliation to their statutory equivalents in note 2.7 to the consolidated financial statements on page 170. Throughout this document we distinguish between Adjusted financial performance measures and Total financial performance measures, which are calculated in accordance with International Financial Reporting Standards (IFRS). On 15 December 2020, the Group announced the sale of its portfolio of CCGT assets to VPI Holdings in a deal worth up to £193 million (see page 21), which subsequently completed on 31 January 2021. As a result of this transaction, the results of the CCGT portfolio for 2019 and 2020 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, and a full reconciliation of continuing, discontinued and total financial performance measures is included in note 5.5 to the consolidated financial statements.

(2) We define net debt as borrowings less cash and cash equivalents. A reconciliation of net debt is provided on page 184. Borrowings is defined as per the Group's balance sheet on page 156 and does not include lease liabilities, pension obligations or other financial liabilities.

Market context

Why is Drax important in the market?

Supporting the nation's energy needs, tackling climate change and promoting the UK's socio-economic growth and global leadership ambition through negative emissions

Decarbonisation, electrification, the role of negative carbon emissions and a green recovery from Covid-19

2020 was widely expected to be a transformative year: the UK would leave – and seek a new relationship with – the European Union; the re-elected UK Government under Boris Johnson would implement a new vision and manifesto, including the levelling up agenda and COP26; and US elections in November would offer two very different domestic and international visions. But very few predicted why 2020 would become such a watershed year. The worldwide pandemic (Covid-19) fundamentally changed the world, with short- and long-term socio-economic consequences and global impact on health.

One issue didn't change, however. Climate change, and the focus on a green economy and renewable power. Rather than the global crisis pushing the green agenda into the long grass, the general public reconnected with the environment during lockdowns, and governments saw the economic benefits of pushing a green recovery with more affordable green technology.

Net zero

UK and Globally

The UK continued to position itself as a world leader in decarbonisation. The Prime Minister's 10-point plan and Energy White Paper included low-carbon technologies such as offshore wind and carbon capture and storage.

Despite COP26 being postponed by a year, several major economies announced, reaffirmed or accelerated their net zero commitments. The EU set a new 2030 target for emission reduction to complement its target of carbon neutrality by 2050. South Africa, Japan and South Korea announced net zero emissions by 2050. China announced a carbon emission peak before 2030, with carbon neutrality by 2060. Joe Biden pledged to re-join the Paris Climate Agreement, proposing to make US electricity production carbon-free by 2035 and meet net zero by 2050.

Bioenergy carbon capture and storage (BECCS)

The UK's Climate Change Committee highlighted in December 2020 that 53 $MtCO_2$ of BECCS would be needed to meet net zero. National Grid set out in its 2020 Future Energy Scenarios (FES) report that BECCS was needed in the power industry in every scenario to achieve net zero in 2050 and could help the UK achieve a carbon negative power system as early as 2030.

The UK Government reaffirmed its commitment to Carbon Capture Usage and Storage, safeguarding and building on its £800 million budget commitment in a minimum of two clusters. In that context, it announced a call for evidence on the role of Greenhouse Gas Removal technologies (GGRs) including BECCS. This will inform key strategic decisions around the development, deliverability and cost of different GGRs, as well as the Government's role in addressing market barriers, supporting policies and frameworks.

Flexibility and Stability

Intermittent renewable technologies such as solar and wind grew in 2020, helping decarbonise the power sector. However, this growth increased challenges for the stability of the UK's electricity grid, caused by generation outages and low wind levels. National Grid twice issued an "Electricity Margin Notice" – a warning that the margin between electricity supply and demand on the system had tightened to critical levels – for the first time since 2016. This underscored the need to increase flexible

See more online at **www.drax.com** and more details about trends in the electricity sector at **www.electricinsights.co.uk**

Covid-19 and the Green Bounce Back

Energy

Covid-19's global economic impact also affected the UK power market. In 2020 alone, the average wholesale power price fell 44%, with average electricity demand down by 13%. The costs of balancing the system rose 51% to £293 million whilst the share of renewables increased from 28% to 38.4%, with biomass increasing 8.4% and fossil fuel decreasing by 17.4%.

Green Economic Recovery

It has become increasingly clear that a Covid-19 socio-economic recovery in the UK will focus on green technologies and industries, using private finance to fund immediate and future priorities such as green infrastructure. This could create tens of thousands of jobs around the country, such as offshore wind, carbon capture and storage, and hydrogen.

Drax Impact

Drax can be at the heart of the green economic recovery in the North. Scaling up BECCS at Drax could support thousands of jobs during construction at its peak and contribute significantly to the local economy, according to a report from Vivid Economics, commissioned by Drax. Delivering the Zero Carbon Humber project could create and support tens of thousands of jobs locally and throughout the supply chain, according to the report.

Many businesses will be remembered for their actions during the Covid-19 pandemic. At Drax, we generated good returns for shareholders, with a sustainable and growing dividend and increased share price, whilst "keeping the lights on", avoiding furloughing employees and supporting our employees, customers and communities.

generation and technologies, such as Drax's pumped storage and biomass, to keep the system stable and balanced.

Electrification

According to National Grid's FES report, electricity demand could double between now and 2050. One of the key components of net zero will be the substantial increase in the electrification of various sectors of the economy, such as heat and transportation. With wind and solar technologies likely to supply the bulk of this generation, flexible technologies will play a role in managing their integration and constraints. The FES report estimates that up to 20 GW of hydrogen power and up to 40 GW of storage (such as that provided by pumped storage hydro) could be required to balance the grid in 2050.

Drax Impact

Drax already plays an active role in decarbonising the energy system and providing stability and flexibility. Our strategic focus for a net zero future remains increasing pumped storage and sustainable biomass self-supply, whilst progressing BECCS to be carbon negative by 2030. We are also continuing to focus on giving our customers control of their energy.

Global situation

COP26

COP26 in Glasgow was postponed to 2021 but offers potential to be a major success for the UK both domestically and internationally. The UK Government will want to showcase innovative decarbonisation technologies ahead of COP26. This will be an opportunity for Drax to continue to explain how it can be part of a diverse green energy mix to meet net zero with innovative advancements technologically (through BECCS, CCS and hydrogen) and financially through new green finance models.

Biomass Acceptability

In the US, EU and in the UK, policy makers have continued to regulate biomass in the context of global and domestic efforts to meet net zero. In the EU, the European Commission's Green New Deal proposed a new biodiversity strategy and re-opening key legislation such as the REDII and EU ETS. In the UK, the Government announced it would begin work on a new bioenergy strategy – to be published in 2022. In the US, the EPA has been actively considering the carbon credentials of biomass.

The UK Government's BEIS attitudes survey shows that public support for biomass continues to rise.

EU Carbon Targets

With the EU's increased net zero ambition and timetable, biomass is likely to play a key role in helping the EU to meet its ambitious targets. This increased ambition will have implications for carbon pricing and could result in higher carbon prices in the UK even after Brexit. The UK announced a UK Emissions Trading Scheme (ETS) to replace the EU-ETS from 1 January 2021. The EU is also examining the potential to introduce a carbon border adjustment where non-EU countries will be required to account for an implied carbon price to import goods into the EU.

Drax Impact

Despite Covid-19 challenges, Drax's global supply chain for pellets has remained resilient. As in 2020, Drax will continue to engage with UK, EU and US policymakers on the role of biomass, through the BEIS biomass strategy, revision of REDII and new US administration.

In 2021, Drax is positioning itself as one of the business leaders for COP26 and will look to support the UK Government in its efforts to make this a success.

Business model

Climate change is the biggest challenge of our time. Drax's purpose – to enable a zero carbon, lower cost energy future – puts us at the heart of addressing this global challenge.

Our business model and strategy address key trends in global energy

1. The need for, and increasing pace of, decarbonisation, including negative emissions
2. The continued importance of renewable energy and absolute increase in electricity demand to electrify heat and transport
3. The need for flexibility in generation and consumption of energy to reflect increased reliance on intermittent renewables and increased customer control of their energy

Our strategic aims

- To build a long-term future for sustainable biomass
- To be the leading provider of power system stability
- To give our customers control of their energy

* The definition and calculation of Alternative Performance Measures (those that are defined by Drax and not IFRS) is set out on page 153

Our integrated flexible and renewable value chain...

Pellet Production

Our pellets provide a sustainable, low carbon fuel source that can be safely and efficiently delivered through our global supply chain. Drax's Generation business uses these pellets to make flexible, renewable electricity for the UK.

Based in North America, this part of our business aims to increase capacity from 1.6Mt to 5Mt and reduce production costs by 2027, to support a long-term future for sustainable biomass.

Adjusted EBITDA*	Pellets produced	Production cost
£52m	1.5Mt	$153/t
(2019: £32m)	(2019: 1.4Mt)	(2019: $161/t)

Generation

Our multi-site, multi-technology portfolio of flexible, low-carbon and renewable UK power assets (including biomass and hydro generation) provides power and system support services to the electricity grid.

This portfolio provides long-term earnings stability and opportunities to optimise returns from the transition to a low-carbon economy.

Drax is the UK's largest single source of renewable electricity by output and is developing an option for carbon negative electricity using bioenergy carbon capture and storage (BECCS).

The Group also has options for system support gas assets and a long-term option for the potential expansion of pumped storage.

Adjusted EBITDA (including discontinued operations)*	% renewable	System support and optimisation
£446m	77%	£118m
(2019: £408m)	(2019: 79%)	(2019: £120m)

Customers

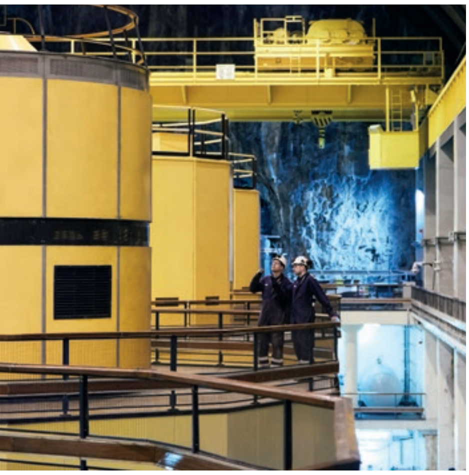
Our Customers business is principally focused on renewable electricity sales to industrial and corporate customers. The business also offers non-generation system support and energy management services, in addition to providing a route to market for many smaller embedded renewable generators.

Adjusted EBITDA*

£(39)m

(2019: £17m)

(reflecting the negative impact of Covid-19 with a £60m impact.)



…giving us compelling competitive advantages

- A leading producer of sustainable biomass
- End-to-end production, generation and supply of renewable energy
- The UK's largest producer of renewable electricity by output
- A leading provider of system support services for the UK electricity system, offering the flexibility that other renewables can't
- Developing large-scale negative emissions technology, which positions Drax as a world-leading carbon negative company
- Leading supplier of renewable electricity and energy solutions to business

Value creation for our stakeholders

Investors

- High quality earnings
- Sustainable and growing dividend
- Strong balance sheet
- Investment for growth

Environment

- Absolute carbon emissions of our generation reduced by over 85% between 2012 and 2020
- Ambition to be a carbon negative company by 2030

Intellectual

- Progressing options for large-scale negative emission technologies
- Development of alternative fuel sources for sustainable biomass

Customers

- Largest source of renewable electricity in UK
- An important source of energy flexibility
- Giving customers control of their energy
- Support for customers experiencing financial hardship due to Covid-19

Workforce

- Covid-19 safety and flexible working patterns established

Employee engagement score

82%

(2019: 76%)

Government and regulators

- No furloughing of employees due to Covid-19
- Thousands of potential jobs via BECCS option
- Major contribution towards UK climate targets
- An important source of system support

Communities

- Community partnerships, fundraising and charitable giving

Total social contribution

£1m*

* Includes cash donations, management cost, in-kind and employee time contributions

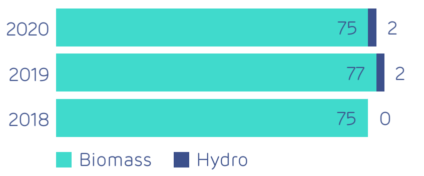
ESG highlights

At Drax, we believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation.

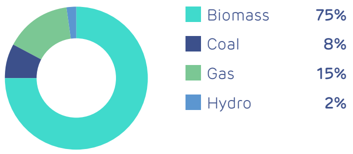
Environment

Since 2012, Drax has reduced its absolute scope 1 and 2 carbon emissions by more than 85%. Our ambition is to become a carbon negative company by 2030.

Renewable generation (%)
UK's largest source of renewable electricity

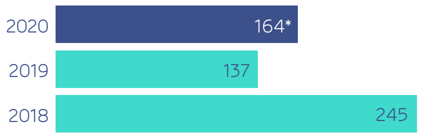


Power generation mix in 2020
(% total output)

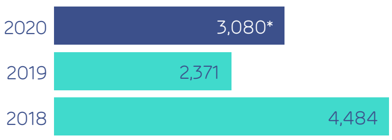


Electricity supplied to customers from renewable sources (%)
UK's largest supplier to business

Group carbon intensity
(tCO_2e/GWh)



Group carbon emissions, scope 1 & 2
($ktCO_2e$)



Group carbon emissions, scope 3
($ktCO_2e$)

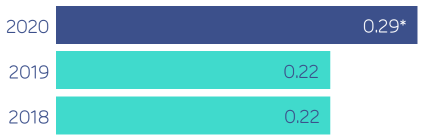
3,135* $ktCO_2e$

2020

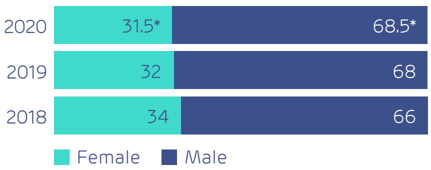
Social

Creating a safe, fair and inclusive place to work, and making a positive contribution in the communities where we operate.

Total Recordable Incident Rate
(TRIR)



Gender diversity, total workforce
(%)



Total social contribution (£)
Cash donations, management cost, in-kind and employee time contributions

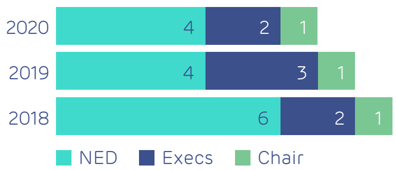
£1m

(2020)

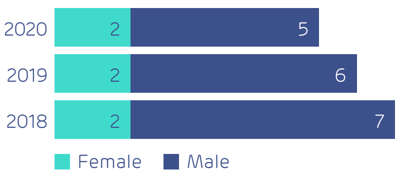
Governance

Clarity of purpose, a positive culture and strong governance enable us to deliver for our stakeholders. Remuneration is based on long-term performance and linked to Environmental, Social and Governance (ESG) metrics, including our performance in the CDP.

Board composition
Executive Directors/Non-executive Directors (%)



Gender diversity (%)

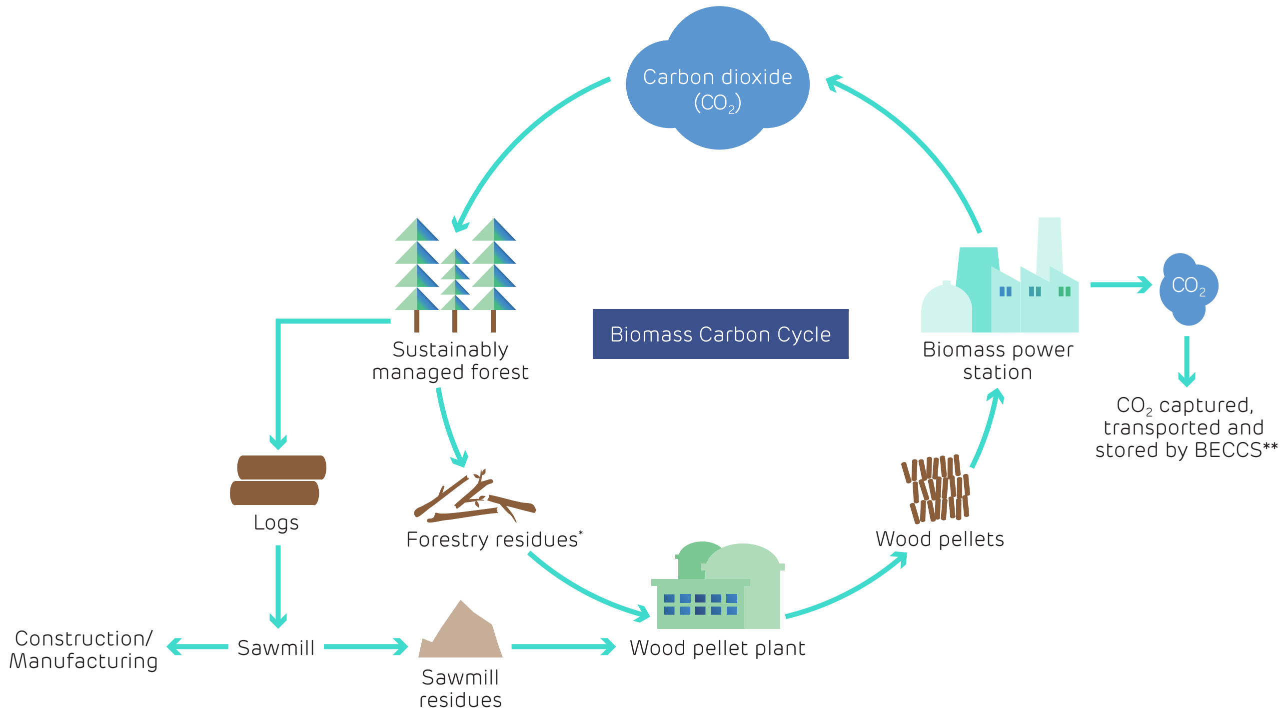


* Limited external assurance using the assurance standard ISAE 3000 for 2020 data as indicated.
For assurance statement and basis of reporting see www.drax.com/sustainability

See Taskforce on Climate-related Financial Disclosures, **page 32**

Biomass Sourcing

Sustainably sourced biomass is CO_2 neutral under scientific principles established by the UN Intergovernmental Panel on Climate Change.



* Forestry residues includes branch tops and bark, thinnings and low-grade roundwood. For more information, see Sourcing Sustainable Biomass on page 53

** BECCS is bioenergy with carbon capture and storage, enabling the capture of CO_2 resulting from generation, which is stored in an aquifer under the North Sea

100% sustainably sourced

- Wood pellets sourced from sustainably managed working forests and residues from forest industries
- Sustainability Policy and Responsible Sourcing Policy outline our requirements and commitments
- Supplier compliance evidenced by Sustainable Biomass Program (SBP) certification or third party audits

Drax Power Station average biomass supply chain GHG emissions ($kgCO_2e/MWh$)

(1) Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000. For assurance statement see www.drax.com/sustainability

99%

Woody biomass sourced by Drax in 2020 that was SBP compliant

Read more on **page 53**

ESG rating performance

CDP	Climate A-
FTSE4Good	Constituent
Sustainalytics	26.1
CDP	Forests B
MSCI ESG Ratings	AA*
V.E	57/100

*www.drax.com/sustainability

UN Sustainable Development Goals (SDGs)

We believe we can have the most impact in these areas:

Chair's statement

How are we planning to become carbon negative by 2030?

With the right negative emissions framework from the UK Government, we aim to become a carbon negative company by 2030. We believe BECCS technology could have global application in the delivery of negative carbon emissions

Introduction

Drax Group's purpose is to enable a zero carbon, lower cost energy future. This informs our strategy of building a long-term future for sustainable biomass, becoming the leading provider of electricity system stability in the UK, and giving customers control of their energy.

Since 2012, we have reduced Drax's carbon emissions by over 85%, principally reflecting our long-term investment in sustainable biomass. During the year we made further progress, announcing in February 2020 an end to commercial coal generation effective in March 2021. In January 2021, we completed the sale of our gas generation portfolio, further reducing our carbon emissions. More recently, on 8 February 2021, we announced the proposed acquisition of Pinnacle Renewable Energy Inc., which is expected to position Drax as the world's leading biomass generation and supply business, alongside the continued development of Drax's ambition to become carbon negative by 2030. The proposed acquisition is subject to shareholder approval and certain court and regulatory approvals.

There remains more we can do to reduce carbon emissions. With the right negative emissions framework from the UK Government, we aim to achieve our ambition to become a carbon negative company by 2030 using BECCS technology. We believe this technology could have global application in the delivery of negative carbon emissions.

Managing Covid-19 impact

Keeping colleagues safe remained paramount throughout the pandemic:

- Focused on the health, safety and wellbeing of colleagues and those we work with
- Continued to pay our sustainable and growing dividend
- Supported customers, including help with debt and the freezing of payments
- Supported our communities
- No Covid-19 financial support from the Government, and no furloughing of employees

Find out more on **page 34**

Through these activities, we expect to play a major role in delivering the UK's legally binding objective to achieve net zero carbon emissions by 2050 and support global efforts to reduce carbon emissions.

Operations, Covid-19 and supporting stakeholders

2020 witnessed the outbreak of Covid-19 with unprecedented global impact. For Drax, the safety and wellbeing of colleagues remained paramount. The Board held additional meetings, overseeing the Group's response, understanding the impact on colleagues, customers, communities and other stakeholders.

As a strategic part of the UK's critical national infrastructure, we recognise our responsibility to support the country's response to Covid-19 and our stakeholders. We maintained high levels of power generation throughout 2020, and we did not seek any Covid-19 financial support from the UK Government, nor did we furlough any employees.

We provided extra support to our customers, particularly the small and medium-size enterprises (SMEs) that were adversely affected. We froze energy payments from care homes in communities local to Drax and offered debt support to customers. We supported our communities in the UK and US with charitable donations and provided over 850 free laptops to enable home learning for students in our communities.

Corporate governance report
page 80

Throughout the pandemic, we have continued to engage with shareholders to explain our expectations of the impact of Covid-19 on the Group and the Board has considered their feedback.

Operationally, our generation portfolio performed well. In 2020, the Group was the largest source of renewable electricity by output in the UK, providing 11% of the total from its biomass and hydro generation assets. We also provided the system support services and operational flexibility required to help maintain grid stability during the Covid-19 induced changes to power demand. Additionally, we completed two major outages on our gas and biomass assets, with the latter including a turbine upgrade which will help contribute to our strategy to reduce the cost of biomass.

Sustainable biomass has a long-term role to play in the UK and global energy markets, both as a flexible and sustainable source of renewable energy, and as a means of delivering negative carbon emissions. Key to securing this long-term role is reducing the cost of biomass and growing our supply chain. We believe these actions will deliver attractive returns to shareholders and enable a long-term future for sustainable biomass, which could include negative carbon emissions via BECCS.

Our Customers business, which supplies electricity and gas to businesses in the UK, experienced significant challenges associated with the impact of Covid-19. The SME market suffered most from this impact, with lower energy demand and, in some cases, an increase in business failures. Throughout the year, our teams have focused on supporting customers as well as working to deliver improvements. We continue to monitor the situation and assess the options for this part of the business.

Results and dividend

Adjusted EBITDA in 2020, including both continuing and discontinued operations, was £412 million (see page 22 for further detail and a reconciliation to relevant IFRS measures). This was a small increase on 2019 (£410 million), despite the impact of Covid-19, which was principally associated with the performance of our Customers business. We believe this was a strong performance within the context of a challenging environment.

At the 2020 half year results, we confirmed an interim dividend of £27 million (6.8 pence per share). The Board proposes to pay a final dividend in respect of 2020 of £41 million, equivalent to 10.3 pence per share, making the full year 2020 dividend £68 million (17.1 pence per share) (2019: £63 million, 15.9 pence per share). This represents a 7.5% increase on 2019 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

In determining the continued appropriateness of the dividend, the Board considered a range of factors. These included trading performance, current liquidity, the outlook for the year in the context of Covid-19, as well as the steps being taken to support all stakeholders. The Board believes payment of the final dividend remains consistent with the Group's commitment to all stakeholders.

The Group has a clear capital allocation policy which it applied throughout 2020. In determining the rate of growth in dividends from one year to the next, the Board will take account of cash flows, the less predictable cash flows from the Group's commodity-linked revenue streams and future investment opportunities. The latter includes our stated intent to invest to expand the Group's biomass supply chain and reduce the cost of biomass. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

People and values

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. To underpin this, in September we launched a new Diversity and Inclusion Policy and approach.

Listening to employees and ensuring a two-way dialogue is vital to understanding where we are doing well and where we can improve. In 2020, we asked employees for feedback on our values and their experience of working at Drax – which informed the evolution of our values – an important part of engagement as Drax continues to develop and change. Will Gardiner, our CEO, and I met regularly with the chairs of our workforce engagement forums. These meetings provided valuable ongoing insights and feedback for the Board in a period of significant change. This helped us to support the business in managing the transition to remote working and ensuring the safety and wellbeing of our workforce. On behalf of the Board, I would like to thank Will and the executive team for their leadership during this extraordinary year and all of our employees who have responded so well to the challenges presented in 2020.

> "During 2020 we supported stakeholders in response to Covid-19, and maintained high levels of power generation throughout the year"

Safety is a long-held and central commitment of our operational philosophy. While the number of incidents is low, we need to remain vigilant and work to reduce them. We are committed to the highest standards and have continued our efforts to strengthen our approach across the Group.

Sustainability is at the heart of what we do and we believe that achieving a positive economic, social and environmental impact helps us create long-term value. We remain committed to promoting the UN Global Compact principles on respect for human rights, labour rights, the environment and anti-corruption.

Board changes

In April 2020, Andy Koss stepped down from the Board after four years as an Executive Director and 15 years with the Group. I would like to thank Andy for his valuable contribution to the Group in this period.

Conclusion

In 2020 we delivered a strong financial and operational performance in the context of the very challenging environment caused by Covid-19, supported our stakeholders and continued to pay a sustainable and growing dividend in line with our policy.

At the same time, we continued to make progress with our strategic objectives. Our biomass strategy is clear; we believe it can deliver sustainable long-term value to our stakeholders as we realise our purpose of enabling a zero carbon, lower cost energy future and we remain focused on this objective.

Philip Cox CBE
Chair

CEO's review

How has Drax performed in 2020?

We have delivered a robust performance, supporting our employees, communities and customers and made good progress in delivering on our strategy

2020 highlights

- Adjusted EBITDA of £412 million from continuing and discontinued operations(1)
- Strong balance sheet and liquidity
- Sustainable and growing dividend
- Increase in biomass self-supply and reduction in cost
- Strong system support performance
- Sale of gas generation portfolio completed in January 2021 and expected end of commercial coal generation in March 2021
- Proposed acquisition of Pinnacle Renewable Energy Inc.

(1) See page 22 for further detail and a reconciliation to relevant IFRS measures.

Drax Group's purpose is to enable a zero carbon, lower cost energy future. To deliver that purpose, our strategy is to build a long-term future for sustainable biomass, become the leading provider of system stability in the UK and give customers control of their energy.

Our purpose also drives our commitment to the battle against climate change. Since 2012 we have reduced the Group's carbon emissions by over 85%, we are the UK's largest renewable energy generator by output and have an ambition to become a carbon negative company by 2030.

Operationally, 2020 was a successful year, as we delivered increases in pellet production and increased availability across our generation fleet, in spite of the challenges we faced due to the Covid-19 pandemic. Our colleagues have responded tremendously to those challenges, with operational staff on site at power stations and pellet plants working in a safe manner, while the rest of our colleagues have had to work from home. As a result, we have had a limited number of Covid-19 cases although, sadly, one colleague in the US died with the virus.

Strategically, 2020 was a pivotal year for the Group. In February 2020 we announced an end to commercial coal generation, effective in March 2021. In January 2021 we completed the sale of our gas generation portfolio, which was announced in December 2020. Following these actions we believe our carbon emissions will be amongst the lowest of any European energy company.

As we work towards our purpose we continue to develop our options for BECCS, which we believe can become a world leading, UK-led and exportable solution for large-scale carbon negative power generation. Subject to the right negative emissions framework from the UK Government, we expect to be in a position to make further investment in the development of this option in 2021 and to advance our ambition to become a carbon negative company by 2030.

In February 2021, we were pleased to announce the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) which we believe will position Drax as the world's leading biomass generation and supply business, delivering against our strategy to increase our self-supply capability, reduce our biomass production cost and create a long-term future for sustainable biomass. Completion of the proposed acquisition is subject to shareholder consents and the satisfaction of certain conditions precedent.

As we advance our strategy, we expect to deliver higher quality earnings, reduce commodity exposure and create opportunities for growth aligned with

Financial review
page 20

the UK's legally binding objective to become carbon neutral by 2050. This underpins our continued commitment to a sustainable and growing dividend.

Summary of 2020

Adjusted EBITDA, a key financial KPI, of £412 million from continuing and discontinued operations represents a small increase on 2019 (£410 million), inclusive of an estimated £60 million impact associated with Covid-19, principally on our Customers business. We believe that this was a strong underlying performance which reflects increased pellet production, biomass cost reduction and renewable power generation, offsetting the impact of Covid-19 on the Customers business. The Total Operating loss for the year was £156 million, predominantly reflecting asset obsolescence charges and provisions for other costs following the announcement of the closure of coal generation at Drax Power Station.

Our balance sheet is strong with cash and total committed facilities of £682 million at 31 December 2020 and net debt of £776 million giving a ratio of 1.9x net debt to Adjusted EBITDA from continuing and discontinued operations for the full year, in line with our long-term target.

During the year we completed a series of financing activities that extend the maturity of our debt to 2030 and reduce the cost of our debt whilst retaining the link between carbon emissions and the level of interest paid via a new ESG-linked revolving credit facility (RCF).

In further recognition of the progress we have made on ESG performance, in December 2020 the CDP awarded Drax an A- rating for our CDP climate response (2019: C). Separately, we are now a TCFD Supporter and we reflect that framework in this report.

Safety remains a primary focus. Since March 2020 our operational colleagues, working at power stations or pellet plants, have had to work in new ways to protect against outbreaks of Covid-19 on site, while maintaining our contribution to the integrity of the UK power system. I am very pleased with everyone's efforts in this area and that we did not have any outbreaks of Covid-19 at our sites in 2020.

In this context, the Total Recordable Incident Rate (TRIR), a key scorecard measure of safety, was 0.29 (2019: 0.22). This was not the level we expect. Although there were no major incidents, the number of minor reportable injuries did increase. We take any increase in the number of reportable incidents seriously and have implemented processes to improve risk assessment, alongside a campaign to raise awareness of good practice, ensuring the correct personal protective equipment is used.

Operational performance

In the US southeast, our Pellet Production operations reported Adjusted EBITDA of £52 million up 63% (2019: £32 million). This was a strong performance, reflecting increased levels of production, improved pellet quality and a continued focus on cost reduction.

Pellet production was 1.5 million tonnes (Mt), an increase of 7% (2019: 1.4Mt), which reflects a strong operational performance and good fibre availability compared to 2019 when heavy rainfall restricted commercial forestry activity.

Pellet quality, as measured by the level of fines (larger particle-sized dust) in each cargo improved in 2020. Lower levels of fines result in biomass that is easier and safer to handle throughout the supply chain. As such there are safety, operational and cost benefits in reducing the level of fines and we continue to work hard to deliver these improvements.

We remain focused on opportunities to deliver savings, across the supply chain, as part of our target to reduce the cost of biomass to £50/MWh on 5Mt by 2027.

As a part of this long-term goal we previously identified an intermediate programme of supply chain improvements, efficiencies and investments. We believe this will reduce the cost of biomass by $35/tonne (£13/MWh) on our existing portfolio by 2022 compared to 2018 (programme commenced in 2019). In 2020 this programme, alongside increased output and other incremental operational improvements, resulted in an average production cost of $153/tonne (2019: $161/tonne), a 5% saving year-on-year.

We expect to deliver further savings, as a part of this programme, by expanding our existing sites (LaSalle, Morehouse and Amite) by 0.4Mt. At the end of 2020 we completed the first phase of these – 0.1Mt at Morehouse – with the remaining capacity of 0.3Mt expected to come on stream by 2022. Realising these programmes will expand total capacity to 1.9Mt, providing economies of scale and allowing greater utilisation of low-cost residues.

> "In January 2020 we announced an end to commercial coal generation in March 2021 and in January 2021 we completed the sale of our gas generation portfolio. This will further reduce the Group's carbon emissions and we will use the proceeds to continue developing our biomass supply chain strategy"

In February 2020 we announced plans to further expand our existing infrastructure with the development of three new 40,000 tonne satellite plants. These sites will use lower cost sawmill residues and leverage our existing infrastructure in the US southeast to produce biomass at around 20% below the current cost of production. We believe this model could provide 0.5Mt per annum of additional lower-cost biomass and that these projects advance the Group's plans to create a long-term future for sustainable biomass, offer returns significantly ahead of the Group's cost of capital and attractive payback periods.

In Generation, the portfolio has performed strongly, with Adjusted EBITDA of £446 million from continuing and discontinued operations, an increase of 9% compared to 2019 (£408 million). The portfolio produced 6% of the UK's electricity between October 2019 and September 2020 (the most recent period for which data is available) and 11% of the UK's renewable electricity, making Drax the largest renewable generator by output in 2020.

This level of renewable generation is only possible thanks to a combination of portfolio availability and a resilient supply chain.

Portfolio availability (calculated based on the availability of each generation asset weighted by EBITDA contribution) was 91% (2019: 88%). Underlying this performance is a robust maintenance regime. During the year we completed major planned outages at Damhead Creek and Drax Power Station. The latter included the second in a series of high-pressure turbine upgrades across three biomass units which will deliver incremental thermal efficiency improvements and lower maintenance

"We believe our carbon emissions will be amongst the lowest of any European energy company"

Will Gardiner
CEO

costs, reducing the cost of our biomass power generation. The final outage on the unit which operates under the contracts for difference (CfD) scheme is scheduled to take place in 2021.

The logistical challenges of these major works, in a Covid-19 operating environment, are significant. We delivered the outages with minimum delay thanks to the diligence, skill and hard work of our teams and contractors.

Our biomass supply chain performed well and to date there has been no material impact from Covid-19 or Brexit on our supply chain or those of our key suppliers.

Our Scottish hydro operations – Cruachan Pumped Storage Power Station (Cruachan), and the Lanark and Galloway hydro schemes – have performed well. These assets provide renewable electricity, system support services, peak power generation and Capacity Market income. Taken together with the Daldowie energy from waste plant, Adjusted EBITDA was £73 million (2019: £71 million).

System support services (Balancing Market, ancillary services and portfolio optimisation) are an important part of the Group's strategy. They are also critical to the safe and reliable operation of the power system. Historically, baseload thermal power plants provided both electricity and a full range of system support services. As the UK power system decarbonises, intermittent renewable generation has progressively displaced these assets, creating new challenges in balancing the system.

Throughout 2020 our portfolio supported the system operator in managing the impact of Covid-19 on power demand. In the first half of 2020, a reduction in demand for electricity required flexible generators, like Drax, to turn-down and stabilise the system. In the second half of 2020, a combination of cold weather, lower wind speed and asset availability issues led to periods of increased demand. At these times, our flexible assets were able to increase output to help balance the system.

System Support Services and Optimisation – our measure of performance in the provision of these services was gross profit of £118 million, a small reduction on 2019 (£120 million), which included income from specific constraint contracts which were not expected to recur in 2020.

Cruachan, an important source of system support, was successful in a tender process to procure specific non-generation services – inertia and reactive power. The contract, which commenced in July 2020, is worth up to £5 million per year and is over a six-year period. This was the first tender of its kind and we expect the system operator to conduct further tenders over the coming years.

Merchant power prices remain an important part of the Group's earnings, but by focusing on flexible and renewable generation, the importance of merchant power prices has reduced. We have a strong forward power sales position in place until 2022. Beyond this date, whilst an exposure exists, it is largely associated with the three biomass units which operate under the Renewable Obligation Certificate (ROC) scheme.

In January 2021, following the UK's exit from the European Union, the UK introduced a new carbon emissions trading scheme to replace the existing European scheme to which the UK no longer has access. We believe that robust carbon pricing is essential for decarbonisation and an important component of long-term power prices. With a growing level of interconnection between the UK and continental Europe as well as growing ambition in terms of EU energy policy we believe that in the long-term UK carbon and power prices could trend towards European prices. We also believe that with greater demand for system support services, near-term power prices could become more volatile – driven by system support service requirements rather than commodity market fundamentals.

The end of commercial coal operations in March 2021, and final closure of the generating units in September 2022, is expected to result in annual cost savings of £30-35 million once complete. We believe that this will help to support the financial model for long-term biomass generation at Drax Power Station when the current renewable subsidy schemes end in March 2027. An employee consultation process was completed in 2020. Implementing the changes will result in the reduction of 206 roles and one-off costs of £34 million.

Our Customers business reported a loss at the Adjusted EBITDA level of £39 million (2019: £17 million profit). This reflects the significant reduction in demand caused by Covid-19, the cost associated with exiting hedged positions as market prices have fallen and the increased risk of business failure and bad debt – principally in the SME market, around 30% of monthly billing. Looking beyond the impact of Covid-19 we will continue to monitor the wider Customer portfolio to ensure alignment with the Group's strategy.

Performance in Industrial and Commercial markets was stronger with the addition to the portfolio of long-dated power sales contracts to water utilities, providing revenue visibility over the next five years. Just as the Generation business provides system support services, so too can our Industrial and Commercial customer portfolio. Over time, we expect that this part of the Group, through efficiency and demand-side response, can contribute increasingly to the Group's system support services alongside generation. We continue to believe this approach will support long-term growth.

The Customers business has a differentiated market position – selling purely renewable power while helping over 2,000 independent renewable generators access the market.

Biomass strategy

Biomass has an important role to play in global energy markets as a flexible and sustainable source of renewable energy, as well as offering the potential to deliver negative emissions via BECCS. We believe that the key to securing this long-term role is to reduce the unit cost of biomass and develop greater direct control of the supply chain.

The Group is targeting control of 5Mt of self-supply capacity by 2027 (currently 1.6Mt, plus 0.4Mt in development) and reduce the cost of biomass to £50/MWh by 2027. Through the delivery of these strategic objectives Drax aims to create a long-term future for sustainable biomass, including third-party supply, BECCS and merchant biomass generation

The proposed acquisition of Pinnacle accelerates the Group's strategic objectives by adding 2.9Mt of biomass production capacity from 2022, being a combination of capacity available to Drax for self-supply and long-term third-party supply contacts to counterparties in Asia and Europe. In 2019, Pinnacle's production costs were around 20% lower than our own.

We intend to deliver further savings through the optimisation of existing biomass operations, greater utilisation of forestry residues, such as sawmill residues and the use of other lower cost renewable feedstocks.

The UK's Climate Change Committee (CCC) has set out what is required for the country to achieve its legally binding objective of being net zero by 2050. This includes an important role for BECCS to remove carbon from the atmosphere, creating negative emissions. BECCS is the only large-scale solution for negative emissions with renewable electricity and system support capabilities. Through combining BECCS with its existing biomass generation units at Drax Power Station, we believe we could remove millions of tonnes of carbon each year from 2027. In doing so Drax aims to become a carbon negative company by 2030.

The technology to deliver post-combustion BECCS exists and is proven at scale. In September 2020, Drax commenced a trial of one such technology provided by Mitsubishi Heavy Industries. In addition, we are developing innovative technology options, including C-Capture, a partnership with Leeds University, IP Group and BP, which has developed an organic solvent which could be used for BECCS.

Drax Power Station is in the Humber region, an area with the highest absolute level of carbon emissions in the UK, owing to the industry and manufacturing located there. This makes the region a natural site for large-scale carbon capture and storage for energy and industry. We continue to work in partnership with Equinor, National Grid and others as part of the Zero Carbon Humber campaign, which we believe can bring new investment, new jobs and world-leading and exportable negative emissions technologies to the UK.

We expect further clarity on the regulation and support for BECCS and the Humber cluster over the next two years and stand ready to develop this technology which is necessary in allowing the UK to deliver its target of a net zero economy by 2050.

We expect global demand for wood pellets to increase in the current decade, as other countries develop decarbonisation programmes that recognise the benefits of sustainable biomass for generation, opening up new sustainable markets. Whilst there is an abundance of unprocessed sustainable biomass material globally, there remains limited capacity to convert these materials into energy dense pellets, which have a low-carbon footprint and lower cost associated with transportation. The proposed acquisition of Pinnacle supports our biomass self-supply strategy which can be used as part of our options for merchant generator or BECCS, but equally it provides an immediate capability to serve the global market for biomass, underpinned by long-term off-take agreements.

Biomass sustainability

When sustainably sourced, biomass is renewable – and sustainably sourced biomass is an important part of UK and European renewable energy policy.

The legal framework and science which underpins this assessment is clear. Carbon emitted in the generation of renewable electricity is absorbed by and accounted for in the growth of forest stock. This is based on well-established principles set out by the Intergovernmental Panel on Climate Change, a UN body, which reconfirmed its long-standing position on sustainably sourced biomass in 2019. This interpretation is reflected in the European Union's second Renewable Energy Directive (RED II) and Taxonomy rules, which mirror RED II.

The Group provides full disclosure of the carbon emissions associated with our generation activities as part of our annual reporting. We also report the carbon emissions associated with our biomass supply chain, providing a greater level of disclosure than other forms of electricity generation that also have carbon emissions associated with their supply chains.

The Group's biomass life cycle carbon emissions in 2020 were 109kgCO_2e/MWh of electricity (2019: 124 kgCO_2e/MWh), almost half the UK Government's 200kgCO_2e/MWh of electricity limit for biomass.

We maintain a rigorous and robust approach to biomass sustainability, ensuring the wood fibre used and pellets produced are fully compliant with the UK's mandatory standards as well as those of the EU. We use low-cost sawmill residues and forest residues, which are a by-product of commercial forestry processes, and thinnings from growing forests, which help improve forest stocks and forest health. The carbon emissions from using sustainably sourced biomass to produce electricity are balanced by the absorption of carbon from growing forests.

CEO's review continued

In the US southeast, the source for most of our biomass, increased demand for wood fibre has directly contributed to increased growth and protection of forests. Inventories have increased by over 90% since 1950 as more carbon is stored year after year, despite harvests also increasing.

Our forestry commitments are based on the latest available science from Forest Research, the UK's principal organisation for forest science. Our Responsible Sourcing Policy for Woody Biomass aims to ensure we only source biomass that makes a net positive contribution to climate change, protects and enhances biodiversity and has a positive social impact on local communities.

Our Policy goes beyond compliance, and our Independent Advisory Board on Sustainable Biomass (IAB), chaired by Sir John Beddington, provides guidance and independent oversight on the sourcing choices we make. The advice and scrutiny from the IAB means stakeholders can be assured that Drax will keep our policies under review and that the biomass we use follows the latest scientific research and best practice.

Other developments

In our Hydro business we are continuing to develop a long-term option for the expansion of Cruachan. Its location, ability to generate and absorb power from the grid, and full range of system support services makes it strategically important to the management of the UK power system and aligned with its future needs.

We are continuing to develop options for new gas generation, including four small open cycle gas turbine units at sites in Wales and eastern England. These flexible assets are intended to help meet peak demand and provide non-generation system support services. Any development remains subject to the Group's decarbonisation plans and the right price in a future Capacity Market auction.

We have taken the decision not to pursue the option to develop a new combined cycle gas power station at Drax Power Station, and continue to assess options for the site.

People and values

Sustainability is at the heart of the Group and its culture. We believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation. Drax is a signatory to the UN Global Compact (UNGC) and we are committed to promoting the UNGC principles on respect for human rights, labour rights, the environment and anti-corruption.

The Board is committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. This is underpinned by a new Diversity and Inclusion Policy and approach. We value the views of our employees and have incorporated their feedback in the development of our values. 2020 saw a significant improvement in the level of engagement which we measure as a KPI on the Group's corporate scorecard – used for our 2020 cash bonus plan and determination of vesting under our 2018 LTIP due to vest in 2021.

The strong performance and positive response to Covid-19 across the Group is testament to the hard work, diligence and spirit of our employees. I am proud to have them as colleagues and I thank them for their efforts in this most challenging of years.

Outlook

Looking forward, our focus is on progressing our strategy: to build a long-term future for sustainable biomass; to be the leading provider of system stability in the UK and to give customers control of their energy. Through achieving these strategic objectives, we expect to deliver tangible financial benefits – long-term earnings growth, strong cash generation and attractive returns for our shareholders.

Our principal focus remains the expansion of our biomass supply chain and the reduction of cost to provide a long-term future for sustainable biomass. This includes our ambition to become a carbon negative company by 2030 underpinned by the development of BECCS, using technology already proven at scale to deliver negative carbon emissions. Through our expertise in biomass we are leading the way in developing this world class technology and response to climate change.

We are making good progress with the delivery of our strategy and will build on this as we continue to play an important role in our markets as well as realising our purpose of enabling a zero carbon, lower cost energy future for the UK.

Will Gardiner
CEO

Biomass Sustainability

There is widespread recognition among leading science-based organisations, such as the UN's Intergovernmental Panel on Climate Change (IPCC) that sustainable biomass has an important role to play in meeting international climate targets

Sustainable biomass has three big benefits: it generates renewable electricity, supports forest growth and provides a route to negative emissions.

Biomass Sustainability

Sustainably sourced biomass for use in the generation of renewable electricity is an important and well-established part of UK and European renewable energy policy. In 2019 bioenergy was the leading form of renewable energy in Europe, providing twice the amount of energy of wind and solar combined. The status of biomass as a renewable material when sustainably sourced is based on well-established scientific principles reflected in the European Union's second renewable energy directive and Taxonomy rules.

Sustainable biomass sourcing practices are at the heart of Drax's activities and have underpinned our transformation from the UK's largest coal-fired power station, to its fourth largest power generator operating a portfolio of flexible, renewable and low-carbon assets, with an ambition to become carbon negative by 2030. In addition, based on its utilisation of sustainably sourced biomass, Drax Power Station is also the UK's largest source of renewable electricity by output.

We believe that sustainable practices are important to the activities of the Group in the UK and North America, are integral to good corporate governance and critical to the long-term sustainability of our business model.

Drax sources biomass from established, responsibly managed working forests primarily in the US, Canada and Europe. Commercial forests are generally managed for sawlogs, which are sold into the construction and manufacturing markets. Sawlogs command a financial premium which make them uneconomic for use in making renewable electricity from sustainably sourced biomass. However, the associated material and residues, such as sawmill residues and forest thinnings are of use in other lower cost markets such as biomass and fibre board. This process is fully compliant with UK and European legislation.

Drax is leading standards on biomass sustainability and we are committed to continuing to raise those standards, so that our sourcing policies evolve as the science develops. Our Responsible Sourcing Policy for Woody Biomass is in line with the recommended sourcing practices set out by Forest Research – the UK's principal organisation for forestry and tree-related science. We have also set up an Independent Advisory Board (IAB) led by the UK government's former Chief Scientific Adviser Sir John Beddington.

The IAB provides independent advice to Drax in all areas of its biomass sourcing. In 2020 the IAB reviewed our Responsible Sourcing Policy and confirmed that it reflects the recommendations made by Forest Research. We apply these standards to our own activities and those of our third-party suppliers.

We are committed to full transparency and provide an overview of our sourcing practices and publish reports for each area we source biomass material from. At the same time, we are taking action to reduce emissions across our supply chain, for example through investment in rail infrastructure and by partnering with organisations like the Smart Green Shipping Alliance.

Carbon accounting

Carbon accounting and reporting of sustainable biomass is an important area of disclosure. Sustainably sourced biomass is considered carbon neutral under UK and European legislation, underpinned by well-established principles set out by the Intergovernmental Panel on Climate Change, as carbon emitted in the generation of renewable electricity is consumed and accounted for in the growth of new forest stock.

Drax provides full disclosure of the biogenic carbon emissions associated with its generation activities. We also report the carbon emissions associated with our supply chain, providing a greater level of disclosure than any other form of electricity generation – wind, solar, gas, nuclear, which also have carbon emissions associated with their supply chains.

Forest growth

We are seeing the positive effects that sustainable sourcing practices are having on the carbon stored. For example, in the US southeast, where we source most of our biomass, increased demand for wood fibre has directly led to increased growth and protection of forests. Inventories have increased by over 90% since 1950 as more carbon is stored in these forests year after year, despite harvests also increasing.

Negative emissions

Our confidence in the contribution that sustainably sourced biomass can play in the UK's transition to net zero is echoed by the UK's Climate Change Committee (CCC). The CCC sees a critical role for BECCs in enabling the delivery of the UK's net zero carbon by 2050.

Biomass cost reduction

Building a long-term future for sustainable biomass is a key strategic objective for Drax

The Group has identified three models through which it believes it can deliver a long-term future for sustainable biomass, all of which are underpinned by the delivery of its supply chain expansion and cost reduction plans.

Drax aims to expand its supply chain to 5Mt of self-supply capacity by 2027 (from 1.6Mt today, plus 0.4Mt in development) and reduce the cost of biomass to £50/MWh (from around £75/MWh in 2019). We expect to deliver these savings through the optimisation of existing biomass operations, greater utilisation of low-cost wood residues and an expansion of the types of sustainable low-cost biomass sourced across the Group's expanded supply chain.

Drax believes that the additional capital and operating cost investment required to deliver this supply chain expansion is in the region of £600 million, which the Group expects to invest ahead of 2027.

This expansion and cost reduction plan gives rise to the three options (see page 17) which are not mutually exclusive. The delivery of one or more of these models by 2027 is expected to enable Drax to continue its biomass activities when the current UK renewable schemes for biomass generation end in 2027.

How do we plan to expand and reduce the cost of our biomass supply chain?

Expansion and optimisation of existing capacity

Drax currently uses around 7Mt of biomass for generation at Drax Power Station, 1.5Mt of which is self-supplied by our existing pellet production operations in the US Gulf.

We have also identified plans to expand our three existing production sites – LaSalle, Morehouse and Amite – by 0.4Mt over the next two years – an investment of £50 million, the first 0.1Mt of which has now been completed. This will expand total capacity to around 1.9Mt, provide economies of scale and allow even greater utilisation of lower cost residues, such as wood chips and sawmill residues.

Other projects include the co-location of a third-party sawmill at the LaSalle Plant to provide access to sawmill residues, lower transport costs and improved efficiency; a new rail spur connecting LaSalle to the local rail network, improving economies of scale in transport and fewer road miles; and a new chambering yard at the Port of Baton Rouge allowing greater rail throughput. These larger projects are accompanied by small projects to improve operational efficiency such as greater efficiency in the loading of road haulage.

In 2020, these initiatives and others contributed to a 5% year-on-year reduction in cost per tonne. The delivery of these projects, amongst other incremental improvements is expected to deliver $35 per tonne of savings on 1.9Mt by 2022.

In addition to improvements in the US, we have also invested to improve thermal efficiency at Drax Power Station. In 2020 we completed the second of three turbine upgrades which has improved thermal efficiency and alongside other improvements results in a reduction in fuel cost in the region of £1/MWh. The third outage is scheduled to take place in 2021.

Further expansion of self-supply capacity

In 2020 Drax approved the construction of three new 40,000 tonne satellite plants sited alongside existing sawmills in the US southeast at a cost of $40 million. These small sites are designed to utilise low-cost sawmill residues and leverage the Group's existing infrastructure in the region. Drax believes that this approach could represent up to 0.5Mt of capacity and expects these plants to significantly reduce the cost of pellet production versus the 2018 benchmark and will be operational by 2022.

We will continue to assess opportunities to build or buy capacity to support this ambition – both in North America and other regions where we can demonstrate the right combination of sustainability, fibre availability, cost and infrastructure.

Exploring alternative fuels

Biomass residues from commercial forestry processes represent the majority of biomass used by Drax for generation. Over the last decade, as part of our work on biomass, we have screened hundreds of different types of materials, and we are now using this knowledge of chemistries and operational characteristics to inform the exploration of alternative fuels.

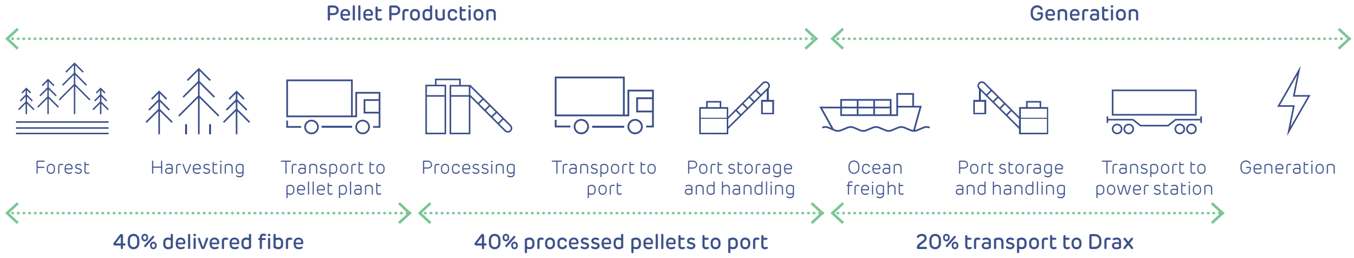
Examples of these materials include sugar cane residues (bagasse), nuts and agricultural residues.

Drax believes that in time such materials could represent a significant volume of sustainable biomass material.

Trading and optimisation

An integral part of our strategy is to develop a biomass trading capability. This is an optimisation and risk management activity to support our aim to deliver lower-cost pellets, and non-proprietary trading, through which we aim to optimise internal and external supply and develop opportunities in other markets.

Drax biomass supply chain – opportunities for efficiency, improvement and optimisation



Drax has identified three opportunities for the long-term use of sustainable biomass

Merchant biomass generation at Drax Power Station

Biomass has an important role to play in the UK as a flexible and reliable source of renewable energy, complementing increased utilisation of intermittent and inflexible generation across the UK power grid.

In March 2027, when the current renewable schemes end, Drax believes that through a combination of peak power generation, system support services, Capacity Market income and a low-cost operating model for Drax Power Station (including low-cost biomass), this site can continue to operate as a merchant renewable power station.

Bioenergy carbon capture and storage (BECCS)

The CCC has set out what is required for the country to achieve its legally binding objective of being net zero by 2050. This includes a significant role for BECCS to remove carbon from the atmosphere, creating negative emissions. BECCS is the only large-scale solution for negative emissions that also generates renewable electricity and can provide system support services. Through combining BECCS with our existing biomass generation units at Drax Power Station, we believe we could remove millions of tonnes of carbon each year from 2027. In doing so Drax aims to become a carbon negative company by 2030.

The technology to deliver post-combustion BECCS exists and is proven at scale. In September 2020, Drax commenced a trial of one such technology provided by Mitsubishi Heavy Industries. In addition, Drax is developing innovative technology options, including C-Capture, a partnership between Leeds University, Drax, IP Group and BP, which has developed an organic solvent which could be used for BECCS.

Third party biomass supply

Drax expects global demand for sustainable wood pellets to increase in the current decade, as other countries develop decarbonisation programmes which incorporate the benefits of sustainable biomass for generation. Whilst there is an abundance of unprocessed sustainable biomass material globally, there remains limited capacity to convert these fibres to energy dense pellets, which have a low-carbon footprint and lower cost associated with transportation. As a result, Drax expects the global market for biomass to remain under supplied.

Drax is therefore exploring options to service biomass demand in other markets – such as Europe, North America and Asia alongside the UK. Establishing a presence in these markets could offer the potential for long-term offtake agreements, providing diversified revenues from other biomass markets.

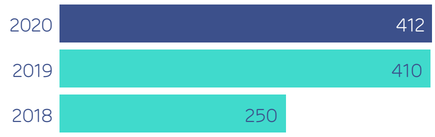
Key performance indicators

Finance

Group adjusted EBITDA from continuing and discontinued operations[1] (£m)*

Why we measure this

This is our principal financial performance metric, combining the underlying earnings performance of each business to give a Group outcome

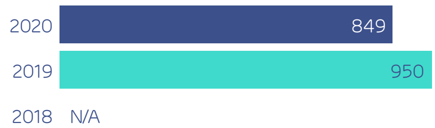


£412m

Average net debt[1] (£m)*

Why we measure this

This is a key measure of our liquidity (borrowings less cash) and our ability to manage our current obligations. Our long-term target is net debt to EBITDA of around 2x

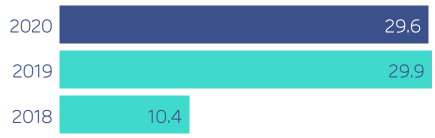


£849m

Adjusted Earnings Per Share[2] (EPS)*

Why we measure this

This is an important measure of our profitability – showing our adjusted earnings (adjusted net profit from continuing and discontinued operations after tax) on a per-share basis

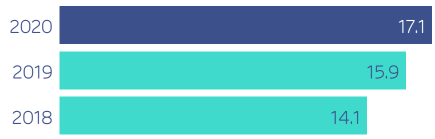


29.6p

Dividend

Why we measure this

This is a primary measure of our value creation for shareholders. We aim to pay a sustainable and growing dividend



17.1p

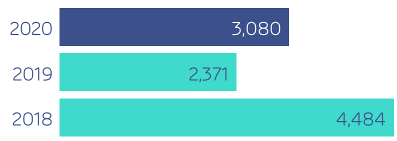
*The definition and calculation of Alternative Performance Measures (those that are defined by Drax and not IFRS) is set out on page 153

Sustainability

Group carbon emissions, scope 1 & 2 ($ktCO_2e$)

Why we measure this

We are focused on reducing carbon emissions – as measured by scope 1 and 2 – which enables us to track progress towards our carbon negative ambition

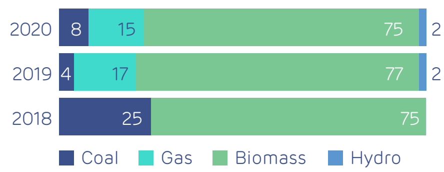


3,080 $ktCO_2e$

Power generation mix (% total output)

Why we measure this

This is a measure of the different generation sources we use, allowing us to track our progress as we seek to enable a zero carbon energy future



CDP Climate score[1]

Why we measure this

This is an internationally recognised disclosure system and a benchmark for our environmental performance

In 2020 we have improved our performance in the CDP and scored "A-". In 2019, we scored "C".

(1) These measures are contained in the Group Scorecard. and form the basis for the calculation of outcomes for annual bonus and 50% of PSP awards. For more information see pages 125 and 126.

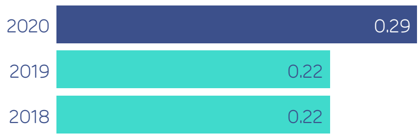
(2) EPS forms the basis for the calculation of outcomes for 50% of LTIP awards. For more information see page 115.

Safety

Total Recordable Incident Rate[1] (TRIR)

Why we measure this

Good safety management is a core principle and is critical to safe and efficient operations. TRIR is an industry standard measure of the number of incident over hours worked



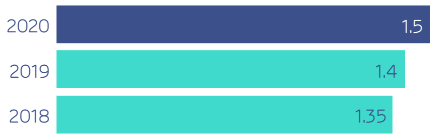
0.29

Pellet Production

Pellets produced (Mt)

Why we measure this

This measures a key part of our strategy – to increase our pellet production capacity and output

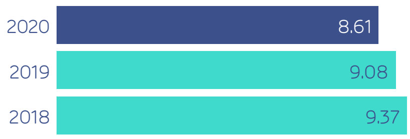


1.5Mt

Cost of production[1] (GJ)

Why we measure this

This measures a key part of our strategy – to reduce the cost of biomass produced



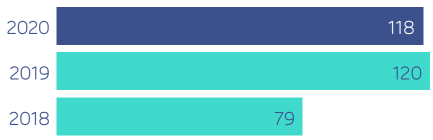
$8.61/GJ

Power generation

Value from system support (£m)

Why we measure this

This measures our generation performance in the provision of non-generation system support services – balancing mechanism, ancillary services and portfolio optimisation



£118m

Commercial availability (%)

Why we measure this

This is an important measure of the amount of time our assets are available to operate, either to generate electricity or provide system support services

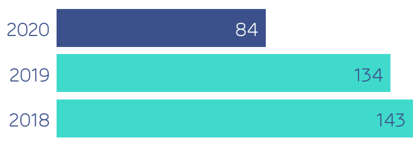
91%

Customers

Gross margin[1] (£m)

Why we measure this

This is a key measure of the financial performance of our Customers business – average margin earned



£84m

How did Drax's financial performance respond to the challenges of 2020?

Performance has been robust throughout the year, and despite the challenges of Covid-19, Adjusted EBITDA from continuing and discontinued operations was £412 million

2020 highlights

- Robust financial performance – delivering Adjusted EBITDA from continuing and discontinued operations of £412 million, ahead of 2019 despite impact of Covid-19
- Sale of CCGT assets concluded on 31 January 2021 for total consideration, before customary adjustments, of up to £193 million
- Ratio of Net debt to Adjusted EBITDA from continuing and discontinued operations of 1.9x at 31 December 2020
- Asset obsolescence charges of £239 million includes coal closure (£226 million) and decision not to proceed with Drax CCGT (£13 million)
- Provision for one-off coal closure costs of £34 million
- Total operating loss of £156 million includes asset obsolescence charges, one-off coal closure costs plus net derivative remeasurements
- Cash generated from operations of £413 million, compared to £471 million in 2019
- Strong liquidity – with total cash and committed facilities of £682 million at 31 December 2020
- 7.5% increase in dividend to £68 million or 17.1 pence per share

Introduction

The Group's financial performance in 2020 has been robust, delivering Adjusted EBITDA from continuing and discontinued operations of £412 million, which represents a small increase compared to the previous year despite an estimated impact of approximately £60 million as a result of the Covid-19 pandemic, most notably affecting our Customers business (2019 Adjusted EBITDA from continuing and discontinued operations: £410 million).

Strong availability and output from our biomass generation units at Drax Power Station underpinned this result. In addition, we saw value from system support services captured across our flexible generation portfolio and the continuing delivery of our cost reduction targets for biomass pellet production.

We estimate the total financial impact of Covid-19 to be approximately £60 million. In our Customers business, we witnessed a reduction in demand and an increased risk of business failure affecting our customers. This is reflected in costs incurred to exit our previously hedged positions and an increase in the provision for bad debt. In the Generation business, we saw a reduction in ROC recycle values and incurred increased outage costs, but largely offset this by delivering improved returns from flexible generation. We were also able to capture benefits from our substantial derivatives portfolio during a volatile period in markets.

The sale of Drax Generation Enterprise Ltd (which contained the Group's CCGT portfolio) to VPI Generation Limited was announced on 15 December 2020 and completed on 31 January 2021 (see page 27 for further details). The income, expenditure and cash flows of the disposed operations for both the current and previous year have been presented as discontinued operations, and the assets and liabilities of the disposed operations as at 31 December 2020 have been presented as held for sale in the Group's consolidated financial statements. Amounts presented in this financial review are for continuing operations unless otherwise stated. Reconciliations between continuing, discontinued and total amounts for each period are shown in note 5.5 to the consolidated financial statements on page 195. Comparatives for 2019 have been re-presented to reflect the income and expenditure for the disposed operations as discontinued. Tables in this financial review may not add down/across due to rounding.

Adjusted EBITDA (Continuing Ops)[1]	Adjusted EBITDA (Discontinued Ops)[1]	Adjusted EBITDA (Continuing and discontinued Ops)[1]	Total Operating (Loss)/Profit
£366m	£46m	£412m	£(156)m
(2019: £371m)	(2019: £39m)	(2019: £410m)	(2019 re-presented: £48m)

Adjusted Revenue[1]	Adjusted Profit After Tax[1]	Net debt[1]	Cash Generated from Operations
£4,235m	£96m	£776m	£413m
(2019 re-presented: £4,457m)	(2019 re-presented: £99m)	(2019: £841m)	(2019: £471m)

Total revenue	Total Loss After Tax	Net Debt to Adjusted EBITDA from continuing and discontinued operations[1]	Dividend per Share
£4,245m	£(195)m	1.9x	17.1p
(2019 re-presented: £4,468m)	(2019 re-presented: £(10)m)	(2019: 2.1x)	(2019: 15.9p)

(1) Alternative performance measures (income statement values described as "Adjusted", plus net debt and net debt to Adjusted EBITDA calculations) are used throughout this financial review. All alternative performance measures are described in full on page 153 and reconciled to corresponding IFRS values on page 170.

Following the Board's decision to close our remaining coal-fired generation operations, which was announced in February 2020, we recognised asset obsolescence charges in respect of the associated fixed assets of £226 million during the year. In addition, following an employee consultation process, we have booked provisions in respect of redundancy, pension costs, and other closure costs totalling £34 million. Other closure costs include a provision for work to ensure the safety of the site following the closure of the coal units and a small inventory write down for coal we no longer expect to burn prior to closure. All costs associated with the closure of the coal units have been treated as exceptional items in the income statement.

The Total operating loss for the year – which includes depreciation, amortisation and the effect of exceptional items and certain derivative remeasurements – was £156 million (2019 re-presented: profit of £48 million). The year-on-year reduction principally reflects £239 million of asset obsolescence charges plus the £34 million of coal closure costs described above, The asset obsolescence charges are comprised of £226 million related to the coal units and a further £13 million in respect of the option to develop a new combined cycle gas turbine at Drax Power Station, which is no longer expected to proceed. These one-off costs, the majority of which are non-cash, have been partially offset by a reduction in losses arising on the remeasurement of derivative contracts, from £121 million in 2019 to £70 million in 2020, as a result of sterling strengthening during the year.

On 15 December 2020, we announced the sale of our CCGT portfolio to VPI Generation Limited for a cash consideration of up to £193 million, subject to customary working capital adjustments. This included £29 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek. The transaction subsequently completed on 31 January 2021. The CCGTs have performed well since being acquired in December 2018, delivering £46 million of Adjusted EBITDA in 2020 (2019: £39 million). However, they do not form part of the Group's core flexible and renewable generation strategy. The results of the CCGTs have been classified as discontinued operations in the consolidated financial statements.

We continued to strengthen our balance sheet and capital structure during 2020. In August we agreed a new infrastructure term loan facility agreement with committed funds in both sterling (£45 million) and euro (€126.5 million), with an option to increase by up to a further £75 million. In November €31.5 million was drawn under this agreement and a further £53 million was committed under the option which was subsequently drawn in December. These commitments have competitive effective interest rates inside the Group's current average cost of debt. Also in November we issued a new €250 million euro-denominated bond at 2.625% which achieved a rate of 3.24% when swapped back to sterling, a record low cost for a Drax public market issuance. At the same time, we redeemed the existing £350 million sterling bond and the £125 million ESG facility, resulting in an improved maturity profile and lower all-in cost of our debt portfolio. We also refinanced our Revolving Credit Facility, extending its final maturity date from 2022 out to 2025 and converted it into a £300 million facility with ESG credentials. This delivers further enhancements to liquidity. Overall, net cash payments in respect of debt reduced our borrowings by £176 million (2019: increased borrowings by £636 million, linked to acquisitions).

We continue to generate strong net operating cash inflows. Net cash from operating activities was £306 million in 2020 (2019: £413 million). The reduction when compared to the prior year principally reflects a net cash outflow from rebased derivative contracts of £27 million, as the benefit of cash accelerated from such activity unwound over the course of the year (2019: net cash inflow of £104 million). In addition, 2020 saw the introduction of the new tax payment regime for large companies, accelerating tax payments in the year of transition. Cash capital expenditure in the year was £174 million (2019: £171 million).

The Group's liquidity position remains strong and provides a solid platform from which we can continue to execute our strategy. At 31 December 2020, we held cash of £290 million (2019: £404 million) and total cash and total committed facilities of £682 million (2019: £615 million).

We remain fully committed to payment of a sustainable and growing dividend. The Board will recommend at the forthcoming Annual General Meeting a final dividend that takes total dividends for the financial year to £68 million, or 17.1 pence per share, an increase of £5 million or 1.2 pence per share when compared to 2019.

Reconciliation of Adjusted EBITDA to Total Operating Loss

	£m
Adjusted EBITDA from continuing and discontinued operations	**412**
Remove EBITDA contribution from CCGT portfolio sold on 31 January 2021	(46)
Adjusted EBITDA from continuing operations	**366**
Depreciation, amortisation and losses on disposal of fixed assets	(177)
Adjusted Operating profit	**189**
Asset obsolescence charges due to coal closure	(226)
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	(13)
Provision for coal closure costs	(34)
Acquisition and restructuring costs	(1)
Derivative remeasurements	(70)
Total Operating Loss	**(156)**

Financial Performance

Adjusted EBITDA

Group Adjusted EBITDA from continuing and discontinued operations of £412 million was slightly ahead of the prior year (2019: £410 million) despite the impact of Covid-19. This represents a robust performance in what has been a challenging year. Excluding the contribution from the CCGT portfolio classified as discontinued in the consolidated financial statements, Adjusted EBITDA from continuing operations was £366 million (2019: £371 million).

Our Generation business contributed Adjusted EBITDA from continuing and discontinued operations of £446 million (2019: £408 million), an increase of 9% or £38 million compared to the previous year. This result was underpinned by a 5% increase in total output from biomass in 2020, to 14.1TWh compared to 13.4TWh in 2019. This was supported by availability of 91% (2019: 88%). Our strong generation hedge book also provided protection against volatility in commodity markets resulting from Covid-19.

Despite this performance, Generation has been affected by the pandemic. ROC recycle values fell during 2020 and the cost of performing outage work at our sites increased as a result of implementing social distancing measures to enable this work to be carried out safely. These factors were offset by strong performance in the short-term and balancing markets plus some value captured from within the derivatives portfolio attributable to market volatility during the Covid-19 pandemic.

Our pumped storage and hydro assets in Scotland continued to perform well. Cruachan pumped storage power station contributed significantly to overall gross margin from system support activity of £118 million. This reduced slightly from £120 million in 2019, due to specific constraint contract income and benefits associated with closing out positions as our coal generation forecasts reduced, neither of which were expected to recur in 2020. This reflects the benefit of generating plant that is flexible and can turn up and down at short notice to meet demand.

The CCGT portfolio performed strongly, particularly in the final quarter of the year as cold weather and low wind led to opportunities in the balancing market. Total output from the CCGTs was 2.8TWh (2019: 2.9TWh) with an EBITDA contribution of £46 million (2019: £39 million). On 15 December 2020, we announced the sale of the CCGT portfolio to VPI Generation Limited for total cash consideration of up to £193 million, including £29 million of consideration contingent on the development of a new CCGT at the Damhead Creek site. The sale subsequently completed on 31 January 2021. Initial cash consideration received on 1 February was £188 million, including £24 million in respect of adjustments for working capital.

Coal contributed approximately 8%, or 1.6TWh, of our total generation volume in 2020 (2019: 3%) and a small loss, as the economics as the economics remain very challenging. Following the decision to close the remaining coal units, made in February 2020, total closure costs of £34 million have been provided for and treated as exceptional items and excluded from Adjusted EBITDA – a reconciliation of these amounts is provided in note 5.1 to the financial statements. The trading performance of the coal units continues to form part of our Adjusted results, and will do so until closure. The units will cease commercial generation in March 2021 and close entirely following the completion of Capacity Market obligations in September 2022, at which point we expect to see cost savings in excess of £30 million per annum. Some of this benefit will begin to materialise during 2021.

The Generation business acquires biomass pellets predominantly in US dollars, Canadian dollars and euros, which we actively hedge over a rolling five-year period, to manage our foreign currency exposure to a weaker pound. The renewable support (CfD and ROCs) received in respect of biomass generation is subject to UK inflation indices, while some of our biomass pellet contracts are subject to US inflation indices. This exposure is managed as part of our active long-term financial derivatives hedging programme.

We hold a large portfolio of forward and option contracts for various commodities and financial products, the nature, value and purpose of which is described in note 7.2 to the consolidated financial statements. These contracts are held to de-risk the business, by protecting the sterling value of future cash flows in relation to the sale of power or purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies.

From time to time, for example where market conditions or our trading expectations change, action may be needed in accordance with these policies to rebalance our portfolio. During 2020, this included restructuring in-the-money foreign currency exchange and inflation contracts, to balance short and long positions across the duration of the hedge. The value of such activity increased in 2020, due to market volatility during the Covid-19 pandemic. The financial impact of these activities – which is driven by market prices at the point of execution – is included within the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA. This reflects the fact that the principal purpose of holding these contracts is to manage and de-risk the cost of purchasing fuel.

Performance in our Pellet Production business has been strong, in terms of both quality and quantity of pellets. Adjusted EBITDA of £52 million (2019: £32 million) increased by 63% and reflects a record year for output with 1,5Mt of pellets produced (2019: 1,4Mt) and 1.5Mt shipped (2019: 1.3Mt). In addition to increasing output and lowering the overall cost per tonne, we improved pellet quality during the year, with a reduction in fines (larger particle-sized dust) when measured at disport from 7.9% in 2019 to 5.0% in 2020, a 37% reduction in the year.

This performance comes against a backdrop of Covid-19 and Hurricane Laura, the latter of which significantly affected the areas where we operate in August 2020. Our teams successfully operated our plants throughout these challenges to deliver a strong performance, with total pellets produced 6% ahead of the previous year – a testament to their hard work, focus and shared commitment to the business and one another.

We continued to make good progress with our biomass cost savings initiatives, with the overall cost per tonne of pellets produced in the year standing at $153 per tonne (2019: $161 per tonne), a reduction of approximately 5%. In addition to the increase in tonnage year-on-year contributing to the lower cost per tonne, we commissioned a dry shavings facility at the La Salle plant, enabling us to process less expensive residual fibre products.

As set out in the biomass cost reduction section on pages 16 and 17, there are three potential business models for post-2027 operations. We believe that the strategy to expand self-supply and reduce biomass costs supports all three of these models.

Our Customers business made an Adjusted EBITDA loss of £39 million in 2020 (2019: Adjusted EBITDA profit of £17 million). We believe the reduction of £56 million can be primarily attributed to the impact of the Covid-19 pandemic. Excluding this impact, the result for the year would have been more in line with that in 2019.

The majority of this impact was taken in the first half of the year and, despite a further national lockdown during November 2020, the second half of the year has out-turned broadly in line with the expectations we set out at our interim results in July.

We have experienced reduced demand in the Customers business as a consequence of lockdown and social distancing measures in the UK, although this effect saw some recovery in the second half of the year. Combined electricity and gas volumes sold in 2020 of 17.5TWh were approximately 7% lower than prior year (2019: 18.9TWh). As a result, revenues have reduced, and we incurred costs to exit previously hedged positions as demand estimates reduced and market prices fell. Overall, gross profit in the Customers business reduced by £50 million, from £134 million in 2019 to £84 million in 2020. This reduction was primarily attributable to the effects of the pandemic. This impact was partially mitigated by delivering operating cost savings across the Group during the year with consolidated Adjusted operating and administrative expenses from continuing and discontinued operations £16 million lower in 2020 than the prior year.

Covid-19 has also increased our expectation of business failures and bad debt charges, particularly in the SME segment and among customers in higher-risk industries. This is reflected in the charge for impairment losses on trade receivables for the year of £43 million, which has increased by £25 million compared to the prior year (2019: £18 million). The bad debt charge for the year represents 2% of total Customers revenue, including revenues derived from lower-risk segments and larger Industrial and Commercial customers, up from less than 1% in 2019.

The overall provision for trade receivables at the end of 2020 of £60 million (2019: £47 million) is based on a consistent methodology with that used at the end of prior periods, updated to reflect our experience of cash collections and potential customer business failures in the period since the first lockdown came into effect in March 2020, and using that experience to inform our assumptions about future performance. In addition, we have credit insurance coverage to help further mitigate some of this risk.

> "We continued to strengthen our balance sheet and capital structure during 2020, and delivered a net debt to Adjusted EBITDA ratio of 1.9x"
>
> **Andy Skelton**
> CFO

We will continue to monitor the wider Customers portfolio to ensure alignment with the Group's strategy. Whilst we remain cautious about the trajectory for Covid-19 recovery in our forecasts, we anticipate a return to profitability at EBITDA level for this business.

Central and other costs, which reflect our core services functions, including our innovation teams, were £50 million in 2020 (2019: £46 million). The increase from the previous year reflects additional investment of £8 million in innovation activities in support of our strategy, including the development of BECCS and the zero-carbon Humber project, and an increase in insurance costs. Other central operating costs reduced – in 2019 we incurred one-off costs associated with implementing a new operating structure and a higher level of costs associated with working capital management initiatives which have not recurred in 2020. In 2021 we expect the overall trend of investment in innovation to continue.

Total Operating (Loss)/Profit

The Total operating loss for 2020 of £156 million (2019: re-presented profit of £48 million) includes the effect of exceptional items and remeasurement gains and losses on derivative contracts that are excluded from Adjusted results. Our policy and approach to calculating Adjusted results is set out on page 153.

In February 2020, we announced the decision to cease commercial coal generation at Drax Power Station by March 2021, with the units closing fully once existing Capacity Market obligations are concluded in September 2022. Following this decision, we recognised asset obsolescence charges in respect of associated fixed assets of £226 million. We have also provided for total closure costs of £34 million in respect of employee termination benefits and necessary site reorganisation costs, within the £25-35 million range previously estimated. A breakdown of these costs, and the location of the provisions in our consolidated balance sheet, is provided in note 5.1 to the consolidated financial statements. All costs associated with the closure of coal have been treated as exceptional items and excluded from Adjusted results. See notes 2.7 and 5.1 to the consolidated financial statements for more information.

Net fair value remeasurement losses on derivative contracts included in operating profit were £70 million (2019 re-presented: losses of £121 million) reflecting movements in the mark-to-market position on our portfolio of commodity and financial derivative contracts, to the extent they do not qualify for hedge accounting. A further £22 million of net fair value remeasurement gains on power, gas and carbon trades related to the CCGT portfolio (2019: £12 million loss) is included in the result arising on discontinued operations.

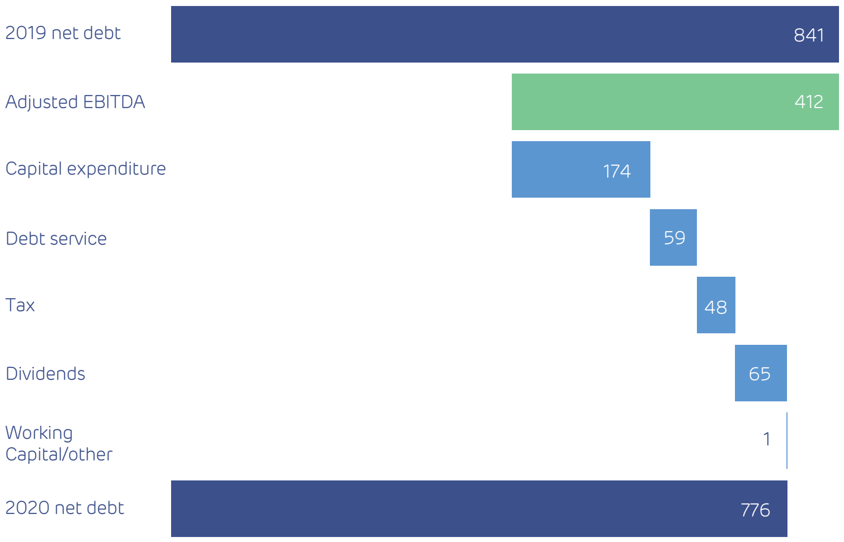
The net losses in 2020 are predominantly the result of the strengthening of sterling in the period, which drives the unwind of previously built-up gains resulting from the value of our extensive portfolio of foreign currency exchange contracts. These exchange contracts provide protection against changes in exchange rates for fuel purchases denominated in foreign currencies over a five-year period.

Depreciation and amortisation in the year, including losses on disposal of assets, totalled £177 million (2019 re-presented: £194 million) a decrease of £17 million compared to the previous year. Following the decision taken in February 2020 to close coal generation, associated assets were fully written down and no longer attract any depreciation charges. A further £19 million (2019: £16 million) of depreciation relates to the CCGT portfolio and is presented in the result from discontinued operations.

Profit After Tax and Earnings per Share

Adjusted profit after tax from continuing and discontinued operations of £118 million (2019: £118 million) results in Adjusted earnings per share (EPS) of 29.6 pence (2019: 29.9 pence).

Net Debt Development
(£m)



Adjusted profit after tax and EPS from continuing and discontinued operations have remained broadly consistent year-on-year, largely reflecting a combination of the factors described above, offset by an £8 million increase in Adjusted net interest charges and a £4 million increase in the Adjusted tax charge.

The Total loss after tax from continuing and discontinued operations of £158 million is significantly reduced from the equivalent profit of £1 million for the prior year, with a corresponding reduction in Total EPS from nil pence in 2019 to a loss per share of 39.8 pence in 2020. Total loss after tax reflects exceptional items and certain remeasurements, including the derivative remeasurements, coal asset obsolescence charges and coal closure costs described above. In addition, it includes £8 million of charges related to refinancing activity (2019: included £5 million of costs associated with the acquisition bridge facility) described in further detail below.

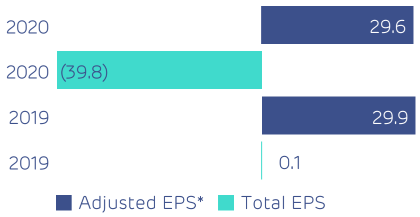
The Adjusted tax charge for continuing and discontinued operations of £28 million (2019: £24 million) reflects an effective tax rate of 19%, in line with the standard rate of corporation tax in the UK. This reflects the benefit of patent box tax credits in respect of the biomass unit conversions. Total patent box credits included for 2020 are £8 million (2019: £8 million). This was offset by the negative impact of revaluing deferred tax liabilities following the UK Government's decision to reverse the previously announced reduction in future corporation tax rates in the first half of the year. The total impact of this change was £18 million, with £4 million relating to deferred tax balances associated with the written down coal assets treated as an exceptional item. The remaining £14 million charge, which reduces Adjusted EPS by 3.5 pence, is included in Adjusted Results.

The Group continued to benefit from Research and Development Expenditure Credits (RDEC) in 2020, with claims totalling £6 million recognised as a reduction in cost of sales and operating expenses (2019: £3 million).

The Total tax credit for continuing and discontinued operations of £32 million includes the tax attributable to exceptional items and derivative remeasurements. A full reconciliation of the Group's tax credit for the year is provided in note 2.6 to the consolidated financial statements.

Cash taxes paid during the year were £48 million (2019: £10 million). In 2020, the Group fell into the new arrangements in respect of corporation tax payments for very large companies in the UK for the first time. As a result, the Group must now make tax payments earlier than under the previous regime and the increase compared to the prior year is a one-off impact on transition.

Earnings per Share
(pence)



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

Capital Expenditure

We maintain a disciplined approach to capital expenditure, with all significant projects subject to appraisal and prioritisation by a Capital Committee prior to approval. This committee ensures overall adherence to our capital allocation policy and maintenance of an appropriate net leverage profile.

In 2020, total capital expenditure of £200 million, excluding additions to decommissioning assets of £29 million (see note 5.4), compares with £172 million in the previous year. This was lower than previous expectations as a result of the deferral of some projects due to Covid-19. This includes non-essential works at Drax Power Station, and delayed timing of some investments in our biomass supply chain.

The increase compared to 2019 principally reflects execution of our strategy, with significant investments made in the expansion of our US pellet production facilities, alongside smaller projects within our generation portfolio to enhance efficiency. Notably the expansion at our pellet production facility in Morehouse commissioned in November 2020. The extensions at La Salle and Amite are expected to come online by 2022.

Capital investment in our Customers business has been limited to £7 million (2019: £20 million). The past capitalised spend associated with a new billing system of £19 million was stopped in 2019 and the Group is engaged in active discussion with the supplier reflecting the supplier's failure to perform under this contract. No amounts have been provided against this value as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

Cash and Net Debt

We remain focussed on cash flow discipline and maintaining a robust balance sheet. This is underpinned by prudent risk management which provides protection in times of economic uncertainty and a strong platform from which to execute our strategy.

The Group continued to generate strong cash from operations in 2020, with a total inflow of £413 million (2019: £471 million) before interest and tax payments. This reflects our focus on cash flow discipline and continued management of working capital. Cash received in respect of 2019 Capacity Market income in January 2020 (£72 million) and a net cash inflow resulting from increased generation and a corresponding reduction in coal inventories was offset by a net outflow from rebasing of derivative contracts and an increase in net purchases of ROC assets.

Net cash generated from operating activities in the year was £306 million (2019: £413 million). In 2020, the Group experienced the impact of the new arrangements in respect of corporation tax payments for very large companies in the UK, as described above, which increased cash tax payments by £38 million compared to the prior year.

Our liquidity position remains strong, reflected by all three of our ratings agencies evaluating our liquidity assessment as Strong. At 31 December 2020 we held cash of £290 million (31 December 2019: £404 million), total borrowings were £1,066 million (31 December 2019: £1,245 million) and as a result net debt was £776 million (31 December 2019: £841 million). During the first half of 2020, the Group was assigned its first equivalent to investment grade from DBRS. This affirmed the strength of our balance sheet, strong near-term contracted earnings, plus the depth and breadth of our available sources of liquidity.

Our net debt to Adjusted EBITDA ratio, based on Adjusted EBITDA for continuing and discontinued operations, was 1.9x at 31 December 2020 (2019: 2.1x). After adjusting for timing differences related to Capacity Market income and cash across the current and previous period, the net debt to EBITDA ratio was 1.9x at both 31 December 2020 and 31 December 2019. On a proforma basis, taking into account the initial proceeds on sale of the CCGT portfolio (£188 million – see below) and removing the associated EBITDA contribution (£46 million), net debt to Adjusted EBITDA at 31 December 2020 was 1.6x.

During the year, the Group continued to enhance its access to capital and strengthen the balance sheet. In August, we announced the agreement of a new Infrastructure term loan agreement with committed funds in both sterling (£45 million) and euro (€126.5 million), with a range of maturities between 2024 and 2030. €31.5 million was drawn under the agreement at 31 December 2020. The agreement also included an option to increase the facility by up to a further £75 million of which £53 million was agreed in November and drawn in December. The remaining commitments were subsequently drawn on 18 February 2021.

In November 2020, the Group issued €250 million of euro-denominated senior secured notes which mature in 2025. The 2.625% issuance achieved Drax's lowest ever priced public offering which, once swapped back to sterling, reflected an interest rate of 3.24% per annum. The proceeds of this issuance were, along with existing cash flows, used to redeem the Group's £350 million 2022 sterling bond and the £125 million ESG term loan facility. Total costs in respect of the redeemed facilities, including the non-cash impact of deferred finance costs, of £8 million have been treated as an exceptional item in the income statement, in line with previous practice.

A significant proportion, almost 90%, of the Group's debt now falls due in 2025 or later.

Following the issue of the euro-denominated notes in 2020, £610 million or 57% of the Group's closing borrowings balance is denominated in foreign currencies (2019: £374 million, 30%). The carrying amount of our foreign currency borrowings and, consequently, the value of reported net debt is subject to FX volatility as a result of translating balances at rates prevailing at the balance sheet date under IFRS.

We use derivatives, including cross-currency swaps to hedge the sterling cost of the interest payments and future principal repayments in respect of these facilities. In note 4.1 to the consolidated financial statements, in addition to net debt per the IFRS balance sheet (as defined on page 153), we set out a reconciliation of net debt that incorporates the impact of relevant financial derivatives to fix the value of sterling principal repayments. At 31 December 2020, this resulted in net debt adjusted for hedging of £819 million.

Financial review continued

Adjusted Results from Continuing and Discontinued Operations 2020

£m	Continuing Operations	Discontinued Operations	Cumulative
Revenue	4,235	206	4,441
Cost of Sales	(3,435)	(127)	(3,562)
Adjusted Gross Profit	**800**	79	879
Operating Expenses	(391)	(33)	(424)
Impairment losses on Trade Receivables	(43)	-	(43)
Adjusted EBITDA	**366**	46	412
Depreciation & Amortisation	(178)	(19)	(197)
Net finance charges	(69)	(1)	(70)
Adjusted Profit before tax	**119**	26	145
Taxation	(23)	(5)	(28)
Adjusted Profit after Tax	**96**	21	118
Impact of exceptional items and certain remeasurements (see note 2.7)	(291)	16	(275)
Total (Loss)/Profit after Tax	**(195)**	37	(158)

In November 2020, we also concluded the refinancing of the revolving credit facility (RCF). The new RCF matures in 2025, with an option to extend by one year, and replaces the previous facility. This £300 million facility provides increased liquidity, enabling the full facility to be drawn as cash (previously restricted to £165 million). The RCF has a customary margin grid referenced over LIBOR and represents a small reduction in cost compared to the previous facility. It includes an embedded ESG component that adjusts the margin based on the Group's carbon intensity measured against an annual benchmark.

The RCF is available to manage low points in the cash cycle and was undrawn at 31 December 2020. Committed facilities of £45 million and €95 million under our new Infrastructure term loan agreement also remained undrawn at 31 December 2020. Available cash on hand and committed, undrawn facilities provide substantial headroom over our short-term liquidity requirements.

Net cash released from working capital in 2020 was £37 million (2019: cash absorbed by working capital of £51 million). We actively optimise our working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements. As in previous periods, we have maintained our strong cash flow focus and continued to deliver working capital benefits from making sales and purchases of ROC assets and utilisation of payment facilities, however the overall utilisation of these facilities has decreased compared to 2019.

Historically, cash from ROCs has typically been realised several months after the ROC was earned, usually at the end of the ROC compliance period; however, the Group is able to limit the overall impact of ROCs on working capital by making separate sales and purchases in the compliance period. During 2020, such transactions generated a net cash outflow of £74.0 million due to more purchases than sales in the period. The overall working capital inflow from ROCs of £23.1 million reflects an overall reduction in ROC assets held on the balance sheet due to decreased generation in the year. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. Utilisation of these facilities at 31 December 2020 was £nil (31 December 2019: £nil).

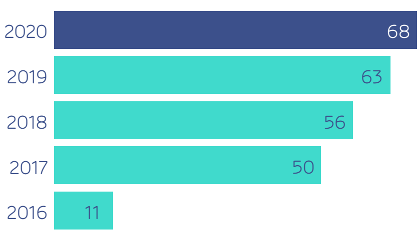
In the first half of 2020, the Group rebased several foreign currency contracts, which resulted in a working capital benefit, with total cash released from rebased trades still outstanding at 31 December 2020 of £24 million (in the prior year, total cash released from rebased trades still outstanding at 31 December 2019 was £84 million). A similar exercise for cross-currency swaps resulted in cash released from outstanding trades at 31 December 2020 of £56 million (31 December 2019: £23 million). The overall net outflow associated with rebasing activity in 2020 was therefore £27 million (2019: a net inflow of £104 million).

The Group holds a large portfolio of forward and option contracts for various commodities and financial products. These contracts are held to de-risk the business, by protecting the sterling value of future cash flows in relation to the sale or purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies. These policies provide flexibility to optimise our trading position, working capital and liquidity when market conditions allow, whilst ensuring downside protection and prudent risk management are maintained.

In addition, the Group has access to a £200 million receivables monetisation facility, which accelerates associated cash flows and mitigates exposure to credit risk. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing and also facilitates a supply chain financing scheme, which enables certain suppliers to accelerate their payment and which supports the wider working capital efficiency of the Group. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement were to fall away. The balances outstanding at 31 December 2020 and the change in utilisation in respect of each of these facilities is set out in note 4.4 to the consolidated financial statements.

The overall net cash outflow for the period was £114 million (2019: net inflow of £122 million), after cash payments for capital expenditure of £174 million (2019: £171 million), dividend payments of £65 million (2019: £59 million), net repayments of borrowings of £176 million (2019: net proceeds from new borrowings of £636 million) and payments in respect of acquisitions of £nil (2019: £692 million).

Total Dividends
(£m)



Distributions

We have a long-standing capital allocation policy. This policy sets out our commitments to robust financial metrics that underpin our strong credit rating, to invest in our core business, to pay a sustainable and growing dividend and finally to return surplus capital to shareholders as appropriate.

At the Annual General Meeting on 22 April 2020, shareholders approved payment of a final dividend for the year ended 31 December 2019 of 9.5 pence per share (£38 million). The final dividend was paid on 15 May 2020. On 28 July 2020, the Board resolved to pay an interim dividend for the six months ended 30 June 2020 of 6.8 pence per share (£27 million), representing 40% of the expected full year dividend. The interim dividend was paid on 2 October 2020.

At the forthcoming Annual General Meeting, on 21 April 2021, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2020 of 10.3 pence per share (£41 million), payable on or before 14 May 2021. Shares will be marked ex-dividend on 22 April 2021. This brings the total dividend payable for 2020 to £68 million and delivers 7.5% growth on 2019.

Other Information

Covid-19, Brexit and Going Concern

We continue to monitor and assess developments and the potential future impact of the Covid-19 pandemic on our operations and financial performance. As described above, our financial performance in 2020 was robust despite an estimated £60 million impact on Adjusted EBITDA, and we have maintained a strong balance sheet with a net debt to Adjusted EBITDA from continuing and discontinued operations ratio of 1.9x at 31 December 2020.

Looking forward, our business plan for 2021 and beyond reflects our central assumptions regarding the likely duration of the pandemic, and the nature of the associated restrictions such as social distancing. These factors, alongside wider macroeconomic considerations, can affect the demand for, and price of, power. We continue to expect a detrimental impact, when compared to pre-Covid expectations, in our Customers business due to the reduction in demand and increase in bad debt risk described above. Our forecasts for 2021 assume a gradual easing of lockdown in the UK will commence as the roll-out of Covid-19 vaccinations progresses.

We are monitoring developments following the end of the Brexit transition period. Our consideration of risk impacts in respect on Brexit is set out on page 68.

In addition to the routine scenario planning incorporated into our business plan process, we have modelled a series of scenarios based on our principal risks, a reasonable worst case and more extreme scenarios. These scenarios have helped us to test the Group's financial resilience over both the next 12 months and a longer period for the purpose of viability reporting (see page 64). In particular, we have considered the impact of extended generation outages across our portfolio, taking into account risks associated with plant operations and supply chain, as well as commodity price exposure. To date, such modelling has indicated that, while there would be a financial impact, none of the scenarios modelled would result in an impact to the Group's liquidity, solvency or covenants that could not be remediated by taking mitigating action. In reaching this conclusion, no additional financing was contemplated beyond existing committed facilities.

Consequently, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due for at least the next twelve months, while operating within the means of its current capital structure. Accordingly, the Directors have adopted the going concern basis when preparing the consolidated financial statements.

Sale of CCGT Portfolio

On 15 December 2020, the Group announced it had reached agreement for the sale of Drax Generation Enterprise Limited, which held the Group's portfolio of CCGT power stations, 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 a new CCGT at Damhead Creek.

The sale completed on 31 January 2021. The Group received the initial consideration of £188 million on 1 February 2021 which included £24 million in respect of working capital adjustments. The final consideration is subject to a completion accounts process which is expected to conclude in the first half of 2021. The Group anticipates recording a small premium on sale in its 2021 consolidated financial statements. The sale price represents a return over the Group's period of ownership significantly ahead of the Group's weighted average cost of capital.

In the consolidated financial statements for the year ended 31 December 2020, the results of the CCGT portfolio (revenue of £181 million, Adjusted EBITDA of £46 million and profit after tax of £37 million) have been presented as discontinued operations in the consolidated income statement, and the assets and liabilities shown as held for sale in the consolidated balance sheet. Transaction costs of £4 million have been expensed to the income statement as incurred and recognised as an exceptional item within discontinued operations in line with our policy. The consolidated income statement for the year ended 31 December 2019 has been re-presented to show the results for the CCGT portfolio on a consistent basis as discontinued operations. See note 5.5 for further details.

Proposed Acquisition of Pinnacle Renewable Energy

On 8 February 2021, the Group announced the proposed acquisition of 100% of the issued share capital of Pinnacle Renewable Energy Inc. (Pinnacle) at a price of C$11.30 per share. This values the fully diluted equity of Pinnacle at C$385 million, with an implied enterprise value of C$741 million including C$356 million of net debt. The acquisition price will be paid in Canadian dollars and we expect to manage that exposure within our existing foreign exchange risk processes.

The acquisition remains subject to Drax and Pinnacle shareholder approval, court approval, regulatory approvals and the satisfaction of certain other customary conditions. Completion is expected to occur in the second or third quarter of 2021. The acquisition will be funded from cash and existing arrangements and is expected to be cash generative with 2022 EBITDA consensus of C$99 million(1). Net debt to Adjusted EBITDA in 2021 is expected to be above Drax's long-term target of around 2x immediately following completion of the acquisition but it is expected to return to around this level by the end of 2022.

Andy Skelton
Chief Financial Officer

(1) The figure above was a collation of forecasts, estimates and opinions made by a number of independent research analysts compiled by Bloomberg and appearing on Bloomberg's website at the time of the announcement of the Pinnacle transaction. The inclusion of this figure may be interpreted as a profit forecast in relation to Pinnacle for the purposes of the Listing Rules. The Directors consider that this figure is no longer valid because:
(i) this figure was representative of Pinnacle as a standalone entity and does not represent Drax's or the Directors' views of the expected financial performance of Pinnacle under Drax's ownership; and
(ii) the acquisition of Pinnacle will result in a number of changes impacting Pinnacle's EBITDA, including the impact of purchase price allocation and intra-group trading adjustments.

Helping the UK meet its net zero target

"BECCS (bioenergy with carbon capture and storage) is a key project both for Drax and in helping the UK meet its net zero target. Working together with our technology and engineering partners, we continued to develop the project during 2020, and it is currently approaching the end of the initial engineering design process. Covid-19 has presented some challenges with our partners spread across the globe, but the project team have managed to keep everything on track through hard work, determination, and the desire to deliver this ground-breaking project and help Drax to deliver its purpose. 2021 will continue to be a busy year as we complete our pilot testing, and the project moves into the next stages of development – both technically and via the planning process."

Carl Clayton,
Head of BECCS, Innovation

Cooling towers at Drax Power Station, Yorkshire

Keeping our people and plants safe

"Safety is a primary focus at Drax, and at Cruachan we are hugely proud to have had no serious incidents in 2020 and achieved 16 years since our last Lost Time Incident on site. For me, the biggest challenge in 2020 was introducing changes to how we work to ensure we protected colleagues and contractors from Covid-19, whilst continuing to keep our plants running safely and maintaining our focus on potential hazards and our primary safety procedures, to prevent incidents and keep everyone safe. Thankfully, we've achieved good safety performance this year at Cruachan, whilst delivering our outages and project work."

Roddy Davies,
HS&E Adviser, Cruachan Power Station

Covid-19 impact on executive remuneration

How has Drax taken Covid-19 into consideration when determining executive remuneration outcomes?

A key focus for Drax has been on taking care of the health and wellbeing of employees during these difficult times. The remuneration decisions taken appropriately reflect the performance of the business in 2020, and they are fair and consistent to all employees.

Whilst 2020 was a very challenging year, it was also a year of achievement of which we are rightly proud. Colleagues and management worked hard to deliver our purpose, keep each other safe and continue to deliver our essential services to the country. This culminated in strong financial performance and further advancement of our strategic priorities, which are reflected in the remuneration of the Executive Directors, senior management and the wider workforce.

All Drax employees had to adapt to new ways of working in 2020. The health, safety, and wellbeing of employees and contractors has always been of paramount importance, but particularly so in these unprecedented times. During the year the Committee spent a considerable amount of time reviewing the remuneration and the working practice arrangements of the whole workforce within the context of the challenges of Covid-19. Our priority has been to provide pay stability and security for our workforce, many of whom are classified as key workers. This included ensuring continuity of pay for those who were unable to work due to illness or caring responsibilities as well as our commitment not to furlough or make redundancies as a result of the impact of Covid-19.

You can find further information on how Drax has supported employees through Covid-19 on **page 34**.

In addition to supporting our colleagues, we have also actively supported our customers and communities during this time. For example, we provided free gas and electricity for two months to 162 independent care homes, allowing these vital organisations to divert funds to other priorities. We also provided over 850 laptops with three months of pre-paid internet access to over 50 schools. This has helped to enable students at our partner schools to access lessons from home.

In addition to not utilising any Government support, as explained on page 88, the Board received regular updates on the Group's liquidity position, our available cash and other resources which directly informed the decision to maintain both the final dividend in respect of the 2019 financial year which was approved by shareholders at the 2020 Annual General Meeting and paid on 15 May 2020 and the interim dividend which the Board approved in July 2020 and paid on 2 October 2020.

The following table provides a summary of the decisions made by the Committee in 2020 with respect to key components of remuneration. In coming to these conclusions, the Committee considered several factors. These included external advice, the performance of the Company and the contribution of employees at all levels in delivering the 2020 Group plan and the longer-term strategic priorities. The Committee also considered the extent to which Covid-19 had an impact on financial performance and on our range of stakeholders – whether positively or adversely.

Nicola Hodson
Chair of the Remuneration Committee

We have provided further information on decisions made by the Committee with respect to Covid-19 in the Annual Statement to Shareholders on **pages 109 to 110**.

Committee decision	
2021 base salary increases	
• To increase the level of base salaries for all Directors in line with the average increase made to all employees.	• The Company is supportive of an increase to the salaries of all eligible employees in 2021 which reflects our ability to pay and wider market benchmarking. The increase applied also takes into account our commitment to not furlough or make redundant colleagues due to Covid-19.
2020 annual bonus outcome	
• To pay the bonus awards in the normal manner, and in line with the Policy, with no adjustment.	• The bonus award is reflective of the Company's solid performance in a challenging year. • The Company bonus criteria for Executive Directors are consistent with those for other employees. All eligible employees will receive their bonus. • Drax maintained its dividend for 2019, paid an interim dividend for 2020 and is proposing a final 2020 dividend for approval at the 2021 AGM, the proposed bonus payments are consistent with the shareholder dividend experience and our capital allocation policy. • The Company's balance sheet liquidity and finances are strong. • We recognise that Covid-19 has brought into sharper focus the responsibilities which we all have to safeguarding our people, our communities and our environment. Within the 2020 scorecard we included targets associated with a combination of safety and engagement with our employees, reputation, as well as ESG measures that included targeting improvement in our CDP rating. Our employee engagement survey achieved 82% score for effective engagement and the Group's CDP Climate response rating improved from C in 2019 to A- in 2020. More information on the 2020 scorecard can be found on pages 124 and 125. More information on the Group's wider initiatives on the environment and climate change can be found on page 48.
2021 annual bonus	
• Continue to use performance metrics and weightings which are consistent with what is stated in the Policy.	• The Company is committed to the operation of a bonus plan for all eligible employees for 2021 and the bonus criteria are consistent for all employees. • On 8 February 2021, we announced our intention to acquire Pinnacle Renewable Energy Inc., which is subject to Drax and Pinnacle shareholder approval, and court and regulatory approvals. As this transaction would materially impact all metrics in the 2021 Scorecard, it is not possible to set targets at this time for each metric which has been selected for the 2021 Scorecard. The targets will be set as soon as is practicable once there is confirmation of whether the acquisition will or will not proceed. The table on page 132 sets out the metrics which will be included in the 2021 Scorecard.
2018 PSP Vesting	
• To allow the 2018 PSP award to vest without adjustment in March 2021.	• The Committee is comfortable that the vesting result is appropriate in the context of performance over the three year performance period. • Drax share price at 31 December 2020 was 39% higher than the start of the performance period (given the averaging periods over which TSR has been calculated this equates to a return of 15% based on the six month averaging period prior to the start and end of the performance period). These returns represent a strong result for our shareholders, particularly in the current environment. Performance is assessed against a broader FTSE 350 comparator group, where the majority of shareholder returns have been negative over the performance period. • Although Drax's share price was initially impacted by Covid-19 in early 2020 (as was the case for many companies), it recovered strongly, with a shareholder return of 28% from 1 January 2020 to the end of the year. • Drax has not benefited from unexpected windfall financial performance as a result of Covid-19, and the Committee is confident that this return represents genuine strong performance and delivery of our strategy in an extremely challenging climate.
2020 LTIP grant	
• The grant was made on the normal timetable and with the performance conditions and targets agreed with shareholders. • The normal practice of using the three-day average share price immediately prior to the date of grant to determine the number of shares awarded was followed.	• The LTIP performance is measured over a three-year period and therefore the targets remain appropriate. • The Committee will assess the value of the 2020 LTIP award at vesting and will ensure that the final outturn reflects all relevant factors, including consideration of any windfall gains. In making their assessment the Committee will take into account appropriate advice (e.g. the Company's auditors, the Committee's advisers and the Audit Committee), also giving due consideration to the shareholder experience and to what extent the outcome incorporates any windfall gain, which warrants adjustment.

Taskforce on Climate-related Financial Disclosures

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

The recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) provide a framework for consistent disclosure of climate-related information. Drax became a TCFD Supporter in December 2020. Our approach, progress and the next steps of our journey towards meeting the TCFD recommendations in full are summarised below.

In 2020, we responded to the CDP Climate questionnaire, which is aligned to the TCFD recommendations. Drax was awarded a score of A-. We will continue responding to the CDP Climate questionnaire each year.

Governance

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

Our approach

Responding to climate change is a core component of our Group governance framework. The CEO reports quarterly to the Board on Environment, Social and Governance (ESG) performance, including climate-related matters. Climate change factors are considered in decisions taken by the Board, reflecting the Board's duty to consider all stakeholders. Examples in 2020 include the decision to cease coal generation by March 2021 and the refinancing of the Group's debt facilities, which link Drax's carbon emissions to the amount of interest paid on the Group's debt (see page 26).

Our Climate Policy, approved by the Board, outlines our approach to integrate effective management of climate-related risks and opportunities into everyday decision-making and delivery of our business strategy (available at: www.drax.com/about-us/compliance-and-policies).

Our progress in 2020

In October, the Board reviewed our strategic aims and progress, and re-emphasised Drax's commitment to our purpose, to enable a zero carbon, lower cost energy future. The Board considered how our strategy aligns with good practice for purpose-driven organisations and committed to explore how this can be further strengthened through 2021.

In 2020, engagement with the Executive Committee and the Board focused on furthering understanding and embedding climate-related matters. Engagement in 2020 included:

- Climate Policy considered and approved by the Executive Committee and the Board.
- 2020 CDP Climate submission signed off by the CEO and CFO.
- At the Group's interim and full year, the Executive Committee and the Board examined the Climate Change principal risk, considering key evolving challenges and potential mitigations.
- The Executive Committee and the Board considered management's response and future plans for addressing the TCFD requirements, approved initiatives to meet these proposals, and approved Drax becoming a TCFD Supporter.

Remuneration

Our 2020 Group scorecard included a target to improve our CDP Climate score, linking remuneration to our performance and quality of disclosure on climate change.

Our actions for 2021

- Continue schedule of engagement with Executive Committee and the Board on climate-related matters.

See Corporate Governance Report **page 80**

See Remuneration Report **page 108**

Strategy

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

Our approach and progress in 2020

Our purpose – to enable a zero carbon, lower cost energy future – is aligned with the UK Government target to achieve net zero carbon emissions by 2050. Our purpose informs the three pillars of our strategy, outlined below. Our energy market model uses a range of 'net zero carbon by 2050' scenarios and the resulting set of planning assumptions enable us to identify actions and the associated capital allocation that we will take across our strategic horizons.

1. To build a long-term future for sustainable biomass: By expanding our sustainable bioenergy supply chain and reducing costs we are developing options for long-term biomass operations – renewable generation, negative carbon emissions, system support services and third party supply of biomass to international markets.

We are investing in the expansion of our pellet production facilities as part of our biomass strategy, targeting to achieve 5 million tonnes of self-supply by 2027 and to reduce production costs. We believe this will give rise to a long-term future for sustainable biomass, which includes the potential for BECCS and negative emissions. This is supported by a robust supply chain that is subject to externally-set regulations and regular audits, to ensure the required standards are met. We are progressing the BECCS business case and technology selection so that we can effectively implement and scale a cost-effective carbon removal technology.

2. To be the leading provider of power system stability: Through a portfolio of flexible and renewable generation, and large industrial and commercial customer supply business, we will provide system support services to allow the power system to utilise intermittent renewable energy accelerating the UK's decarbonisation en route to 2050.

We believe that as the UK power system decarbonises, demand will increasingly be met by low marginal cost intermittent wind generation.

Historically, the operation of reliable baseload thermal power plants provided

Strategy continued

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

both electricity and a full range of non-generation system support services. These services are important to the safe and reliable operation of the system. Given its inherent intermittency, wind power has limited capability to provide these other services, making the system more challenging to manage. Throughout 2020, we provided these services to the power system via our flexible asset portfolio.

3. To give our customers control of their energy: We provide our customers with renewable energy, and the opportunity to control and optimise energy use and cost, helping us support the energy system.

To support the zero carbon and sustainability ambitions of our customers, we are considering and developing the services they need. Our Drax Electric Vehicles (EV) service enables customers to transition to EVs or optimise their existing EV solution. We also provide an Electric Assets service, that helps our customers to optimise the energy usage of their assets and reduce costs.

ESG finance

In 2020, we completed a £300 million Revolving Credit Facility. This includes an embedded ESG mechanism that adjusts the margin of interest paid based on Drax's carbon emissions per GWh of electricity generated, measured against an annual benchmark. This is consistent with our continued strategic focus on reducing our carbon emissions.

Scenario analysis

We have considered the potential impact of climate scenarios on our business, including robust modelling as part of our capital projects work. Comprehensive modelling was undertaken to assess the current flood risk and the potential future flood risk associated with the redevelopment of Drax Power Station. The assessment considered potential changes in sea level, changes in rainfall and peak river flows based on guidance issued by the Environment Agency (EA).

The EA projections considered data from the UK Climate Projections 2009 (UKCP09), which categorise the range of possibilities from lower impact to upper impact. In compliance with planning requests, the assessment considered the impacts of the central climate projection through to the upper impact projection over a medium time phase, covering the expected life of the asset.

The project identified a risk of flooding in the community and, as a result, a flood relief channel has been included in the plans.

Our actions for 2021

- Undertake scenario analysis exercise.

See Principal Risks and Uncertainties **page 66**

Risk management

Integration of climate-related risks into our Group-wide risk management approach

Our approach

The assessment and management of climate-related risks is integrated into our Group-wide approach to risk management, as defined by the Group Risk Management Policy. Climate change is a principal risk category assessed within this approach. The climate change principal risk is owned by a member of the Executive Committee and subject to a deep-dive review by the Executive Committee each year. An analysis of all principal risk categories, including climate change, is made and presented to the Executive Committee and Board twice a year.

Our progress in 2020

In 2020, we focused on the development of our climate change principal risk assessment process. We strengthened the assessment of business division specific risks, expanded the detail of our assessment, and identified risk areas for targeted analysis in 2021. A summary of the physical and transition risks identified is provided in Principal Risks and Uncertainties.

In 2020, the Executive Committee examined the climate change risks, challenging the assumptions, mitigations and controls which had been identified.

Our actions for 2021

- Undertake targeted analysis of the risk areas identified for further exploration in 2021.

See Principal Risks and Uncertainties **page 66**

Metrics and targets

Our ambition is to become carbon negative by 2030

Our approach

Our ambition is to become carbon negative by 2030. This applies across our direct business operations globally (scope 1 and 2 emissions).

We are committed to the Science Based Targets initiative, publicly stating our intent to externally validate that our target is aligned with climate science.

Our progress in 2020

We disclose our scope 1, 2 and 3 greenhouse gas emissions, alongside other key environmental metrics, in the sustainable business section (see page 48).

In 2020, we undertook work to better understand the detail of our scope 3 emissions. We are developing a scope 3 target that enables us to align to the Science Based Targets initiative.

Our actions for 2021

- Set and publish a scope 3 target.

See Carbon Emissions **page 49**

Our Covid-19 response

How has Drax managed the impact of Covid-19?

Keeping our people safe, whilst providing energy and critical services.

Throughout the pandemic we have successfully maintained effective day-to-day activities, and supported our people, communities and customers. We continue to maintain our sustainability standards and meet the needs of stakeholders as we progress our long-term objectives and invest for growth.

Organising our response

When Covid-19 was declared a pandemic in March 2020, we had already implemented our crisis management structure to manage information and our response, and to better understand emerging risks. Management and leaders from the business units met regularly to define and communicate the Drax response. Our leadership's priority was, and will remain, the health and safety of our colleagues.

Delivering our purpose

As a strategic part of the UK's critical national infrastructure, we continued to supply flexible and renewable electricity, delivering strong strategic, operational and financial performance for our shareholders and various stakeholders. This allowed us to continue to invest for growth, whilst paying a sustainable and growing dividend. Throughout the pandemic, no employees have been furloughed and we have not sought any financial help from the Government.

Supporting our people

We quickly deployed home working for the majority of our non-operational colleagues.

Following school closures in the UK, we introduced two weeks' emergency paid leave for childcare support. As information on the virus and Government advice developed, we continued to adjust our response accordingly. We introduced a Covid-19 absence policy, extending our emergency arrangements, entitling colleagues that are unable to work due to Covid-19 to full pay.

Health and safety as our top priority

We undertook Covid-19 risk assessments at each of our sites, to identify mitigations to reduce the risks of workplace transmission of the virus. Throughout the year, our operational workforce was able to continue to deliver our business priorities, without a significant impact or transmission of the virus in the workplace. Our Generation business, which has continued to operate as normal, safely delivered several major outages, with large numbers of contractors on our production sites during the summer.

We deployed home working assessments and provided colleagues with suitable equipment to make sure they could work from home safely. We continue to focus on maintaining social distancing, hand hygiene and reduced occupancy of our workplaces. As further waves of virus transmission occur across the country, we are planning to ensure continued provision of adequate support for the health and wellbeing of all our colleagues.

Wellbeing

We surveyed colleagues to understand how they were coping and to identify areas for focus. This was to make sure colleagues continued to feel connected and supported through the challenges presented by Covid-19. To further support our colleagues' physical and mental wellbeing, we expanded our virtual wellbeing tools and resources offering.

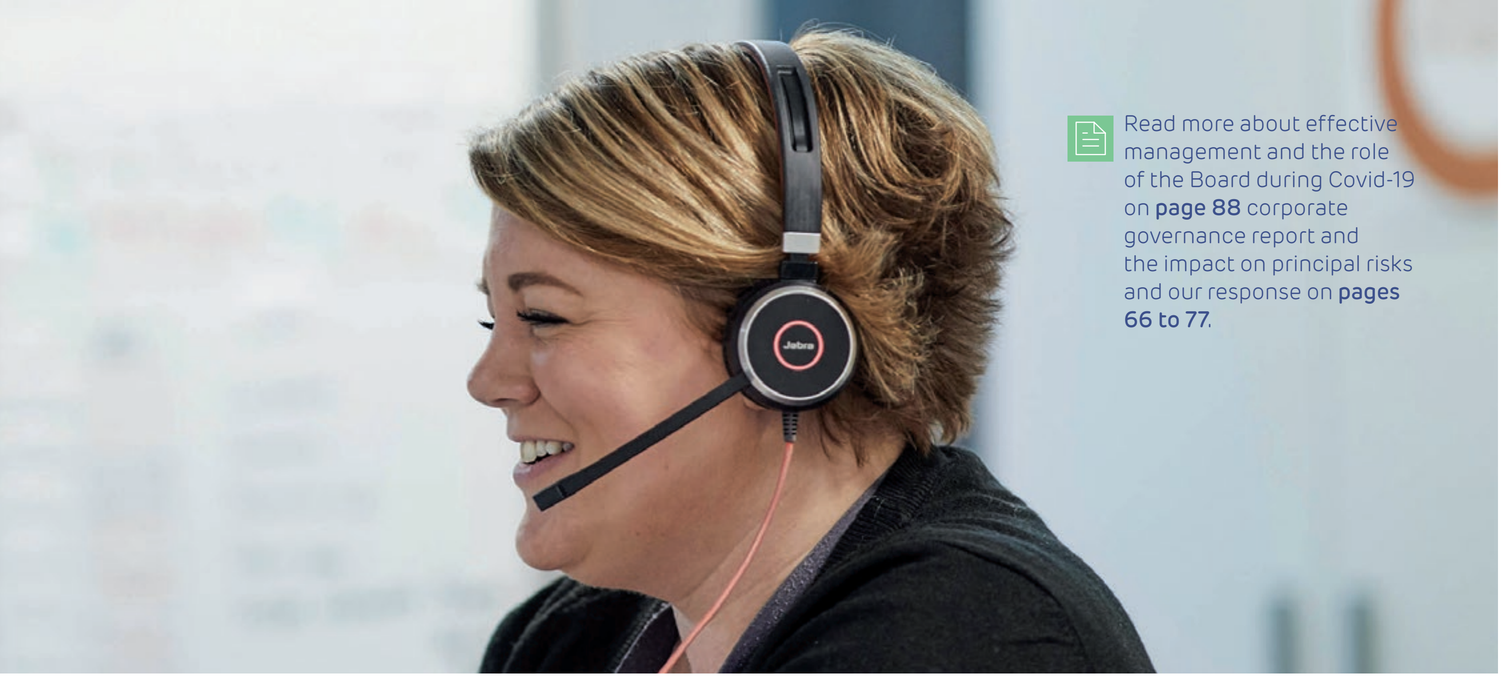
Read more on Wellbeing in our Sustainable Business section, **page 58**.

Charitable and community engagement

We continued to provide colleagues with ways to engage in community and charity activities. We held national fundraising days, promoted Give As You Earn and shared virtual volunteering opportunities to support local charities and communities facing the impact of the pandemic.

> "Our employees' health and wellbeing are vital, and we work hard to ensure we are supporting them with both their physical and mental health, whether working at home or at one of our sites."

Will Gardiner
CEO



Read more about effective management and the role of the Board during Covid-19 on **page 88** corporate governance report and the impact on principal risks and our response on **pages 66 to 77**.

Supporting our communities

We have sought to help our communities during the Covid-19 pandemic.

Laptops for Learners

Our Laptops for Learners initiative provided 853 laptops, each with three months of pre-paid internet access, to over 50 schools and colleges local to our sites across the UK. The initiative has enabled students at our partner schools in England and Scotland to continue to access lessons from home.

Online educational resources

We launched an online offering to make sure students were able to continue learning. This included creating virtual tours of our assets and educational content, delivering webinars to university students, and providing a virtual experience of work in partnership with Oak National Academy.

> "This donation of laptops from Drax is going to make a huge difference to the lives of pupils currently without access to online educational resources – as well as our whole school community after the Coronavirus lockdown is over."

Ian Clennan
Head Teacher of Selby Community Primary School

Supporting our customers

Throughout the year, we continued the vital supply of power to around 300,000 UK businesses, including organisations most affected by the pandemic, such as care homes, hospitals, schools, and retailers.

Debt support

We focused on providing extra help for our customers facing financial hardship due to Covid-19. We retrained call centre colleagues to equip them with the skills needed to help prevent debt and to connect businesses with the support they might need, including access to Government-backed loans and expert financial help.

We created options for smaller businesses and organisations struggling at this time. For those unable to keep their accounts in balance or pay in full, we created deferred payment plans. We also extended current energy prices for three months to 4,000 customers coming to the end of their contracts, giving those businesses an opportunity to focus on more pressing concerns related to Covid-19.

We donated £150,000 to the specialist debt charity Business Debtline. The funds are being used to set up and run a dedicated webpage and phoneline for our SME referrals over the next two years. This will help businesses recover from the crisis and aims to support their long-term security.

Care homes

We provided free gas and electricity for two months to 162 independent care homes local to Drax's operations across the UK. This payment freeze allowed these vital organisations to divert funds to other priorities, such as PPE, food and carers' accommodation.

> "Not having to pay our energy bills for two months means we can redistribute our funds to buy essential items, like PPE, to ensure our employees are supported to give our residents the level of care they deserve."

Mike Smith
Chief Operating Officer of Shaw Healthcare

System stability

Why is there a growing importance for system support services?

Keeping the lights on requires not just electricity generation, but also a range of non-generation activities which help provide stability, flexibility and reliability, to ensure that electricity supply meets demand, second-by-second.

Electricity must be transported the length of the country, and levels of generation must be managed so they are exactly equal to levels being used (i.e. balanced), and properties like voltage and frequency must be minutely regulated across the whole network.

Ensuring all this happens smoothly relies on the system operator – National Grid – working with power generators like Drax to provide services in addition to power generation that keep the power system in operation, stable and balanced. We call these system support services.

Examples of system support services:

Historically, coal and gas-fired power stations were able to deliver these services as an inherent by-product of producing reliable baseload electricity. Now, coal and older gas plants are being closed down in the UK and being replaced by intermittent renewable energy sources, principally wind. This reduces carbon emissions but makes the provision of these system support services more challenging.

Wind, by its nature, is intermittent and, for the most part, unable to provide system support services. Whilst solar generation may be more predictable than wind, it does not provide any system support services. As demand for system support services increases, there are fewer assets, such as large power stations, able to provide them (see Table 1 below). This is increasing the cost of operating the system and is a growing source of value for generators like Drax which can provide these services.

Frequency response – The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz. Frequency response is required every second of the day.

Voltage control/Reactive Power (MVars) – Reactive power is used to manage power flows around the transmission system and helps to support voltage in the event of a system fault.

Inertia – The stored energy in synchronous generators (i.e. large spinning mass such as a biomass or pumped storage turbine) which slow down the rate of changes in system frequency.

Black Start – The ability of a generation unit to start up without external electricity supplies following a total or partial loss of power from the transmission system.

Reserve – The system operator must be able to ensure a balance between demand and generation at all times to prevent power cuts. This increased and decreased generation is sometimes referred to as headroom and footroom. Managing demand can also be used to the same effect. As we become more dependent on intermittent renewables, we believe that the system operator will require more dispatchable plant like biomass and pumped storage, which can turn up when wind speed drops and, crucially, turn down when wind speeds are high.

Pumped storage is particularly useful as, in addition to providing a full range of generation and non-generation services to the system operator, it allows large-scale wind generation to be stored as hydro-electricity at times of excess electricity production (by using energy from excess wind generation to pump the water to storage), before releasing it back into the electricity grid when required. By way of comparison Cruachan Power Station is four times as big as the world's largest battery and can run at full load for fifteen hours.

Table 1

Generation type	Biomass	Pumped storage	Gas	Hydro	Nuclear	Solar	Wind	Inter connector	Batteries
Power generation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Frequency response	Yes	Yes	Yes	Yes	Partial	No	Partial	Yes	Yes
Reactive power	Yes	Yes	Yes	Partial	Yes	No	Partial	Yes	Yes
Voltage management	Yes	Yes	Yes	Partial	Yes	No	Partial	Yes	Yes
Inertia	Yes	Yes	Yes	Yes	Yes	No	No	No	No
Black start	Yes	Yes	Yes	No	No	No	No	No	No
Reserve power	Yes	Yes	Yes	No	No	No	Partial	Yes	Partial

System support services and Drax:

Drax operates a portfolio of flexible, renewable and low-carbon generation, which is able to provide all of these services. As demand for these services increases, Drax is able to contract with the system operator National Grid to provide a range of non-generation services, such as a six-year contract worth up to £5 million per year awarded to Cruachan for the provision of inertia in western Scotland. The contract does not require Cruachan to produce electricity, but to be synchronised with the electricity system.

Drax also makes its assets available in the short-term balancing mechanism to help National Grid balance the system on a minute -by-minute and hour-by-hour basis.

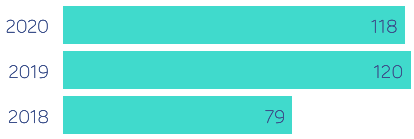
We are remunerated for system support services via the balancing mechanism, specific bilateral contracts for ancillary services with the system operator. We monitor our performance by measuring the gross profit earned from these activities which we describe as System Support Optimisation.

System support services are principally delivered through generation, but we also have a growing opportunity to provide some of these services through our Customers business.

We provide electricity to large and industrial customers, in addition to SMEs. Working with these larger customers to manage their usage throughout the day, we expect to provide demand-side response services to the electricity market – for example, by reducing demand at times of lower supply and vice versa.

The chart below shows the value derived from system support services and optimisation:

Gross profit (£m)

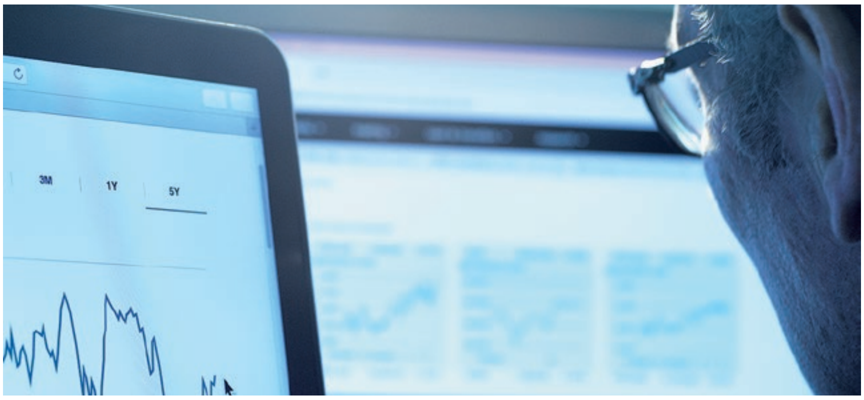


Giving customers control of their energy

How are we supporting our customers?

In addition to providing our customers with renewable energy, we provide them with the opportunity to control and optimise their energy use, cost and source, and this helps us in supporting the energy system.

Demand-side response



Drax is a leading provider of renewable energy and services to industrial and commercial customers. Haven Power's large portfolio of industrial and commercial customers offers opportunities to provide system support services to the energy market and create value for our customers.

In November 2019, United Utilities became the first customer to sign up to Haven Power's Asset Flex project. Known as Demand Side Response (DSR), customers are provided with financial incentives to turn down, or turn off, non-essential equipment at times of peak demand depending on the customer's needs.

The latest customer to sign up for this service is Sundown Products, a large industrial site with a range of heavy machinery, providing another new type of asset to control as Haven look to broaden their portfolio and knowledge base across different technologies.

Haven uses technology to turn down or turn off customers' energy demand in peak times to reduce their costs, and is designed to always work within the constraints set by the customer. For example, we could turn off a water pump within certain limits or time shift a production line. It is simple for the customer: Drax has the opportunity to create value from the asset in the provision of system support services and in exchange, customers get a cheaper unit rate.

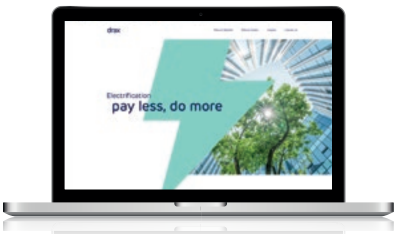
Reducing demand, typically at peak times (which are also periods of higher carbon intensity) is another way in which the Group is providing system support services to the UK power system.

Electric vehicles (EVs)

Drax has developed a solution aimed at making it easier for companies, especially those with fleets, to transition to EVs. SES Water was the first partner to take this bespoke package, which includes vehicle suitability assessment, charging infrastructure, operating software, vehicle telematics, maintenance services, and the renewable electricity needed to power the vehicles.

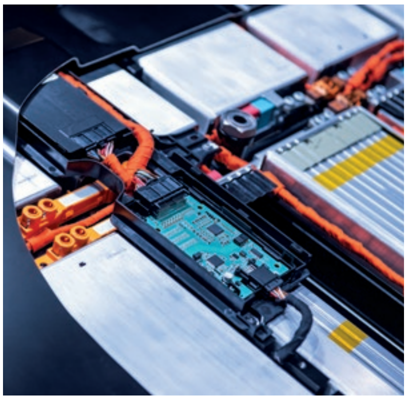
Our energy expertise enables us to approach the challenge of electrification from a different angle, considering on-site energy requirements and deploying smart charging technology that delivers cost and environmental benefits without negatively affecting business-as-usual.

The aim is to deliver EV charging and battery optimisation, which ties into our customer control strategy. By understanding all aspects of EVs from telematics to charge-point hardware and software we are identifying opportunities to create value for customers and the Group.



You can read more about this on our electrification for business website
www.energy.drax.com

Battery power



Energy storage through batteries is also being tested with customers who already generate renewable energy onsite.

Energy storage is the key to helping customers maximise the benefit of the energy they generate from their own small-scale renewables, providing greater flexibility to the grid and smoothing volatility in the system.

Drax has partnered with energy storage company Eaton, which offers new and second-life batteries, such as used EV batteries, for installations on customer sites. Eaton can quickly scale-up the deployment of small commercial energy storage systems to larger, industrial-scale units, helping to support more customers with energy management solutions.

Engaging our stakeholders

Why is engaging with our stakeholders fundamental to our success?

We recognise that we need to listen to, and work with, a diverse range of interested parties to achieve our purpose: to enable a zero carbon, lower cost energy future

The quality of the Group's decision making is richer when we actively consider the views of stakeholders.

From our shareholders to our colleagues and from environmental NGOs (eNGOs) to regulators, we recognise that our decisions have an impact far beyond our business. We proactively seek to understand the needs of our stakeholders and act upon them to better deliver our purpose: to enable a zero carbon, lower cost energy future.

Stakeholder relations

The world around us is evolving rapidly, and the expectations on the business are changing too. More than ever before, our role in supporting our stakeholders is central to our strategy. From tackling climate change, to responding to Covid-19 to levelling up the economy, our aim is to be a force for positive change in the communities where we operate and in addressing some of the major global challenges affecting us all.

We recognise that delivering long-term value for our shareholders and customers is closely linked to delivering good outcomes for our climate, environment and communities. These factors continue to drive changes in regulation, policy and public attitudes. Therefore, Drax takes great care to anticipate and respond effectively to the changing world. To that end, the views of all our stakeholders forms a core part of the decision-making process of the Board and the Group.

Drax has a wide range of stakeholders and takes care to ensure that the Group, and the Board, has an effective strategy to identify and engage with them. The Board receives regular reports on stakeholder engagement including from the Corporate Affairs and Investor Relations functions. This ensures that the Board takes into account the views of our stakeholders when making strategic decisions.

Drax's Communications Strategy contains our stakeholder engagement plan. Presented to the Board at least annually, this sets out and provides oversight of how the Group intends to engage stakeholders. In addition, the Board engages with key communications campaigns to better understand the needs of those stakeholders that our campaigns are targeting. We employ dedicated teams to engage both proactively and reactively with specific stakeholder groups. Our teams include stakeholder relations, strategic communications, investor relations, HR, internal relations, sustainable business, business ethics, media relations and digital engagement.

The methods of engagement we use vary according to the issue and the stakeholder concerned. As Drax changes and grows, we expect the scope and breadth of our engagement with different stakeholders to also evolve.

The following pages 40 to 45 set out the broad stakeholder groups we identified and engaged with in 2020. It also highlights their key concerns, why and how we engaged, and how we responded.

Companies Act, Section 172 Statement

The directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board recognises that decisions taken today will shape both the longer-term performance of the business and its impact on our various stakeholders.

The Board is responsible for engagement with a range of stakeholders, and believes that considering the interests of our stakeholders in key business decisions is fundamental to the Group's ability to deliver sustainable value creation. This consideration enables Drax to have a positive impact on the environment, our communities and wider society over the longer term.

The following pages explain how during 2020 the Board had regard to those matters set out in Section 172 of the Companies Act 2006:

On pages 40 to 45 we set out the Board's, and more widely the Group's, comprehensive engagement with stakeholders.

On pages 61 to 63 we describe how we seek to maintain our high standards of business conduct.

On page 88 we describe how the Board responded to the Covid-19 pandemic, including decisions taken to support the workforce and wider community.

On pages 90 and 91 we describe the Board's leadership of stakeholder engagement, including a focus on Board decision-making and stakeholder and long-term considerations.

On page 92 we describe the Board's engagement with the workforce.

On pages 32 and 33 we describe the Board's oversight of TCFD and climate-related risks, and in Sustainable Business on pages 48 to 63 we describe the impact of the Company's operations on the environment and the community.

Understanding the needs of our stakeholders is essential to our long-term success

Engagement takes place at many levels of the business and a judgement is made on a case-by-case basis on whether engagement is required by the Board, Executive Committee, senior management or at the operational level. The Group Head of Public Affairs maintains a detailed map of key stakeholders, both internal and external, the concerns they've raised and the date of the last meeting. Management keeps under review the relevant stakeholders that may be affected by major decisions.

To ensure clear feedback, the Board receives regular reports from the CEO on key stakeholder relations activity, current issues and the relevant feedback received from stakeholder interaction. These reports are supported by the Group Director of Corporate Affairs, the Corporate Affairs team and the relevant owners of direct stakeholder engagement.

The Board has a duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006. Supporting this, Board and Executive Committee discussions – and accompanying papers – include information on the stakeholders likely to be affected by items under discussion and the likely impact. This ensures that the interests of all relevant stakeholders, and the need to act fairly between members of the Company, are considered in decision-making.

The most recent detailed review of stakeholder activities was presented to the Executive Committee and the Board in October 2020.

Our stakeholders

Workforce

Key concerns
Beyond Coal strategy, diversity and inclusion, response to Covid-19, wellbeing, culture and values, future strategy, trade union relations, learning and development, career progression, Health & Safety, reward and recognition.

Why we engage
To enable employees to be better informed and able to contribute to the delivery of our purpose and strategy, whilst creating a safe and engaging culture and environment where our employees feel valued, respected and listened to. We want all employees to feel they can grow, develop and make a meaningful contribution to our strategy, purpose and communities, whilst building resilience to cope with the context in which we are operating.

How we engage
We maintain regular dialogue with our workforce through our engagement (MyVoice) forums, colleague briefings, weekly updates and Q&A from our CEO and our pulse and annual engagement surveys.

Launched in 2019, the MyVoice forums align to our operating model and forums representing each of the business areas. Each forum comprises sufficient colleague representatives relative to the size of the business, and meet formally each quarter and informally as regularly as each forum feels is appropriate for local needs. Representatives are drawn from across the relevant business unit, and each forum chair has been selected by membership vote. The chairs of each forum come together quarterly to discuss workforce issues across the business, and discuss topics where workforce feedback has been sought by the Board. The chairs then meet with the Chair of the Board of Directors and CEO to discuss the key issues raised, with feedback from these meetings then shared with all forum members.

Matters discussed during 2020 included diversity and inclusion, how effectively our Covid-19 response was communicated, colleague wellbeing in lockdown, and how colleagues would prefer to work in future.

Employees are also able, anonymously, to ask questions of the CEO ("Ask Will") on any subject. The CEO responds to the latest questions in his weekly email to all colleagues, where he also shares his thoughts and highlights of the week.

How we've responded
We've listened to and acted on feedback from both the MyVoice forums and other colleague interactions more broadly. This included introducing informal and formal flexible working policies, and a working from home policy and guidance, developing our diversity and inclusion strategy, developing and delivering plans to further support colleague wellbeing including: a dedicated intranet resource; Mental Health Awareness training for managers; building resilience e-learning for all colleagues; raising further awareness of existing wellbeing benefits available and a step challenge to encourage physical fitness and (virtual) social connection, and creating a dedicated intranet resource to clarify the latest guidance and information about Covid-19.

In 2020 employees asked over 1,300 questions in "Ask Will". Subjects ranged from employees enquiring about the strategy and challenging the CEO so they could gain a deeper understanding of what we do and plan to do, to what Drax is doing to help tackle climate change, what employees can do individually and Will's own views. Other topics included areas of concern around the business; mental health and wellbeing; pay and benefits around the Group and new or innovative ideas.

Examples of action taken as a result of "Ask Will" questions include increasing our Cyclescheme limit to £2,000, as part of our voluntary benefits offering; our CEO making a statement about Black Lives Matter; and doing more to embed diversity and inclusion through people stories.

Following the coal closure announcement, consultation on all key areas was undertaken with trade unions and employee representatives. Feedback from this process was considered, allowing the Board to assess the process undertaken to date and consider further measures to be implemented, for example resulting in changes and enhancements to the financial and retraining packages.

We also strengthened our Health and Safety function, with the recruitment of a new role of Group HSE Director.

You can read more about our activities **on pages 58 to 61 and 92.**

Engaging with stakeholders

Engaging stakeholders through a new approach to negative emissions

There is scientific consensus that to get to "net zero" emissions, we need to address emissions from key sectors that cannot decarbonise as much or as fast as others. Examples include aviation, heavy industry and agriculture. This means that in addition to our efforts to reduce emissions, we also need to invest in technologies that remove carbon from the atmosphere. Leading expert bodies such as the Climate Change Committee, Royal Society, Royal Academy of Engineering and the Electricity System Operator recognise that these technologies will play a crucial role in getting to net zero.

In 2020 the Group engaged with a range of stakeholders on the role of biomass and negative emissions in the energy transition and a post-Covid-19 green recovery. The stakeholders included Government, local MPs, leaders in industry and business, NGOs, think tanks and academics.

The Group's CEO, Will Gardiner, played a key role in leading the debate on negative emissions, climate change and the importance of Drax's role in the energy transition. He highlighted our plans to combine sustainable biomass with BECCS, which the International Energy Agency recently described as the most mature of carbon capture technologies. Reflecting the cross-sectoral need for negative emissions technologies, a broad group of companies and industry bodies launched the Coalition for Negative Emissions in October 2020.

The Coalition ranges from farming to aviation and represents hundreds of thousands of workers across some of the UK's most critical industries. The Coalition jointly wrote to the UK Government outlining a shared vision to build back better from Covid-19 as part of a sustainable and resilient recovery. Enabling the fulfilment of this vision is the development of pioneering projects that can remove carbon from the atmosphere.

Drax has also been championing the potential of the Humber region to lead a green industrial revolution including by deploying BECCS at Drax. A study by consultancy Vivid Economics (November 2020), commissioned by Drax, revealed that tens of thousands of jobs could be created and supported in the Humber region.

To make this happen, cutting edge carbon capture and hydrogen technologies need to be deployed to decarbonise industry and deliver a Zero Carbon Humber. With the right policy framework, these new jobs could begin to be realised as soon as 2024. Developing BECCS at Drax could support thousands of jobs at its peak, including in construction, supply chain and the wider economy. This could kickstart a new carbon capture and hydrogen industry in the UK.

The Prime Minister's 'Ten Point Plan for a Green Industrial Revolution', published in November 2020, increased support for carbon capture and storage projects and accelerated timeframes for delivery. It also recognised the role of carbon capture and storage in helping "decarbonise our most challenging sectors, provide low carbon power and a pathway to negative emissions". In addition, it acknowledged the creation of "SuperPlaces" in areas such as the Humber where these technologies could be deployed.

Our stakeholders continued

Shareholders and investors

Key concerns

Drax strategy, Covid-19 response, capital allocation and dividend policy, the Capacity Market, share price, financial and operational performance, biomass sustainability, funding, engagement with policy makers, and remuneration.

Why we engage

Engagement allows us to understand the concerns and priorities of current and prospective investors, and lenders. We can then take these into account in our decision-making in areas such as ESG matters; executive pay; dividend and longer term capital allocation policy; as well as strategy.

How we engage

We actively engaged with shareholders to explain the impact of Covid-19 on the Group. In addition to our full and half-year results we issued a trading update in April, early in the pandemic, in which we set out our expectations for the Group as a result of Covid-19. Reflecting the constraints on face-to-face meetings, most meetings have been calls and video calls with existing shareholders and new investors. We engage through a wide range of channels including our website, AGM, full-year and half-year results. We also have an ongoing programme of investor relations meetings. The Chair and Senior Independent Director are available to speak with investors. In 2020 the Chair of the Remuneration Committee wrote to a number of shareholders and institutional bodies regarding executive pay, outlining how we were formulating the Directors' Remuneration Policy in response to feedback provided from engagement undertaken during 2019.

How we've responded

Reflecting feedback from investors and an investor perceptions study completed in 2019, we continued to develop our programme of ESG reporting and engagement, which includes developing our reporting towards the disclosure requirements for TCFD, which we include in this year's annual report. Our Head of Investor Relations and Head of Climate Change undertook an ongoing programme of ESG focused meetings with shareholders and investors, primarily focused on biomass sustainability and carbon accounting.

Communities and local authorities

Key concerns
Future opportunities for employment, investment, tackling climate change, our local environmental impact, community initiatives and sponsorship, action in response to Covid-19.

Why we engage
Drax is an active participant in the communities in which it operates. Strong community relationships strengthen our licence to operate in those areas.

How we engage
We engage regularly with the communities around our businesses through supporting local initiatives, and holding quarterly meetings and formal drop-in sessions.

How we've responded
In February 2020 we donated £25,000 to support the local community around Drax Power Station which had been adversely affected by severe flooding. We donated $30,000 to help families and businesses in the parishes around our pellet mills in Louisiana and Mississippi in the US, adversely affected by both the Covid-19 crisis and tornadoes in the Monroe area. In September 2020 we donated $20,000 to help families in north eastern and central Louisiana who were adversely affected by Hurricane Laura.

As a board member and funding partner of the Galloway Glens Landscape Partnership Scheme, we support its work to create local opportunities for a sustainable future. This work includes the recovery of salmon fish stocks, which is a big issue locally and across Scotland, and working together to support STEM education.

Colleagues have undertaken a range of volunteering and charitable work. This has included volunteering, outreach to partner schools in our communities, Group-wide fundraising days and colleagues' personal fundraising efforts, for which Drax offers matched funding.

Customers

Key concerns
Energy costs, response to Covid-19, customer service support, Third Party Intermediary relationships, sales and product details, energy efficiency, managing their own carbon footprint.

Why we engage
Engagement allows us to better understand our customers' needs and how we can deliver continuous improvement in customer service.

How we engage
Our Customers business engages with our customers through a variety of channels including social media, our website, by phone and through our complaints procedure.

How we've responded
We listened to how customers were being affected by Covid-19 and took several measures to support them: we retrained call centre colleagues to equip them with the skills to help customers in need, created deferred payment plans and donated £150,000 to Debtline, a specialist debt charity.

We provided free gas and electricity for two months to care homes local to our operations. You can read more about these actions on page 35.

We also engaged with Government on behalf of customers, advocating for access to Government support for SMEs and micro-businesses.

Government and political bodies

Key concerns
Energy costs, decarbonisation, Carbon Price Support, Brexit, Capacity Market, climate change mitigation, biomass sustainability, Renewable Obligation Certificate (ROC) cap, development of policy to support BECCS, delivery of the UN Climate Change Conference (COP26), unabated coal closure, Covid-19.

Why we engage
Constructive engagement with Government and political bodies is key to Drax's purpose to enable a zero carbon lower cost energy future.

How we engage
We regularly engage with regulators in the UK, EU and US on a broad range of topics including the need for decarbonisation, the role of biomass and carbon capture and storage policy, and the need for system stability and flexible generation. For example, in the UK we engage with political stakeholders at party conferences through all-party groups. While Drax makes no political donations in the generally accepted definition of the term, it is important that we engage with politicians, political parties, policy makers and other stakeholders. You can read more about this on page 136.

Our political engagement policy, which was developed in direct response to shareholder feedback, remains unchanged from 2019 and is available on our website: drax.com/about-us/drax-political-engagement-policy/

How we've responded
Throughout 2020 Will Gardiner participated in regular industry-wide forums with the Secretary of State for Business Energy and Industrial Strategy and the Minister for Energy on the response to Covid-19. In response to requests from several political bodies we commissioned Vivid Economics to assess the socio-economic impact of developing BECCS at Drax Power Station. Will Gardiner has joined the Scottish Government's Green Recovery Taskforce, which was set up by the First Minister of Scotland to support Scotland's recovery from Covid-19.

Engaging our stakeholders continued

Our stakeholders continued

Non-governmental organisations (NGOs)

Key concerns
Biomass sustainability, coal and gas, climate change, Carbon price support.

Why we engage
Engagement with NGOs helps us to challenge and enhance our practices on behalf of the wider society. We warmly welcome engagement with NGOs and the advice and guidance they bring to our operations. This year, for example, we engaged with Greenpeace, WWF, RSPB and many other eNGOs.

How we engage
We engage directly with NGOs on a wide range of topics from biomass sustainability through to carbon pricing. For example, our new Responsible Sourcing Policy for woody biomass addresses stakeholder issues and was developed following a series of roundtable discussions.

How we've responded
In May 2020 Drax issued a consultation to key stakeholders – including NGOs – on a new Biomass Carbon Calculator. It lasted until June 2020 and in November 2020 we published a summary of responses, alongside an amended Calculator that accounted for stakeholder views. The Calculator is available on our website: www.drax.com/sustainability/the-biomass-carbon-calculator/

In 2020 we asked the Independent Advisory Board to review our sourcing policy. This came about in light of the new, scientific understanding of the climate impacts of woody biomass developed by the UK's leading forest science body, Forest Research. The IAB confirmed that our sourcing policy was in line with the Forest Research recommendations.

Regulators and network operators

Key concerns
Targeted Charging Review, smart meter installation, energy trading compliance, environmental compliance, Health & Safety compliance, compliance with biomass sustainability policy, system support and ancillary services markets, ROC compliance, and business ethics compliance, including data protection.

Why we engage
Engagement with Ofgem and the Electricity System Operator allows us to promote and deliver a secure, reliable network at least cost to the consumer. We support a level playing field for all technologies, enabling an efficient and investable market. In addition, engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with latest guidance.

How we engage
We engage directly with stakeholders and through industry associations. For example, we engage with relevant teams at Ofgem and National Grid on the growing need for stable markets and appropriate support mechanism to provide system support services to the grid.

How we've responded
Following a request from Ofgem on the role of pumped hydro storage in the future energy system, we've created a presentation outlining potential support mechanisms and shared with Ofgem's market development team.

We are also in discussion with Ofgem on potential market solutions to deliver system support services that enable greater deployment of intermittent renewables while also maintaining safe and stable networks.

Schools and colleges

Key concerns
Skills to support future employment, local environmental impact, community initiatives and sponsorship, "levelling up" and supporting STEM jobs.

Why we engage
Our aim is to improve skills, education, employability, and opportunities, with a particular focus on supporting under-represented sections of society. Engagement with schools and colleges allows us to promote interest in science, engineering and the energy sector and to support educational institutions in developing the workforce of the future.

How we engage
We engage directly with schools and colleges and offer virtual learning opportunities, in addition to free access for all students to our site tours during term time. Our partnerships with organisations such as Teach First support the delivery of our activities with schools.

How we've responded
In October 2020 Drax committed £180,000 in a new five-year partnership with Selby College. This will enable the college to deliver community education programmes and support for retraining. Such initiatives will help students develop the skills needed in innovative clean technologies which will assist in the delivery of a zero carbon economy in the future.

Following the temporary closure of our Visitor Centres and site tours in response to Covid-19, we expanded our online educational offering in 2020. To provide opportunities for continued learning, we also donated laptops with internet access (see page 35 for more information) and delivered virtual tours, university webinars, and a virtual experience of work in partnership with Oak National Academy.

We fund PhD studentships on a range of different topics, including engineering, policy and forestry.

You can read about our work supporting young people and teaching them the skills for a green economy on page 56.

Suppliers and contractors

Key concerns
Expected standards of conduct and satisfactory responses to our due diligence requests, Prompt Payment Code, provision of guidance regarding statutory obligations (such as Modern Slavery Act) and the end of the EU transition period.

Why we engage
We're committed to conducting business with honesty and integrity and in accordance with applicable laws and regulations. Strong relationships with suppliers and contractors allow us to work together to ensure health and safety risks are identified and properly managed, promote high standards and ensure realistic, and shared, expectations on project delivery.

How we engage
Drax's procurement, business ethics and sustainability functions engage directly with suppliers around key issues to ensure our values and our policies are effectively incorporated into and upheld throughout our supply chain. We also seek the views of suppliers and contractors to collaborate on improvements in standards and meeting our obligations under law, and regulations which are in keeping with our values.

How we've responded
In preparation for the end of the EU transition period, we've engaged with several of our largest suppliers. This engagement has helped inform our internal Brexit preparation led by the Chief Transformation Officer. In turn, we've used this information to support the Government in the development of new procedures including on decisions about critical goods. In October 2020, the Board approved a new Supplier Code of Conduct which we are rolling out to all suppliers, to support understanding of how we can work together to meet high standards.

Think tanks and academics

Key concerns
Carbon pricing, carbon capture and storage (CCS) policy, biomass sustainability, future energy policy.

Why we engage
Engagement allows us to keep abreast of the latest thinking, consider likely policy developments across a range of areas and consider new opportunities for innovation and collaboration.

How we engage
We engage with think tanks and academics through direct participation in events and round tables. We directly sponsor several PhDs at British universities. We established an Independent Advisory Board (IAB) on sustainable biomass, which advises Drax on feedstock options, forest science and the role of sustainable biomass in our climate change mitigation activities. This allows us to follow the latest scientific research and best practice.

How we've responded
In response to concerns raised by think tanks and academics regarding biomass carbon neutrality, we performed and published forest catchment area analyses which were discussed by the IAB.

The IAB meets four times per year and regularly provides feedback and recommendations to Drax. Meeting agendas, and a high-level summary of the minutes and recommendations, are published on our website www.drax.com/sustainability/independent-advisory-board-on-sustainable-biomass/. You can read more about the IAB on page 55.

We also sit on steering groups of several multi university research projects and provide industry input, for example the SuperGen Bioenergy consortia in the UK, and International Energy Agency – Bioenergy work programmes.

Trade and industry associations

Key concerns
Energy policy, reputation of energy sector, reputation of biomass sector, Health & Safety best practice.

Why we engage
Active membership of a wide range of trade and industry associations allows us to keep track of best practice in our sector and other industries.

How we engage
We engage directly with trade bodies focusing on energy and sustainable forestry. For example, Drax is an active member of Energy UK, Biomass UK and the CBI.

How we've responded
Drax's Director of Corporate Affairs sits on the Board of Energy UK. Last year, Energy UK's Board took a role in strategically advising the Brexit working group on areas of focus ahead of the end of the EU transition period. This included enhanced engagement between the industry and ministers.

We actively engage at a working level on shared interests in the energy sector such as carbon pricing, education and skills. We also work with businesses from all sectors on shared national and regional priorities. This includes being members of Scotland's Economic and Social Forum and the Northern Powerhouse Partnership.

Andy Skelton, CFO, represents Drax on the board of the Northern Powerhouse Partnership, and Executive Committee member Mike Maudsley is a member of the CBI Yorkshire.

Working hard to support our customers

"We've been working hard since March 2020 to help our customers who have been affected by Covid-19. For example, I worked with a hairdressing business to understand their situation and needs and we set up a mutually agreeable payment plan and put the customer in touch with Business Debtline (BDL). BDL is a charity we've worked with throughout the pandemic, including with a donation of £150,000. They provide free debt advice and dedicated support to business owners and helped our customer with budgeting, prioritisation and contacting creditors. We're still working with the customer to help them get back on track. They're feeling more confident about overcoming their challenges and building a more resilient business."

Taylor Moon,
Customer Collections Advisor,
Customers

Clatteringshaws Loch and Dam,
part of the Galloway Hydro Scheme

Working in partnership with our communities

"Working in partnership with our communities is a core part of how we do business. We support the Galloway Glens Landscape Partnership (GGLP) which aims to promote the area's heritage, boost the local economy and support sustainable projects. We joined the GGLP and Dumfries & Galloway Council at a Climate Emergency public meeting, to provide an insight into how our Galloway Hydro scheme will play its part in helping the region achieve its net zero carbon target by 2025. We're also supporting the Galloway Fisheries Trust, through a £17,000 donation, to improve water quality and habitats. I'm proud of the support Drax provides these projects and the innovative and exciting learning opportunities they present for young people and local communities."

Stuart Ferns,
O&A Manager, Galloway Hydros

Sustainable business

What is our approach to sustainable business?

At Drax, we believe that achieving a positive economic, social and environmental impact is key to delivering long-term value creation.

Sustainable business governance

The Board has ultimate responsibility for the Group's sustainability performance and receives quarterly environment, social and governance updates from the CEO. The Executive Committee, chaired by the CEO, oversees performance.

The Group Director of Corporate Affairs leads Drax's sustainability programme and is a member of the Executive Committee.

Drax is a participant of the United Nations Global Compact (UNGC) and sits on the UNGC UK Advisory Group.

Our priorities

We have identified non-financial priorities that are material to our business and important to our stakeholders. Our 2020 progress is reported under each priority area as follows:

Carbon negative

Our ambition is to become carbon negative by 2030

Carbon emissions **page 49**
Environmental impact **page 51**

Forest positive

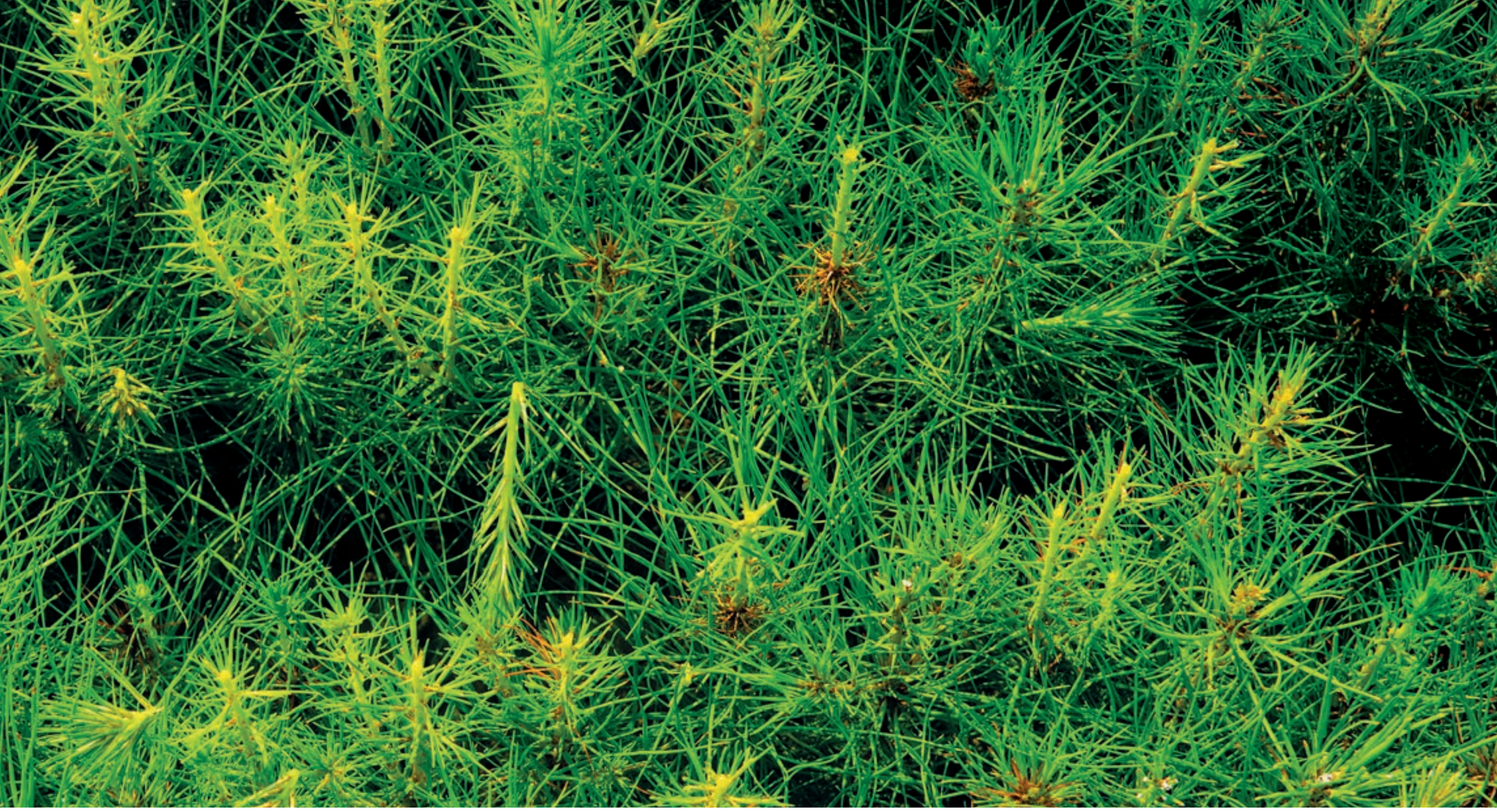
Evidencing that our biomass sourcing delivers beneficial climate outcomes, promotes sustainable management, protects the environment, and supports people and communities

Sourcing sustainable biomass **page 53**
Catchment Area Analysis **page 55**
Healthy Forest Landscapes **page 55**
Independent Advisory Board **page 55**

People positive

Our ambition is to improve skills, education, employability and opportunity for 1 million people by 2025

Positive social impact **page 56**
Safety, health and wellbeing **page 57**
People, culture and values **page 59**
Ethics and integrity **page 61**



Carbon negative

Our ambition is to become carbon negative by 2030

Carbon emissions

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

Our negative emissions ambition

Drax's ambition is to become carbon negative by 2030, using technologies such as bioenergy with carbon capture and storage (BECCS) to remove more carbon from the atmosphere than we produce throughout our direct business operations. We are committed to the Science Based Targets initiative (www.sciencebasedtargets.org), to further assure that our target is aligned with climate science.

Innovating to decarbonise our business

Carbon capture, utilisation and storage is part of our business strategy. In 2020, we installed our second BECCS pilot at Drax Power Station, whilst moving our full-scale design into the next stage of detailed engineering. Drax is one of the founding members of the Zero Carbon Humber Partnership (www.zerocarbonhumber.co.uk), a consortium of energy and industrial companies working to develop the UK's first zero carbon industrial cluster by 2040.

Taskforce on Climate-related Financial Disclosures

We are committed to the management and disclosure of our climate change risks and opportunities in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our Climate Policy outlines our approach (www.drax.com/about-us/compliance-and-policies). See our TCFD summary on page 32.

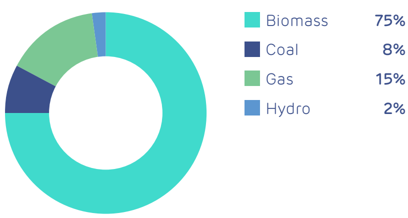
Flexible, renewable and low-carbon energy

Our Generation business operates a portfolio of flexible, renewable and low-carbon assets to support the energy system's growing use of intermittent renewable energy. In 2020, 77% of the power generated by Drax was renewable.

Our Customers business is the largest supplier of renewable electricity to businesses by annual consumption and provides a route to market for over 2,000 renewable generators. For the first time, 100% of the electricity procured and supplied by Haven Power and Opus Energy during the 2019-2020 Ofgem reporting year was from renewable sources. Our Customers business also sold 2.8TWh of gas to customers in 2020.

Our Customers business fuel mix disclosures are available at:
www.drax.com/opus-sources
www.drax.com/haven-sources

Power generation mix in 2020[1]
(% total output)



(1) Commercial generation output

Sustainable business continued

Carbon negative continued

Understanding our carbon emissions

Scope 3

Upstream

- 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

Scope 1

Direct emissions

- Coal and natural gas power generation
- Methane and nitrous oxide emissions from biomass
- Baton Rouge transit port
- US pellet plant operations
- Large plant vehicles
- Flue gas desulphurisation (FGD) system
- Company vehicles
- Fluorinated gases from heating, ventilation and air conditioning systems
- Daldowie pellet plant

Scope 2

Indirect emissions from electricity

- Hydro electricity consumption
- Cruachan electricity imports
- Customers electricity consumption
- Generation electricity consumption
- Drax Biomass electricity consumption

Scope 3

Downstream

- 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

	Unit	2020	2019	2018
Carbon emissions				
Generation CO_2 emissions[1]	$ktCO_2$	**2,682**	1,958	4,139
Group total scope 1[2]	$ktCO_2e$	**2,762***	2,049	4,233
Group total scope 2 (location-based)[3]	$ktCO_2e$	**318***	322	252
Group total scope 1 and 2	$ktCO_2e$	**3,080***	2,371	4,484
Proportion of Group emissions within the UK	%	**95.3***	93.2	96.5
Group total scope 3[4]	$ktCO_2e$	**3,135***	-	-
Biologically sequestered carbon[5]	$ktCO_2e$	**13,273**	12,795	13,019
Total energy consumption				
Group total energy consumption	kWh	**48,253,807,865***	46,025,306,198	50,269,781,751
Group total energy consumption within the UK	kWh	**47,090,524,296**	43,852,816,521	48,075,425,472

Note: Carbon emissions are reported against a criterion of operational control. Carbon emissions are reported in units of carbon dioxide equivalent (CO_2e) and include all greenhouse gases as required by the GHG Protocol. A materiality threshold of $75tCO_2e$/year is applied. For the basis of reporting see www.drax.com/sustainability.

(1) Generation emissions covers all direct emissions from our own business operations that fall under the scope of the European Union Emissions Trading System (EU ETS)
(2) Group total scope 1 covers all direct emissions from our own business operations, across all sites
(3) Group total scope 2 covers all indirect emissions associated with our electricity and heat consumption, across all sites
(4) Group total scope 3 excludes downstream leased assets
(5) The biogenic carbon emissions resulting from generation are counted as zero in official reporting to both UK authorities and under the European Union Emissions Trading System (EU ETS) as the use of sustainable biomass is considered to be CO_2 neutral at the point of combustion. This methodology originates from the United Nations Framework Convention on Climate Change
* Limited external assurance using the assurance standard ISAE 3000 and based on Drax using the Corporate Greenhouse Gas Protocol, for 2020 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Direct carbon emissions (scope 1 and 2)

In 2020, our absolute carbon emissions (scope 1 and 2) increased by 30% compared with 2019. This reflects an increase in coal generation in 2020, as remaining coal stocks were used ahead of the planned closure of commercial coal generation at Drax Power Station in March 2021. In addition, Shoreham Power Station was fully operational in 2020, following outage work completed in 2019.

Since 2012, our absolute carbon emissions (scope 1 and 2) have fallen more than 85%, with four of the six generating units at Drax Power Station converted to biomass from coal.

For breakdown of emissions by greenhouse gas type see **www.drax.com/sustainability**

Energy and carbon reduction initiatives

In 2020, we invested in significant upgrades to our turbines and associated equipment at Drax Power Station and Shoreham Power Station, which will result in lower carbon emissions and improved energy efficiency. At Cruachan Pumped Storage Power Station, work to replace four sulphur hexafluoride (SF6) circuit breakers with vacuum circuit breakers was completed in 2020, reducing the total potential for emissions from this source by up to 500 tCO_2e per year.

Indirect carbon emissions (scope 3)

We recognise the impact our carbon emissions have across the value chain. In 2020, we undertook work with a third party, to better understand our scope 3 emissions in areas such as purchased goods and services, and capital expenditure. We are developing a scope 3 target that will enable us to align to the Science Based Targets initiative.

The primary contribution to our scope 3 emissions comes from our fuel and energy related activities. This includes fuel supply chains, such as biomass, natural gas and coal. The second largest contribution comes from the use of sold products. This includes the end use of gas purchased and sold by our Customers business. For further breakdown of our scope 3 emissions see www.drax.com/sustainability.

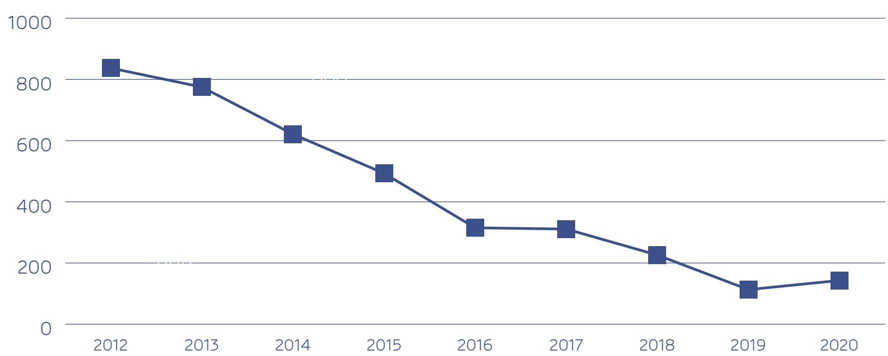
Carbon intensity performance

Between 2012 and 2020, our generation carbon intensity has fallen more than 80%. This reflects the conversion of four generating units at Drax Power Station from coal to biomass, and the expansion and diversification of our generation portfolio to include hydro.

	Unit	2020	2019	2018
Carbon intensity				
Generation[1]	TWh	**18.8**	17.3	18.3
Generation emissions per GWh of electricity generation	tCO_2/GWh	**143***	113	226
Group emissions per GWh of electricity generation[2]	tCO_2e/GWh	**164***	137	245

(1) Excluding Cruachan Power Station which utilises electricity import for pumping to balance the grid
(2) Group emissions are total scope 1 and 2 emissions as reported
* Limited external assurance using the assurance standard ISAE 3000 and based on Drax using the Corporate Greenhouse Gas Protocol, for 2020 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Generation[3] carbon intensity
(tCO_2/GWh)



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

Environmental impact

As a major electricity producer and retailer, and producer of sustainable biomass fuels, we take our responsibilities to society and the environment seriously. We are committed to managing and monitoring our environmental impact. We seek to reduce the environmental impacts caused by our business through continual improvement of our operations, with particular focus on emissions to air, discharges to water, disposal of waste and the use of natural resources.

Each business unit reports monthly on environmental incidents and near misses, and the Board receives monthly reports. We also seek to respond to, and track actions taken from, any environmental complaints made in relation to our operations. We investigate all environmental events to ensure that root causes are established, and lessons are learned and shared across the business.

Environmental Management Systems

In the UK, our Generation assets are certified through their respective management systems to ISO 14001:2015 and are subject to regular external audits. In the US, our Pellet Production sites operate under an environmental management system that is aligned, but not certified, to the principles of ISO 14001:2015. During 2020, we established a platform to collate our environmental monitoring data for our US sites. This produces regular reports and provides alerts as environmental limits are close to being reached.

In 2020, across our UK sites, we had two confirmed minor permit breaches related to air emissions at Daldowie Fuel Plant during emissions testing. At Daldowie, we delivered sustained improvements to our odour minimisation strategy to address neighbourhood odour complaints, as required by the Scottish Environment Protection Agency (SEPA), which substantiated six complaints in 2020. In September 2020, we commissioned an additional regenerative thermal oxidiser, to further treat exhaust air before it is released to the atmosphere.

We are working to resolve an odour issue at Drax Golf Course, due to improper material being brought on site by a third party. As ultimate landowner, we are working with the Environment Agency (EA) and other stakeholders to resolve the issue.

In 2020, across our US sites, we had two notices of non-compliance issued by the authorities. One notice related to incorrect handling of wet electrostatic precipitator (WESP) material at our LaSalle site. The other notice related to exceeding VOC emissions limits at our Amite site in 2018. In 2020, the Mississippi Department of Environmental Quality (DEQ) and Drax agreed a $2.5 million settlement for the violation of VOC emissions limits, dating between 2016 and 2020. During 2020, the Board was kept informed and tracked progress in addressing corrective actions.

Carbon negative continued

We established an open and direct partnership with the DEQ in the US states in which we operate to focus on settling the emissions to air actions and agreeing a path forward. We commissioned a full third-party environmental audit covering each of our US sites, with a focus on positive action plans to improve our environmental performance, and we track our actions to closure on a monthly basis.

Emissions to air

At Drax Power Station, we have focused on the new requirements of Annex V of the EU Industrial Emissions Directive and established a transition plan for compliance. We continue preparations to deliver improved performance considering the Industrial Emissions Directive. These new Best Available Techniques Reference Document (BREF) levels will become the reference point for setting permit conditions and have included tighter limits for emissions of nitrous oxides (NOx), sulphur dioxide (SO_2), mercury and particulate matter (PM). Drax Power Station will operate within BREF limits from August 2021.

Water use

Our thermal generation sites use water for operational and cooling processes. Losses occur through steam and ancillary processes, and the remainder is discharged to the environment. In line with our permit requirements, procedures are in place to manage water system efficiency and usage and to ensure that all discharge consent limits are met. Between 2019 and 2020, total water abstracted for thermal generation use increased. This reflects a new borehole permit at Blackburn Power Station and increased generation output at Shoreham Power Station in 2020.

In 2020, 4,289,825,847 m^3 of water reported as abstracted was used for hydro generation at the Galloway and Lanark Hydro Scheme. This volume is therefore not consumed and is returned to the natural environment.

At Cruachan Pumped Storage Power Station, water is abstracted by pumping from Loch Awe into the upper reservoir, when grid generation is surplus. Water is then released back into Loch Awe when electricity generation is required. We closely monitor the arrangements for the cycling of this water and report as required to SEPA.

Thermal Generation emissions to air by fuel type

	Unit	2020	2019
Biomass generation [1]			
Nitrogen oxides	t	**6,971**	7,104
Sulphur dioxide	t	**1,806**	986
Particulates	t	**419**	415
Coal generation [2]			
Nitrogen oxides	t	**1,949**	746
Sulphur dioxide	t	**1,209**	601
Particulates	t	**147**	35
Gas generation [3]			
Nitrogen oxides	t	**578**	625
Carbon monoxide	t	**284**	71

(1) Biomass generation covers units 1, 2, 3 and 4 at Drax Power Station
(2) Coal generation covers units 5 and 6 at Drax Power Station
(3) Gas generation covers Blackburn, Damhead Creek, Rye House and Shoreham Power Stations

UK Biomass Production [4] emissions to air

	Unit	2020	2019
Nitrogen oxides	t	**3.31**	4.76
Sulphur dioxide	t	**2.24**	1.68
Carbon monoxide	t	**2.46**	1.76
Particulates	t	**0.31**	0.04

(4) UK Biomass Production covers Daldowie Fuel Plant

US Biomass Production emissions to air

	Unit	2020	2019
Nitrogen oxides	t	**427**	-
Carbon monoxide	t	**567**	-
VOCs	t	**2,983**	-
Particulates	t	**489**	-

Thermal Generation [5] water use

	Unit	2020	2019
Total water abstracted	m^3	**242,472,306***	177,215,811
Total water discharged	m^3	**231,039,964***	167,953,231

(5) Thermal Generation covers Blackburn, Damhead Creek, Drax, Rye House and Shoreham Power Stations

Hydro Generation [6] water use

	Unit	2020	2019
Total water abstracted	m^3	**4,289,825,847***	3,370,272,574

(6) Hydro Generation covers Galloway and Lanark Hydro Scheme

Pumped Storage [7,8] water use

	Unit	2020	2019
Total water abstracted from reservoir	m^3	**294,022,644***	263,015,328
Total water abstracted from Loch Awe	m^3	**241,452,288***	207,277,224

(7) Pumped Storage covers Cruachan Power Station
(8) Excluding volume of water collected via the aqueduct system

Note: "Total water abstracted" covers water data reported to the Environment Agency (EA) and Scottish Environment Protection Agency (SEPA) as abstraction.
* Limited external assurance using the assurance standard ISAE 3000 for 2020 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Forest positive

Evidencing that our sourcing delivers beneficial climate outcomes, promotes sustainable management, protects the environment, and supports people and communities

At Drax we use wood pellets sourced from sustainably managed working forests and residues from forest industries to generate low-carbon, renewable electricity. Our forest positive approach to sourcing sustainable biomass is made up of the following elements:

- Sourcing sustainable biomass
- Catchment Area Analysis
- Healthy Forest Landscapes
- Independent Advisory Board

Sourcing sustainable biomass

We ensure our biomass is sustainable and compliant with relevant legislation through Sustainable Biomass Program (SBP) certification, alongside proactive supplier engagement, other third-party certification schemes and our own audits and checks.

Our Group Sustainability Policy outlines our requirements, and it is evidenced and included in biomass supplier contracts. Details of our due diligence process are available at www.drax.com/sustainability.

Our Responsible Sourcing Policy for Biomass outlines our forest biomass sustainability commitments. This is to provide further assurance that the sustainable biomass we source makes a net positive contribution to climate change, protects and enhances biodiversity and has a positive social impact on local communities.

Our forest biomass sustainability commitments

1. We will reduce carbon dioxide emissions
We are committed to ensuring our use of biomass makes a positive contribution to tackling climate change and fulfilling the UK's net zero by 2050 target.

2. We will protect the natural environment
We recognise our duty to keep forests thriving and to respect the many benefits they bring, including carbon storage, protection of soil and water quality, supporting biodiversity and provision of habitat.

3. We will support people and communities
From state-owned forests to smallholdings, and from the US southeast to the Baltic states, forest owners, forest workers and communities in our sourcing areas are bound by their common reliance on forests for employment, wellbeing and quality of life.

4. We will invest in research, outreach and intervention
The strength of our collaboration with others will improve the sourcing choices we make. We are committed to working with governments, non-governmental organisations, academia and other stakeholders to continually improve biomass sourcing and develop best practice.

Responsible Sourcing: A policy for biomass from sustainable forests is available at **www.drax.com/sustainability/responsible-sourcing**

Supplier compliance with our policies and appropriate legislation is evidenced by Sustainable Biomass Program (SBP) certification, a certification system for woody biomass, or by our own checks and third-party audits. We require suppliers to progress from our own checks and third-party audits commissioned by Drax, towards SBP certification. In 2020, 99% of the woody biomass we sourced was SBP compliant.

No concerns regarding biomass supplier sustainability compliance were raised or escalated to the Group Ethics and Business Conduct Committee or the Executive Committee in 2020.

Biomass supply chain emissions

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

The UK Government has set a limit on biomass supply chain GHG emissions, which must be met by generators to be eligible for support under the Renewables Obligation and Contract for Difference schemes. The current limit is 200 $kgCO_2e/MWh$ of electricity. In 2020, our average biomass supply chain GHG emissions amounted to 109 $kgCO_2e/MWh$ of electricity.

99%

Woody biomass sourced by Drax in 2020 that was SBP compliant

109 $kgCO_2e/MWh$

Drax Power Station average biomass supply chain GHG emissions, 2020

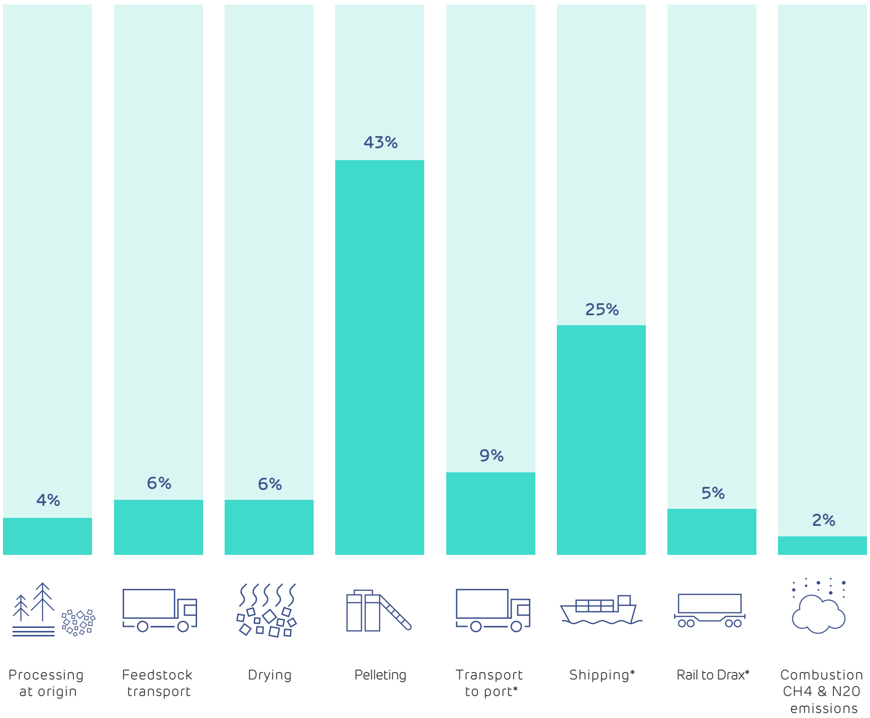
Forest positive continued

Drax Power Station average biomass supply chain GHG emissions

	Unit	2020	2019	2018	2017	2016
Average biomass supply chain GHG emissions	$kgCO_2e/MWh$	109*	124	131	130	122

* Limited external assurance by Bureau Veritas using the assurance standard ISAE 3000. For assurance statement see www.drax.com/sustainability.

Drax Power Station average biomass supply chain GHG emissions in 2020 (%)



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. The calculator has been externally verified against UK and EU regulations. It includes all material sources of GHG emissions, including categories absent from other UK reporting tools, such as methane and nitrous oxide emissions arising from fuel combustion.

Drax is committed to taking a leading role in the lifecycle emissions reporting of biomass, and we are providing the calculator for open use to facilitate improved reporting standards across the industry. For more information see www.drax.com/sustainability/the-biomass-carbon-calculator

Note: includes the biomass supply chain emissions associated with both Drax's direct operations (Pellet Production business) and third parties.

* These categories are aggregated in our Biomass Carbon Calculator and the proportion of emissions assigned to transport to port, shipping and rail to Drax has been estimated

Biomass sources

Biomass supply chain transparency is a key element of our forest positive approach. In addition to our annual reporting, we provide detailed supply chain information at Drax ForestScope (www.forestscope.info). We respond annually to the CDP Forests questionnaire and achieved a rating of B in 2020. In 2020 our biomass was sourced from established, responsibly managed working forests in the US South, Europe, Canada, Brazil and Russia.

Drax Power Station biomass pellet feedstock sources in 2020

Country	Sawmill and other wood industry residues (t)	Branches and tops (t)	Thinnings (t)	Low grade roundwood (t)	Arboricultural residues (t)	Agricultural residues (t)	Country total (t)
USA	1,675,929	92,934	1,117,795	1,768,873	–	24,871	**4,680,402**
Canada	1,021,444	99,233	13,163	95,267	–	–	**1,229,107**
Latvia	206,468	–	7,922	453,621	–	–	**668,011**
Portugal	12,830	4,672	31,530	99,015	470	–	**148,516**
Brazil	–	–	–	141,274	–	–	**141,274**
Belarus	106,734	–	–	2,223	–	–	**108,957**
Russia	592	–	–	–	–	85,301	**85,893**
Estonia	29,997	–	10,203	45,200	–	–	**85,399**
Lithuania	67,161	–	1,019	14,952	–	–	**83,132**
UK	–	–	–	–	–	70,086	**70,086**
Other European	16,357	–	–	738	–	56,424	**73,520**
Total	3,137,511	196,839	1,181,631	2,621,163	470	236,682	**7,374,296**

Catchment Area Analysis

We are committed to sourcing sustainable biomass that contributes to the long-term maintenance of growing forest carbon stock and productivity and that helps to improve the health and quality of forests. In addition to our due diligence processes, we monitor a range of data about the forests from which we source, to determine whether biomass demand is having an impact on regional forest industries. This allows us to make informed sourcing decisions.

We have completed eight Catchment Area Analyses covering Latvia, Estonia, part of central British Columbia, the catchment around three mills in the Chesapeake region in Virginia, seven pellet mills in south east Georgia, and around Drax's own pellet mills – LaSalle, Morehouse, and Amite. These catchment areas provide around two thirds of Drax's supplies. The analysis evaluates the trends occurring in the forestry sector around the plant to determine what impact the pellet demand may have had in influencing those trends, positively or negatively. This includes the impact on harvesting levels, carbon stock, growth rate, wood prices, forest management practices and the production of all wood products.

In the geographies examined so far, data collected through our Catchment Area Analyses provides robust evidence that we are meeting our Forest Biomass Sustainability Commitments. For key findings and our Catchment Area Analysis reports, see www.drax.com/sustainability/catchment-area-analyses. Our intention is to complete Catchment Area Analyses for the remaining supply areas within the next two years.

Healthy Forest Landscapes

Drax is jointly pioneering the Healthy Forest Landscapes (HFL) approach with Earthworm Foundation. Earthworm is a non-profit organisation that focuses on responsible sourcing and is experienced in working with companies to develop landscape-scale approaches in commodity supply chains.

HFL aims to provide an evidence-based approach to measure and evaluate the ecological, social and economic impacts in our supply catchment areas.

The HFL approach measures changes in the forest landscape using empirical evidence such as big data from government statistics and input from remote sensing technologies, such as earth observation from satellites. HFL also uses an Earthworm-developed socio-economic evaluation methodology to assess community wellbeing.

The HFL approach assesses four key metrics – forest cover, carbon stock, biodiversity and community wellbeing – which will be used across all our sourcing areas.

Healthy Forest Landscapes metrics

Forest cover
All other forest landscape attributes depend upon forest cover, so particular attention is paid to trends in forest cover change.

Carbon stock
Carbon sequestration and storage in forests is critical to mitigating climate change, and therefore crucial to track. Measurement of forest carbon stock also provides a useful picture of forests' continuing productivity.

Biodiversity
Landscape scale biodiversity is an important indicator of healthy forest ecosystem functioning, and is of concern to both local and international stakeholders.

Community wellbeing
Forests have many impacts on people who live and work within the landscape. This metric addresses social aspects of forest landscape health, prioritising respect for the rights of Indigenous Peoples, and includes socio-economic and community health, encompassing industry workers' rights.

The HFL approach enables Drax to actively identify opportunities to make positive interventions which support healthy forests, communities, or biodiversity.

In 2020, we trialled several methodologies to assess the strengths and weaknesses of each of the four key metrics. We completed analysis around our own plants at Amite and Morehouse and commenced analysis in the Chesapeake catchment in Virginia.

Over the next four years, we aim to roll out the HFL approach across all our wood source catchment areas. Ultimately, this will allow Drax to track and report our specific and aggregate impact on the four key metrics of forest landscape health in a timely and transparent manner.

Independent Advisory Board

Our Independent Advisory Board (IAB) of scientists, academics and forestry experts is led by Professor Sir John Beddington, former Chief Scientific Adviser to the UK Government. The IAB provides independent advice on feedstock options, forest science, optimisation of carbon impacts, and the role of biomass in supporting the transition to a net zero energy system. The advice and scrutiny from the IAB means our stakeholders can be assured that Drax will keep our Sustainability and Responsible Sourcing policies under review and that the biomass we use follows the latest scientific research and best practice.

In 2020, the IAB had five meetings and discussed topics including Drax's carbon negative ambition, the scalability and feasibility of BECCS, and our forest Catchment Area Analyses. The IAB commissioned two independent pieces of work to inform them – a literature review on the impacts of bioenergy on biodiversity, and a literature review on global carbon accounting methodologies, which were discussed during the year. We publish the IAB's recommendations to Drax on our website.

For more information see **www.drax.com/sustainability/independent-advisory-board-on-sustainable-biomass**

People positive

Our ambition is to improve skills, education, employability and opportunity for 1 million people by 2025

Positive social impact

The UK's emerging green economy and businesses like Drax will play an important role in supporting levelling-up and closing regional economic and productivity gaps across the UK.

New skills are required as we look to develop new technologies, including BECCS. It is also important we ensure people local to our operations are equipped with the skills to take advantage of these opportunities. At the heart of this, our Mobilising a Million initiative aims to improve skills, education, employability and opportunity for 1 million people by 2025.

Drax is working with trade unions and businesses in the North to galvanise support for enhanced jobs and skills for the region. Analysis by Vivid Economics estimates tens of thousands of jobs could be created and supported in the Humber if BECCS, as well as hydrogen and other carbon removal technologies, are deployed to decarbonise industry. With UK Government backing, these new jobs could begin to be created as early as 2024.

* Figure includes cash donations, management cost, in-kind and employee time contributions.

57
Apprentices started or in continued development at Drax in 2020

117,000
Students engaged in virtual experience of work with Drax and Oak National Academy in 2020

93%
Of graduates recruited in 2018 completed the programme in 2020

853
Laptops donated to schools and colleges in 2020, to enable continued learning during Covid-19

See our Covid-19 community response, **page 34.**

Building the skills of the future

To drive forward our aims, in 2020 we established a five-year partnership with Selby College. We committed £180,000 to deliver community education programmes and retraining, to support people in our communities to develop new skills needed for jobs in the green economy. Our continued partnership with Teach First has enabled the recruitment and training of nine Science, Technology, Engineering and Mathematics (STEM) teachers in 2020, supporting the STEM education of 1,125 students.

Apprentices and graduates

We are a signatory to the UK cross-party Social Mobility Pledge, which is committed to accessing and progressing talent from all backgrounds. During the year, we focused on apprenticeships and use of the Apprenticeship Levy to recruit new talent and develop our colleagues. The number of Degree Apprenticeships undertaken by colleagues has increased, from five Degree Apprenticeships commenced in 2019 to 12 commenced in 2020, with a specific focus on MBAs, Data Science and Finance qualifications.

Of the 15 graduates we recruited in 2018, retention during the programme was 93% and all of those completing the programme in 2020 secured permanent roles at Drax. In 2020, despite the challenges of Covid-19, we continued development programmes for graduates recruited in 2019, and we took on an additional three graduates and seven Year in Industry students.

In 2021, Drax plans to launch a virtual work experience programme, and to create further apprenticeships in a diverse range of career paths, to support the delivery of our business strategy.

Community and charity

We deliver charitable and employee volunteering initiatives in the communities where we operate. In 2020, Drax's total social contribution was £1 million*, including donations through employee match funding, payroll giving, our community fund, community partnerships and fundraising days.

In February 2020, we donated £25,000 to Snaith Priory to help local recovery efforts, following flooding in villages nearby to Drax Power Station. We donated $30,000 to help families and businesses in the parishes around our pellet mills in Louisiana and Mississippi in the US, impacted by both the Covid-19 crisis and tornadoes. Following Hurricane Laura, we also donated $20,000 to the Food Banks of Northeast and Central Louisiana.

Prior to Covid-19, our power stations at Drax in England and Cruachan in Scotland welcomed students for free educational tours. During the Covid-19 crisis, we have expanded our online offering – creating virtual tours and educational content, delivering webinars to university students, and provided a virtual experience of work in partnership with the Oak National Academy – to ensure students were able to continue learning.

Safety, health and wellbeing

The safety, health and wellbeing of our employees and contractors is a priority for Drax and vital to our continued success.

Safety Management Systems

We have safety management systems (SMS) in place to ensure safe workplaces for all our people. At Drax Power Station, the SMS is certified to OHSAS 18001 and will transfer to ISO 45001 in 2021. Our hydro generation assets, and the gas generation assets subsequently sold in 2021, have an integrated management system covering safety, environment and quality, and the safety component transitioned to ISO 45001 in 2020.

Our Pellet Production sites in the US meet the requirements of OSHA 1910 and the SMS is aligned to OHSAS 18001. We undertook an OSHA-10 and OSHA-30 training programme to strengthen the safety leadership and skills of our US colleagues, achieving 98% completion in 2020. Delivered by registered in-house trainers, the training covers risk identification and incident handling, set in the context of our industry. We have also upgraded our approach to tracking compliance and corrective actions identified from audits or investigations, using one consolidated online tool.

Our Customers and Corporate sites in the UK continue to implement an SMS, with a focus on continuous improvement in our health and safety culture and promoting both physical and mental wellbeing.

Health and safety performance

Each business unit reports monthly on Key Performance Indicators (KPIs), including Total Recordable Incident Rate (TRIR) and Lost Time Incident Rate (LTIR). Business units also report Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) to regulators in the UK. The Board receives monthly reports as part of the CEO report, which includes information on any incidents and tracks trends. We investigate all injury events, with particular focus on those with high potential, to ensure that root causes are established and lessons are learned and shared across the organisation.

In 2020, our TRIR was 0.29 per 100,000 hours worked (against a target of 0.21) (2019: 0.22 per 100,000 hours worked). This reflects an increase in the number of minor hand injuries, which have a short period of lost time associated. As a result, we have implemented a campaign to improve risk assessment, raise awareness and ensure the right type of personal protective equipment is used. Our LTIR in 2020 was 0.08 per 100,000 hours worked (2019: 0.08 per 100,000 hours worked).

Drax Group health and safety

	2020	2019	2018
LTIR (1)	**0.08**	0.08	0.09
TRIR (2)	**0.29***	0.22	0.22
RIDDOR (3)	**6**	5	9

Note: data include both employees and contractors.
(1) LTIR is the total fatalities and lost time injuries per 100,000 hours worked.
(2) TRIR is the total fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked.
(3) RIDDOR is the number of incidents in the UK that were reported to the Health and Safety Executive in compliance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.
* Limited external assurance using the assurance standard ISAE 3000 for 2020 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

A combined approach to health, safety, environment and wellbeing

In 2020, we appointed an HSE Director with Group responsibility to drive HSE improvements via a coordinated strategy across all our businesses. We are establishing plans for 2021 that align all the businesses on our key focus areas to drive improvement in our HSE performance, whilst building upon the 2019 One Safe Drax vision and aligning with our Safe People, Safe Systems & Process, and Safety Assurance approach.

HSE performance is reported monthly to the Board and reviewed regularly by each local management team, and the Group HSE performance is reviewed by the Executive Committee. Incidents and findings are shared across the business via safety bulletins, focusing on preventative action to be taken to mitigate the risk of future occurrences.

The Safety, Health, Environment and Welfare Leadership Executive Committee (SHEWLEC) is chaired by the UK Portfolio Generation Director and meets quarterly to receive reports regarding significant safety, health, environmental and welfare aspects. The Committee establishes standards for relevant health, safety, environmental and welfare issues. It oversees the implementation of relevant policies and principles across the business, reflecting Group philosophy, best practice and regulatory and statutory requirements. It also oversees HSE governance arrangements across the business. We have identified developments for our Group HSE governance for implementation in 2021. This includes changes to the HSE Committee structure within the business, introducing a Group HSE Committee in place of the SHEWLEC.

Key risks and mitigations associated with health, safety, environment, and welfare are routinely reported to the SHEWLEC. The Committee receives a summary of results of internal and external audits, where the scope falls within the remit of the Committee, and receives and considers potential implications for Drax regarding any significant changes in regulation or legislation.

Key issues raised at the SHEWLEC in 2020 include management of emissions and dust at relevant locations, tracking of findings from third-party audits, actions to address changes in legislation (particularly of relevance to our power generation fleet in the UK), and delivery of a Group-wide approach to safety Golden Rules.

In 2020, consultants at the specialist health and safety firm DNV-GL were engaged to provide a risk-based approach to HSE audits, focusing on key processes, organisational risks and continual improvement. A baseline for this Group-wide HSE audit, including benchmarking, will be reported in Q1 2021. Actions arising from the 2019 Internal Audit report undertaken by Turner & Townsend have been tracked to ensure implementation of the recommendations.

People positive continued

Process safety

We recognise that ongoing process safety management is essential for identifying and managing process risk to reduce the likelihood of a major accident. In 2020, we started work to establish the key principles of process safety across the Generation fleet and these will be rolled out Group-wide in 2021. These principles are in line with industry best practice and focused on controls of plant, process and people. A consistent approach to process safety policy and procedures across the Generation business will be delivered in 2021, starting with the gap analysis conducted in 2020. Improvements and standardisation of the management of change process, including delivery of training and awareness sessions amongst the workforce, will be a key deliverable. Process safety key performance indicators are reported monthly to the Executive Committee.

In 2020, all process safety incidents with high potential were fully investigated to establish root causes and enable corrective actions to be focused on preventing reoccurrence. Lessons learned are shared across the Group.

Wellbeing

We continue to build on our holistic wellbeing programme that is overseen by our Wellbeing Steering Committee, which reported to the SHEWLEC. In 2021, we will focus on four key areas: my physical health, my mental health, my social health and my financial health.

In 2020 we focused on resilience, supporting colleagues to adapt in times of challenge and change. We provided leaders and colleagues with training and tools to understand key drivers and techniques to provide support. We partnered with Mental Health First Aid England to provide one-hour live webinars, eLearning and materials for managers, to raise awareness on how to support colleagues with mental health issues. During the summer, the entire leadership team joined a series of online workshop sessions on personal, team and organisational resilience, facilitated by external experts. Interactive personal resilience eLearning was made available to all colleagues. We will continue these programmes and track completion in 2021.

In 2020, we completed coverage for UK colleagues of a single private medical insurance and reward programme. In addition, all colleagues across the Group have access to an Employee Assistance Programme.

People, culture and values

At Drax, our values are driven by our culture, fundamental to which is acting with integrity – and what we call "doing the right thing". These values are driven by our people and permeate through all levels of the organisation.

In 2020, we asked our colleagues to articulate our culture and values, and what it was that they felt amounted to the Drax experience. They responded with five key themes:

1. We care about what matters

Link to purpose and strategy

We aim to be a sustainable business with profitable growth that has a positive economic, social and environmental impact.

We are committed to enabling a zero carbon future, starting with our direct operations and our ambition to become carbon negative by 2030.

What we did in 2020

The safety and wellbeing of our people and communities is the backbone of what we do – and has been particularly important in our response to the Covid-19 pandemic. We did not furlough any employees and we introduced a new policy to enable flexible working. We launched a new online benefits platform and provided mental health and resilience training, to support colleagues with their wellbeing.

We developed our Management Excellence, apprenticeship and graduate programmes, reflecting our ongoing commitment to training, personal development and supporting career progression.

The Board approved our new Climate policy, employee Code of Conduct and Supplier Code of Conduct (see pages 49 and 61).

2. We are a can-do kind of place

Link to purpose and strategy

We have a diverse, inclusive culture where the continual exchange of ideas and perspectives leads to great things.

The conversion of our coal-fired power plant to biomass and the development of our Electric Vehicles service was due to the ingenuity of our people.

What we did in 2020

In our response to Covid-19, we made fundamental changes in working practices, building new home-working processes at speed, to support our customers, colleague welfare and our communities (see page 34).

Our IT team responded quickly to the new requirements of working from home as a result of Covid-19. This required a new way of supporting colleagues, dispatching laptops configured to the appropriate working requirements, and providing guidance on potential threats to our cyber security, as well as colleagues' own arrangements for use of online devices, to reduce risk from phishing attacks and fake websites.

Our internal Modern Slavery Working Group brings together colleagues from diverse business functions to deliver a rolling programme of activity.

At Drax, our values are driven by our culture, fundamental to which is acting with integrity – and what we call "doing the right thing".

"We are proud of our culture at Drax. The Board and I seek to set a positive tone from the top and monitor culture across the Group. Our colleagues from across the business have articulated what they think is the essence of Drax and what we believe sets us apart."

Phil Cox
Chair

For more information on Board oversight of culture, see Corporate Governance Report, **page 87.**

3. We see things differently

Link to purpose and strategy

We look at the world and see possibilities in how we can help to solve the climate crisis.

We seek new ways of doing things. We repurpose existing assets (such as the coal to biomass conversion), use our expertise and new technologies to innovate (such as BECCS or alternative fuels), and embrace opportunities to learn so we can become even better.

What we did in 2020

We revised our diversity and inclusion strategy and improved colleagues' experience and exposure to diversity and inclusion in the workplace. For example, we ensured that diversity and inclusion is woven through all our development programmes, and we introduced unconscious bias training to managers. We set up panel interviews for key positions, seeking to make those panels more diverse. We also increased the number of questions on diversity and inclusion in our annual colleague engagement survey and utilised the MyVoice Forum representatives to feed into the action plans arising.

We installed our second BECCS pilot at Drax Power Station and we are working with the Zero Carbon Humber Partnership to enable the decarbonisation of the region.

4. We listen carefully

Link to purpose and strategy

We listen to our colleagues, communities, customers and other stakeholders, working with them to better understand their needs, and deliver the best possible outcomes.

What we did in 2020

We responded to the needs of those stakeholders affected by Covid-19 – offering support to colleagues, care homes, customers and local schools. We continued to run our MyVoice Forums remotely, enabling exchange of information and an additional channel for colleagues to feedback on our Covid-19 response.

We received improved engagement scores (vs 2019) in our latest MyVoice survey results, and changed our approach to survey action planning using a "bottom up" approach.

We extended our Speak Up (whistleblowing) facility to third parties. It is available in multiple languages and promoted in our Supplier Code of Conduct.

5. We do what we say we'll do

Link to purpose and strategy

We are delivering on our purpose to enable a zero carbon, lower cost energy future, creating robust plans and making the investments necessary to help us achieve our aims.

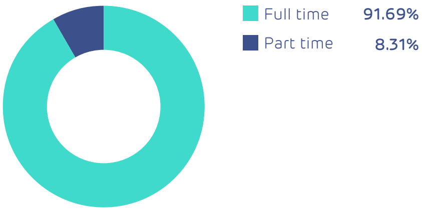
What we did in 2020

We played a central role in the Coalition for Negative Emissions and are at the forefront of bringing both opportunities and growth to Yorkshire and the Humber, whilst tackling climate change and creating the green jobs of the future.

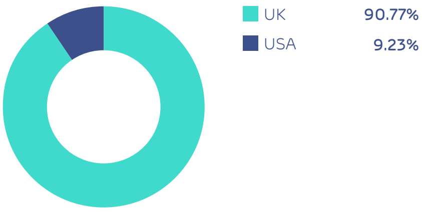
We are investing £50 million to expand pellet production capacity at our existing US sites, by 350,000 tonnes over the next two years, and the first 100,000 tonnes has now been commissioned.

People positive continued

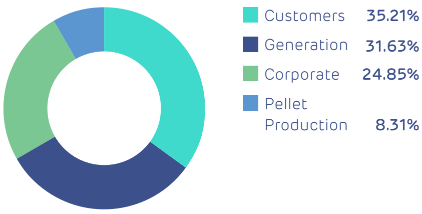
Employment contracts*



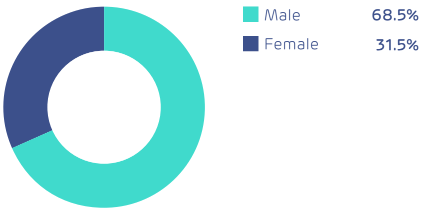
Employees per country*



Employees per business unit*



Employment gender*



Note: headcount as at 31 December 2020

* Limited external assurance using the assurance standard ISAE 3000 for 2020 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

£285

Average spend per employee on training and development in 2020

(excluding compliance and safety training, Apprentice Levy spend and formal supported academic qualifications)

See Apprentices and Graduates, **page 56**

Our people strategy

We work to maintain consistently high standards in our employment practices and all colleagues benefit from policies to support them in the workplace. Our five-year People Strategy focuses on three key areas.

1. HR foundations in place that will enable the organisation to be fit for the future – through data, simplified and consistent frameworks and processes, and enabling people to contribute to our values.

2. Enabling organisational capability and empowerment – supporting the positive evolution of our culture, alignment of goals throughout the organisation, and talent pipelines.

3. Continuous improvement and best in class leadership – a strategic focus, and a more empowered and agile workforce.

The last year has been a year of change for all, and we have seen a significant growth in the culture, focus and passion of our organisation. In our response to the Covid-19 crisis, we demonstrated these changes through our culture and brand values, to shape the way we all work.

Development and training

We invest in the development of our colleagues to help them make the most of their talents, meet their career aspirations and enhance business performance. Our Performance, Potential and Succession processes enable managers to identify colleagues' development needs and those with the skills and capabilities for succession into critical roles. In 2020, we delivered over 16 hours of training per person, utilising both face-to-face, instructor-led training and online learning.

Our Future Creators programme is designed to support the development, retention and growth of our future leadership pipeline. In 2019, 22 high-potential colleagues attended the programme. In 2020, 41% of these individuals received at least one upward career move and 27% moved into more complex roles, with a 100% retention rate. A further 12 high-potential colleagues have been identified for the next intake. The programme has been deferred to May 2021 due to Covid-19 and each colleague is currently receiving remote personal development planning support.

In September 2020 we launched our Management Excellence programme. The programme is designed to support our line managers with key people skills and was adapted for online delivery to enable continued development despite Covid-19. Since launch we have had over 100 managers on the programme.

Diversity and inclusion

We are committed to a supportive, diverse and inclusive working environment, where you can be yourself and your contribution matters. We aim to support everyone and to design ways of working that are inclusive and flexible, enabling equality of opportunity for all.

Our Diversity and Inclusion Steering Group meets monthly to consider and recommend plans to improve diversity and inclusion across Drax. The Steering Group is chaired and sponsored by the Director of Corporate Affairs and supported by the UK Portfolio Generation Director, both of whom are members of the Executive Committee.

In 2020, we launched a new Diversity and Inclusion policy and plan that will continue to support our ambitions. Our Executive Committee participated in a diversity and inclusion workshop to understand the role of leadership and our leadership team participated in a workshop focused on inclusive leadership. We published a series of colleagues' personal diversity stories on the intranet, to share the breadth of diversity across Drax.

Our diversity and inclusion strategy has been broadened out beyond gender, focused on building a supportive, diverse and inclusive working environment, where every colleague feels that they belong and can contribute. In 2021, our diversity and inclusion plan will focus on:

1. Collating data and using insight to support us in taking meaningful action.

2. Educating and inspiring our colleagues on diversity and inclusion.

3. Through our actions, making careers at Drax more attractive to talented people from all backgrounds and ensuring a fair and equitable recruitment process.

Further information on diversity is available in the Corporate Governance Report, **page 87**.

3,022

Total number of Group employees, as at 31 December 2020

82%

Employee engagement score in 2020

11%

Total employee turnover rate in 2020

Colleague representation and engagement

At Drax, 21% of our workforce is covered by collective bargaining and we have employee representative consultation and information arrangements in place for employees with individual employment contracts.

We communicate with our workforce through channels including our intranet, our quarterly magazine, newsletters, and open forum meetings. During the year, colleagues asked our CEO over 1,300 questions through our online Q&A portal, with the CEO and experts' responses shared weekly across the Group.

Each business unit has a MyVoice Forum with up to 12 colleague representatives, enabling an exchange of information and views on strategic decisions affecting the way we work. Forum chairs are supported by an Executive sponsor and meet quarterly with our CEO and Chair of the Board of Directors to provide feedback on topics raised by colleagues. In 2020, topics covered included: our annual results, a remuneration update, data protection, our Covid-19 response, future ways of working, wellbeing and recognition. For more information see Focus on Workforce Engagement, Corporate Governance Report, page 92.

We track colleague engagement through our annual survey. In 2020 this was completed by 71% of colleagues, a 6% increase from 2019. Our score for effective engagement of 82% in 2020 is 4% above the Energy and Utilities sector benchmark. We have seen an improvement in nine out of 10 question areas, with wellbeing growing as the key driver for effective engagement. The main theme highlighted for improvement was colleague careers.

Responding to feedback raised in our 2019 survey, we introduced our Management Excellence Programme to equip line managers with key management skills. We improved our communications on change in the business, surveyed colleagues to monitor wellbeing and connectedness in the context of Covid-19 and, as a result, adjusted working arrangements. We also expanded our wellbeing offering and community support activity (see page 34).

Ethics and integrity

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

Our business ethics compliance framework consists of principles, policies, and guidance. The principles are set out in our Drax Code, which identifies the behaviours expected from permanent and non-permanent workers on a broad range of topics. The Drax Code principles form part of our terms of employment and include a series of training videos which can be referenced by colleagues.

Our business ethics policies and guidance documents provide further instruction. These include our Anti-Bribery and Corruption (including conflicts of interest), Human Rights, Fair Competition, Financial Crime, Privacy and Speak Up (whistleblowing) policies and our Gifts and Hospitality, Conflicts of Interest, Due Diligence, Fair Competition, Privacy and Speak Up guides. In 2020, a Group policy project was progressed, to review, update and harmonise policies across Drax, as required, to support the Drax Code.

In 2020, we deployed new annual refresher eLearning across Drax, for data protection and anti-bribery and corruption, for all relevant colleagues. A dedicated business ethics eLearning module was also provided to and completed by all members of the Board and Executive Committee.

Drax Code of Conduct

In September 2020, a new Code of Conduct (**Drax Code**) was approved by the Board. In October, the Drax Code was deployed as a mandatory read and completed by all permanent and relevant non-permanent workers. We have also built the Code into our new starter induction processes.

The Drax Code expands on those topics previously covered in our "Doing the right thing" handbook, to include other areas such as Health and Safety, Environment, Diversity and Inclusion, Dignity at Work, and Treating Customers Fairly.

Having a Code helps us to aim for and maintain consistently high standards in everything we do. The Code outlines what we expect from all those covered by it and supports the positive development of our culture. The Code also provides our external stakeholders with confidence that we are committed to doing business ethically and that we only wish to work with those who do the same.

Responsibility for ethics and business conduct

Governance of our business ethics framework is overseen by the Drax Ethics and Business Conduct Committee (EBCC), a sub-committee of the Executive Committee. The EBCC comprises senior leaders, meets quarterly, and is chaired by the CFO. A formal report on the work of the EBCC is provided annually to the Audit Committee. Management across Drax is responsible for demonstrating leadership on ethical matters and supporting teams to apply our ethical principles, set out in our Drax Code, and business ethics policies.

Our Business Ethics team manages our business ethics programmes, taking steps to understand our risk profile, developing and maintaining policies and procedures, raising awareness and training, as well as investigating any potential breaches of policy, and supporting our internal and external Speak Up (whistleblowing) channels. Our Internal Audit function provides assurance on the robustness of our

People positive continued

business ethics programmes and any recommendations for improvement are duly considered and, as appropriate, implemented.

The Business Ethics team conducts annual risk assessments of each of its programmes, covering anti-bribery and corruption (including conflicts of interest), fair competition, financial crime, privacy, Speak Up (whistleblowing), and supply chain human rights. This is to ensure policies and procedures remain fit for purpose and to recommend any further mitigation measures. Our annual review timetable includes a review of Drax gifts and hospitality records and a colleague business ethics declaration, which was completed by 100% of colleagues in 2021 (covering 2020).

Results of annual reviews, details of investigations conducted, Speak Up (whistleblowing) reports, and audit outcomes are reported regularly to both the EBCC and the Audit Committee. The Board now receives an update on Speak Up (whistleblowing) reports at each meeting.

Working with others

We are a signatory to the UN Global Compact (UNGC) and maintained our representation on their Modern Slavery Working Group in 2020. This enables us to benchmark our compliance programmes and exchange experience with peers, with a particular focus on our response to the UK Modern Slavery Act.

We seek to work with third parties whose standards are consistent with our own. Relevant third parties are subject to our precontract due diligence checks and regular monitoring throughout the term of the contract, via our third-party due diligence system. In cases where a red flag is raised, we follow an EBCC-approved escalation protocol. Depending on the nature of the flagged issue, we may decide not to engage with a new third party, to engage on a conditional basis, to collaborate on remedial action or to end an existing business relationship.

Our Supplier Code of Conduct (Supplier Code) was approved by the Board in October 2020. The Supplier Code sets out the commitments and standards we expect of our third parties and, going forward, will replace the Corporate Responsibility statement used in our contracts. A working group has been formed to agree the implementation plan to deploy the Supplier Code, as appropriate, to our suppliers in 2021.

Anti-bribery and corruption

Our internal processes ensure consistency with our zero-tolerance approach to bribery and corruption. Geographic risk is factored into our third-party due diligence process and system. Conducting business in certain higher risk countries must receive prior approval from the EBCC.

Third parties in higher risk countries receive a higher level of initial due diligence and ongoing monitoring. We also screen the affiliates (directors and shareholders) of third parties identified as potentially higher risk, and refresh their information on a more frequent basis compared to other suppliers. Ongoing monitoring is performed with new information provided to the EBCC, as appropriate.

In 2020, we combined our anti-bribery and corruption and conflicts of interest programmes and strengthened our approach to the reporting of supplier conflicts of interest. We also separated the content of our Corporate Crime policy to form separate Anti-Bribery and Corruption (including conflicts of interest), Human Rights and Financial Crime policies. We developed a Conflicts of Interest Quick Reference guide and provided training to US based managers.

Fair competition

We are committed to conducting our business in accordance with all applicable fair competition law and we do not tolerate any anti-competitive and anti-trust behaviour or activity.

Our dedicated fair competition compliance programme includes a Fair Competition policy and guide and covers both UK competition law and US anti-trust law. We provide eLearning for those that need to know more and targeted learning for our 'at higher risk' teams. In 2020, a video on this topic was included in the new Drax Code, which sets out the baseline knowledge that we expect all our people to have with regard to fair competition. In addition, we reviewed our policy and guidance and completed our second annual risk assessment and risk register, which was reviewed by the EBCC.

Data privacy and security

We take seriously the privacy and security of the personal data we control. We are committed to maintaining effective privacy and security programmes to ensure that our people, customers and the third parties with which we engage have confidence in our data handling practices.

Our maturing privacy programme is managed by the Data Protection team and overseen by the EBCC. It is implemented through policies, guides, privacy notices, third party due diligence questionnaires and contractual terms. During 2020 we issued eLearning training to UK colleagues and invested in privacy designed compliance software to support our work in areas such as individual rights requests and personal data breaches. Internal Audit completed a positive audit of our privacy programme in 2020. Our privacy programme supported our Covid-19 response, with particular reference to handling additional health data, temperature checks and home working guidance. We benchmarked ourselves against the new accountability tracker published by the Information Commissioner's Office and have incorporated relevant aspects into our work plans for 2021.

Our security framework matured through 2020, embedding security risk management controls into our business change activities, improving cyber technical capabilities and expanding security controls and architecture into our operational technology systems through our NIS Directive compliance programme. We mobilised quickly in response to Covid-19 to provide secure working from home solutions with minimal impact on our control environment or risk profile. An independent maturity review was undertaken against a security best practice framework in 2020, which noted that Drax has a "well-structured and capable security function that has matured significantly" since establishment.

We maintain a risk-based security controls framework aligned to industry standards, to protect our business, colleague and customer data and meet our regulatory requirements. In addition to traditional IT security measures, we use cyber technologies to detect,

Policies are available at
www.drax.com/about-us/compliance-and-policies

respond to and resolve cyber threats and attacks. We are conscious that such threats continue to change and our security programme seeks to evolve our controls and response to cyber threats.

Labour and human rights

Our commitment to the protection of human rights includes not tolerating the use of underage workers or forced labour. This is set out in our Human Rights policy, Drax Code and Supplier Code.

Our Supplier Code outlines the standard of ethical business conduct we expect from our suppliers. Businesses in our supply chain should offer a safe workplace for their employees that is free from harm, intimidation, harassment and fear. The Supplier Code emphasises our requirement for our suppliers to challenge unethical behaviour and promote a "speak up" culture and provides the details of our available Speak Up channels for their use in multiple languages.

Supply chain human rights (modern slavery)

Our Modern Slavery Working Group, chaired by a member of the Business Ethics team, oversees a three-year rolling programme, and reports quarterly to the EBCC.

In 2020, we published our fourth Board-approved Modern Slavery Statement in accordance with the UK Modern Slavery Act (www.drax.com/modern-slavery-act/). It describes the steps we are taking to reduce the risk of modern slavery in our supply chain. We responded to the UK Government's consultation on Transparency in Supply Chains and are positioned to meet the new requirements.

We keep our programme and statement under review to ensure it reflects our activities, global presence and wider evolving practice.

Speak Up (whistleblowing)

As part of our commitment to transparency, openness and continuous improvement, we actively encourage those working for or on behalf of Drax to raise genuine concerns about practices which could breach laws, regulations or our own ethical standards. Drax has a zero tolerance of retaliation and we have processes in place to apply appropriate consequences, should an individual victimise or retaliate in any way against someone who has raised a genuine concern. During 2020, we issued specific guidance on treating concerns respectfully.

In 2020, we launched our new Speak Up (whistleblowing) programme (see Corporate Governance Report, page 87). During the year, nine concerns were reported across both our internal and external channels. This is an increase from eight reports in the previous year and reflects our continued efforts to promote an open and approachable culture of "speaking up" across Drax.

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. This report forms our UN Global Compact (UNGC) Communication on Progress and we have mapped the NFR requirements to the four issue areas of the Ten Principles of the UNGC.

Except where indicated as an internal policy, all policies and codes are available on our website using the address at the top of the page.

UN Global Compact	Non-Financial Reporting requirement	Policies, due diligence processes and outcomes	Page reference
Environment	Environmental matters	Group Environmental policy statement	
		Sustainability policy	Page 53
		Responsible Sourcing policy	Page 53
		Carbon emissions	Page 49
		Environmental impact	Page 51
		Sourcing sustainable biomass	Page 53
Labour	Employees	Code of Conduct	Page 61
		Supplier Code of Conduct	Page 62
		Group Health and Safety policy statement	
		Human Rights policy (internal policy)	
		Gender Pay Reporting	
		Safety, health and wellbeing	Page 57
		People, culture and values	Page 59
	Social matters	Community and Charity policy (internal policy)	
		Positive social impact	Page 56
Human rights	Respect for human rights	Supplier Code of Conduct	
		Human Rights policy (internal policy)	
		Modern Slavery Act statement	Page 63
		Ethics and integrity	Page 61
Anti-corruption	Anti-corruption and anti bribery matters	Code of Conduct	
		Anti-bribery and Corruption policy (internal policy)	
		Ethics and integrity	Page 61
	A description of the Company's business model	Business model	Page 04
	A description of the principal risks	Principal risks and uncertainties	Page 66
	A description of the non financial key performance indicators	Key performance indicators	Page 18
		Remuneration committee report	Page 108

Viability statement

In accordance with the UK Corporate Governance Code 2018, the Directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

The assessment of viability was led by the CEO and CFO in conjunction with divisional and functional management teams and presented to the Board as part of the annual planning process. In reviewing this assessment, the Board has considered the principal risks faced by the Group, relevant financial forecasts and sensitivities, the availability of adequate funding and the strength of the Group's control environment.

Assessment period

The Board conducted this assessment over a period of three years (2019: three years), selected for the following reasons:

- The Group's Business Plan (the Plan) which is prepared annually, updated three times during the year and also used for strategic decision-making, includes a range of financial forecasts and associated sensitivity analysis. This Plan covers a three-year period in detail, before extending into the medium term.
- Within the three-year period, liquid commodity market curves and established contract positions are used in the forecasts. Liquid curves typically cover a one to two-year window and contracts cover periods between one and ten years. In particular, the Group benefits from the stable and material earnings stream available from the CfD until 2027. Selecting a three-year period balances short-term market liquidity against longer-term contractual positions.
- There is limited certainty around the Group's markets and regulatory regimes. However, in selecting a three-year period 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 respect of its businesses and fixed assets, as set out in the notes to the financial statements.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 66 to 77, have been considered over the period.

The principal risks with the potential to exert significant influence on viability are: commodity price changes, political and regulatory changes, and plant operating failures. A significant adverse change to the status of each risk has the potential to place material financial stress on the Group.

The risks were evaluated, where possible, to assess the potential impact of each on the viability of the Group, should that risk arise in its unmitigated form. The potential inputs were included, where appropriate, as sensitivities to the Plan and considered by the Board as part of the approval process, in January 2021, before the Plan was adopted by the Group. In addition, reasonable scenarios that included a combination of unforeseen plant outages, increases in commodity prices and reductions in subsidy income were also considered. The outcomes of this analysis, which did not reflect the potential benefit of available mitigating actions, indicated that the Group would be able to absorb the impact of such scenarios without significant impact upon its ability to meet liabilities as they fall due.

As part of its review of principal risks and uncertainties, the Group considered emerging risks related to Covid-19, the end of the Brexit transition period and climate change. This review concluded that such matters remained low risk to the Group from a viability perspective. The Board's response to Covid-19 during 2020 is described in further detail on page 88.

The Group has a proven track record of rapidly adapting to changes to 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 and manage the impact. This provides the Board with further confidence that risks can be sufficiently mitigated, and viability can be maintained during the assessment period.

Review of financial forecasts

The Plan considers the Group's financial position, performance, cash flows, credit metrics and other key financial ratios and was most recently updated to reflect current market and external environment conditions in December 2020, including assumptions related to the ongoing impact of Covid-19. It is built by business and segment and includes growth assumptions appropriate to the markets each business serves.

The Plan includes certain assumptions, the most material of which relate to commodity market price curves and levels of subsidy support available to the Group through the generation of biomass-fuelled renewable power. It is underpinned by the stable revenues available through the generation of CfD-backed electricity and contracted sales from the Customers business.

The Plan is subject to stress testing, which involves the construction of reasonably foreseeable scenarios, including those aligned to the principal risks (described above) which test the robustness of the Plan when key variables are flexed both individually and in unison. Where such a scenario suggests a risk to viability, the availability and quantum of mitigating actions is considered.

As part of stress-testing the Plan, a "reasonable worst case" scenario was also constructed and assessed. Rather than a single event, the Board considers the most significant scenario that could reasonably arise in the assessment period, and materially impact viability, to be an aggregation of multiple incidents either in a short timeframe or repeatedly during the period. For the purpose of creating the scenario, the severity of these incidents (for example, the duration of an unexpected outage) was based on experience of actual historical events or reasonably foreseeable future downside scenarios.

The reasonable worst case considered the impact on earnings, cash flow and net leverage as a result of a series of incidents including unexpected generation outages, pellet production outages, a reasonable reduction in Customers gross margin, increases in commodity prices and a loss of ROC income during the period. Whilst the outcomes from this scenario were severe, they indicated that the Group would continue to operate within the restrictions of its financing arrangements and would have sufficient cash to meet its liabilities as they fall due once likely mitigating actions were taken into account. Such mitigating actions included potentially reducing levels of capital expenditure and dividend payments if required. The impact would also be partially mitigated through the earnings stability provided by the CfD, the Group's proven ability to trade effectively in volatile markets, use of existing committed and undrawn facilities and reductions in other discretionary expenditure. Based on its review, the Board is satisfied the viability of the Group would be preserved in a range of scenarios, with various mitigating actions available, sufficient to manage the risk, including significant deterioration of commodity market prices.

Availability of adequate funding

The sources of funding available to the Group are set out in note 4.3 to the financial statements (page 184). The Board expects these sources, along with stable cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's Plan.

During 2020, the Group issued €250 million of loan notes and entered into a new infrastructure term loan facilities agreement with committed funds in both Sterling (£45.0 million) and Euro (€126.5 million), with an option to increase by up to a further £75.0 million. At the year end, the loan notes were drawn in full and a further €31.5 million and £53.0 million drawn under the infrastructure facilities. The proceeds of these issuances were, along with existing cash flows, used to redeem the Group's £350 million 2022 sterling bond and the £125 million ESG term loan facility.

These arrangements both extended the maturity profile of the Group's debt and reduced the overall cost of debt, further strengthening the balance sheet. No significant repayments of debt fall due within the assessment period.

In addition, the Group completed the refinancing of its revolving credit facility. The new £300 million facility matures in 2025 with an option to extend by one year. This replaces the previous RCF, which was due to mature in 2021, and provides increased liquidity with the full facility now able to be drawn as cash (the previous facility restricted cash drawn to support liquidity to £165 million).

At 31 December 2020 the Group had total cash and committed facilities of £682 million. The Plan demonstrates that the Group expects to operate within its current committed facilities for the duration of the three-year viability period.

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

Expectations

The Directors have considered a range of factors in their assessment of viability over the next three years, including the latest Plan, scenario analysis, levels of funding, the control environment and the principal risks and uncertainties facing the Group. The Directors have also considered the availability of actions within their control in the event of plausible negative scenarios occurring. Based on this, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-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 the delivery of our strategy. We manage the commercial and operational risks faced by the Group in accordance with policies and processes approved by the Board.

The Board is responsible for determining risk appetite and ensuring the effectiveness of risk management and internal controls across the Group. The Group has a comprehensive system of governance controls to manage all key risks.

Group approach to risk management

The risk appetite is the level of risk that the Group is prepared to tolerate, and which might arise in the day-to-day conduct of our business and seeking to realise our strategic objectives. Risk appetite can vary depending on the nature of the risk and expected returns. Risk appetite also informs the expected behaviours from our employees, contractors and business partners, and the investment required to support risk management activities. We consider a range of risk categories including environment, people, health and safety, political and regulatory, strategic, operational, financial, and climate change. The Board determines the risk appetite of the Group and seeks to ensure that emerging and existing risks are identified and managed to increase the likelihood that the Group's business objectives will be achieved. The Group has a Risk Management Policy, approved by the Board, which defines its approach to risk management. The key elements of the policy are to:

- Identify risks that have the potential to threaten the achievement of our strategic objectives and assess the likelihood of the risk occurring using a risk scoring methodology which ensures a consistent approach when assessing all risks.
- Consider the possible impact to the business in the event of any risks arising and put in place appropriate mitigating controls intended to manage identified risks to an acceptable level.
- Assign responsibility and define accountabilities for the identification, assessment and management of risk and provide resources to enable appropriate measures to be taken.
- Provide a framework to enable the escalation and reporting on potential and emerging risks and the effectiveness of the mitigations and controls to support management decision making.
- Regularly monitor changes in the internal and external environment of our business, review the Group's principal risks against such changes to ensure our analysis remains accurate and relevant and review the effectiveness of mitigation strategies and the application of the risk framework employed.

The risk management approach manages, rather than eliminates, the risk of failure to achieve strategic and business objectives, and provides reasonable, but not absolute, assurance against material misstatement or loss.

Risk management governance

The risk management governance structure includes the Executive Committee (from which are identified the owners accountable for each principal risk) and our risk management committees whose shared responsibilities include:

- Ensuring that risks including new, potential and emerging risks are identified, assessed and managed effectively within defined risk appetites and limits.
- Ensuring that risks associated with the Group's principal risk categories are identified, analysed and managed appropriately.
- Ensuring that changes in the internal business and external macro environment that affect the principal risks are kept under review and responded to appropriately.
- Driving completion of the actions required to reduce risk exposure and improve risk mitigation.
- 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 undertake regular reviews of business unit and financial risks and receive reports from business units and risk owners reflecting their specialist areas and technical knowledge. The Executive Committee also undertake deep dive reviews of all the principal risks through the course of the year and receive reports from the risk management committees and principal risk owners.

In addition, the Audit Committee and Board review the suitability and effectiveness of risk management processes and controls on behalf of the Board and receive updates from management at each meeting. The Board also receives updates on the risk management framework.

Internal control

The Group has a well-defined internal control system supported by policies and procedures, documented levels of authority which support decision-making and accountability for management across the Group.

The Board has adopted a schedule of matters which are required to be brought to it for a decision, below which authority is delegated through the Executive Committee to a combination of sub-committees and management enabling them to make decisions on behalf of the Group and its businesses on a day-to-day basis. The most recent review of the schedule of matters by the Board was in December 2020. The internal control system is designed to ensure that the directors and executive maintain effective oversight and direction for all material strategic, operational, financial and organisational issues.

Under authority delegated by the Board, the Audit Committee, approves and implements a programme of internal audits covering various aspects of the Group's activities for the next financial year. The programme evolves based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks, the core financial control framework and observations arising from management's review, discussion and challenge by the Audit Committee including responses to findings from the observations arising from the work of the Internal Audit function and support of other specialist advisers. The programme is reviewed

Drax Group plc Board	Audit Committee		External audit
Group Executive Committee			
1st line of defence	2nd line of defence	3rd line of defence	
Management controls	Risk management	Internal Audit	
Policies and procedures	Compliance		
Understanding of risk management	Oversight by management committees		

quarterly and refreshed to reflect developments within the Group as well as changes in wider practices, informed by the experience of internal and external personnel.

During 2020 internal audits were performed either by team members of the Group's internal audit function or with effect from July 2020 by KPMG who was formerly the Group's co-source internal audit function provider. The internal audit function reports to the CFO and the appointment of KPMG was considered and approved by the Audit Committee. The findings and recommendations from each internal audit are documented in a report for internal distribution and action. A full copy of the report is distributed to the Executive Committee and the Audit Committee. Each report includes the status of management responses to the findings and recommendations and details of the actions that management propose to take. Each meeting of the Executive Committee considers the status of closing recommended actions. In addition, the Audit Committee receives a full internal audit and quarterly internal controls update report at each meeting.

Based on the assessments undertaken by each of the Executive Committee and the Audit Committee during 2020 and considered at the meeting of the Board held in finalising the Annual report and accounts, the Board determined that it was not aware of any significant deficiency or material weakness in the system of internal control. For further information on the work of the Audit Committee see page 98.

Overall risk assessment

The Board has assessed the principal risk categories including assessing continued emerging risks arising from the unexpected events of the Covid-19 pandemic and the ongoing uncertainty experienced during the year concerned with Brexit. As an immediate response to the pandemic, the Group deployed its disaster recovery arrangements which facilitated assessment of the potential impact and subsequent monitoring of mitigation measures. As the appreciation of key issues and challenges matured, the initial crisis threat was de-escalated, and actions were monitored through established teams.

Throughout the year particular attention was given to ensure the Group remained as materially unaffected by possible Brexit outcomes including a no deal exit from the EU. Any additional change in managing these and other new and emerging risks has not materially affected the categorisation of the Group's principal risks. Therefore the nine principal risk categories disclosed on pages 69 to 77 remain unchanged from 2019, when climate change was added as a principal risk reflecting the increasing medium to longer term focus on such risks, and their importance to the Group's strategy and the nature of the Group's sector and operations.

Risk impact of Covid-19

The ongoing Covid-19 pandemic has had and is expected to continue to have an impact on the global economy, our customers, suppliers and the health, safety and wellbeing of our employees and contractors. The Group prioritises health, safety and wellbeing and has put in place a number of actions and additional measures to safeguard all those who are still required to attend the Group's operational sites. This includes the Group ensuring it remains cognisant of any continual changing guidelines issued by the UK Government and US authorities. All of the actions implemented enabled the Group to meet its obligations as part of the UK's critical national infrastructure, generating power and supporting the UK's energy market and our business customers while protecting our employees.

The Group has an incident crisis management process enabling timely response to events when they occur which comprises of strategic (led by the Executive Committee), in addition to tactical and operational level teams (led by management). In response to Covid-19 these teams developed and implemented additional policies and procedures around health, safety, IT systems, remote working practices, wellbeing communications and engagement. In response to the continual changing environment created by the pandemic constant monitoring of these plans and their effectiveness is being undertaken.

Since the start of the pandemic and as it has evolved, the Board has received regular reports from management and supported critical decisions connected with the Group's response to the events and activities as outlined above. This has included for example, how the Group has adjusted its working practices across all of its operation sites, its communication strategy with and on safeguarding its employees, implementing new IT infrastructure to support changes in working practices away from offices, and being able to continue to accurately track its financial and non-financial business performance. The Board also received reports on how Covid-19 might impact risks in the medium to longer term enabling them to reassess the future impact on all of the Group's principal risks. Further details on how the Group responded to the pandemic is detailed in the section "Our Covid-19 response'" on pages 34 and 35.

The impact of Covid-19 on each principal risk and the mitigating actions adopted in response to the risk are detailed on pages 69 to 77 and the changes arising from Covid-19 are denoted by the **Covid-19** symbol.

Principal risks and uncertainties continued

The Group has kept under review its financial forecasts and its best estimates of the financial impact of the associated risks which were initially disclosed in the trading update issued in April 2020 and thereafter in the Half Year results. The initial analysis has remained broadly unchanged in terms of the impact on the Group for the 2020 financial year and is fully reflected in its viability statement (see page 64). Additional information on the commercial and financial impact for the Group of Covid-19 during the 2020 financial year can be found on pages 20 to 27.

The Board recognise that going forward the effects of the Covid-19 pandemic continues to carry inherent uncertainties and future impacts may well continue to evolve even when events have returned to relative normality. These impacts could lead to further change in UK Government policy, macroeconomic policy and the behaviours of people and markets that may impact some of the Group's risks. The Board continues to have regular engagement with management on the Group's response to any of these risks in order to assess, monitor and promptly respond to any evolving impact of Covid-19 on our operations and business, including impacts for all our stakeholders.

Risk impact of Brexit

Throughout 2020 the Group continued to monitor and prepare for the UK's customs exit from the EU including managing for a no deal Brexit. An internal working group consisting of relevant management chaired by a member of the Executive Committee, regularly reviewed developments in negotiations and possible effects on the Group's activities. This included updating the Executive Committee and Board on Brexit risks and initiatives to mitigate the impact from a range of possible negotiation outcomes that continually changed during the transition period while operating under the withdrawal agreement until the 24 December 2020 when the UK/European Union Free Trade Agreement (FTA) was officially announced. Throughout the EU exit process, Drax held Chairmanship of the Energy UK trade association Brexit Working Group which undertook regular meetings attended by various UK Government organisations. Post the transition period management directly, and through its association with Energy UK have continued to monitor closely the release and interpretation of further details relating to the FTA in order that we can look to clarify fully the potential impacts on our trading operations, supply chain and regulatory requirements. The Group's ongoing focus will be to ensure that our business mitigates any adverse effects to its operations from the FTA and it has put in place a number of actions and measures to manage risks it identified around a number of key areas. These included:

- Considering the Finance and Commodity Trading risks from potential restrictions in access to financial, carbon, renewable energy Guarantee of Origin certificates, (GoOs) and commodity markets.
  The Group developed contingency plans to respond to the revised approach to carbon trading post 1 January 2021 to allow it to effectively meet the Group's regulatory requirements relating to carbon. There were also preparations to ensure the Group's ability to secure and continue to trade renewable energy GoOs, as well as operations to manage its other financial and commodity exposures, such as FX, effectively from 1 January 2021. The Group is adapting to the post FTA environment, particularly with close monitoring of the detailed implementation of UK Allowances, including possible linkage to the EU Emissions Trading Scheme (ETS).
- Considering the people risks from potential constraints in free movement of people and access to talent. Further consideration and planning have been placed on Group-wide recruitment and retention, talent management and succession planning.
- Considering the risks from potential import constraints and tariffs on the Group's fuel and critical commodity supply. An operational review considered alternative port arrangements, a review of goods at risk of shortage and planning for key plant operations supplies. This included engaging with supply chain partners to ensure their Brexit readiness and managing for increased supply lead times. Other potential import risks associated with UK Government policy arose as a result of Covid-19, where the need to give priority to the importing of other products such as medicines and the closing of French ports to UK import and export freight, increased the potential to add further congestion and delays to the import of critical spares and commodities.
- Considering potential changes to regulation and policy and the risks from loss of engagement with European-based stakeholders to discuss emerging policy and understand potential divergence of compliance requirements and/or market rules. The Group continues to promote the benefits of biomass and is engaged with government, regulators, and other interest groups, both in the UK and internationally. This is to ensure our views and positions on current and forthcoming legislation, regulations, energy and environmental policy issues, that may have implications for our business, are represented and that we are able to listen to and consider the views of others in helping to reach consensus on the future for biomass.

Generally, the overall financial and non-financial risk impact to the Group of Brexit to date has been minimal. However, the above key risk areas still remain a focus of the Group. While the UK Government continues to develop plans to manage the longer-term economic effects of Covid-19 there is additionally future uncertainty about any additional economic effects which may result from the implementation of the FTA on our customers, suppliers and other stakeholders. For these reasons, the Group will continue to monitor any potential change to Brexit risks during 2021 as the full interpretation and implementation of the FTA takes place and where necessary expects to update its mitigating actions to minimise any effects on business operations.

Principal risk categories

The Group has identified nine principal risk categories that it considers having material operational impact and probability to its business. These and other key risks are considered within an established programme by which management, executive and the Board consider how risk and our ability to respond to risks evolves. Set out below are the principal risks reflecting that assessment:

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

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change **Covid-19** Impact

Environment, health and safety =

Context

The safety, health and wellbeing of our employees and contractors, wherever they work in respect of the Group's business, is a priority for the business and is vital to the continued success of the Group. We believe that a safe, compliant, and sustainable business model is critical 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 maintain high standards and a culture of safe working. Compliance with environmental legislation and our environmental permits and consents is essential to ensure the long-term future of the business. We have a focus on emerging legislation and regulatory changes in both safety and environmental aspects. These are important for our people and our reputation and we recognise the value attributed to effective measures and good practices by our stakeholders.

Risk and impact

- Our operations involve a range of potential hazards to personnel and the environment, that arise from the processes we perform and the equipment which we use. This includes heavy plant and machinery at our sites in the US and UK.
- The biomass that we use to generate electricity is combustible so the production, preparation and transportation (whether within our sites or in transit between sites) requires careful management to minimise the risk of fire or explosion.
- We operate various plants at high temperatures and pressures, as well as requiring a focus on maintaining dam integrity, as we generate electricity at 400kV for transmission onto the National Grid.

Covid-19

- Specific challenges arose and remain areas of potential risk with safeguarding our employees and contractors. Many have been required to fundamentally change their day-to-day working, as they are expected to work from home to reflect UK Government guidelines and also management's assessment of the most appropriate way to safeguard the health and wellbeing of all of our colleagues. Where key workers have been required to continue to work on our generation and biomass production facilities, actions have been required to provide new guidance on working practices in response to the changes in managing the virus. The planned outage at Drax Power Station required additional planning, financial resources, and management oversight.

Key mitigations

- Maintaining robust management systems designed to mitigate risk.
- Training employees to a high level of competence, to appreciate and manage environment, health, and safety risks.
- Tracking and reporting events and near misses, prompt investigations and timely implementation of corrective actions.
- Regular monitoring of processes and incidents to identify trends in performance.
- Routine auditing of compliance against standards, policy, and procedures.
- A proactive and structured approach to supporting the wellbeing of our colleagues, by focusing on promoting personal resilience and encouraging healthy habits for physical wellbeing.
- Engaging with regulators and stakeholders to identify improvements to our systems and operations.
- Proactive identification of future legislation and appropriate investment to optimise performance.
- Effective governance framework including an executive level Safety, Health, Environment and Wellbeing Leadership Committee, to oversee governance, review and challenge the management of safety, health, environment, and wellbeing risks across the Group.
- Development of plans for 2021 that align all businesses to the key focus areas to drive improvement in our HSE performance, whilst building upon the 2019 One Safe Drax vision and aligning with our Safe People, Safe Systems & Process, and Safety Assurance approach.
- Raising awareness through shared experiences of events or near misses with colleagues across different sites. This includes sharing of videos and interviews of those who had first-hand experience of the events.

Changes in factors impacting risk in 2020

- Personal safety performance for the year with TRIR and LTIR continues in line with industry benchmarks.
- Use of a Group-wide reporting tool for environment, health and safety incidents.
- Creation of a new role and appointment of a Group HSE Director with responsibility to drive HSE improvements via a cohesive strategy across all our businesses.
- At our Daldowie fuel plant, we have been working to deliver sustained improvements to our odour minimisation strategy and commissioned an upgrade to our regenerative thermal oxidiser (RTO).
- We invested in significant upgrades to our turbines and associated equipment at Drax power station which will result in lower carbon emissions and improved fuel efficiency.

Covid-19

- Significant changes were introduced to working arrangements with HSE leadership's top priority being, the health and wellbeing of all of our colleagues. This involved fully supporting all employees through that change and providing support which focused on physical, emotional and mental wellbeing.
- Risk assessments were undertaken at each operating site to identify mitigations to reduce the likelihood of workplace transmission of the virus and to protect key workers. All employees except those required on operational sites have been asked to work from home in line with Government's advice both in the UK and US. The Group's HSE response is adjusted according to the continual changing UK Government and US authority guidelines.

Principal risks and uncertainties continued

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change **Covid-19** Impact

Political and regulatory ▲

Context

We remain alert to changes in Government policy at UK and EU level. The energy sector is subject to detailed legislation and regulation that is frequently changing as the economic and industrial trends towards decarbonising and decentralising become more exacting. In addition, the wider regulatory and compliance environment applicable to businesses is also increasing with growing requirements in transparency and accountability.

Covid-19

- The increased and ongoing pressures from managing the pandemic are impacting UK Government priorities and finances, which in turn could delay the introduction of new legislation to deliver the required investment frameworks required to support progress in reducing carbon emissions and addressing the issues of climate change. Such changes could also result in reduced Government investment in technologies or other activities which are essential in enabling aspects of our strategy, for example Carbon Capture..

Risk and impact

- Changes to UK Government policy, regulations or tariffs may increase the costs to operate, reduce operational efficiency and affect our ability to realise our strategy, which may adversely affect our financial and operational performance, results and cash flows. Issues include reform to legal framework following Brexit; data privacy regulation; network access and electric charging arrangements; environmental regulation; wholesale market arrangements including access and impacts on liquidity; and consumer service and affordability requirements.
- A more complex and challenging regulatory environment increases the costs to operate, the threat of regulatory investigation, the risk of non-compliance, and penalties/sanctions. Brexit may create further uncertainty and additional costs associated with changes in regulatory reporting or divergence in compliance requirements.
- Biomass represented 75% of our generation in 2020 (77% in 2019) and, longer term, we are aiming to increase our biomass self-supply to five million tonnes per annum. The regulatory environment is evolving which could increase costs and mean anticipated returns are significantly lower than expectations. Our ability to influence EU requirements on biomass acceptability/sustainability may be impaired post-Brexit.
- Following the UK's transition to the EU/UK FTA, the UK Government has announced it will establish its own ETS. The aim is to link the new UK ETS to the EU ETS to ensure continued alignment on decarbonisation via a market-based pricing regime, although this will take time and there is no guarantee it will come to fruition. The price of carbon under the UK ETS remains unknown as the auctioning of allowances is not expected to begin until Q2 2021. Until that point, UK energy markets are likely to use the EU ETS price as a proxy, however this is by no means a perfect hedge and there is the potential that once trading of UK allowances commence there could be a number of teething issues such as limited market liquidity in a smaller market.

Key mitigations

- Engaging with politicians across the political spectrum and Government officials, to understand and influence perception, and communicate our socio-economic value in supporting the UK's ambition to achieve net zero by 2050.
- Working with stakeholders to maintain Drax as a thought leader on priority policy and regulatory issues.
- Engaging with regulators and industry bodies to understand their priorities and seek to influence strategic direction of, and ensure compliance with, regulatory requirements.
- Working with Energy UK to identify market improvements, enhance competition and develop voluntary codes of practice.
- Maintaining regulatory and compliance control frameworks to mitigate the risk of non-compliance covering risk assessment; policy development; adequate process; training; audit; and continual improvement.
- Working with leaders and key stakeholders in those regions where Drax is seeking to evolve its economic impact, to identify areas of common purpose and share ideas for creating jobs, investment and new growth opportunities.

Changes in factors impacting risk in 2020

- Overall risk levels heightened as a result of increased regulatory intervention within the Group's Generation and Customer business and lack of clarity around UK Government policy some of which resulted from Covid-19 and Brexit.
- The ongoing and drawn out negotiations around Brexit during the year and the subsequent transition to the UK/EU FTA continued to create uncertainty. Weakened sterling and difficulties in cross border trade can influence fuel costs and/or lead to financial distress issues with our customers. Delays at ports can affect our supplies of fuel and components although the nature of our dedicated supply chain mitigates this risk.
- Many ancillary services require policy, regulatory and market change to ensure generators are suitably compensated for these services.
- The UK Government has introduced a price cap for domestic power retailers; we remain vigilant to the risk that this could be extended to some SMEs.
- The smart meter roll out continues and the obligation to install a smart meter for every customer by the middle of 2021 (where reasonable steps have been exhausted) will move to fixed annual targets thereafter.
- Further failures of small energy suppliers (and resulting cost mutualisation across the industry).
- The UK Government has confirmed it believes that the Carbon Price Support is set at approximately the right level, although the longer-term level is dependent on prevailing commodity prices and terms within the UK/EU FTA.
- Ofgem is reviewing the way in which network businesses are remunerated and user access is procured/costs allocated, which will impact the cost base of generators and retailers.

Covid-19

- The financial impact on Government funding over the immediate and longer term will result in a reassessment of investment priorities for this and future administrations both in the UK and elsewhere which could affect Drax business model and financial prospects.
- Ofgem is reviewing the fundamental design of the power market in light of the impact on balancing costs of Covid-19 demand-levels (which offer an insight to the future supply/demand balance) and general efficiency/effectiveness of market with increasing proportion of zero marginal cost generation.

Strategic

Context

The Group's purpose is to enable a zero carbon lower cost energy future, with an ambition to become a carbon negative company by 2030. Underpinning the Group's purpose and ambition are three strategic aims:
1) to build a long-term future for sustainable biomass,
2) to be the leading provider of power system stability, and
3) to give all our customers control of their energy.

Through this strategy the Group aims to deliver long-term growth opportunities, including investment in new technologies for alternative fuels, which we believe have the potential to support earnings beyond 2027, when the subsidies we receive for generating electricity from biomass are curtailed.

Additionally, the Group aims to deliver higher quality, diversified and sustainable earnings, whilst also supporting the UK's ambition to achieve net zero by 2050.

Risk and impact

Strategic risks are defined as those that could materially undermine any of the Group's strategic aims.

Sustainable biomass

Building a long-term future for sustainable biomass requires the achievement of an economically sustainable level of fuel cost relative to other energy sources. A primary objective is to increase biomass self-supply to five million tonnes per annum and reduce the cost of generation to £50 per MWh by 2027 to achieve and sustain an economic level of cost for sustainable biomass generation.

- There is a risk to the availability of feasible expansion opportunities and the successful identification and delivery of initiatives to reduce the current cost of biomass.
- Irrespective of the economics of sustainable biomass there is a risk that biomass is not accepted either in the UK or in other jurisdictions as a renewable source of energy. Growth opportunities, investment and innovation into new technologies required to further improve the economics and carbon reduction potential of sustainable biomass could therefore all be limited.

System stability

The power market in which we operate continues to evolve and with it the requirements for system stability products, new technology solutions and the market to procure them. To be a leading provider of system stability, we need to build the right portfolio of assets and associated business models.

To enable us to build the right portfolio of assets and associated business models to achieve our aim, it is important that the market values flexibility and system services at the right economic levels, and procures those services through mechanisms that we are able to participate in effectively.

- There is a risk that the market does not value flexibility and system services at the right economic levels or procures those services through mechanisms that we are not able to participate in effectively.
- There is a risk that unexpected changes to electricity supply and demand could reduce electricity demand and volatility, and therefore limit the market for system stability products.

Customer Control

Drax aims to enable all its business customers to decarbonise their energy sources and control energy use and cost.

- The Customers business needs to compete profitably in all the customer segments it serves. As the market evolves, there is a risk that the economic viability of the Customers business is undermined by changes in market operations and rules, or an emerging mismatch in some segments between Drax's aim and services and the requirements of the customer.

Capital

Delivering any one of the strategic aims requires the ability to access and effectively allocate the capital required while maintaining a corporate credit rating in the BB range.

- There is a risk that investor sentiment moves away from Drax and its strategic direction. This could happen if for example sustainable biomass becomes unattractive, or Drax allocates capital poorly and underperforms.

Key Mitigations

Sustainable biomass

- Adoption of an integrated plan to expand biomass self-supply capability, reduce the cost of sustainable biomass to an economically sustainable level and develop innovative approaches to fuels. Allocation of c.£600 million with rigorous tracking and reporting on cost reduction achieved.
- Drax is a pro-active advocate for sustainable biomass. An Independent Advisory Board is tasked to challenge our science-based approach and assumptions on sustainable biomass and publish their recommendations.

System stability

- We maintain and invest into a central Group market modelling capability and embed it into planning and option assessment and test/cross check against third party scenarios.
- Continually evaluate a) the current and projected performance of our own portfolio of assets, and b) the value gained from changing the composition of the asset portfolio to better fulfil a strategy in line with the Group's view of the market outlook.

Customer control

- The Customers business introduced a programme to reshape the customer portfolio in 2020, including emphasising growth in the customer segments aligned to Drax's purpose.
- The organisation includes a new growth unit from which Drax branded electric vehicles and electric assets propositions were launched to support decarbonisation and control of customers' energy.

Capital

- We continue to run a full investor relations programme, covering equity and debt markets.
- The Group has evolved further its approach to capital allocation. This provides rigour and consistency in assessing the technical, financial, and strategic justification of new projects across the Group, in particular for investments in new and emerging technologies.

Changes in factors impacting risk in 2020

- The Brexit negotiations during the year and subsequent transition to the UK/EU FTA had a relatively immaterial impact on the Group's strategic aims.
- The disposal of the Group's CCGT portfolio announced on 15 December 2020, which completed on 31 January 2021, combined with our commitment to close the coal generation assets, delivers a fully renewable generation portfolio for system services. However, it reduces the assets available to provide system flexibility.

Principal risks and uncertainties continued

Risk level change from previous year
▲ Up/increasing ▼ Down/reducing = No change **Covid-19** Impact

Strategic continued

- Markets for system stability continue evolving, with the introduction of the new ESO market for synchronous compensation. The Group bid successfully for a contract for Cruachan and will watch to see how the market evolves.
- Experience from the Group's €250 million bond issue indicates that demand exists for "green" investment, and with it a view that the strategic risk for access to capital is not currently high.

Covid-19

- Demand for electricity fell in the Customers business and some customers experienced financial distress. Therefore, focus shifted during 2020 from the delivery of strategic aims to managing the impact.
- There was a slowdown in the delivery of the Government agenda on the environment, with a delay to COP26 and the publication of a white paper on Energy.
- However, publications such as from the Committee on Climate Change and the Government indicate a growing commitment to bioenergy carbon capture and storage (BECCS), and with it acknowledgement that sustainable biomass is seen as an accepted part of the UK's future.

Biomass acceptability =

Context

Sustainability legislation at EU and UK level, as well as in other countries in which we operate and where we source biomass, in addition to public understanding of the benefits of the supply chain and technology is evolving. Attitudes to the benefits of biomass as a renewable source may not align with our strategy and investment case, which may impact our plans and mean that actual returns differ from those we expected. Brexit introduced new risks as the ability of the UK to influence future EU policy on biomass sustainability requirements is likely to reduce and there is the potential for policy divergence which might make our operations and obligations more complex and costly.

Risk and impact

- Sustainability policy changes on the sourcing and use of biomass in the UK, EU or other countries in which we operate or from which we source biomass could be unworkable and make it difficult for us to comply with policy requirements or adversely affect our ability to claim subsidy in support of economic biomass generation. Changes in policy could increase costs, make it difficult to source biomass, or reduce the current support for the benefits of biomass.
- Detractors and some environmental non-governmental organisations (eNGOs) may influence policymakers against biomass use resulting in reduced support for the benefits of biomass.
- Being outside the EU may reduce the UK's influence on biomass acceptability and future sustainability requirements, potentially leading to multiple compliance requirements (policy divergence).

Key mitigations

- Increased transparency in how we evidence sustainability.
- Working with academics, think tanks and specialist consultants to improve understanding and analysis of the benefits of biomass.
- Engaging with key eNGOs to discuss issues of contention.
- Forging closer relationships with suppliers on sustainability through the supplier relationship programme.
- Maintaining strong processes to ensure compliance with regulation.
- Increased engagement across all European Institutions (Commission, Parliament, Council), and relevant UK Government departments.
- Developing and maintaining strong relationships with policymakers.
- Continued engagement within our supply chain to ensure compliance with prevailing regulations and standards, as well as opportunities to enhance actions which support sustainable and responsible sourcing strategies and bio-diversity which is integral to our philosophy.

Changes in factors impacting risk in 2020

- BEIS has announced it will create a new bioenergy strategy that will be published in 2022, reassessing the role of biomass in the context of achieving net zero.
- Evidencing of our forest biomass sourcing commitments.
- The Independent Advisory Board (IAB) of scientists, and leaders in the field of sustainability providing impartial advice and guidance operated throughout 2020.
- The EU has confirmed it will review several relevant pieces of legislation including the EU ETS, LULUCF, REDII – potentially giving rise to policy changes and some possible divergence in sustainability criteria between the UK and Europe.
- Any tightening of reductions in GHG emissions targets in Europe and increased number of commitments to coal phase out among EU Member States provides the opportunity to supply new markets with sustainable biomass.

Covid-19

- The UK Government discussions on policy changes have continued. Indications are that as part of the wider economic recovery plans, UK Government will bring forward and have a greater focus on its sustainability policies.

Plant operations

Context

The reliability of our operating plants both in the UK and the US is critical to our ability to create value for the Group. Some of our plants are old, for example, Drax Power Station was built approximately fifty years ago and our hydro plants nearly one hundred years ago. The plants and production facilities are highly complex and require careful management to operate, with many required to run flexibly and promptly to respond to the demands of the electricity system. For Drax Power Station specifically, the plant was originally constructed to generate electricity from coal, and we have converted four of the six units to use biomass, rather than the fuel for which they were originally designed.

Risk and impact

- As plant ages, the operational reliability and integrity could reduce. Single or multi point failures of plant across our portfolio, and incidents arising from the handling and combustion of biomass, could result in forced outages in our generation or pellet production plants.
- Successful generation using biomass requires stringent quality to be maintained throughout our pellet production plants and the supply chain, which continues to evolve and mature. Our suppliers may experience operational or financial difficulties which impair their ability to sustain continued compliance or result in inadequate standards being met. Poor quality could result in additional costs (as we may be required to source material from other suppliers) or inadequate volume of materials, leading to loss of generation which could adversely affect financial performance and results.
- Brexit could impede the future availability and delivery of materials or parts longer term or increase our costs to operate in securing such items.

Covid-19

- Given ongoing uncertainty over the timing and availability of measures to support a return to more normal working patterns it is unclear whether future planned or unplanned events at our sites could incur additional costs or delays in execution which could impact operational performance and/or future financial results. The pandemic has impacted the financial and operational performance of many businesses. The prolonged period of such impacts could result in businesses on which Drax relies failing or being restricted in their ability to deliver products or services as we might normally expect. This could have further impact in the event we suffer interruptions or forced outages or increase our costs to operate where we need to find alternative suppliers or business partners.

Key mitigations

- Implementing a comprehensive plant investment and maintenance programme, that is risk-based and reflects the challenges of operating complex equipment, some of which is old, supported by engineering excellence.
- Ensuring plant is designed to prevent and control major hazards.
- Maintaining robust management systems, designed to identify and mitigate risk.
- Maintaining the stringent safety procedures in place for handling biomass and dust management.
- Managing the plant as a portfolio to ensure losses are minimised.
- Undertaking significant research and development on the production of wood pellets, as well as the handling and burning of biomass.
- Full testing of all biomass supplies prior to acceptance, and the use of contractual rights to reject out of specification cargoes.
- Sampling and analysis through the supply chain, to increase understanding of causes of fuel quality issues.
- Maintaining insurance in place to cover losses from plant failure where possible.
- Employing advanced condition monitoring systems to alert any possible plant failures before they occur where practicable.

Changes in factors impacting risk in 2020

- Completion of a significant planned maintenance outage on Unit 3 at Drax Power Station with installation of a new high-pressure turbine unit and replacement hot reheat pipework and upgraded unit control system.
- Planned maintenance outages across the hydro and CCGT fleet which included major overhauls of the gas turbine at Damhead Creek and steam turbines at both Damhead Creek and Shoreham.
- Baton Rouge rail chambering yard fully commissioned.

Covid-19

- The risks for the potential to lose production time as a result of key operational employees being affected by the pandemic increased. The Group continues to operate all of its plants in line with the latest UK Government and US authorities' guidelines whilst protecting the safety of its employees and sub-contractors. The measures implemented by management to address the increased risks resulted in additional costs and challenges associated with the 2020 outages across our generating assets and in particular the planned outage of Unit 3 at Drax Power Station.

Principal risks and uncertainties continued

Risk level change from previous year

▲ Up/increasing ▼ Down/reducing = No change **Covid-19** Impact

Trading and commodity =

Context

Sales of power and Renewable Obligation Certificates (ROCs) represented £1,699 million (2019: £1,857 million) of our revenue from continuing operations in 2020 in our Generation business and our Customers business made sales of £2,119 million (2019: £2,226 million) of electricity and gas.

The margins derived from our Power Generation and Customers businesses are influenced by the liquidity of the commodity markets and our ability to secure desired prices in a volatile market. Non-commodity costs are also volatile and inherently difficult to hedge.

The income value derived through the generation of ROC's was £490 million (2019: £528 million). The value which we derive from ROC's can change from that of prior years and our future forecasts.

Risk and impact

- Liquidity and volatility in trading conditions and unexpected changes in commodity prices could result in lower margins and a reduction in cash flow in our Generation business.
- Delivery of commercial value from the flexibility of our portfolio and leveraging a complicated supply chain with uncertain running regimes requires effective execution of our trading strategy and opportunities to trade being available in a liquid market.
- The Generation business may fail to secure future system support services contracts which are a source of revenue diversity for the Group, amounting to £118 million in 2020.
- The value of ROCs generated may be lower than forecast, for example if the recycle value outturns are below our projections due to higher than anticipated renewable generation.
- Supplier failures continue to lead to supplier mutualisation processes being invoked (whereby their costs and commitments are shared among other suppliers), notably for ROCs, resulting in increased costs, albeit this level is capped.

Key mitigations

- Ensuring high levels of forward power sales for 2021 to 2023 and the Contract for Difference for the one biomass generation unit reduces our exposure to volatility.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for greater flexibility of generation and to add additional value.
- Additional value is provided through the increased flexibility and optimisation capabilities provided by Drax's hydro assets.
- Customers' energy supply and commodity price exposures for fixed price sales are hedged with third parties where necessary.
- Purchasing wood pellets under long-term contracts with fixed pricing increases price certainty over extended periods.
- Engaging with wood pellet suppliers to ensure delivery schedules are met and any shortfalls addressed to limit the impact on power generation.
- Hedging fluctuations in ROC generation from wind farms through weather derivatives.
- The value of the Group's ROC production is hedged by selling ROCs to the Customers supply business and other counterparties. This is supplemented by assessing opportunities to mitigate Recycle Fund volatility and analysing possible outturns.
- Significant hedging of forward foreign exchange (see pages 206 and 223 for more details).
- Coal stocks are being managed for remaining commercial operations and Capacity Market obligations.

Changes in factors impacting risk in 2020

- Sterling exchange rates against the US Dollar, Canadian Dollar and Euro have been volatile due to uncertainty surrounding Covid-19, Brexit and the US elections.
- Power prices across 2020 were generally lower than previous years with low market liquidity and increased volatility in short-term prices.
- Depressed wood pellet prices due to planned and unplanned outages across the industry. This limits Drax's ability to mitigate any unplanned outage due to its scale of biomass generation in the market.
- The replacement of the EU ETS following Brexit is a risk that the business continues to monitor with mitigations planned for the current scenarios outlined by the UK Government.
- Brexit and the subsequent transition to the UK/EU FTA continues to create uncertainty in regulation within the UK as well as power interconnectivity between Europe and the UK.

Covid-19

- The potential bad debt risk increased as a result of the impact to the markets and the economy. The Group continues to hedge commodity and foreign exchange exposures on a long-term basis protecting against any near-term volatility in prices and hedges energy supply to provide support to its energy customers.

Information systems and security

Context

Our IT systems and data are essential to supporting the delivery of the day-to-day business operations of the Group and make sure our financial, legal, regulatory and compliance obligations are met. Our systems must also evolve in order to contribute to the delivery of our strategy. The systems need to be fit for purpose and the confidentiality, availability and integrity of the systems and data needs to be ensured.

Risk and impact

- Any absence or delay to the implementation of key IT systems transformation affects our ability to deliver our strategy and results in additional unforeseen costs.
- Reduced performance or reduced availability of IT systems, data and facilities affecting our operations adversely. For example, interrupting supply of electricity or impeding the accurate recording of electricity supplied to and used by our customers.
- Security compromise of our systems and data including personal data; causing operational and financial impact and regulatory non-compliance.

Key mitigations

- Maintaining and refreshing business continuity, disaster recovery and crisis management plans.
- Maintaining effective and up-to-date cyber security measures, including a protect, detect, respond and recover strategy, which evolve to address known new or potential threats.
- Implementing a Group IT Strategy and identifying key projects to deliver Group-wide services, improving security, resilience and performance. The IT Board, a sub-committee of the Executive Committee, provides oversight and governance.
- Periodic external assessment of the integrity and adequacy of our IT and cyber security arrangements which are assessed and challenged by subject matter experts, as well as the Board and Audit Committee.
- Scenario events in which we assess our capability to respond to potential circumstances or threats.

Changes in factors impacting risk in 2020

- The enforcement of key compliance regulations such as the NIS Directive, which is ongoing, have increased the potential financial cost to the business.
- Work continued on integrating hydro and gas asset systems where it was applicable to do so.
- Further work embedding the IT operating model has been undertaken to better support strategic objectives of the Group and improve efficiency of technology processes.
- Ongoing programme of improvement to security, monitoring of key IT controls and IT and security risk management.
- A formalised and approved new Target Architecture which enables us to deliver the IT systems and capabilities flexibly and in support of business needs.

Covid-19

- There continued to be a manageable impact on the delivery timelines of a number of planned IT activities, driven by the availability of resources and other priorities to ensure the business remained operational. The adoption of new technology and changes in existing IT systems was necessary to facilitate the safe home working for many of the Group's employees and has helped to improve the IT environment.

Principal risks and uncertainties continued

Risk level change from previous year

Up/increasing Down/reducing No change **Covid-19** Impact

Climate Change =

Context

According to the Intergovernmental Panel on Climate Change, global warming is likely to reach 1.5°C as early as 2030, causing changes in the climate system with associated impacts. It is important we assess the impact of climate change on our business and our preparedness to manage risks related to both the physical impacts of climate change and the transition to a low carbon economy.

Risk and impact

- Physical impacts of climate change to our operations include increased incidence and severity of extreme weather events, such as drought and heavy rainfall, that may impact production. Hurricanes have increased in frequency and intensity in the US Gulf, which can disrupt our business and supply chain. For example, heavy rainfall affected our US Pellet Production business and third-party pellet mill sourcing areas in the winter of 2019. Severe rainfall in the UK also resulted in significant flooding to areas surrounding our Drax Power Station in early 2020 which affected the ability of people and materials to reach site for a short period.
- Policy risks related to the transition to a low carbon economy include UK Government changes in climate policy that may impact generation, such as unabated gas generation. Future revisions to greenhouse gas accounting methodologies have the potential to impact biomass generation.
- Technology risks related to the transition to a low carbon economy include technology and innovation not developing as expected, impacting delivery of the Group's carbon negative ambition and business strategy.
- Reputation and market risks related to the transition to a low carbon economy include increased activity by NGOs, the potential for reduced investor and customer confidence, delays to our strategy (for example more stringent qualifying regimes or approval processes linked to developing existing or new facilities) and challenges with employee recruitment and retention.

Key mitigations

- Sourcing from a wide geographical range of third-party pellet mills.
- US Pellet Production business has developed stockpiles to alleviate incidences of wet weather-related production interruption.
- Aspects of the physical impacts of climate change on new installations are addressed under planning laws.
- Working with Energy UK on a framework to better manage the physical impacts of climate change on thermal generating facilities.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events. Robust business strategy informed by net zero 2050 scenario.
- Establishment of a carbon negative ambition and a Climate Policy, underpinning a business strategy consistent with UK Government climate change policy.
- Engagement with stakeholders, including close liaison with UK Government, on future policies.
- Diversification of generation portfolio with acquisition completed in 2018.
- Strong innovation team tracking technology advances and developing new technologies such as BECCS.

Changes in factors impacting risk in 2020

- Short-term interruption to fibre production at our LaSalle Pellet Production plant during the year caused primarily by adverse weather conditions in the US in 2020.
- Ongoing development and review of external greenhouse gas corporate accounting and reporting guidance, frameworks, and standards.
- Publication and implementation of a new Climate Policy for the Group.
- Completion of work by Strathclyde University to understand the potential changes in long-term weather patterns at Cruachan Dam. Results show that current predicted extremes are manageable.

Covid-19

- The economic recovery plans that are starting to emerge indicate the UK Government will use the opportunity to bring forward policy and actions that help drive corporate focus on sustainability and climate change action.

People

Context

We need to ensure we have an agile and inclusive working environment where people from diverse backgrounds and experience are enabled to connect, develop, and succeed both in their own careers as well as in the delivery of objectives which support the Group's strategy. We believe recruiting, empowering and retaining the right people in place with the leadership, management, specialist skills and engagement is critical in the delivery of strategic plans now and in the future.

Risk and impact

- Our performance and the delivery of our strategy is dependent upon having high-quality, suitably experienced employees and engaged colleagues at all levels of the organisation reflecting the diversity in wider society.
- Whilst we continue to invest in our people, including supporting them in the development of their capabilities through training and development programmes, we may be unable to recruit and retain people with the necessary skills and experience which could in turn affect our ability to execute our strategy. Examples include our ability to recruit people supporting work on new technologies such as BECCS and alternative fuels and the expansion of our biomass facilities in the US.
- The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Examples include the closure of our Coal generating assets and also changes to our operations where we generate electricity as we transition to alternative viable fuels.

Key mitigations

- Conducting a comprehensive and systematic assessment of our talent and succession plan.
- Implementing consistent Group-wide performance management, potential assessment, and career development frameworks.
- Providing workforce engagement forums enabling colleagues and management to communicate, share ideas and views on any business-related issues, gain feedback and explore opportunities for new ways of working such as our Fit for the Future programme.
- Conducting regular colleague surveys to monitor engagement levels and alignment of people with Group values (you can read more about this on page 61).
- Continued investment employees personal and career development to enhance business performance and provide the Group with a relevant pipeline of talent in critical roles.
- Ensuring regular colleague communications, and involvement in the business through our MyVoice Forums (more information on the work in these areas in 2020 can be found on pages 61).
- Maintaining reward packages that aid recruitment and retention.
- A diversity and inclusion strategy that aligns to our organisational vision and goals (you can read more about our work in this area on pages 60).
- Engaging our colleagues with defining the behaviours that sit behind our Values (you can read more about our work in this area on pages 58 and 59).

Changes in factors impacting risk in 2020

- During the year, the Group's focus on implementing its HR strategy has mitigated various risks and lessened the probability and impact of the overall people risk category. The Group is aware that, as it manages the wider context of rapidly changing people risks, the HR strategy will need to remain agile to address anticipated increases to probability and impact in the short-term.
- We reviewed our HR strategy and reshaped our priorities putting together a comprehensive five-year HR plan centred around:

1. developing our HR foundations to enable the organisation to be efficiently fit for the future.
2. raising business performance and building organisational capability through the empowerment of our people.
3. continuing to develop and improve to be best in class for people leadership.
4. supporting the delivery of Drax plans, purpose, and operational excellence as part of business as usual.
5. ongoing development of our workforce engagement forums.
6. making the organisational and people changes to align with 'fit for the future' thinking, driving consistency, efficiencies, improvements in decision making and reduction in cost.

Covid-19

- There has been a wide change in working practices in particular for office-based employees. Management continues to provide an increased focus on "keeping our people safe" within business continuity planning throughout the pandemic, through increased communications and wellbeing activity, community activity, and making appropriate policy changes.

Strategic report

The Strategic report is set out on pages 1 to 77 of this document and was approved by the Board of Directors on 24 February 2021.

Will Gardiner
CEO

Positively contributing to the climate change agenda

"It's exciting to be part of Drax as we step up our efforts to lead on biomass sustainability standards, to positively contribute to the climate change agenda, and to be a force for good in the communities and forests that supply us.

In 2020 we published the first of a series of Catchment Area Analyses that take a close look at how forests have responded to increased demand from us. Those published so far cover over 60% of our supplies and mills in three key geographies – the US South, British Columbia, and the Baltics. We also published a Biomass Carbon Calculator to more accurately measure emissions in wood pellet supply chains. We worked with the Earthworm Foundation to launch the Healthy Forest Landscape approach, which tracks trends in carbon stock, forest cover, biodiversity and community well-being."

Richard Peberdy,
Group Head of Sustainable Forests

Weyerhaeuser tree nursery, Hazlehurst, Mississippi

Creating the workforce of the future

"I wanted to do something more practical and gain industry experience alongside getting relevant qualifications. The most challenging aspect initially was being the only female technician on my site – in fact, I was the first ever female technician on site! It was quite intimidating, but everyone was really friendly, welcoming and supportive. It's such a great team. Doing an apprenticeship is a great way of gaining experience in an industry that you're interested in and helping to build your confidence."

Danielle Nicholson
Danielle Nicholson studied aeronautical engineering at university, and joined Drax in 2019 as a Mechanical Technician Apprentice at our Daldowie site near Glasgow.

How have we delivered for our stakeholders during these difficult times?

Clarity of purpose, a positive culture and strong governance have enabled us to continue to deliver for our stakeholders

Philip Cox CBE, Chair

Our purpose, strategic aims and values

Purpose and ambition

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

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

Our strategic aims are:

To build a long-term future for sustainable biomass
By expanding our sustainable bioenergy supply chain and reducing costs we are developing options for long-term biomass operations – renewable generation, negative carbon emissions, system support services and third party supply of biomass to international markets

To be the leading provider of power system stability
Through a portfolio of flexible and renewable generation, and large industrial and commercial customer supply business, we will provide system support services to allow the power system to utilise intermittent renewable energy accelerating the UK's decarbonisation en route to 2050

To give our customers control of their energy
We provide our customers with renewable energy, and the opportunity to control and optimise energy use and cost, helping us support the energy system

Our Values

- We care about what matters
- We are a can-do kind of place
- We see things differently
- We listen carefully
- We do what we say we will do

Dear shareholders,

I am pleased to present our Corporate Governance Report.

2020 has created many new challenges for companies large and small, and society as a whole. Drax responded to the impact of Covid-19, whilst also working to maintain well managed and properly conducted day-to-day activities.

In other sections of the annual report, we have explained aspects of our response to the pandemic, underpinned by a clear priority to keep our employees safe, support their wellbeing and enable them to adjust to new ways of working. Informed by our values – of caring about what matters – we have also worked hard to put into place support for our colleagues, wider communities, customers and partners. Alongside this, we have remained focused on our business performance, prospects and resilience – to continue the delivery of our strategy throughout 2020 and for the longer term, in conjunction with maintaining transparency and clarity in our reporting to shareholders, business partners, Government and employees.

Our strong governance framework, culture and values have played a critical part in enabling us to respond to the pandemic and its economic and social impact in conjunction with safeguarding the business imperatives which underpin long-term sustainable value creation. As part of the Critical National Infrastructure our work has never been more important, and I am immensely proud of the outstanding work of our employees across the Group, as they adjusted to their home and working lives in ways that would have seemed unimaginable before the pandemic. They have risen to the challenge of supporting the safety of fellow employees and loved ones, whilst continuing to focus on running the business. Working together, they have provided the energy and critical system support services that the country needs to keep the lights on and to power industry and businesses.

Covid-19 and the Board's response

The Drax Board adapted to the changing ways of operating in response to the pandemic. Deploying online video conferencing, the Board held additional meetings throughout April, May and June to oversee management's response and understand the impact on employees, customers, suppliers and business partners. These meetings were attended by the Executive Committee, together with key members of senior management as necessary. Each meeting started with a report on our employees, focusing on the measures taken to protect key workers at operational sites, and how the Company was implementing home working arrangements where possible. The report also provided updates on the wellbeing of employees as they adapted to changes in their lives and working practices. The Board also oversaw the operational response to continuing to deliver the Group's key objectives during the pandemic. You can read more about this on page 88.

The Board has been kept appraised of the measures being taken and appreciates the open and honest discussions with management and the collegiate response to the pandemic. The way the business has performed during this period is a testament to the strength of the organisational structures and the commitment and hard work of employees at all levels. It is also a testament to the strong sense of shared purpose and values and I am delighted that our 2020 workforce engagement survey has seen our engagement score improve during the pandemic. You can read more about this on page 61.

Engaging with our stakeholders

2020 demonstrated the importance of effective engagement with all stakeholders, and of ensuring the Board has a good understanding of how prevailing issues and potential decisions might impact those stakeholders. During the year, we continued to deliver our investor relations programme and, before the Covid-19 lockdown, we hosted site visits for investors and analysts at Drax Power Station, which included discussions on our sustainability objectives. We also hosted meetings to discuss our work with BECCS, and to meet our Chief Innovation Officer. Our Head of Climate Change and Head of Investor Relations attended an ESG conference where we discussed carbon abatement, coal closure and biomass sustainability.

Due to constraints on holding face-to-face meetings, the CEO, CFO and Head of Investor Relations engaged with existing shareholders and new investors primarily via phone calls and video calls. Key areas of discussion were our biomass strategy, biomass sustainability, the role of system support services, the future potential for gas and progress with BECCS. Reflecting increasing interest in new technologies aimed at reducing carbon emissions, we have conducted and participated in a number of presentations and seminars on negative emissions and the role of Drax.

In addition to our full and half-year results we issued a trading update in April (an early stage in the pandemic), in which we set out our expectations for the Group. These included quantifying the anticipated financial impact of Covid-19 and re-affirming our sustainable and growing dividend policy. Our assessment of the potential impact from Covid-19 remained consistent throughout 2020 with that initial report.

Reflecting feedback from investors and the 2019 investor perceptions study conducted by Makinson Cowell, we have continued to develop our programme of ESG reporting and engagement. This includes developing our reporting towards the disclosure requirements for the Task Force on Climate-Related Financial Disclosures (TCFD), which we incorporate in this year's annual report on pages 32 and 33.

As mentioned above, our employees play a critical part in the success of our business and delivering our strategy. Throughout 2020 our CEO, Will Gardiner, and I met quarterly with the chairs of the MyVoice workforce engagement forums. Each meeting featured an agenda of proposed topics, which were previewed in advance with the attendees. For example, the meeting in September had a presentation on the whistleblowing resources available to employees. In June, Nicola Hodson, who is a Non-Executive Director and Chair of the Remuneration Committee gave a presentation on the Remuneration Policy and the approach being taken to reflect that policy in Group-wide reward.

> "Informed by our values – of caring about what matters – we worked hard to put into place support for our colleagues, wider communities, customers and partners."

We also identified particular topics which allow attendees to consult with employees and report to the meeting on feedback. In turn, Will Gardiner and I have been able to have discussions about the Group's response to Covid-19, including how such events have informed our strategy and purpose. We have also offered feedback and expressed our appreciation for how our people have contributed to these matters. There is additional information about the MyVoice forums on pages 61 and 92, and more about our stakeholder engagement, and the factors we consider in decision-making, on pages 90 and 91.

Culture and governance

We are proud of our culture at Drax and it is this culture that drives our values. A fundamental element is acting with integrity – what we call, doing the right thing. The Board and I seek to set a clear and positive tone from the top to promote these principles, which in turn drive standards and practices in all aspects of our work.

In 2020, we asked our colleagues from across the business to articulate their thoughts about the essence of Drax and what they believe sets us apart. Our five values – We care about what matters; We are a can-do kind of place; We see things differently; We listen carefully and We do what we say we will do – describe what employees felt amounted to the Drax experience. You can read more about this on pages 58 and 59.

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

From discussions in the Boardroom, to conversations with the MyVoice forums, to local initiatives, we have sought to understand and respond to the challenges and needs of others. You can read more about our culture and values on pages 58 to 63.

In a normal year, we would aim to hold Board meetings at different locations and meet local employees and management in person. However, this has not been possible in 2020. The Board discussed this challenge in late spring and considered how we might achieve meaningful engagement without direct contact. We decided to prepare video messages from the Non-Executive Directors, providing an opportunity for them to share information about themselves and discuss matters they are passionate about.

Nicola Hodson recorded a video and wrote a letter to all employees to introduce herself. She explained the role of the Remuneration Committee and how pay in the wider workforce is linked to executive pay, and emphasised her commitment to diversity and inclusion. Launched in August, Nicola's video received over 1,200 views on the Group's intranet. At our September meeting with the MyVoice forum chairs we sought feedback and reaction to the video and letter. Following positive feedback, John Baxter also recorded a video to discuss one of his key areas of focus; health and safety. This was launched in December. The Board has been very pleased with the feedback received and, in 2021, we hope to build on this approach as one aspect of ongoing engagement with the workforce. We will continue to seek new and innovative ways to engage with the workforce both in person, which we very much hope can return to normal, and remotely.

Diversity

The Board is committed to building a supportive, diverse and inclusive working environment where everyone can be themselves. This is a regular topic of discussion at our Executive Committee and Board meetings. In 2017 we set a target to increase female representation in senior leadership roles across the Group to 40% by the end of 2020. We have not yet progressed as intended – at December 2020, 29% of our senior leadership workforce (our top four career levels) was female, with 31.5% females in the total workforce – however during 2020, the Board challenged management on the work required to improve in this area and to commit the necessary resources and time to make more impactful progress. This has included expanding the coverage of our inclusion work to cover broader aspects of diversity.

Will Gardiner is an active member of the POWERful Women "Energy Leaders Coalition", which is committed to driving meaningful change in gender diversity in the energy sector. As part of this, Will took part in the POWERful Women conference in October and spoke at a panel of CEOs about diversity in Drax.

The Board recognises that diversity goes beyond gender. In July 2020, our Executive Committee participated in a workshop led by Dan Robertson from Vercida Consulting. Those attending considered in depth how, through the personal commitment of our executive team, Drax can deliver change in all areas of diversity.

We are working to support action across the wider organisation, and Dan Robertson also attended and presented to our leadership team of 50 senior managers in December. These discussions are one part of enabling change through engagement with our wider workforce. We have taken a number of measures, including sharing information on our intranet about the value Drax places in enabling and supporting diversity. We have also reviewed our recruitment policies and practices, and the associated training for managers and leaders, and developed a new Diversity and Inclusion Policy. We launched this across the Group in September 2020, as part of our new Code of Conduct. You can read more about our diversity and inclusion activities on pages 60 and 95.

We regularly engage with our workforce through our annual survey and quarterly voice forums, as well as individual conversations, to understand how we can enable change. The feedback from our employees has been very positive to the steps we are taking, and their continued support and commitment to change will be important in realising our objectives.

We see this as a long-term programme across the organisation, enabled by short and medium-term objectives that have been considered by the Board. During 2021, the Board will assess and challenge management on the objectives as part of ensuring meaningful progress.

Board changes

In April 2020, Andy Koss stepped down from the Board after four years as an Executive Director and 15 years with the Group. I would like to thank Andy for his valuable service over this time. He has made a major contribution to the transformation of Drax into a leading generator and supplier of renewable energy.

During the year, the Board approved the re-appointments for a second term of three years for both David Nussbaum, Senior Independent Director, and Nicola Hodson, Chair of the Remuneration Committee. Also in 2020, and following a rigorous formal review led by our Senior Independent Director, the Board confirmed its support for my continuing as a Non-Executive Director and Chair for a further (and final) three-year term. You can find more information on that review on page 96.

I am grateful for the continued support from my Board colleagues as we move forward in delivering on our purpose and strategy. You can find out more about each of these re-appointments in the Nomination Committee Report on page 94.

Philip Cox CBE
Chair

Governance at Drax

Leadership and purpose How the Board promotes the long-term sustainable success of the business and considers and engages with our various stakeholders	• Corporate governance report (page 80) i. Governance Framework ii. Culture iii. Stakeholder engagement iv. Director development and induction v. Board activities in 2020 • Working with our stakeholders (page 90)
Division of responsibilities The role of the Board and the Directors	• Director biographies (page 84) • Board roles and key responsibilities (page 91) • Composition and Independence (page 92)
Composition, evaluation and succession The work of our Nomination Committee, and how we ensure the Board and Committees operate effectively	• Nomination Committee Report (page 94) i. Succession planning and diversity ii. Evaluation
Audit, risk and internal control The work of our Audit Committee, how we ensure the integrity of the reporting and how we manage risk and oversee internal controls	• Viability statement (page 64) • Principal risks and uncertainties (page 66) • Audit Committee report (page 98)
Remuneration The work of our Remuneration Committee, how our pay policies and practices support the purpose and strategy, the link to long-term sustainable performance and alignment across the Group	• Letter from Remuneration Committee Chair (page 109) • Remuneration Policy (page 113) • Annual report on remuneration (page 124) • Covid-19 impact on executive remuneration (page 30)

Compliance with the UK Corporate Governance Code 2018 (Code)

A revised Code, which can be found on the Financial Reporting Council website at www.frc.org.uk, took effect from 1 January 2019.

Reports on how Drax, the Board and its Committees had satisfied the Principles and Provisions of the Code were considered formally at two meetings during 2020. The meetings included discussions about the steps being taken and how they might evolve in 2020, the effectiveness of employee engagement, and how the Board assesses, monitors and constructively influences culture. The actions taken in addressing recommendations from the most recently completed externally-led performance evaluation were also discussed. It is the Board's view that the Company applied the principles and complied in full with the provisions of the Code during 2020.

How does the Board of Directors provide strong stewardship of the Group?

The Board shapes our purpose, strategy, culture and values to generate long-term sustainable value.

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

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

Appointment to the Board:
January 2015

Appointment as Chair:
April 2015.

Will Gardiner

CEO

Contribution and Experience

Will has a strong track record of building and leading well-managed companies and creating value. He has been a key architect of our purpose and strategy, driving the sustainability agenda from the top, including Drax's response to the climate change crisis, and ensuring that we are delivering for our stakeholders. He provides leadership of the executive team and takes responsibility for important external relationships and stakeholder management. Will is also a non-executive board member of the Sustainable Biomass Program.

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

Appointment to the Board:
November 2015

Andy Skelton

CFO

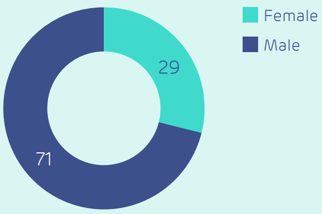
Contribution and Experience

Andy has over 20 years of strong finance and commercial skills, alongside substantial experience in the technology sector. Since joining Drax two years ago he has driven efficiency and operational excellence across the Group to provide a sound framework from which we can deliver our purpose and strategy. Andy is responsible for financial control and planning, corporate finance, investor relations, tax, IT, procurement, risk and internal audit and is Chair of the Group Ethics and Business Conduct Committee (EBCC). He also represents Drax as a board member of the Northern Powerhouse Partnership.

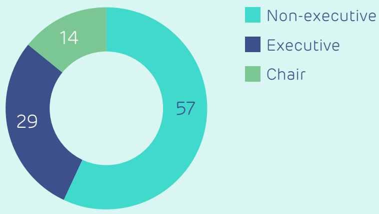
Andy was previously CFO at Fidessa Group plc and has held a number of senior finance positions at CSR plc, Ericsson and Marconi, including two years as CFO of Ericsson Nikola Tesla. Andy has a BA in accounting and finance and qualified as a chartered accountant in 1994.

Appointment to the Board:
January 2019

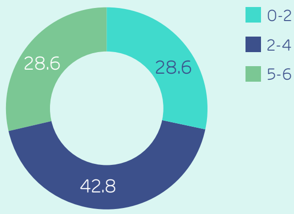
Gender diversity (%)
(As at 31 December 2020)



Composition (%)
(As at 31 December 2020)



Tenure in years (%)
(As at 31 December 2020)



David Nussbaum

Senior Independent Non-Executive Director

A N R

Contribution and Experience

David's wealth of experience in international development and environmental matters, and his experience as Finance Director of a listed industrial company, is of huge value to Drax, contributes significantly to the Board's understanding of the stakeholder and sustainability landscape, and helps to inform Board discussions and decision-making.

David is Chief Executive of The Elders, a group of independent global leaders working to promote peace and human rights, Deputy Chair of the International Integrated Reporting Council, Board member of the International Budget Partnership, member of the Advisory Council of Blueprint for Better Business, and a member of the Ethical Investment Advisory Group of the Church of England. He was previously CEO of WWF-UK, CEO of Transparency International, Finance Director and Deputy CEO of Oxfam, and Finance Director of Field Group plc. In a non-executive capacity, David was Vice-Chair of Shared Interest Society, Chair of Traidcraft plc, and Non-Executive Director of Low Carbon Accelerator Limited.

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 industries, including real estate, telecommunications and medical devices. Her broad and varied experience in finance, risk and internal control is invaluable in her role as Chair of the Audit Committee.

In May 2021 Vanessa will begin a new role as CFO of Land Securities Group plc. Vanessa is currently CFO of Grainger plc and has worked in finance for 20 years, holding a number of senior positions within Unite Group plc, including Deputy Chief Financial Officer. Prior to that Vanessa was UK finance director at SEGRO plc. Vanessa is a Fellow of the Association of Chartered Certified Accountants.

Appointment to the Board:
June 2018

Nicola Hodson

Independent Non-Executive Director

A N R

Contribution and Experience

Nicola brings valuable technology expertise, as well as having extensive experience in business and digital transformation, sales and IT in leading global companies. As Chair of the Remuneration Committee Nicola brings to the role a wide range of experience of international business, government organisations, and dealing with a variety of stakeholders.

She is currently Vice-President, Global Sales and Marketing, Field Transformation at Microsoft, and was Chief Operating Officer of Microsoft UK. Previously she had P&L and sales roles at Siemens, CSC (now DXC) and Ernst & Young. Nicola is a Non-Executive Director of Beazley plc.

Appointment to the Board:
January 2018

John Baxter

Independent Non-Executive Director

A N R

Contribution and Experience

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

John was previously at BP plc, most recently as Group Head of Engineering & Process Safety, prior to which he worked at the UK utility Powergen plc as Group Engineering Director, as well as roles as a UKAEA Board member and also as a nuclear submarine engineer officer. He is a Non-Executive Director of Sellafield Ltd and chairs the Sellafield Board Committee on Environment, Health, Safety & Security.

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

Appointment to the Board:
April 2019

Corporate Governance Report: Executive Committee

Role of the Executive Committee

The Executive Committee focuses on the delivery of the Group's strategy, financial structure, planning and performance, organisational development, and the delivery of change. This is enabled by engagement with the workforce and other stakeholders, including the UK Government and NGOs. We also collaborate with other businesses and agencies, for example our partners in the Zero Carbon Humber Partnership. There are more details about such engagement on pages 40 to 45. The Executive Committee also develops and considers policies and procedures that provide an effective framework for operating in line with required standards, laws and regulations, for example our Code of Conduct which was launched following Board approval in October 2020 and our policy on Diversity and Inclusion launched in September 2020.

The Executive Committee meets informally on a weekly basis in addition to 11 monthly meetings each calendar year. In addition, the Executive Committee attended several meetings of the Board between April and June in response to the Covid-19 pandemic.

The Executive Committee considers business performance against the annual plan and progress in realising longer-term objectives. Reports are provided on each of the business units covering financial and non-financial metrics. The latter include, for example, 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. During 2020, as the impact of Covid-19 deepened, the regular in-depth evaluation of financial performance included detailed assessment of cashflow and associated assets and liabilities. More on the financial review is covered in the report of the Audit Committee on page 98.

In 2020, the Executive Committee reviewed in depth all nine principal risks, as identified on pages 66 to 77. It considered stakeholder engagement, with a focus on the political landscape that could impact Drax's ability to execute its strategy. A summary of the Committee's activities can be found in the table below.

Where relevant to the matters under discussion, papers are distributed ahead of meetings to brief Committee members on matters to be discussed. Members also received presentations on various business issues by senior managers within the business units. Biographies of the Executive Committee members can be found on the website drax.com/about-us/corporate-governance/

Summary of the Executive Committee's 2020 activities

Health, safety and wellbeing

- Considered regular updates from business units, including on process and behavioural safety and culture, with a particular focus on health, safety and wellbeing in light of Covid-19
- Used input from the MyVoice forums to implement plans to address wellbeing across the Group
- Considered improvements in the capture and reporting of information on the Group's safety and environmental practices and how these could be shared with the Board
- Reviewed the Group's Wellbeing; Diversity and Inclusion; Dignity at Work; and Flexible Working policies

Governance

- Reviewed and updated the formal governance structure of sub-committees with responsibility for operational performance; capital allocation; risk management; IT and security; and health, safety and environment
- Reviewed updated HR and Group Code of Conduct policies
- Reviewed and approved the Climate Policy

Operations

- Considered the biomass supply chain, procurement and investment proposals to increase production capacity and self-supply
- Reviewed the Generation portfolio operating model
- Considered options for alternative fuel supplies, such as woodchips and other forms of agricultural residues
- Considered the future of flexible generation, including options for flexible gas generation
- Monitored progress of the planned outages at Drax Power Station and Damhead Creek
- Monitored the biomass supply chain and operating procedures at our various sites to ensure resilience against potential issues surrounding Covid-19

Stakeholders

- Oversaw the corporate response to Covid-19 in supporting our customers and communities (see case studies on pages 34 and 35
- Considered the impact upon employees and wider stakeholders of the proposed closure of the coal units operated at Drax Power Station
- Considered the political landscape and implications for future investments and execution of strategy, including the impact of Covid-19 on potential future funding and also the potential impact of Brexit
- Considered Group-wide reward and recognition structures, how they align with the culture and values and how prevailing reward mechanisms might best be used across the Group, with due regard for the Remuneration Policy
- Considered gender pay gap reporting and monitored initiatives undertaken to close the earnings gap
- Considered diversity and inclusion issues and initiatives being undertaken by the Diversity and Inclusion Steering Group established in 2019 (see page 60 for more information)
- Delivered actions identified following the 2019 workforce engagement survey results (see page 61 for more information)
- Engaged with the trade unions on pay and the implementation of changes to working practices

Finance and capital

- Considered the issuance of a new Euro Bond facility which successfully completed in October 2020
- Considered the impact of Covid-19 on our ability to maintain our dividend policy, with due regard to the financial and operational performance of the Group
- Reviewed capital allocation plans in support of investment opportunities for organic growth in the business and processes for approval

Risk

- Focused on one principal risk in detail at each committee meeting
- Received regular updates on Brexit, including action plans and key mitigations

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

Drax Group plc Board

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

Audit Committee

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

Page 98

Nomination Committee

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

Page 94

Remuneration Committee

Oversees the Group's approach to remuneration, ensures pay 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

Page 108

Executive Committee

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

Page 86

Executive Committee

Ethics and Business Conduct Committee

Monitors ethical behaviour and practices across the business

Capital Allocation Process Committee

Provides oversight, coordination and approval for capital deployment proposals

Financial Risk Management Committee

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

IT Board

Provides oversight and coordination of IT activities and strategy, information systems and security risk

Operating Review Committees (Pellet Production, Generation and Customers)

Reviews the operational and financial performance of the business units

Group HSE Committee

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

Focus on effective management and the role of the Board during Covid-19

The Covid-19 pandemic has been an unprecedented and rapidly evolving crisis requiring effective, agile and timely decision-making by the Board and management.

Deploying online video conferencing, the Board responded to the initial phase of the pandemic by holding a series of additional Board meetings throughout April, May and June. The purpose was to oversee management's response and to understand the impact on employees and customers. Members of the Executive Committee attended these meetings, together with other key members of senior management as necessary. Each meeting commenced with a report on the safety and wellbeing of employees. This included implementing office closures, arrangements for working from home where possible, the impact on the mental wellbeing of employees, and adapting working practices. In particular, the Company wanted to protect key workers at the power stations and processing plants, and to develop clear safety principles for those required to work on our sites. The Board also oversaw the operational response to continuing to deliver the Group's key objectives during the pandemic. You can read more about this on page 81.

The meetings also discussed management's assessment of the potential financial and operational impact of the pandemic on the Group's business, and expectations on the ability to execute the Group's key objectives. The Board received regular updates on the Group's liquidity position, trading figures and cash flow. Given the timing of the early phase of the pandemic, and its proximity to April's Annual General Meeting, the Board considered carefully (in conjunction with advisers) its capacity to pay the final dividend and the appropriateness of doing so. The Board took due regard for the Group's projected cash generation, in addition to external considerations including the views of the UK Government and shareholders, and the experience of all stakeholders in their relationship with Drax.

The Board also considered feedback from the workforce MyVoice forums, particularly in relation to the Group's response to Covid-19. The Board considered communication plans, as well as engagement with key stakeholders such as the Government, Ofgem and the National Grid. There were also updates on the rapid IT-led response to support home working, distribute equipment and change systems to ensure the stability and security of remote operations. The Board discussed and agreed a series of support measures for affected communities and stakeholders. You can read more about this on pages 34 and 35.

Role of the Board

The Board determines: the Group's purpose, strategy and business model for long-term value creation; appetite for risk and risk management policies; annual plan and budget, to ensure that the Group has the necessary resources to deliver the strategy; key performance indicators to measure performance against strategic objectives; stakeholder engagement, including shareholder engagement and engagement with the workforce; acquisitions, disposals, and other transactions outside delegated limits; material changes to accounting policies or practices; significant financial decisions; capital structure and dividend policy; the effectiveness of the Group's governance structure, including business conduct, ethics and whistleblowing; prosecution, defence or settlement of material litigation; Directors' Remuneration Policy; the terms of reference of Board committees; and the Board structure, composition and succession.

Terms of reference

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

Matters not specifically reserved to the Board and its Committees under their terms of reference, or for shareholders in General Meeting, are delegated to the Executive Committee or otherwise delegated in accordance with a schedule of delegated authorities approved by the Board. These were reviewed by the Board and updates approved in December 2020.

How the Board functions

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

During 2020, there was a focus on understanding the operational and financial impact arising from Covid-19. This included, for example, the ability of smaller customers within our Customers business unit to make payments and take alternative appropriate measures. These measures included the ability to defer payment deadlines, to forgive certain overdue payments, or to apply discounts to help support customers experiencing severe financial hardship. Brexit remained a regular and key agenda item during the year, with updates from management on the planning for 1 January 2021, consideration of the potential risks and appropriate mitigations and the post-transition phase. You can read more about this in Principal Risks and Uncertainties on pages 66 to 77.

The Board receives regular industry, regulatory and topical updates from internal specialists and from external experts and advisers. In June, for example, Francis Sullivan, Board Chair of the Sustainable Biomass Program, attended a call with the Board where biomass sustainability and key stakeholders were discussed. During the meeting, the Board also discussed the means by which Drax could engage with those supportive to, and those against the use and expansion of biomass as a renewable fuel source.

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

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

The Company's Articles of Association (the Articles) give the Directors power to authorise conflicts of interest when they are presented with such matters for their review. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. In 2020, 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 were reviewed by the Board in 2020 to make sure they reflect best practice and evolving regulation. For example, the revised Articles include provisions to enable the use of technology to support the conduct of general meetings, with shareholders attending remotely. A resolution seeking approval for the new Articles reflecting the changes (more details of which are set forth in the notice of meeting) will be proposed at the Annual General Meeting being held in April 2021. The current Articles are available on the Group's website at www.drax.com.

Culture

The Board routinely monitors and assesses the Group's culture, including a MyVoice annual workforce engagement survey. Health and safety, as a standing Board agenda item, is one of the first subjects under consideration at every meeting. The discussion includes absolute measures such as injury rates, as well as the prevailing safety culture and safety processes around the business. The CEO provides regular updates to the Board regarding workforce engagement and feedback from the meetings between the Chair, CEO and the chairs of the MyVoice forums. You can read more about engagement with the MyVoice forums on page 92.

The Group Ethics and Business Conduct Committee (EBCC), a sub-committee of the Executive Committee, meets quarterly and monitors and supports initiatives to enhance and assess ethical behaviour and business conduct across Drax. The EBCC supports the Group's commitment to doing the right thing in its business practices by making sure there are appropriate communications to raise awareness. This sub-committee also ensures the provision of training that informs behaviours in accordance with our values and ethical principles (as set out in the "Doing the right thing" handbook). In 2020, this handbook was replaced by the Drax Code of Conduct, which covers ethics and broader topics including health, safety and the environment. This was approved by the Board, published on the Drax website and intranet, and deployed across Drax in October 2020 as a mandatory read for the whole workforce. It also forms part of the Drax induction for new starters, including relevant non-permanent workers.

As part of the Drax commitment to influencing positive change in its operations, the Board approved a Supplier Code of Conduct at its meeting in October 2020. This forms part of Drax's processes to onboard new suppliers, who Drax expects to act in accordance with its code. Suppliers are also expected to work together with Drax to the benefit of the communities in which they operate.

The EBCC conducts an annual review and risk assessment of each compliance programme, covering anti-bribery and corruption (including conflicts of interest), fair competition, financial crime, privacy, Speak Up (whistleblowing), and supply chain human rights. The Business Ethics team reports regularly to the Audit Committee on investigations and key matters, and annually on EBCC activities for the year. Members of the EBCC include an Executive Director (the CFO, who is Chair of the EBCC) and two Executive Committee members (the Director of Corporate Affairs and the UK Portfolio Generation Director). This supports an understanding of business culture and attitudes, and informs Board and Executive Committee discussions. The subject of ethics and values is a standing agenda item for the Executive Committee, with the CFO responsible for raising such matters as Chair of the EBCC.

A new Speak Up (whistleblowing) policy was approved by the Board in February 2020 and published across the Group in March 2020. The Group Company Secretary is the Whistleblowing Officer. A compliance programme dedicated to Speak Up was introduced during the year and, for the first time, a Speak Up risk assessment and risk register were presented to the EBCC for review. The Business Ethics team supports oversight of the external, anonymous and confidential, Speak Up service available within Drax. This has been extended to third parties, such as suppliers and visitors to our sites, and is available in multiple languages and promoted in our Supplier Code of Conduct. The team also responds to any reports from within Drax, as well as those referred to the Company via the external service. Specific guidance was published in July 2020 for all employees and for managers, (since they may receive a Speak Up report). In addition, the topic of Speak Up and a commitment to non-retaliation against reporters was included in the new management excellence training module for managers. Speak Up is prominently featured in both the new Drax Code of Conduct and Supplier Code of Conduct, the latter encouraging Drax suppliers to have their own Speak Up service. Regular updates on Speak Up reports and cases are provided to the Executive Committee and the Board.

The Board receives regular updates on whistleblowing, and a quarterly report on business ethics is presented to the Audit Committee on "entity controls" which includes Speak Up (whistleblowing) matters. An annual report of EBCC activities is made to the Audit Committee, including Speak Up reports and investigations. Four whistleblowing related matters remained under investigation at the date of this report.

Corporate Governance Report continued

Focus on Board decision-making and stakeholder considerations

On 27 February 2020 Drax announced that it had proposed to end commercial coal generation at Drax Power Station effective in March 2021 – ahead of the UK's 2025 deadline – with formal closure of the coal units in September 2022. The Board concluded that this decision was vital to support the Company's long-term strategy to be carbon negative by 2030. Throughout the decision-making process, the Board considered and kept in mind the likely impact on various stakeholders.

From the latter half of 2019, management had undertaken detailed planning of scenarios on the future of coal-based generation. In particular, these plans considered a scenario where Capacity Market contracts were not secured in the Auction in early 2020. Throughout the assessment phases, the Board and management were kept informed on the evaluation, including the possible impact of alternative scenarios on the environment and various stakeholders. These included employees, trade unions, and the local community. This evaluation also considered what levels of financial and non-financial support would be required for those affected. Non-financial support, for example, includes on-site career transition services from independent experts, and retraining packages to enable development of new skills and alternative placements within other functions.

Discussions also evaluated the positive impact of ceasing coal-based generation early, in particular on the environment and reduced carbon emissions. The Board agreed that stopping the use of coal supported the Group's purpose – to enable a zero carbon lower cost energy future. The Board also felt it was the right long-term decision for the business, our communities and the environment. In addition, this is an important step on the Group's journey to become carbon negative by 2030. The long-term economics of coal generation remained challenging and in 2019 coal generation represented only 3% of the Group's electricity production.

The Board also discussed engagement with Government, local politicians and National Grid in the period following the Auction. In January 2020, Drax did not take a Capacity Market agreement for the period beyond September 2022 given the low clearing price. Management presented further analysis to the Board in February 2020, recommending at that stage to proceed with a closure of commercial coal generation, which the Board approved.

Following the decision and announcement, consultation on all key areas was undertaken with trade unions and employee representatives. Feedback from this process was considered, allowing the Board to assess the process undertaken to date and consider further measures to be implemented, for example resulting in changes and enhancements to the financial and retraining packages.

The Board recognises that the engagement scores for the Generation business were on average below the scores for the Group as a whole in 2020. This is a business area that has been through considerable change in 2020, therefore, management, colleagues and discussions forums, including the MyVoice forums, are working on actions plans to improve engagement scores in 2021.

Drax seeks to ensure that employees and relevant "associated persons", such as certain types of contractors, receive appropriate communications and training on key matters underpinning ethical behaviours. These include Anti-Bribery and Corruption (including Conflicts of Interest), Fair Competition, Financial Crime, Privacy, Supply Chain Human Rights and Speak Up (whistleblowing). Drax also regularly reviews its suite of policies to ensure continuous improvement. There's more information on our approach to the management of ethics and integrity in the Sustainable Business section page 61.

Diversity

We explain our work promoting diversity on pages 60 and 95. The table below shows the gender diversity split on the Board and in the wider workforce at 31 December 2020.

	Male		Female		Total	
Gender	No.	%	No.	%	No.	%
Board members	5	71.4	2	28.6	7	100
Senior managers(1)	31	67.4	15	32.6	46	100
All employees(2)	2,034	68.5	935	31.5	2,969	100
Total	2,070	68.5	952	31.5	3,022	100

(1) Direct reports of the Board (i.e. Executive Committee) and their direct reports
(2) Excluding Board members and senior managers

Board leadership of stakeholder engagement

We have a well-established programme of engaging with a wide range of stakeholders who are key to the successful delivery of our strategy. These include shareholders, government, regulators, environmental bodies and trade unions. We know that actions taken today will shape the longer-term performance of Drax and determine our impact on the wider world, including our contribution to action on climate change. Such engagement broadens our understanding of the issues we take into account, informs our decision-making and helps to protect the long-term interests of stakeholders.

The Board is responsible for engagement with stakeholders and ensures that appropriate Board time is given to discussing stakeholders and sufficient resources are available for the Group to effectively engage. The Corporate Affairs team maintains a detailed map of our key stakeholders and the concerns they have raised and the date of meetings with them. Members of executive management, including Executive Directors, provide regular updates to the Board, to ensure awareness and inform discussions. The Board takes these opportunities to assess and challenge management's approach relating to engagement. During the spring and early summer of 2020, the Board held regular calls with executive management. The Board heard reports on the engagement strategy with the UK Government, shareholders, customers, local community and employees with due regard for the Covid-19 pandemic. These discussions explored the appropriate approach to engagement, with guidance from external advisers (including remuneration advisers, Corporate Brokers, and sustainability experts) on various aspects of the Group's operations and decision-making. These informed the Board's approval of initiatives including enabling our employees to work safely in the right working environment, whether on-site at the plants or remotely from home. The Board also approved the provision of support to Care Homes and laptops to children.

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. During 2020, this extended to outlining key initiatives in ESG matters in response to expectations of NGOs as well as current and potential investors. In June 2020, the Board received a detailed update on stakeholder engagement including the critical issues being addressed by the Group and the proposed strategy for engagement with stakeholders.

Supporting the Board's duty to promote the success of the Company as set out in Section 172 of the Companies Act 2006, Board discussions, and supporting papers, for material decisions consider the likely impact on those stakeholders affected by the decision. You can find our Section 172 Statement on page 40. The article on page 90 provides an example of this in action in respect of the decision in 2020 to close the coal units. For more detailed information on our stakeholders and how we engage with them please refer to our "Stakeholder" section on pages 40 to 45.

Directors' development and induction

To assist the Board in undertaking its responsibilities, a programme of training and development is available to all Directors, with training needs assessed as part of the Board evaluation procedure. The Board programme includes regular presentations from management and informal meetings to build understanding of the business and sector, or in areas recognised as being technically complex. Such training is intended to support a deeper understanding as well as equipping the Non-Executive Directors with insight into how Drax's approach compares with the practices of its peers. During the year, external consultants FMCR led one-to-one training with each director on Corporate Treasury. Directors considered the day-to-day activities of the Drax treasury function, the governance associated with decision-making and reporting, and the evaluation of the management of key risks together with the associated mitigation.

Directors also had access to the advice and services of the Group Company Secretary throughout 2020. Directors may take independent advice at the Company's expense, when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in 2020.

All new Directors receive a comprehensive and tailored induction programme, including meetings with key managers, site visits, and briefings on key operational matters, Board procedures and governance matters.

Board induction

Operational review	Visits to key sites
Financial review	Meetings with shareholders (as appropriate)
Strategic overview	Meetings with external advisers (as appropriate)
Directors' duties and responsibilities	Review of previous minutes and meeting papers and meetings with external advisers
Additional specific training with internal specialists as appropriate	Meetings with other Board members, and finance, legal, regulatory, compliance and other managers
Governance structure	Other key documents including strategy and audit reports

Number of meetings held

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

Board roles

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

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

Time commitment

Directors' commitments outside of Drax are kept under review to make sure they have sufficient time to dedicate to the business and effectively perform their role. Under the terms of the Chair's letter of appointment, the Chair is expected to commit between 50 and 70 full days a year to this role. Under the Non-Executive Directors' letters of appointment, each is expected to commit 12 to 15 full days a year. That includes attendance at Board meetings, the AGM, one annual Board strategy off-site event and at least one site visit each year (although this was not possible in 2020 due to Covid-19).

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. None of the Executive Directors have taken on such a role. Non-Executive Directors may, with the prior approval of the Board, take on additional roles provided the individual can continue to devote sufficient time to meet the expectations of their role.

Non-Executive Directors are encouraged to undertake visits to Drax operations, and spend time with management and the workforce. This is designed to build and then maintain their knowledge of the developing business and to understand the operational challenges. It was not possible for the Non-Executive Directors to make site visits in 2020, due to Covid-19. However, the additional Board meetings from April to June allowed considerable time for listening to management and understanding operational challenges. These meetings also enabled the Board to assess the effectiveness of actions being taken and to scrutinise both the financial and non-financial impacts of the pandemic.

Board composition and independence

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

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

Focus on workforce engagement

The MyVoice Forums were established in 2019 to facilitate effective and direct engagement between the Board and the workforce. The Company has four divisional employee forums, comprising elected representatives from across the business. A member of the senior leadership team and an HR representative support these divisional forums and attend each meeting. The chairs of these forums then meet quarterly with the Chair and CEO.

During 2020, engagement with the MyVoice forum chairs has been invaluable in helping the Board gain ongoing feedback in a period of rapid and significant change to the way we live and work. The engagement has helped to support the business in managing the transition to remote working and ensuring the safety and wellbeing of our workforce.

The forums provided feedback from employees on the Company's response to the first phase of the pandemic. The rapid response and the Company's commitment and support was welcomed, and the fact that no colleagues had been furloughed was acknowledged. The forums particularly recognised and highlighted the challenge to the wellbeing of colleagues. In response, the Group provided mental health awareness training for managers, online workshops to help build resilience, an ongoing wellbeing campaign to help colleagues stay safe and well both physically and mentally during lockdown, and engagement activities to help keep employees connected.

In the second half of the year, forum discussions turned to recovery plans and future ways of working. The forums collated employee feedback that helped to inform our flexible working policies, launched in November, giving employees greater choice in how they want to work in the future. Following the Board's strategy week at the end of October, the Chair and CEO provided the forum chairs with a summary of the strategy discussions. They also provided updates on the Q3 performance and the latest situation regarding Covid-19.

The annual engagement survey was conducted in October and the chairs were given early visibility of the results for the Group and their business areas. The chairs then gathered feedback on areas highlighted for more action, to help understand what was driving the results. The Group HR Director then attended a meeting of the chairs to discuss feedback and decide what actions should be taken. At the final meeting of the year, the chairs discussed what worked well during 2020 and the future areas of focus for improvement. This was followed by a further two separate workshops with the chairs to discuss plans to evolve the forums in 2021.

Nicola Hodson, Chair of the Remuneration Committee, joined a quarterly meeting in June 2020 to introduce herself and present on the role of the Committee. She explained how engagement with shareholders helped to set the 2020 remuneration policy for Executive Directors and senior management. She also outlined the Committee's work in reviewing policies for the wider workforce, to make sure executive remuneration aligned with wider Company pay policy and Company culture. The meeting also included a question and answer session with the chairs. Following this meeting, Nicola recorded a video to introduce herself to the entire workforce, discussing pay and conditions around the Group, her role and background, and her passions such as diversity and inclusion. This was accompanied by a letter to the whole workforce setting out in more detail the role of the Committee and how pay aligns across the Group. Following positive feedback to Nicola's engagement, the Board committed to engage more in this manner and, in December 2020, John Baxter recorded a video for all employees, introducing himself, describing his long career in engineering and discussing one of our key priorities; health and safety.

The Chair and CEO provide updates to the Board following each meeting with the MyVoice chairs to make sure that all directors understand the views of employees. Nicola Hodson also provided feedback to the Board following her discussion on remuneration with the MyVoice forum chairs.

Board attendance 2020

The table below shows the number of meetings held and the directors' attendance during 2020.

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	8	8	100%
Philip Cox	1 January 2015	8	8	100%
Will Gardiner	16 November 2015	8	8	100%
Nicola Hodson	12 January 2018	8	8	100%
Andy Koss[2]	1 January 2016	2	2	100%
David Nussbaum	1 August 2017	8	8	100%
Andy Skelton	2 January 2019	8	8	100%
Vanessa Simms	19 June 2018	8	8	100%

Notes:
(1) The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.
(2) Andy Koss stepped down as a Director on 7 April 2020.

Summary of the Board's activities in 2020

Over four days in October 2020, the Board conducted a detailed review of strategy, using online video conferencing. Management delivered a series of presentations to the Board and Executive Committee and there were discussions on progress made during the year in delivering on strategic imperatives. The review also considered investment opportunities and objectives over a five- to ten-year horizon. This included investment in the current business and emerging technologies, emerging and projected trends, the developing environmental landscape and Drax's contribution to addressing climate change.

Health, safety and wellbeing
- Considered regular updates from business units, including on process and behavioural safety and culture, with a particular focus on health, safety and wellbeing in light of Covid-19
- Monitored the implementation of the new Group-wide incident management reporting system
- Used input from the MyVoice forums to implement plans to address wellbeing across the Group
- Reviewed the Group Wellbeing, Diversity and Inclusion, Dignity at Work and Flexible Working policies
- Reviewed and approved the Climate Policy and approved Drax becoming a TCFD Supporter

Governance
- Reviewed Articles of Association, to update in line with the Code and best practice
- Considered the Board composition and strengthened the Executive Committee with a new appointment
- Approved the Modern Slavery Act statement
- Completed a full review of the Company's compliance with the Code
- Considered and approved the updated Corporate Crime policy and the Fair Competition policy

Stakeholders
- Considered the Group's key stakeholders and approved a framework for ensuring due consideration in decision-making
- Engaged with the workforce through MyVoice Forums and considered employees' feedback
- Considered the outcomes of the Employee Voice Survey and agreed follow up actions
- Approved the Group Diversity Policy
- Approved the new Group Wellbeing Policy
- Received regular updates on Investor Relations programmes, including an Investor Relations audit report presented in the autumn

Operations
- Considered and approved the closure of commercial coal generation
- Considered and monitored the potential impact of Covid-19 on supply chains
- Considered the Group's flexible and renewable generation strategy and approved the sale of gas assets
- Approved the Group's trading strategy
- Monitored business performance against the business plan
- Considered the IT and data strategy of the Group

Finance and strategy
- Approved the 2021 Business Plan and the Strategic Plan to 2024
- Approved the proposed refinancing
- Reviewed the dividend policy
- Approved the final and interim dividends
- Approved the 2019 Annual report and accounts
- Approved the 2020 half-year report and accounts

Risk
- Considered the Group's risk appetite and approach to risk management
- Reviewed the Group's principal risks,
- Considered the finance and risk update
- Received regular updates from management on Brexit, including action plans and key mitigations

Nomination Committee report

How does the Nomination Committee support the Group's purpose?

Having the right mix of skills, experience and diversity on the Board and throughout the business is key to achieving our purpose

Philip Cox CBE, Chair

Committee members

Philip Cox (Chair)
John Baxter
Nicola Hodson
David Nussbaum
Vanessa Simms

Attending by invitation

CEO

Number of meetings held in 2020: Two

The Group Company Secretary is Secretary to the Committee.

Attendance in 2020

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	2	2	100%
Philip Cox(1)	22 April 2015	2	1	50%
Nicola Hodson	12 January 2018	2	2	100%
David Nussbaum	1 August 2017	2	2	100%
Vanessa Simms	19 June 2018	2	2	100%

(1) Did not attend the meeting in September 2020 at which his re-appointment as Chair was considered.

Terms of reference

The Committee's terms of reference are reviewed annually by the Committee and then by the Board, most recently in January 2021. The terms of reference are available on the Group's website at **www.drax.com/governance**

Role of the Committee

The Committee's principal responsibilities are to:

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

Nomination Committee activities since the last report

- Considered re-appointment of the Chair for a third term
- Considered the re-appointments of two Non-Executive Directors
- Reviewed the skills of the Board

Introduction

I'm pleased to present the Nomination Committee Report for the year ended 31 December 2020.

As Chair of the Nomination Committee, I make sure that there is a formal process for regularly reviewing the balance of skills, experience and diversity at Board and senior management levels. This process also ensures the people in those roles are capable of understanding, challenging and enabling the strategic imperatives of Drax, both in the near and medium term. The Nomination Committee continues to focus on the need for Drax to reflect a diversity of backgrounds and perspectives. The Board is committed to playing a role in shaping that activity and ensuring diversity and inclusion are a fundamental part in recruitment, retention, career progression and personal development. We recognise that such activity contributes to the culture and values of the Group as well as to its long-term success.

The Committee considers management's actions in attracting new talent and developing the careers of people, enabling them to realise their potential. A key aspect of this involves executive management supporting employees in balancing their work responsibilities, maintaining a quality of life outside of Drax, and embracing and embodying our values. During meetings held in 2020, we have regularly discussed the ways in which our leaders are encouraged to consider and communicate these aspects. We have also considered the effectiveness of such work, based upon feedback I have heard at the quarterly MyVoice Forum meetings, the results of our annual employee engagement survey, and the CEO's reports.

Succession planning and diversity

Each year the Committee reviews the Group's succession plan, identifying those employees with the potential to progress into more senior roles across a timeframe of one to five years. The review focuses on factors including technical skills, experience, behaviours and attitudes. This is to ensure the business has the right leaders in place to deliver our strategy collaboratively and transparently and in ways that support our purpose and culture.

Drax has undergone a series of changes in recent years, including the appointment of three new non-executive directors since 2018 and one new executive director. Over the same period six senior executives have joined the Group's Executive Committee. In April 2020, Andy Koss stood down as an executive director by reason of redundancy. Out of a total of seven board members at 31 December 2020, two are female. Two of the Executive Committee's eight members are female.

The Board and senior management recognise that Drax needs to do more, at all levels of the business, to support people from diverse backgrounds. In September 2020, the Diversity and Inclusion Policy was updated and, following approval by the Board, launched across the Group. The review included aspects of new and emerging best practice and regulatory developments, including in the area of senior management and Board diversity. The policy goes beyond gender, with a clear commitment to a supportive, diverse and inclusive working environment, where you can be yourself and your contribution matters. The policy now covers all protected characteristics as well as educational and professional background, all of which are important for social diversity activities.

During 2021 we intend to implement our revised Diversity and Inclusion plan that supports our commitment to an inclusive culture for all. This multi-faceted plan will include renewing our approach to data, educating and inspiring our colleagues on diversity and inclusion and ensuring we pay attention to attracting the broadest talent available to Drax. It is supported by a Group wide Code of Conduct, new Flexible Working Policies, and revised Family Friendly Policies. We have invested in additional resource to lead this plan and our new Diversity and Inclusion Manager joined in January to lead and drive the plan across the organisation.

Our recruitment processes support both our succession planning and our diversity and inclusion activities. We operate programmes that encourage a diverse workforce to pursue careers and qualifications that fit with the opportunities that Drax offers. These include apprenticeship schemes, training programmes, and experience days where young people can learn more about what we do and the roles available. All of these activities are an important part of our role in the industry. This engagement is two-way as we listen to people from diverse backgrounds to better understand what barriers exist and what support would be required to encourage them to join a business such as Drax. In October 2020, we announced a £180,000 five-year partnership with Selby College in Yorkshire that will enable the college to deliver community education programmes and support for retraining. This will ensure students are developing the skills needed in the innovative clean technologies that will help to drive a zero carbon economy. You can find out more about our programmes on page 56.

The Executive Committee participated in an externally-led workshop looking at how we need to change to enable diversity. As mentioned above, the reports of the CEO to the Board now include regular updates on the work being done to support diversity and inclusion. You can find out more about this on page 60.

Our succession planning is mindful of the evolution of the Group. We must be prepared to look outside the Company, as we believe that will contribute a fresh perspective to delivering the Group's objectives. As explained in other sections of this report, the safety and wellbeing of the workforce is a matter of priority that is discussed at all Board meetings. The Board recognises the importance of ensuring we have the right skills and capabilities to enable a proactive approach to health and safety. This is particularly true as we continue to grow and implement new methods of working to improve business performance. In 2019, the Board appointed John Baxter as a Non-Executive Director and he brings extensive experience of engineering, safety and workplace governance. During 2020, as part of regular Board meetings, members of the Committee were kept informed on the search and selection process for a new Group Health & Safety Director. This resulted in the appointment of Dr Vanessa Forbes, who has over 20 years' experience. This includes health, safety and environmental matters in corporate, regulatory and consulting roles across complex and hazardous multi-site operations. Following her induction and familiarisation with the Group, Vanessa attended a Board meeting in September where she presented her initial views and thoughts on opportunities for change.

Non-Executive Directors: terms of appointment

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

In 2020, the Board considered the re-appointments of both David Nussbaum, Senior Independent Director, and Nicola Hodson, Chair of the Remuneration Committee, each for a second term of three years. The Board considered their skills and contribution, together with the feedback from the most recent externally supported evaluations of the Board and our Committees. Following this, the Board approved extensions of their appointments for a further three years, respectively taking effect from 1 August 2020 and 12 January 2021.

Board and Committee evaluation

Recognising it needs to regularly monitor performance, the Board conducts an annual performance evaluation, fully inducts new Board members, and ensures ongoing Board development activities. Board Alchemy conducted an externally-led evaluation of the Board's performance in the autumn of 2019 and reported the findings to the Board in November 2019. The table on page 97 summarises the recommendations and how we responded to them in 2020. The Board considered possible responses to the recommendations at a meeting in September, with detailed discussion on the initiatives to address recommendations and areas for potential further improvement.

As the Chairs of the Audit Committee and Remuneration Committee were relatively new in post in 2019, the Board was the primary focus that year. However, it was agreed that a formal, externally-led, review of the Committees should be performed in 2020. Board Alchemy also led that review in the autumn, and the Board considered the results at a meeting in December. In conducting the Committee evaluations, Board Alchemy interviewed all members of the Audit and Remuneration Committees in autumn 2020. Ahead of this, each of the Directors completed a detailed questionnaire on how they viewed the role of the Committee and how it functions. As part of the evaluations, Board Alchemy also met with the Group Company Secretary and key internal stakeholders who attend and/or support the Committees. Board Alchemy has no other connection with the Group or individual Directors.

Spotlight on the Chair's re-appointment

Report of Senior Independent Director

In 2020, Philip Cox indicated his willingness to serve for a third, and final, term of three years. It is the Group's policy to rigorously review any proposal to extend a Non-Executive Director's aggregate period of office beyond six years. As such, and as Senior Independent Director, I led a review in the summer of 2020 into Philip's re-appointment as Chair.

I spoke individually with each of the Non-Executive and Executive Directors to seek their views on Philip's performance and key strengths. A variety of options were considered and discussed in the course of these reflections At the September Committee meeting, which Philip did not attend, the Non-Executive Directors discussed feedback from that engagement. Committee members considered a number of different aspects of Philip's leadership, the evolution of Drax, and the likely skills required looking forward. The factors under discussion included: the management of significant changes in Board composition over the last three years; feedback from the 2019 Board evaluation that concluded Philip showed good leadership, invested the necessary time, cultivated good dynamics and an open and transparent Board culture, and ensured there was appropriate Board focus on the long term; the views of the two executive directors; the opportunity to change the skills and diversity of Board membership; the relationship between the Chair and the CEO; and the effectiveness of the Board under Philip's leadership.

Following these discussions, the Committee unanimously recommended to the Board that Philip be re-appointed for a further, and final, term of three years when his second term expired at the end of 2020. Looking ahead, the Committee also proposed that the recruitment process for a successor as Chair should start early enough to allow for a thorough recruitment process. This would also facilitate an overlap period when the Chair-designate could join the Board with sufficient time to complete a meaningful onboarding process.

David Nussbaum
Senior Independent Non-Executive Director

The evaluation concluded that the Committees were well led by effective, inclusive chairs and the Committee members had the requisite skills and experience to provide valuable contributions and effective challenge. The review confirmed that effective planning routines now in place supported the Committees in ensuring sufficient time to consider matters in advance of decisions being required.

It was noted that "teach-in" sessions provided for the Audit Committee by Drax management and external specialists on key topics, such as treasury and hedging, helped to ensure members of the Committee were up to speed on technical areas. Further, the review noted there is good dialogue and constructive relationships between the Audit Committee Chair, CFO and the external audit partner. The Remuneration Committee was mindful of the impact of decisions and recommendations on a wide range of stakeholders, and there had been effective communication with the workforce by the Remuneration Committee Chair who engaged with colleagues to explain the Group's remuneration practices.

Skills and knowledge of the Board

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

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

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

Renewal and re-election

Any newly appointed Director is required to submit themselves for election at the first AGM following their appointment.

Drax has adopted the provisions of the Code, providing for all Directors to seek re-election annually. Accordingly, John Baxter, Philip Cox, Will Gardiner, Nicola Hodson, David Nussbaum, Andy Skelton and Vanessa Simms will all retire at the forthcoming AGM and being eligible, will offer themselves for re-election. The evaluation and review of the Board and its Committees, described above, concluded that the Directors offering themselves for re-election continue to demonstrate commitment, management and business expertise in their particular role and continue to perform effectively. Further information of the service contracts for the Executive Directors and letters of appointment for the Non-Executive Directors are set out in a table on page 129. 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, prior to that meeting, details of which are contained in the Notice of Meeting.

Our targets for 2020	What we did	
Supporting non-executive Board members by (i) improving the quality of Board papers, (ii) making presentations at Board meetings more effective, and (iii) regularising the programme of Board development (teach-ins) and bringing a greater external perspective to these sessions	The Board held several "teach-in" sessions in 2020, including a presentation on biomass acceptability and one-to-one training supported by external consultant FMCR on Treasury and FX. The Board also saw broker presentations on Drax activities (for example considerations around the full-year and half-year dividends, including the views of key stakeholders). The chair of Sustainable Biomass Program (SBP) attended a Board meeting to discuss governance, biomass sustainability, and the views of third parties including NGO's. To achieve greater focus on the quality and timeliness of Board papers, a template has been	adopted. Contributors have been given support to ensure greater clarity in identifying the key issues for consideration, both in the papers and live discussions. Most papers are now reviewed by the Executive Committee before submission to the Board, to make sure the content reflects the business issues/matters for debate and includes – where applicable to the subject matter – an assessment of key stakeholders. Members of the Executive Committee attended Board meetings and supported discussions on a range of key decisions. The evaluation of the closure of the Group's coal units, when wider management also attended and presented to the Board, is just one example.
Give greater focus to executive succession planning while continuing to periodically review Board composition and non-executive succession	A detailed review in the early part of 2020, focused on the structure of the Generation business. A further detailed review will be undertaken in early 2021 to consider both Board and executive succession – something planned originally for autumn 2020. However, due to several strategic projects being undertaken in the second half of 2020, this was deferred until there was greater clarity on the future shape of the business.	Work on Diversity across the wider organisation has been the subject of a detailed review by management. Through the CEO reports, the Board has been appraised of the work being undertaken by the executive, including an Executive Committee workshop supported by a Diversity and Inclusion facilitator.
Continuing to increase the focus on understanding stakeholder perspectives and giving consideration to what the Board's role should be in stakeholder engagement	The Board received regular updates on stakeholder views and perspectives. For example, as part of assessing the possible early closure of the Group's coal units, the Board received management's analysis of the key stakeholders within and outside the Group. The Board considered the impact of the decision on the local community and the steps being taken to support those employees who would be affected. This included, for example, employee assistance programmes for those affected by the changes being made to working practices and workforce numbers. Updates were also received on engagement with unions and employee representatives through the course of	the year. For more information on this work, please see page 90. The Board also regularly discussed the evolving views of stakeholders on sustainability (for example, see the first item in this table) and the views and wellbeing of employees in response to the Covid-19 pandemic. In June, the Board considered a report presented by the External Affairs Director and Group Director of Corporate Affairs. This explained engagement with stakeholders in the first half of the year and plans for the second half including, for example, with business partners, regional leaders and representatives in the north east of England in connection with Drax's BECCS programme.
Continue work on values and behaviour and consider how the Board should get assurance that the culture it is looking for is in place	Through a combination of the CEO's regular reports to the Board, as well as the MyVoice Forums (which have been attended by the CEO, Chair and in June the Chair of the Remuneration Committee), the Board has received feedback on key topics impacting the organisation, its culture, values and delivery against its purpose. The CEO relayed to the Board the positive response received from employees and the leadership team on how the Group's purpose, values and culture have been shared and enacted. This included sharing the autumn 2020 Employee Engagement survey results – which were above the benchmark – and agreeing actions with the Board. It also included sharing the work on bringing the values to life across the organisation.	The Board received and considered – with help from members of the Executive Committee – regular updates on safety and employee wellbeing. It also reviewed how the business has adjusted working practices in response to Covid-19. KPIs, process safety and wider safety initiatives are also reported to the Board at each meeting. A detailed programme reviewing and updating the Group's suite of policies is in progress, to underpin the Group's culture and values. In September, for example, the Board approved the revised Code of Conduct and, in October, a separate Supplier Code. The latter sets out expectations of the standards for Drax's suppliers.

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
24 February 2021

Audit Committee report

What are the key areas of focus for the Audit Committee?

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

Vanessa Simms, Chair

Committee members

Vanessa Simms (Chair)
David Nussbaum
John Baxter
Nicola Hodson

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 Grainger plc. David Nussbaum is a chartered accountant who has served in a number of senior financial roles. Details of the skills and experience of the Committee members can be found on pages 84 to 85.

Attending by invitation

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

The Group Company Secretary acts as Secretary to the Committee.

Number of meetings held in 2020: Four.

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

Attendance in 2020

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	4	4	100%
Nicola Hodson	12 January 2018	4	4	100%
David Nussbaum	1 August 2017	4	4	100%
Vanessa Simms	19 June 2018	4	4	100%

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.**

Letter from the Chair of the Committee

2020 has seen significant challenges for our people, customers, partners, communities and businesses in general. Circumstances such as those experienced due to Covid-19 are impactful across all aspects of our society and in such times we rely on a combination of resolve, initiative and strong engagement, underpinned by the values by which we live and work and the standards we set for the way in which we conduct ourselves.

From the earliest phase of Covid-19, the Audit Committee contributed to the work of the wider Board and management in assessing how Drax was placed to respond to the pandemic. As part of that we also sought to understand business effectiveness at sustaining day-to-day operations and effective internal controls, as our people went through material changes in adapting to both new working patterns and evolving external issues. Regular Board calls took place from April 2020 which considered the approach being taken to enable our employees to adapt to home working and the provision of equipment and secure online access by which to perform their roles. This included assessing the resilience of our systems in enabling access, recording and storage of business-critical information as part of maintaining sound internal controls.

As well as assessing business resilience, the Committee challenged management's assessment of the potential financial impact to the Group. This included understanding the financial performance of each business unit, and the factors most likely to affect the expected results, judged against both management's expectations and those of external stakeholders. During the initial phase of the pandemic, management provided thorough analysis to the Board and Audit Committee of the expected demands on the Group's distributable reserves and cash resources ahead of the trading update published in April. As part of this review, the Non-Executive Directors challenged management in their evaluation of whether or not the Group would need to seek support under measures introduced by the UK Government, including furloughing. This supported an assessment that the Group was in a strong position to maintain its regular operations, meet the projected demands on its financial resources, and to continue to employ and pay all of our people and meet our obligations to third parties. We also assessed the appropriateness of paying the final dividend in May and received feedback on the views of shareholders, UK Government and advisers, which resulted in a decision to maintain the original recommendation to shareholders of paying the 2019 final dividend of 9.5p per share. A similar approach was taken in reaching a conclusion in respect of the 2020 interim dividend, and the overall appropriateness of maintaining the Group's capital distribution policy.

A trading update was issued at the AGM, held on 22 April 2020, outlining the anticipated impact of Covid-19 on the Group's financial prospects for 2020. This was reiterated at the time of issuing our Half Year results to 30 June 2020 (Half Year) and has remained consistent in the reporting of our financial results for the full year.

Elsewhere in this report, see page 40, we explain actions taken to support stakeholders and communities. The measures adopted responded to engagement by our External Affairs team and took into account the views and ideas expressed by our employees. We also considered initiatives with our customers that could relieve the pressure of meeting payments as part of proposals submitted by our Customers business' management team. These initiatives required appropriate analysis of the capacity of the Group in setting and fulfilling commitments, which was supported by initial challenge and consideration by the Audit Committee and Board.

Such engagement and understanding of the business performance, and the capacity of the Group to carry through its strategic imperatives whilst also responding effectively to emerging challenges will continue to be required through 2021. This recognises that the pandemic will continue to impact society as a whole in the year ahead. In tandem with the specific measures I have outlined, the Audit Committee has continued to assess actions associated with effective management, reporting and internal controls in fulfilling the Group's priorities through 2020 and into 2021 as well as safeguarding good governance.

On page 25 we explain the refinancing of elements of the Group's debt during 2020. The Audit Committee supported the Board in considering the proposed structure of the new facilities, the terms and capacity of the Group to service such arrangements through the longer term. It is encouraging to note that a growing proportion of the facilities extend beyond 2027, and that as part of the terms Drax continues to incorporate provisions linked to the delivery of our ESG commitments. Such provisions were considered by the Audit Committee. in supporting the adoption of the new facilities.

Whilst Covid-19 has been, and we expect will continue to be, an important area of the work of management and the Committee, the business, financial performance and delivery of our strategy remained key areas of focus for us during 2020.

Drax's commitment to reducing carbon emissions is a fundamental part of our purpose. In February 2020, the Board announced the decision to end commercial coal generation in March 2021, with formal closure of the coal units in September 2022. In the period leading up to the decision, the Audit Committee discussed in detail the analysis of the proposed closure on the Group's financial model, and the timing of any decision in respect of the Group's reporting obligations, with due regard for the importance of the Capacity Market Auction outcome which was announced on 31 January 2020, following the Group's financial year end in December 2019. In conjunction with the decision to proceed with the closure, the Committee considered and challenged the initial assessment of the financial impact and reviewed the form of disclosure released to markets and included in the annual report for 2019 as a post balance sheet event. In assessing the financial impact, particular attention was given to the anticipated closure costs and the useful lives and potential impairment of relevant assets at Drax Power Station which were disclosed in the Half Year results.

During 2020, the Audit Committee remained attentive to the schedule of matters for which it has delegated responsibility, in addition to other issues which arose during the course of the year. The effectiveness of our internal controls is one such aspect of the Committee's delegated remit and during 2020 we continued to receive regular reports on areas which were evaluated by our Internal Audit team. This included assessment of the transition to a single payroll function across the UK Group, reviews of cyber security controls and IT controls, and a review of the findings in respect of the Group's biomass sustainability, required in respect of the Contract for Difference and Renewables Obligation schemes. A number of these reports were supported by external specialists, bringing particular knowledge and an external perspective to the reviews and findings submitted to the Committee.

As with all such reports, our Internal Audit team also track actions taken in addressing recommendations and the outcome of those actions are also considered in subsequent meetings by the Committee, which forms an important part of both continuous improvement and addressing potential weaknesses. During 2020, in conjunction with the retirement of the Head of Group Risk and Internal Audit, the Committee determined to separate out these two functions. The change provided the opportunity to review how the activities were managed, and to bring in additional and broader expertise and specialist capabilities to support the Group. Following a review, it was agreed to appoint KPMG as internal auditor. KPMG have in previous years supported discreet elements of our internal audit work and they commenced their new role following the Half Year.

The appointment of KPMG to lead internal audit ensures that internal controls reflect not only the evolution of the Group but also bring to bear the advancement in standards and industry practices in which leading external consultants are a key contributor. A Head of Risk is in position, who shadowed the in-depth assessment of principal risks undertaken at the Half Year. This included assessing the impact of Covid-19, which we recognised merited proportionate disclosure in the Half Year results in keeping with the guidelines issued by the FRC. The findings from the detailed review undertaken through the second half of the year in support of the principal risk disclosures can be found on pages 66 to 67.

In addition to the change introduced in the outsourcing of the internal audit function, the Committee supported management in evaluating changes to oversight of health, safety and environmental. On page 95 we explain the appointment of Vanessa Forbes as new Group Health, Safety and Environment Director. The Committee also supported the appointment of external HSE specialists to augment the Group's internal capabilities. This resulted in the appointment in November 2020 of DNV GL Limited, a company forming part of a global business with extensive experience in HSE matters.

Overall, the Committee has been pleased with the progress made through the course of 2020 and the responsiveness to requested actions and initiatives arising from the internal audits, despite the challenge of working remotely.

Audit Committee report continued

Such work is an important part of assurance but also of building strength across the range of financial and non-financial operations which underpin the Group. It also helps to reinforce the values and culture which inform how as individuals, teams and a Group we perform our work.

In October 2020, the Chair of the Board received a letter from the FRC regarding our 2019 annual report, in connection with a thematic review of climate disclosures. I worked with the Chair of the Board, management, and also Deloitte as our external auditors in considering the matters raised, and the responses and areas in which we considered improvements could be made. As with all stakeholders, the feedback we have received from the FRC helps to inform how we act, including how we provide information to wider stakeholders that enables them to understand our business and performance.

In the rest of this report we outline the other activities of the Committee and the teams which support its areas of responsibility. Continued focus on such matters is important if we are to maintain the required standards expected of us and support the growth and delivery of business opportunities for the Group as we implement our strategy for the longer term.

Role of the Committee

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

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

The Chair of the Committee reports on the Committee's activities and considerations at each Board meeting following the Committee's meeting. The minutes of each Committee meeting are circulated to all members of the Board.

In undertaking its duties, each member of the Committee has access to the services of the Chief Financial Officer and the Group Company Secretary and their resources, as well as access to external professional advice. In addition, the Chair holds meetings with the Chief Financial Officer out of cycle from the formal meetings and also attends planning meetings with those preparing for forthcoming meetings of the Committee in order to discuss relevant papers and key matters.

February	April	July	December
Item under review			
• The 2019 year-end review of accounting issues and judgements • Consideration of the 2019 annual report, financial statements and preliminary results announcement and post-balance sheet disclosure in respect of the coal closure • The internal control framework update on effectiveness of internal controls and update on risk management • Final report from Deloitte on their 2019 audit findings • Internal audit reviews summary and audit planning • The Audit Committee's effectiveness – feedback arising from 2019 internal evaluation	• Management update on accounting issues and judgements including expectations on the likely impact of Covid-19 and the potential impairment of coal assets • The external auditor's management letter for the 2019 audit • Update on the internal control environment, particularly in light of changes to working practices due to Covid-19 • Review of the whistleblowing policy, including incidents reported and investigation outcomes • IT internal controls review including Cyber Security • Progress of the internal audit plan, outstanding actions and recent reports • The effectiveness of the 2019 external audit process • Review of internal audit function and appointment of KPMG as internal auditor • Senior Accounting Officer reporting to HMRC • Assurance on the ability of the Group to pay the 2019 final dividend.	• The 2020 interim review of accounting issues and judgements, including the coal closure impairment review and bad debt provisioning • Review of Group's approach to IFRS 9 (biomass trading) • Report from Deloitte on their 2020 interim review findings • Consideration of the 2020 half-year financial report and results announcement • Half year risk review, including key risks and mitigations arising from Covid-19 • Group Tax Strategy • The Audit Committee's terms of reference • The Auditor Independence Policy • Assurance on the ability of the Group to pay the 2020 interim dividend.	• Management update on accounting issues and judgements, and focus areas affecting the 2020 financial statements • Planning report from Deloitte on the 2020 audit and proposed audit fees • Review and approval of the external auditor's 2020 terms of engagement • Update on the internal control environment • Review of the risk management framework • Consideration of the whistleblowing report and details of the recent incidents • Update on progress with the Group Financial Control Framework project • Internal audit plan for 2021, assurance mapping, recent reports and outstanding actions • Discussion on audit partner rotation and determination on the new appointment in place prior to the 2020 year end audit • Review the Group's response to the FRC's enquiries in respect of the 2019 Annual report

The Committee allows time at each meeting to speak in the absence of management with each of the external auditor and the internal auditor. The Committee's understanding with both the external and internal auditor is that, if they should at any time become aware of any matters 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 2020.

Committee Activities in 2020

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

The Committee undertakes its duties reflecting an annual work plan, which is agreed each November for the following calendar year. In addition, where appropriate to activities in the Group or to reflect changes in applicable regulations, additional 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 2020 at its routinely scheduled meetings are set out in the table above.

Explanations of the critical accounting judgements, estimates and assumptions are set out in detail throughout the notes to the consolidated financial statements, with a summary on page 152. The Committee reviewed these aspects of the financial statements, paying particular attention to those issues that involved the most subjective and complex judgements, namely impairment of fixed assets, valuation of derivative financial instruments, valuation of bad debt provisions and accuracy of unbilled revenue, which are discussed on page 102.

In October 2020, the Group received a letter from the FRC's Corporate Reporting Review team, requesting information about certain matters arising from their review of the Group's 2019 Annual report and accounts as part of its thematic review of climate disclosures. As a result of the correspondence, the Group has sought to enhance clarity in certain disclosures, particularly in relation to impairment, in the 2020 Annual report and accounts. The Committee reviewed and approved the Group's responses to the FRC's enquiries at its meeting in December 2020.

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

Audit Committee report continued

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

The Committee received updates on the Group's internal control environment and reviewed internal audit reports at each of the four meetings held during 2020. Particular focus was given to how the business was strengthening the IT and Security control frameworks in response to Covid-19, which saw the majority of employees transition to working remotely over a short timeframe. This included acquiring, configuring and deploying laptops and associated hardware, facilities for meetings, provision for employees to operate 'call centre capability' in support of the Customers business, changes to security controls in response to wider working from home, and promoting awareness amongst employees of the heightened threats from fake websites, phishing attacks and fraud.

In addition, the Committee received updates on the financial risks and financial controls covering each of the Group's business units. The various updates, reviews and reports allowed both control and audit issues to be discussed with management. Risk mitigations and progress with previously agreed actions were also monitored and progress discussed. At its December meeting, the Committee also received an update on a project to review, document and implement a single Group-wide financial control framework, bringing together good practice from across the Group's businesses to form a single, consistent policy and minimum set of standards, applicable across the entire Group.

No material issues have arisen with the operation of controls in individual business units during 2020.

The Committee reviewed the categories used to report to shareholders and other stakeholders the Principal Risks and Uncertainties explained in the report (see pages 66 to 77). The review included discussion of retaining a disclosure associated with ongoing uncertainty from Brexit and Covid-19. The explanation of the principal risks also reflects the review by the Committee and separate evaluations by the Executive Committee, supported by a presentation by the Head of Group Risk.

The Committee also reviews information arising from Whistleblowing reports as appropriate to the circumstances and matters under review. The Committee considers the scope of investigation and the appropriateness of the steps being taken. The Board is also updated on these reviews. An explanation of the Group's Whistleblowing policy can be found on page 63.

Reviewing key accounting estimates and judgements

The significant issues in relation to the financial statements were as follows:

Matter	Issue and key judgements	Factors considered and conclusions reached
Valuation of derivative financial instruments	The Group makes extensive use of derivative financial instruments to manage key risks facing the business. The balance sheet includes significant assets and liabilities arising from derivatives which are stated at their fair value. In particular the fair values of forward foreign currency purchase contracts reduced substantially in the financial period following the strengthening of sterling against the US dollar. The fair values for derivative financial instruments are determined using forward price curves and, where an instrument incorporates an element of optionality, an option pricing model. The inputs to these calculations include assumptions regarding future transactions and market movements, as well as credit risk, and are therefore subjective. The nature of the calculations is inherently complex and given the size of the portfolio small variations in assumptions can have a material effect upon the overall fair value.	The Committee reviewed the Group's derivative position in February, July and December 2020, having regard in particular to the judgemental areas described in note 7.2 to the financial statements. The Committee considered the position as at 31 December 2020 at its meetings on 15 and 22 February 2021. At each meeting, management provided updates on movements in market prices that underpin changes in the fair value of the derivative portfolio and highlighted the treatment applied to any new types of derivative instrument for the Committee's consideration. The Committee has concluded that the fair value calculations had been performed in a reasonable and consistent manner, that the disclosure in the financial statements was appropriate and that the key controls underlying the calculations were fit for purpose.

Matter	Issue and key judgements	Factors considered and conclusions reached
Impairment of fixed assets	The Group reviews its fixed assets (or, where appropriate, groups of assets in CGUs) for potential impairment. Impairment reviews are conducted on an ongoing basis and are triggered by either the existence of potential indicators of impairment or, in the case of goodwill and other intangible assets with indefinite useful lives, conducted at least annually. The Customers and Pellet Production businesses generate independent cash flows to be equivalent to the operating entities within those businesses resulting in three CGU's for Haven Power, Opus Energy and Drax Biomass. The Generation business considers its assets that generate independent cash flows to be the eight individual sites that share common infrastructure and control functions. The Group's four OCGT development assets were treated as a single CGU for impairment purposes. If an indication of potential impairment exists, goodwill is allocated to the CGU, or the CGU contains an intangible asset with an indefinite useful life. the recoverable amount of the asset or CGU is assessed 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. Assumptions that underpin the assessment of value in use for each CGU are based on the most recent approved business plan, and include all of the necessary costs expected to be incurred to generate the cash inflows from the CGUs assets in their current state and condition. Impairment reviews rely on assumptions and management key judgements regarding future market prices, cashflow forecasts, discount rates and the use of appropriate sensitivities.	At its meeting in July 2020, the Committee reviewed analysis prepared by management that determined Drax Power Station should be treated as two CGUs following the announcement to close commercial coal generation in March 2021. At the same time, the Committee reviewed the forecasts and analysis supporting the conclusion that the recoverable amount of the coal CGU was zero, and the associated fixed assets should be written off in full. The Committee challenged management's analysis and in particular considered the difficulties associated with ensuring completeness of the impairment charge, noting the history of the site as a single combined generator. Also in July 2020, the Committee reviewed a paper from management that updated the overall 2019 impairment analysis for the half year and concluded that, despite an impact from Covid-19 on headroom for the Customers CGUs, no impairment was required. In December, the Committee reviewed management's proposed approach to conducting impairment reviews for the 2020 year end. The results of that analysis were reviewed at the Committee's meetings in February 2021. The Committee paid particular attention to the reviews in respect of: • The Opus Energy CGU, considering the significant impact of Covid-19 on the CGU in the period and challenging management's scenario analysis taking into account plans for future operations • The OCGT projects, reflecting the status of the development projects and risk associated with future plans and execution. Having considered management's reports, and challenged the approach and key assumptions made, the Committee concluded that the approach to impairment reviews was appropriate and no further impairment charges were necessary over and above those booked in respect of specific coal asset obsolescence. Finally, the Committee reviewed the impairment disclosures in the annual report and concluded that the key judgements and sensitivities had been appropriately disclosed, and the matters considered as part of the response to the FRC's letter received during the period had been appropriately addressed.

Matter	Issue and key judgements	Factors considered and conclusions reached
Accuracy of unbilled Customers revenue and bad debt provisions	Revenue from electricity and gas supplied to customers between the date of the last meter reading and the financial year end is based on estimates in relation to the volume of energy consumed and the valuation of that consumption. The Covid-19 pandemic has increased the Group's expectation of payment delays and business failure, particularly in the SME segment. This is reflected in an increased income statement charge in respect of expected credit losses and an increase in related provisions held on the balance sheet at 31 December 2020.	The Committee reviewed with management the process for and assumptions applied in determining the calculation of unbilled receivables, noting that historically, financial settlements had been closely in line with the amounts accrued in the consolidated financial statements. The Committee also reviewed the approach for calculating the expected credit losses associated with Customers sales, as described in more detail in note 3.6 to the financial statements. Particular focus was given to the development of the probability model (described in note 3.6) and the ability of the model to reflect updated assumptions as the Group's experience of cash collections and settlements changed following the advent of the Covid-19 pandemic. The Committee considered and challenged management's representations around the need for additional incremental provision over and above that indicated by the model, to reflect the current systemic uncertainty in the economic environment. The Committee reviewed with management the key assumptions applied in determining the calculation of unbilled receivables noting the reliance of third party data for estimates and actual usage volumes from meter readings and the external auditors testing assurance that confirmed the models work appropriately. The Committee concluded that the calculation of expected credit losses going forward using the probability methodology was appropriate and resulted in a final provision that was supportable and appropriate prudent in the current economic circumstances. The Committee was also satisfied that disclosure in the financial statements detailing the approach had been made appropriately.

Areas of particular focus – insights on the Committee's work

Throughout the year, the Committee has provided oversight to management's execution of key strategic projects, considering the key judgements made and the impact of such projects on the financial statements.

At its meeting held in February 2020, the Committee received a report from management covering the Board's potential decision to close coal generation at Drax Power Station. In particular, the Committee challenged management on the key judgement related to the timing of changes in the assessment of cash-generating units at Drax Power Station, which ultimately led to the impairment of associated assets being recognised. On 31 January 2021, the Group concluded the sale of its portfolio of CCGT assets to VPI Generation Limited. At its meeting in December 2020, the Committee satisfied itself that the proposed presentation of the transaction in the financial statements was appropriate. The actual presentation was subject to a final review and was approved as part of the February 2021 meetings. As part of this approval, the Committee noted that the key judgement (the timing of the assessment of the CCGT portfolio as a discontinued operation and held for sale), and the main source of estimation uncertainty (being the fair valuation of the £29 million contingent consideration) were not material, but concluded that the approach adopted on both items was appropriate.

During the year, the Group issued new euro-denominated senior secured notes and entered new Infrastructure term loan facilities. The proceeds from these new facilities were drawn in November 2020 and used, along with cash reserves, to redeem the existing sterling 2022 bond and ESG loan facility. The Committee reviewed the approach taken to accounting for the new facilities and the redemption of the existing facilities by management. Particular focus was given to the treatment of refinancing costs as exceptional items in the income statement. In addition, reflecting the increased proportion of the Group's debt denominated in foreign currencies, the Committee reviewed and approved a proposal from management to include an additional presentation of net debt in the 2020 Annual Report, that incorporates the effect of derivative financial instruments used to fix the sterling value of debt repayments at maturity. As part of its review, the Committee noted that the proposed new measure would likely be useful to users of the accounts by removing FX volatility from the calculation, better reflecting the economics of the Group's contractual position.

Reviewing the 2020 Annual Report & Accounts

At its meeting held in December 2020, the Committee received reports from management on its planning for the various elements of the 2020 annual report, including a timetable for preparation of drafts and the contributions being made by members of the wider management and executive teams in drafting, peer review and commenting on the sections. That meeting also discussed how such review would support ensuring the annual report was fair, balanced and understandable.

Between the year-end date and the date of the approval of the Annual report and accounts, the Committee met on 15 February 2021 to understand progress with the audit and discuss a paper covering key accounting estimates and judgements, as well as reviewing the key year-end work completed around principal risks. The meeting was attended by management and Deloitte. The Committee met again on 22 February 2021 principally to review the draft 2020 Annual report and accounts and the external auditor's findings. The Committee reviewed papers prepared by management on key areas of disclosure and explanation within the accounts, and also a report from Deloitte LLP ("Deloitte") setting out their audit findings.

Also reviewed were internal controls, forecasts and relevant assumptions made in preparing the Viability Statement and considering the appropriateness of adopting the going concern basis in preparing the financial statements. Having challenged the assumptions around availability of finance and covenant compliance made in the process and considered the appropriateness of the three-year period of assessment, the Committee concluded that the Viability Statement disclosed on page 64 was robust and that the Statement was fair and balanced.

The Committee considered and reviewed management's disclosure on exceptional items and the adjustments which were taken through the middle column on the presentation of the three-column income statement, (which can be found on page 154 referring where necessary to the agreed accounting policy).

Fair, balanced and understandable

As a result of its review of the Annual report and accounts, underpinned by its discussions with operating and finance management regarding the strategic report, and with the Group finance team regarding the financial statements, the Committee advised the Board that, in the Committee's view, the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and Group's position and performance, business model and strategy.

Review of Committee effectiveness

In line with the FRC's Guidance on Committees, the Committee periodically reviews its own effectiveness. During the autumn of 2020, an externally facilitated review of the performance of the Committee was undertaken. The outcome of the review found that the Audit Committee works well, with an effective Chair and committee members all providing valuable contributions and effective challenge. The review also found effective planning routines are in place, ensuring there is sufficient time to consider matters in advance of decisions being required, and the challenges of surprises or disruption can be mitigated. It was noted that 'teach-in' sessions provided by Drax management and external specialists on key topics, such as treasury and hedging, helped to ensure members of the Committee were up to speed on technical areas. Further, the review noted there is good dialogue and constructive relationships between the Audit Committee Chair, CFO and the external audit partner.

External Audit

Effectiveness of external audit

The Committee reviewed the effectiveness of the external auditor in April 2020 and does so annually. Deloitte LLP (Deloitte), who have performed the role of external auditor continuously since the Company's listing in 2005, were reappointed in 2017 following a competitive tender process. Anthony Matthews acts as Audit Partner and has significant listed company auditing experience working within the energy and resource sector and had previously led the Group's Customer business unit audit.

The Committee's review primarily considered the independence and objectivity of Deloitte, their professional competence, past performance and the robustness of the audit process. The full assessment in 2020 by the Committee considered feedback from members of the Finance and wider management team. Views were sought on such matters as the quality of work and engagement in the course of planning and undertaking their audits and reviews at both Group and business unit level. The Committee also assessed the oversight of the financial reporting process, in particular the Committee's own discussions with the auditors of the audit work performed on areas of higher audit risk and the basis for the auditor's conclusions on those areas, as well as the depth of the auditor's understanding of the Company's business.

As also reported in the 2019 Annual report and accounts, in January 2020, the FRC's Audit Quality Review (AQR) team submitted its final report and findings to the Group regarding Deloitte's audit of the Group's 2018 financial statements.

At its February 2020 meeting the Committee considered in detail the findings of the FRC's review. In advance of this meeting the Chair and Audit Partner discussed the findings and the Chair met with the Acting Director of the FRC responsible for the AQR report.

The Committee noted three areas recommended for improvement in relation to the work performed on testing the rebasing of certain financial instruments, the documentation of the acceptable range applying to the valuation of power contracts and the estimation of unbilled revenue in one of the business units. A fourth area related to the work completed on the purchase price valuation, which was appropriately disclosed as provisional in 2018 and finalised in the 2019 financial statements. At the meeting, the Audit Partner explained how Deloitte had responded to the AQR's findings and the measures taken to address relevant matters. The Committee noted Deloitte's confirmation of improvements to the work completed in the 2019 audit in these areas. The Committee also requested Deloitte ensure the responses to the FRC's findings are evidenced in all future audits when relevant. The Committee noted that no adjustments to the financial statements were required as a result of this review.

Having considered the results of the review, the actions taken, and improvements made by Deloitte to address the areas identified, the Committee concluded that there were no matters which cast doubt on the fundamental quality of the audit.

Based on its overall review of effectiveness of the external audit and auditor discussions, feedback from management, interactions and satisfactory consideration and response to the FRC's AQR, the Committee concluded it was satisfied that the external auditor and audit was effective and agreed that their work demonstrated an ongoing commitment to audit quality. The Committee was satisfied the audit process was robust and Deloitte had shown strong levels of technical knowledge and provided appropriate professional scepticism.

Independence of external audit

The Group has an Auditor Independence Policy ("AIP") which defines procedures and guidance under which the Company's relationship with its external auditor will be governed, and forms part of the means by which the Committee is able to satisfy itself that there are no factors which may, or may be seen to, impinge upon the independence, objectivity and effectiveness of the audit process. The AIP was reviewed by the Committee in July 2020. Within its most recent review the Committee considered areas of development in practice and guidance in the factors which the Committee should consider in evaluating the key tenets of independence, objectivity and effectiveness. The main features of the AIP are:

- review the quality and cost effectiveness of the audit and the 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 work, under which the general principle will be that no non-audit services are undertaken by the incumbent audit firm, unless the work to be allocated requires a certificate or other assurance of the Company's appointed auditor, the services provided relate to interim review and the reporting accountant activity or exceptional circumstances warrant it, and only then where the Committee is satisfied the engagement of the audit firm is justified on merits which are clearly articulated by management and agreed in advance by the Committee.

Anthony Matthews will rotate off the audit in 2021, at the end of a five-year period of involvement. During 2020, the Committee reviewed the CVs of potential replacement partners from Deloitte and approved the appointment of Makhan Chahal from 2021. The decision was based upon the depth of Makhan's sector experience, relevant FTSE 100 and 250 signing partner experience and experience with complex trading and hedging positions.

The balance between the fees paid to the external auditor for audit and non-audit work is monitored by the Committee.

The AIP is available on the Company's website: **www.drax.com**.

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

Details of the amounts paid to the external auditor during the year for audit and other services are set out below and in note 2.3 to the consolidated financial statements on page 164.

Schedule of fees paid to Deloitte LLP	Year ended 31 December 2020 £000's	Year ended 31 December 2019 £000's
Audit fees:		
Statutory audit of Drax Group	**1,025.0**	863.9
Statutory audit of the Company's subsidiaries	**38.0**	36.0
Total audit fees:	**1,063.0**	**899.9**
Interim review	**98.0**	96.2
Other assurance services	**2.0**	2.0
Corporate refinancing fees	**110.0**	100.0
Reporting accountant fees	**116.0**	–
GOO & FITS compliance audit	**–**	70.0
BEIS assurance report	**–**	10.0
Total non-audit fees:	**326.0**	**278.2**
Total auditor's remuneration	**1,389.0**	**1,178.1**

Audit fees payable for the audit of the Group's consolidated financial statements in 2020 includes £88,000 in relation to the 2019 audit.

Certain non-audit services were performed by Deloitte during the year. The external auditors should not provide non-audit services where it might impair their independence or objectivity to do so. To ensure this principle is followed, the engagement for the provision of any non-audit services requires prior approval from the Committee Chair or Committee. Agreement to allow the audit firm to perform additional services is taken after considering that the non-audit services policy has been fully applied and that any engagements were in the best interests of the Group and its key stakeholders.

During the year there was an increase in the level of non-audit services provided by Deloitte which in total amounted to £326,000, of which £98,000 covered the Group's Interim review. The Committee was satisfied that the overall levels of audit and non-audit fees were not of a material level relative to the income of Deloitte as a whole.

The Committee were also satisfied that the level of non-audit fees was below the 70% cap based on the average audit fee for the preceding three years.

Subsequent to the balance sheet date, Deloitte are providing ongoing support in a limited reporting accountant role in respect of the shareholder circular for the proposed acquisition of Pinnacle Renewable Energy Inc. This work was reviewed and approved by the Audit Committee in accordance with the policies outlined above, with due consideration given to independence and in the context of the fee cap for non-audit services.

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 recommended to the Board that a resolution to reappoint Deloitte as the Company's external auditor should be put to shareholders at the AGM in April 2021 following discussions at its meeting held on 22 February 2021.

Internal Audit

The Group historically operated a co-sourced model for its internal audit function. Under this model, the internal team conducted core financial and operational controls reviews. Reviews of specialist technical areas, including controls over regulatory compliance, were outsourced to firms with appropriate experience and qualifications, primarily KPMG, following consultation with the Committee.

During 2020 the Committee assessed the best approach to sustaining high quality internal audit and risk management functions. As part of a detailed review, the Chair of the Committee and the CFO assessed potential partners for a fully outsourced internal audit model, subsequently meeting with the preferred partner. At its meeting in April the Committee considered the options available and determined that the internal audit and risk management functions be separated, moving to a fully outsourced internal audit model. The Committee noted that the outsourced partner would allow the Group to draw on particular skills, prevailing market knowledge and wider industry-relevant experience, such as in IT and security, trading and commodities. KPMG was selected as the new internal auditor, to be supported by an internal team, which would also provide the opportunity to extend their capabilities and knowledge.

Fees will be agreed on an audit by audit basis depending on scope. A detailed plan to manage the handover and the engagement with key internal stakeholders from finance, risk, existing internal audit team members, management and the Committee was approved and subsequently executed.

The Committee reviews and approves the internal audit plan for the year. Its review is designed to ensure that priority is given to the areas of highest risk for the Group and that the audit work focuses on key controls, to optimise the level of assurance provided to the Committee and to management. The Committee receives reports at each meeting regarding the internal audit programme and reviews undertaken.

Recommendations are made to management for control improvements as appropriate. Topics dealt with by internal audit reports reviewed by the Committee during 2020 included IT and Cyber controls, procurement and payroll.

In addition, at each of its scheduled meetings, the Committee received reports detailing progress with implementing recommendations previously raised by internal audit to allow them to effectively monitor management's responses. The Chair of the Committee, independent of management, maintains direct contact with both the internal and external auditor, allowing open dialogue and feedback.

The Committee recognises the importance of maintaining and evolving effective policies and procedures for the day-to-day operational activities of the Group. This spans such matters as engineering practices, maintenance, process safety and training which are integral to ensuring our employees are suitably enabled with the requisite knowledge and equipment to perform their work effectively and safely. The Committee reviewed and supported the appointment of a new external consultant, DNV GL Limited, tasked with the internal audit of the Group's health, safety and environmental practices. The Committee also determined that KPMG should, as part of their 2021 programme, undertake reviews of the policies and procedures pertaining to operational and engineering activities. This is intended to augment ongoing work which is being undertaken by management to update Group-wide policies and procedures.

The Committee has considered the overall effectiveness of internal audit, based on the quality of its plan and the information provided in its reporting, and is satisfied that the revised model described above remains appropriate for the Group on the basis of quality, experience and expertise. In reaching this conclusion, the Committee considered the views of management and the external auditors, as well as its own assessment of the quality of reports and support provided by the internal audit function.

This report was reviewed and approved by the Audit Committee on 24 February 2021.

Remuneration Committee report

How has Drax ensured that executive remuneration outcomes have been both fair and appropriate?

Despite 2020 being a challenging year, management has delivered solid business results and progressed the Group's strategy, and the remuneration outcomes for the Executive Directors and senior management appropriately reflect this

Nicola Hodson, Chair

Committee members

John Baxter
Philip Cox
David Nussbaum
Vanessa Simms

Attending by invitation

CEO, Chief Transformation Officer, Head of Reward and External remuneration advisers.

The Group Company Secretary is the Secretary to the Committee.

Number of meetings held in 2020: Five

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

Attendance in 2020

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	5	5	100%
Philip Cox	22 April 2015	5	5	100%
Nicola Hodson	12 January 2018	5	5	100%
David Nussbaum	1 August 2017	5	5	100%
Vanessa Simms	19 June 2018	5	5	100%

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

Terms of reference

The Committee regularly reviews its terms of reference, and the Board also then reviews these terms. The most recent review was in March 2020. The terms of reference are available on the Group's website at **www.drax.com/governance**

Role of the Remuneration Committee

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

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

Key Remuneration Committee activities in 2020

- completed a full review of the Remuneration Policy (the Policy), including a comparison of the Policy against the requirements of the Corporate Governance Code, and finalised engagement with shareholders.
- reviewed and provided input to management's proposals on remuneration matters on protecting and supporting employees through Covid-19.
- reviewed and contributed to the full review of reward arrangements for all employees across the Group below Board and senior management.
- considered and approved the remuneration of Executive Directors and senior management.
- reviewed the salary increases and aggregate bonuses paid in all businesses and corporate functions.
- considered and approved the Committee's Annual Report on Remuneration for 2019.
- considered items relating to the redundancy arrangements of Andy Koss, a former Executive Director.

Annual Statement to Shareholders

Dear shareholders,

On behalf of the Remuneration Committee (the Committee). I am pleased to present the Directors' Remuneration Report for the 2020 financial year. In April 2020, our shareholders approved the new Directors' Remuneration Policy (Policy) with 94.61% of votes in favour. They also approved the Annual Report on Remuneration for 2019, with 98.82% of votes in favour. The Committee and I are grateful to our shareholders for their continued support.

The report is set out in the following sections:

Our aim at Drax is to ensure transparency with our shareholders and wider stakeholders in the development and implementation of remuneration and associated governance. The vote in April 2020 for the new Policy followed extensive consultation with our major institutional shareholders. This helped to inform important decisions on the design of the Policy, including for example, pension arrangements where from 1 January 2023 the contribution rates for existing Executive Directors will be aligned with the rate for new joiners to the wider workforce.

We explain the full Policy on pages 112 to 122 and provide details of the Committee's decisions in respect of implementing the new Policy during the 2020 financial year.

As noted throughout the annual report, 2020 was a very challenging year but it has also been a year of achievements that should make us proud. The Group has delivered a strong performance in 2020 and management has worked hard to keep colleagues safe and well informed during significant change to working practices. Together we have continued to deliver essential services to the country.

As I mentioned on pages 30 and 31, the Committee has given very careful consideration to the impact of Covid-19 on remuneration outcomes, and our discussions have been applicable to Executive Directors, senior management, as well as to all other colleagues. The principal focus of the Committee has been to ensure outcomes are fair and appropriate with respect to business performance, and consistent across the wider workforce.

Review of decisions made during 2020

Annual assessment of performance

The Committee determines the remuneration of the Executive Directors and members of the Executive Committee against the strategic objectives and priorities of the Group. For 2020, we achieved this through assessing performance against a combination of strategic business and financial metrics. The Group Scorecard reflects these metrics, and you can see details on page 124.

A high proportion of total remuneration is delivered through variable pay, rewarding the achievement of a balance of Group short-term and long-term targets. For the 2020 plan, there continued to be no personal performance element in the determination of bonuses for Executive Directors and members of the Executive Committee.

As described by Will Gardiner on pages 10 to 14, the Group has delivered solid financial performance in 2020 and has continued to progress key strategic objectives. The 2020 Group Scorecard included metrics reflecting key objectives for all major business areas, including Pellet Production, Generation and Customers. While the performance in the Pellet Production and Generation businesses remained very strong in 2020, the Customers business was more significantly impacted by Covid-19 and this was reflected in the financial performance of this business area. The detailed review of achievement against the performance metrics in the 2020 Group Scorecard is on pages 124 and 125.

The Committee determined that the overall performance outcome against the Group Scorecard represents a fair reflection of the Group's performance during the financial year and did not exercise any discretion in its determination for bonus outturn. The outcome of the Group Scorecard was 0.90 and this score results in 45% of the maximum annual bonus being paid to Executive Directors. Of the total bonus awarded, 46.67% was with respect to delivery of financial performance and this will be paid in cash in March 2021. The remaining 53.33% was with respect to the delivery of strategic objectives and, in accordance with the Policy, will be deferred into shares for the Executive Directors and which will ordinarily vest after three years (in 2024). There are further details about this outcome on pages 124 and 125.

This score also forms part of the performance assessment for the Performance Share Plan awards granted in March 2018. Further details are provided below.

Long-term assessment of performance

Awards which were granted in 2018 under the Performance Share Plan (PSP) were subject to performance criteria under the previous Policy approved by shareholders in 2018. Vesting for such awards over the three-year period from 1 January 2018 to 31 December 2020 was based on two measures. These were Relative Total Shareholder Return (TSR), accounting for 50% of the award, and the three-year average of the Group Scorecard, which accounted for the remaining 50% of the award. The Group's TSR over the period was between the median and upper quartile, leading to 74.4% vesting for this element. The average Group Scorecard outcome over the same period was 0.95 leading to 40.0% vesting for this element. The overall vesting outcome for the 2018 PSP awards is therefore 57.2% of the maximum.

The Committee determined that the vesting outcome was appropriate in the context of performance over the three year performance period and therefore no exercise of discretion was applied to the overall vesting. Drax's share price at 31 December 2020 was 39% higher than the start of the performance period, given the averaging periods over which TSR has been calculated, this equates to a return of 15% based on the six month averaging period prior to the start and end of the performance period. These returns represent a strong result for our shareholders, particularly in the current environment.

Performance is assessed against a broad FTSE 350 comparator group, for many of whom shareholder returns have been negative over the performance period. Although Drax's share price was initially impacted by Covid-19 in early 2020, it has recovered strongly, with a shareholder return of 28% from 1 January 2020 to the end of the year. The Committee is satisfied that Covid-19 has not impacted the performance outcome in a manner which unfairly favours participants, and is confident that this return represents genuine strong performance and delivery of our strategy in an extremely challenging climate. You can find more details on page 31.

Base salary increases

For the 2020 pay review, all Executive Directors were given an increase in base salary of 3%. This took effect in April 2020 and was in line with increases applied to the wider workforce.

For pay increases taking effect from 1 April 2021, the Committee has taken into consideration the current and potential further impact of Covid-19 on the Company, the shareholders, employees and wider stakeholders. Accordingly, the Committee has agreed to apply a 2% base salary increase for the Executive Directors, which is aligned with average increases for the wider workforce.

Pension

Under the new Policy approved last year, any new Executive Directors joining Drax would receive a pension contribution (or cash payment in lieu of pension contribution) that is consistent with those of new joiners to the wider workforce (which is currently 10% of base salary).

Existing Executive Directors will retain their current pension contribution until 31 December 2022, which is 20% of base salary for Will Gardiner and 16% for Andy Skelton. From 1 January 2023, these contribution rates will reduce in line with those of new joiners at that time.

LTIP

Earlier this month we announced our intention to acquire Pinnacle Renewable Energy Inc., which is subject to Drax and Pinnacle shareholder approval, and court and regulatory approvals. If the acquisition is approved, it is expected to be completed in Q2 or Q3 2021. It is intended that the 2021 LTIP grant is made on the normal timetable at the beginning of April 2021, but the targets for the Cumulative Adjusted Earnings Per Share performance condition (EPS) will be set as soon as practicable following either, the completion of the acquisition, or confirmation that the acquisition will not proceed. This will allow the EPS target, which is cumulatively measured over the three year performance period, to accurately reflect the impact of the acquisition and to align with the shareholder experience over the performance period. Full information regarding the targets for the performance conditions for the 2021 LTIP grant will be announced via RNS no later than three months after the completion of the acquisition.

Leaving arrangements for Andy Koss

Andy Koss, CEO Generation, stood down from the Board on 7 April 2020 and left employment with Drax on 30 June 2020, by reason of redundancy. Accordingly, the Committee concluded that "good leaver" remuneration provisions should apply under our Policy, as announced on 8 April 2020. We have provided details of his leaving arrangements on pages 126 to 127. The Board determined that this role was no longer required and therefore no successor has been appointed.

Workforce engagement

I believe that engagement with stakeholders is important in both informing the decisions of the Committee and in communicating how the Committee conducts its work and reaches key decisions. In 2020, I met with the chairs of the MyVoice Forums via video conference to explain the role of the Committee, how executive pay is set, how it aligns with the wider workforce pay and Company culture, and to answer directly any questions they had. It was a really engaging session and the insight I gained was invaluable. We will aim to continue to maintain an ongoing and transparent dialogue with our employees.

Following this meeting, I recorded a video which was released to the wider workforce of Drax Group plc. I also wrote to all colleagues to share information, incorporating the feedback I had received from my engagement with shareholders. I also provided details of the Policy and the link to wider decisions on remuneration.

Committee performance

In the autumn of 2020, the performance of the Committee was assessed as part of an externally led Board evaluation exercise. As part of the scope of this exercise, the Board considered the composition and diversity of the Committee and how effectively members work together to achieve objectives and make decisions. I am pleased to report that the Committee is operating effectively, and the Board takes assurance from the quality of the Committee's work. You can read more about this on page 95.

Summary

Along with other members of the Committee, I am proud of how we have kept to the principles of keeping everyone safe while keeping the lights on in 2020. Moreover, I am satisfied that the 2020 remuneration outcomes for the Executive Directors and senior management fairly reflect the performance of the Group during this challenging period. These outcomes also provide a fair and consistent approach to remuneration across the Group and remain in shareholders' interests. The Committee remains alert to the potential challenges which Covid-19 may bring through 2021 and how these might impact reward outcomes, consistent with our commitment made when the pandemic first arose.

I hope that having read the information in this report, you will vote in support of the Annual Report on Remuneration for 2020 at the AGM in April 2021.

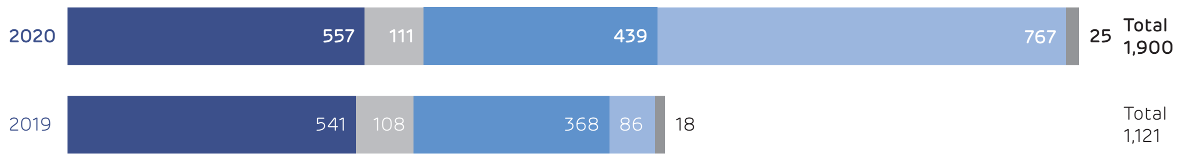
Remuneration at a glance

This section provides a summary of the remuneration earned by each of the Executive Directors in 2020. Further detail is outlined in the Annual Report on Remuneration which starts on page 123.

Total remuneration

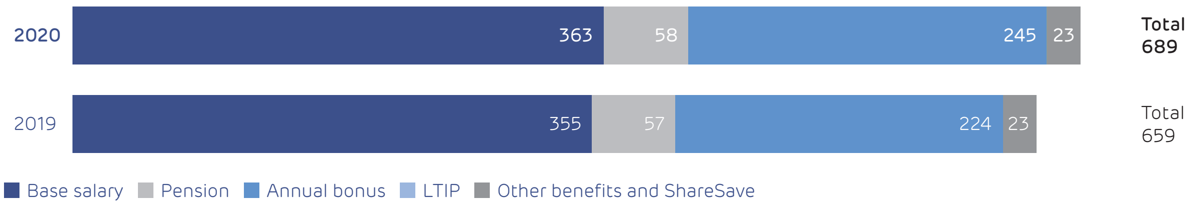
Will Gardiner (CEO) £000s

Will was in office for the full year.



Andy Skelton (CFO) £000s

Andy was in office for the full year. As he joined the organisation on 2 January 2019, he has no PSP award due to vest until 2022.



Implementation of the Policy in 2020

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

Element	Key features of the Policy (adopted in 2020)	Implementation of Policy in 2020
Base salary	• The Committee targets market level, as determined by reference to appropriate comparator companies selected with consideration for factors such as sector, size and international presence. • An Executive Director in post at the start of the Policy period, and who remains in the same role throughout the Policy period, would normally receive an increase in line with the average annual percentage increase in base salary of all other employees in the Group.	• For the pay increases made in April 2020, all Executive Directors received an increase in base salary of 3%. • These increases were in line with increases applied to the wider workforce.
Pension and other benefits	• An Executive Director is entitled to a contribution to the Group's defined contribution pension plan, a cash payment in lieu of pension, or a combination of pension contribution and cash in lieu of pension. • Until 31 December 2022, the pension contribution rates for existing Executive Directors are 20% of base salary for Will Gardiner and 16% for Andy Skelton. From 1 January 2023, the contribution rates will be aligned to those of new joiners (which is currently 10%). • Other benefits provided as appropriate.	• The employer pension contribution in 2020 for Will Gardiner and Andy Koss (up to the date of his departure) was 20% of base salary, and it was 16% for Andy Skelton. • Will Gardiner's employer contribution is delivered as cash in lieu, whereas for Andy Koss (up to the date of his departure) and Andy Skelton, it is delivered in part pension contribution and part as cash in lieu. • Other benefits received included a car benefit, life assurance, income protection, the opportunity to participate in all-employee share plans on the same basis as other employees, annual private health assessment and annual private medical cover.
Annual bonus	• The maximum opportunity is 175% of base salary for Will Gardiner and 150% for other Executive Directors. • 60% of the bonus award is measured on financial metrics, and 40% on strategic metrics. • Bonus earned for the strategic metrics is deferred, but total bonus outcome is subject to a minimum of a 40% deferral. The portion of bonus which is deferred into shares is subject to a three-year vesting period and which must be retained for a further two years. • Clawback and malus provisions apply.	• The 2020 annual bonus outcome as a percentage of maximum opportunity was 45%, of which 21% was based on performance against financial metrics and 24% against strategic metrics. • The strategic element of the bonus outcome (which is equivalent to 53.33% of the total bonus award) will be deferred into shares under the Deferred Share Plan.

Remuneration Committee report continued

Element	Key features of the Policy (adopted in 2020)	Implementation of Policy in 2020
Long term incentive	• For awards made under the LTIP which was introduced in 2020, the maximum award level is 200% of base salary for Will Gardiner and 175% for other Executive Directors. • Vesting is subject to long term performance conditions, measured over a three-year performance period. • Shares must be retained for a further two years from vesting. • Clawback and malus provisions apply.	• The 2020 LTIP award is based on the three-year performance period to 31 December 2022, based on Total Shareholder Return (TSR) relative to FTSE 350, which has a 50% weighting, and Cumulative Adjusted EPS (EPS), which also has a 50% weighting. • The 2018 PSP (granted under the provisions of the 2018 Remuneration Policy) will vest at 57.2% of the maximum and was based on the performance of TSR relative to FTSE 350 (50% weighting) and the average Group Scorecard outcome of the preceding three performance years (50% weighting).
Shareholding requirement	• The requirement is 250% of base salary for Will Gardiner and 200% for other Executive Directors. • A post-cessation shareholding requirement, equal to the employment shareholding requirement, applies for a two-year period after cessation. Only shares for awards granted after the 2020 AGM will be included.	• Will Gardiner has met the shareholding requirement, with a shareholding at the date of this report equivalent to 369% of base salary, which includes 296,760 shares he acquired in the open market. • Andy Skelton is working towards meeting the shareholding requirement and has a shareholding as at the date of the report of 174% of base salary, which comprises 142,976 shares which he acquired in the open market. • Andy Koss stepped down as a Director on 7 April 2020, which was before the current Policy was approved by shareholders on 22 April 2020. His shareholding at the date of stepping down was 52% of base salary.

Directors' Remuneration Policy – approved by shareholders in 2020

The current Directors Remuneration Policy (Policy) was approved by our shareholders at the AGM held on 22 April 2020 and therefore became effective from that date and will be binding until the close of the 2023 AGM, unless varied by shareholders at a General Meeting prior to then. The Policy is set out in full in this section.

The scenario charts have been updated to reflect fixed pay expectations for 2021 and the impact on the annual bonus and LTIP awards.

Base salary

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

Practical operation

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

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

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

Maximum potential value

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

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

(i) An Executive Director has been appointed at below market level to reflect experience. Under this scenario, increases will be capped at 5% above the average annual percentage increase in salaries of all other Group employees.

(ii) An Executive Director has been promoted internally (or the scope or nature of their role has changed) and their salary is below market level. Under this scenario, increases will not be capped and the Committee can increase base salary to the market level within an appropriate timeframe.

Annual bonus

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

Practical operation

The maximum opportunity will be split between two elements:

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

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

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

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

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

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

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

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

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

Maximum potential value

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

Performance measures

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

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

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

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

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

Long Term Incentive Plan (LTIP)

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

Practical operation

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

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

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

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

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

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

The Committee reserves discretion to:

(i) amend the performance conditions/targets attached to outstanding awards granted under this Policy, in the event of a major corporate event or significant change in economic circumstances, or a change in accounting standards having a material impact on outcomes; and

(ii) adjust the vesting of LTIP awards and/or the number of shares underlying unvested LTIP awards, on the occurrence of a corporate event or other reorganisation. In the event of a change of control, the treatment of long-term incentives will be determined in accordance with the plan rules.

Maximum potential value

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

In exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts. Further detail is provided on page 119.

Performance measures

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

(i) TSR performance over three years relative to the FTSE 350 (50% of award), vesting as follows:

Below Median = 0% of maximum
Median = 25% of maximum
Upper Quartile = 100% of maximum

(ii) Cumulative Adjusted EPS performance over three years, (50% of award), vesting as follows:

Below Threshold = 0% of maximum
Threshold = 25% of maximum
Maximum = 100% of maximum

Straight line vesting occurs between performance levels for both conditions.

Pension

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

Practical operation

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

Maximum potential value

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

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

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

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

Performance measures

No performance measures apply.

Benefits

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

Practical operation

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

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

Maximum potential value

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

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

Performance measures

No performance measures apply.

Shareholding requirement

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

Practical operation

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

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

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

Maximum potential value

N/A

Performance measures

N/A

Post cessation shareholding requirement

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

Practical operation

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

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

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

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

Maximum potential value

N/A

Performance measures

N/A

Performance measures and approach to setting targets

The measures for elements of variable pay will be:

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

Elements of previous policy that will continue

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

Circumstances in which malus or clawback may apply

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

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

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

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

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

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

Remuneration Committee report continued

Committee's judgement and discretion

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

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

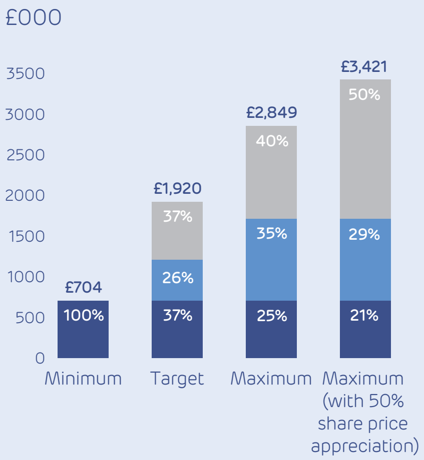
Where such discretion is exercised, it will be explained in the relevant Annual Report on Remuneration.

Remuneration scenarios

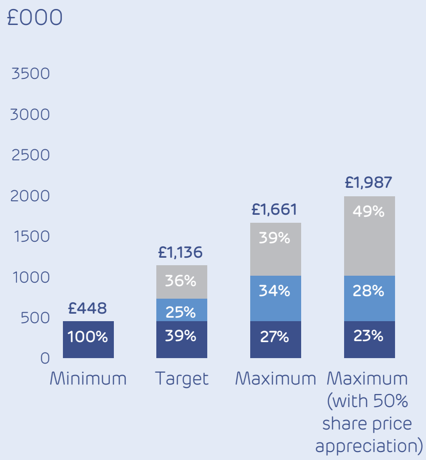
The composition and value of the Executive Directors' remuneration packages at below threshold (minimum), target and maximum performance scenarios under the Drax Group Policy are set out in the charts below. The assumptions used in the charts are provided in the following table:

Description	Fixed remuneration	Annual bonus	Long term incentive
Minimum	Base salary is the rate payable as determined by the Board following the annual review. Benefits and pension entitlement remain as disclosed in the Policy.	None	None
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)



Andy Skelton (CFO)



■ Fixed remuneration ■ Annual bonus ■ Long-term incentive

Approach to recruitment remuneration

The Committee will apply the components set out in the table on pages 112 to 118 to determine the remuneration of newly appointed Executive Directors. Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. Where this is below the market level, it will be adjusted over time to align with the market level, subject to good performance. The incentive provision for a new Executive Director will include an annual bonus of up to 150% of salary, or 175% of salary for the CEO, with financial and strategic elements as set out in the Policy table above, and an LTIP award of up to 175% of salary, or 200% of salary for the CEO (in exceptional circumstances the Committee may on recruitment grant a percentage of salary in excess of these amounts but in such circumstances it would be capped at 300% of salary). The Committee may also determine it appropriate to honour prevailing contract commitments for an individual in the event they are promoted to an Executive Director position.

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

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

Service agreements and termination

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

Element	Details
Notice periods	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. 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.
Compensation for loss of office	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. In addition, the Executive Director may be entitled to a payment in respect of his/her statutory rights. The Group may pay reasonable fees for a departing Executive Director to obtain independent legal advice in relation to their termination arrangements and nominal consideration for agreement to any contractual terms protecting the Group's rights following termination. No service agreement includes any provision for the payment of compensation upon termination. Any compensation payable in those circumstances would need to be determined at the time and in the light of the circumstances.

Element	Details
Treatment of annual bonus on termination	All bonus payments are discretionary. The Committee will consider whether a departing Executive Director should receive a cash bonus and deferred share award in respect of the financial year in which, and/or immediately preceding which, the termination occurs, pro-rated to reflect the period of the performance year completed at the date of termination. The Committee will take into account performance; the reason for termination; cooperation with succession; any breach of goodwill; adherence to contractual obligations/restrictions; and any other factors which they believe should be taken into account. The service contract for Will Gardiner as CEO, does not entitle him to any payment of bonus on termination of employment. 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: • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Group; • death. 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. If an award is made, it will normally be paid/granted as soon as is reasonably practicable after the Group performance element has been determined for the relevant period. There may be circumstances in which the Committee considers it appropriate for the award to be made earlier, for example, on termination due to ill-health, in which case, on-target performance shall be assumed.
Treatment of unvested long-term incentive and deferred share awards on termination	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. 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"): • redundancy; • retirement; • ill-health or disability, proved to the satisfaction of the Company; • death; • change of control. 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. 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. 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. 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.
Outside appointments	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.

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;
- the Executive Director accommodating the Company in the timing of his/her departure and handover arrangements.

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

Remuneration of Non-Executive Directors and Chair

Remuneration component and link to strategy	Practical operation	Maximum potential value
Fees To attract a Chair and independent Non-Executive Directors who, together with the Executive Directors, form a Board with a broad range of skills and experience.	The Chair's remuneration is determined by the Committee whilst that of the other Non-Executive Directors is determined by the Chair and the Executive Directors. These are determined in the light of: • fees of the Chair and Non-Executive Directors of other listed companies selected for comparator purposes, on the same basis as for Executive Directors; • the responsibilities and time commitment; • the need to attract and retain individuals with the necessary skills and experience. Non-Executive Directors' fees are reviewed periodically against market comparators. Non-Executive Directors receive an annual base fee. Additional annual fees are paid: • to the Senior Independent Director (which includes the fee for chairing a Board Committee other than the Audit Committee); • to the Chair of the Audit Committee; • to the Chair of the Remuneration Committee; • to the Chair of any other committee (this is not paid to the Chair of the Nomination Committee if he or she is also the Chair of the Board). Non-Executive Directors are not entitled to participate in any performance related remuneration arrangements.	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).
Expenses	Reasonable travel and accommodation expenses are reimbursed as applicable.	

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

The Chair's notice period is six months whilst the other Non-Executive Directors have a notice period of one month. Further information on the service agreements of the Non-Executive Directors can be found on page 129.

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

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

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

Context

Wider employee population

In determining Executive Director remuneration, the Committee also takes into account the level of general pay increases within the Group. Employees are not directly consulted on the Policy, however as referenced on page 110, 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 at the AGM to be held on 21 April 2021.

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 2020, together with comparative earnings for 2019:

Director	Year	Salary[1] (£000)	Benefits[2] (£000)	Bonus[3] (£000)	Long Term Incentives (£000)	Pension (£000)	Other[6] (£000)	Total Remuneration (£000)	Total Fixed Pay (£000)	Total Variable Pay (£000)
Will Gardiner	2020	557	18	439	767[4]	111	7	1,900	687	1,213
	2019	541	18	368	86[5]	108	–	1,121	667	454
Andy Skelton[7]	2020	363	16	245	–	58	7	689	437	253
	2019	355	15	224	–	57	8	659	427	232
Andy Koss[8]	2020	92	4	62	–	18	–	176	114	62
	2019	337	16	214	103[5]	67	–	737	420	317

Notes:

(1) Base salary is the amount earned in 2020 and in 2019.

(2) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance.

(3) Bonus is value of the award from the 2019 and 2020 annual bonus plans. It includes the value of bonus deferred and paid in shares after three years subject only to continued service.

(4) Represents the value of the 2018 PSP award which should vest in March 2021, 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 2020, which was £3.187. The value of the award attributable to share price appreciation for Will Gardiner is £132,112. This is based on the growth in the value of the shares due to vest (excluding dividend shares) from the grant share price (£2.552) to the average share price over the quarter to 31 December 2020 (£3.187).

(5) 2019 numbers (for the 2017 PSP award) are restated to reflect the actual share price on vesting of £1.954 on 15 May 2020.

(6) Represents the value of the Sharesave Awards granted in 2019 and 2020 respectively. The 2020 Sharesave Awards are based on the share price on grant (£1.588) less the exercise price (£1.271).

(7) Andy Skelton joined on 2 January 2019 and therefore was not granted an award under the 2017 or 2018 PSP.

(8) Andy Koss stepped down from the Board on 7 April 2020 and therefore in the table above the remuneration he earned in 2020 is in respect of the period 1 January 2020 to 7 April 2020. The bonus Andy earned with respect of the period 8 April 2020 to 30 June 2020 is outlined in the payment for loss of office section of this report, along with other details of his loss of office payments. Andy's 2018 PSP award should vest in March 2021 and has been excluded from the single figure table as the performance period ended after he stepped down from the Board. For further information refer to the payment for loss of office section of this report.

Base salaries – Executive Directors

The base salaries of the Executive Directors as at 31 December 2020, together with comparative figures as at 31 December 2019, are shown in the following table:

Director	Base salary at 31 December 2020 (£000)	Base salary at 31 December 2019 (£000)	Percentage increase (1 April 2020)
Will Gardiner	561	545	3.0%
Andy Skelton	366	355	3.0%
Andy Koss[1]	–	339	3.0%

Notes:

(1) Andy Koss stepped down from the Board on 7 April 2020 and remained in employment with Drax until 30 June 2020.

The base salaries of Will Gardiner, Andy Skelton and Andy Koss were reviewed with effect from 1 April 2020, in line with Policy, and increased by 3%. This was aligned with the average increase for the wider workforce.

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

The table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2020 together with comparative figures for 2019:

Director	Year	Base fee (£000)	Additional fee for Senior Independent Director (£000)	Additional fee for Chairing a Committee (£000)	Total (£000)
Philip Cox	2020	250	–	–	250
	2019	250	–	–	250
John Baxter[1]	2020	55	–	–	55
	2019	39	–	–	39
Nicola Hodson	2020	55	–	10	65
	2019	55	–	7	62
David Nussbaum[2]	2020	55	10	–	65
	2019	55	7	–	62
Vanessa Simms	2020	55	–	10	65
	2019	55	–	7	62

Notes:

(1) Appointed on 17 April 2019.

(2) Since 1 January 2019 he has donated his gross fees to charity.

Remuneration Committee report continued

Annual fees – Non-Executive Directors

The current annual fee structure of the Non Executive Directors, is shown in the following table:

Director	Fees at 31 December 2020 (£000)	Fees at 31 December 2019 (£000)	Percentage increase
Chair	250	250	0%
Non-Executive Director base fee	55	55	0%
Senior Independent Director	10	10	0%
Audit Committee Chair	10	10	0%
Remuneration Committee Chair	10	10	0%
Nomination Committee Chair[1]	7.5	7.5	0%

Notes:
(1) This is not paid if the Chair of the Nomination Committee is also Chair of the Board.

Annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2020 Group Scorecard is set out in the following table:

Key Performance Indicator	Weighting	Low target (0% of max earned)	Target (50% of max earned)	Stretch target (100% of max earned)	Outturn	Score (out of 2)	Weighted Score (out of 2)
Financial							
Group Adjusted EBITDA (£m)	25%	414	460	506	412	0.0	0.0
Cost of Production ($/GJ)	10%	9.15	8.71	8.27	8.61	1.2	0.12
Customers Business Contribution (£m)	10%	50.5	56.1	61.7	ND	0.0	0.0
Average Net Debt (£m)	15%	(940)	(900)	(860)	(849)	2.0	0.30
Overall Financial KPIs	60%						0.42
Strategic							
Safety (total recordable incident rate)	10%	0.27	0.21	0.15	0.29	0.0	0.0
Progress on Strategic Projects	10%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.5	0.15
Environmental, People, Reputation	20%	Partially Achieved	Achieved	Strongly Achieved	Between Achieved & Strongly Achieved	1.63	0.33
Overall Strategic KPIs	40%						0.48
	100%						0.90
Overall bonus outcome (total bonus award)							**0.90 (45% of maximum)**
Proportion of total bonus award earned for Financial KPIs							46.67% (0.42/0.90)
Proportion of total bonus award earned for Strategic KPIs							53.33% (0.48/0.90)

The targets were aligned with the Group's strategy and 2020 Business Plan and reviewed regularly by the Board as part of their ongoing scrutiny of business and executive performance. The targets were set at the start of the financial year, prior to the outbreak of the Covid-19 pandemic. No adjustment to the performance targets has been 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 2020 was £412 million relative to a target and budget of £460 million. Unfortunately, Drax fell below the low end of this range (score of 0). However, in the context of impacts of Covid-19, this was a relatively strong performance. The outturn of this metric was part of the Group's independent financial audit.
- Cost of Production – reducing the cost of biomass production will make a positive contribution to the Group's financial performance in the medium term and beyond 2027. Despite many challenges that 2020 brought to the southern US region including hurricanes, tornadoes and Covid-19, Drax Biomass was still able to deliver a cost of production of 8.61, which was below the target for the year of 8.71 (score of 1.2).
- Customers business contribution – driving profitability is the key priority of focus for our Customers business. Unfortunately, Drax fell below the low end of the target range which was set but this was wholly due to the impacts of Covid-19 (score of 0).
- Average net debt – a 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 £849 million, and thereby beating the stretch target of £860 million (score of 2).
- Safety – safety is a key priority for the business and in the 2020 Scorecard it was measured against Total Recordable Incident Rate (TRIR), which is defined as the number of incidents per 100,000 hours worked. The TRIR score was 0.29, which unfortunately was below the threshold target of 0.27 (score of 0). In 2020, all teams had to contend with Covid-19 mitigations in the workplace, which have been changing in line with rapid updates in UK Government policy. In addition, across the Group, we are pleased to report that there were no major impact environmental or process safety events.

- Progress on Strategic Projects – progress on key projects are of critical importance for Drax in progressing the Group's strategy. There were two projects which were included in this metric. The first was the delivery of the Morehouse Bioenergy Expansion, which would increase the capacity of the plant whilst also supporting reduced cost of production for pellets. We are pleased to report that the project was completed successfully, and it was completed in line with all key targets which were set. The second was progress on advancing our BECCS strategy. Substantial progress was made in 2020, across all critical path activities of our BECCS strategy. The choice of projects, and the assessment of the performance of them in 2020 was subject to approval of the Board (score of 1.5).
- Environmental, employee and sustainability practices, and our reputation, are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders. In 2020 the assessment of our environmental practices was derived from the Group's 2020 CDP rating, which supports our commitment around tackling climate change. This is combined with independent ratings of how well we engage and support our employees and independent ratings of our reputation and sustainable business practices, which formed the basis of this metric. In assessing the performance of this metric the Committee reviewed quantitative outcomes, such as the assessment prepared by an external agency tracking reputation, and determined an overall score of 1.63.

The Committee completed an in-depth review of the score for each of the performance measures, ensuring these were individually appropriate, and then reviewed the overall outcome, to determine whether to exercise its discretion and adjust the final score. The Committee also considered the impact of Covid-19 on the Group's performance and felt that the outcomes were reflective of the Group's strong financial and strategic performance, as well as wider employee and shareholder experiences. No discretion was exercised by the Committee in determining the bonus outcome. The Committee approved the Group Scorecard result for 2020 at a meeting held on 23 February 2021, subject to the final approval of the financial results and Annual report and accounts by the Directors on 24 February 2021.

Bonus earned for 2020

The table below sets out the bonuses earned in 2020 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)	46.67% paid in cash (£000)	53.33% deferred in shares (£000)
Will Gardiner	175%	45%	78.8%	439	205	234
Andy Skelton	150%	45%	67.5%	245	114	131
Andy Koss	150%	45%	67.5%	116	54	62

In accordance with the Policy, the portion of the total bonus earned with respect to the strategic KPIs (53.33% of the total bonus award) is deferred into shares for a period of three years. The portion of the total bonus earned with respect to the financial KPIs (46.67% of the total bonus award) is to be paid in cash in March 2021.

PSP incentive outcomes (audited information)

The vesting outcome for awards granted in 2018 under the Performance Share Plan (PSP), which were subject to performance conditions over the three year period from 1 January 2018 to 31 December 2020 and will vest in March 2021 is provided in the tables below.

Performance Condition	Weighting	Performance for threshold vesting (15%)	Performance for maximum vesting	Actual performance	Vesting (% of max)
Relative TSR vs FTSE 350 constituents	50%	Median	Upper quartile	Above median (rank of 106, out of 316)	74.4%
Average Corporate Score for 2018, 2019 and 2020	50%	Average score of 0.75	Average score of 1.5	0.95 (scores 1.05, 0.90 and 0.90)	40.0%
					57.2%

The Committee considered the impact of Covid-19 on the Group's performance and this was appropriately reflected in the Relative TSR outcome and 2020 Scorecard. No discretion was therefore exercised by the Committee in determining the 2018 PSP outcome. The table provides the awards due to vest based on this vesting result.

Director	Awards granted (as % of base salary)	Awards granted	Awards vesting (as % of base salary)	Awards vesting	Dividend shares earned	Total shares due to vest	Total value (£000)
Will Gardiner	175%	363,725	138%	208,050	32,678	240,728	£767
Andy Koss	175%	218,063	377%[1]	93,548	14,688	108,236	£345

Notes:
(1) This is the total value of award vesting as a percentage of base salary earned for the period of 2020 prior to when Andy stepped down from the Board (1 January 2020 – 7 April 2020).

Remuneration Committee report continued

LTIP awards granted in 2020 (audited information)

The table below shows the conditional awards granted under the Long Term Incentive Plan (LTIP) to Executive Directors on 7 May 2020.

Director	Award granted (as % of salary)	Number of shares granted(1)	Face value of awards granted (£000)
Will Gardiner	200%	562,506	1,122
Andy Skelton	175%	320,697	640

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £1.9953. 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 2020 are set out below.

Performance Condition	Weighting	Performance for threshold vesting	Vesting at threshold performance	Performance for maximum vesting	Vesting at maximum performance
Relative TSR vs FTSE 350 constituents	50%	Median	25%	Upper Quartile	100%
Cumulative Adjusted EPS	50%	100.1p	25%	117.5p	100%

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2022.

DSP awards granted in 2020 (audited information)

The table below shows the deferred share awards granted under the Deferred Share Plan (DSP) to Executive Directors on 30 March 2020 in respect of bonus earned for performance in 2019. Awards will vest after three years subject to continued service only.

Director	Value of deferred bonus (£000)	Number of shares granted(1)
Will Gardiner	129	82,195
Andy Skelton	78	49,985
Andy Koss	75	47,741

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £1.5657. 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 2020 (audited information)

On 15 April 2020 grants of Sharesave options were made to Will Gardiner and to Andy Skelton (23,603 shares each). The exercise price is £1.271, which represents a 20% discount to the prevailing share price at the time of offer, and is the same for all employees who elected to participate in the Sharesave. The face value of the awards was £43,689 for both Will Gardiner and Andy Skelton, which is based on the share price of £1.851 on 15 April 2020. The options will vest after five years subject to continued service and continued contributions.

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 2020 was 20% of base salary, as was the employer contribution for Andy Koss until he left Drax on 30 June 2020. The employer contribution for Andy Skelton was 16%. Will Gardiner's employer contribution is delivered as cash in lieu of pension, whereas for Andy Skelton it is delivered in part as contributions to Group pension plan and part as cash in lieu (this was the same for Andy Koss). No Executive Director was a member of a defined benefit pension scheme.

Payments to former directors (audited information)

Dorothy Thompson, former CEO, was entitled to pro-rata vesting of a PSP award made in 2017. A total of 12,617 shares vested in May 2020, including dividend shares, based on performance vesting of 18%, as outlined in last year's report. Of this, 5,348 shares were sold to cover tax and the balance of 7,269 shares were subject to a two-year holding period and will be held in trust on her behalf and eligible for release in May 2022.

Payments for loss of office (audited information)

Andy Koss stepped down from the Board on 7 April 2020. Andy's employment was terminated on the grounds of redundancy and he continued to be employed until 30 June 2020 (the termination date) as a special adviser to Will Gardiner in order to provide leadership on a programme of works and to ensure an orderly transition. For the period from 8 April 2020 up to his termination date, Andy received the following payments:

- Salary of £80,517.
- Payment in lieu of pension of £16,103.
- Benefits of £3,766 (car allowance and continued coverage under the Company's private medical and insured benefits plans).

On termination Andy received a redundancy payment of £10,222, calculated in accordance with the statutory formula, and a payment in respect of his untaken accrued holiday of £21,664. He was also entitled to payment in lieu of the remainder of his 12 months' notice period ("PILON") which had not elapsed as at the date of his termination date (the period of 1 July 2020 to 7 April 2021), in respect of base salary, pension and other benefits (car allowance and insured benefits). In accordance with the terms of his service agreement, the PILON payment was to be made in three instalments. The first instalment of PILON, equal to 50% of the total payment, was paid to him within 30 days of the termination date. The total payment for the first instalment was £167,061 and it consisted of:

- Salary of £134,430.
- Payment in lieu of pension of £26,886.
- Benefits of £5,745 (car allowance and insured benefits).

As Andy found alternative employment during the unexpired period of the 12 months' notice period, payments for the second and third instalments of PILON (for the remaining 50%) were not paid.

Finally, from his date of termination, Andy's outstanding Sharesave options (8,551 shares) became exercisable for a period of six months.

As Andy's employment was terminated on the grounds of redundancy, he was treated as a good leaver under the rules of the Annual Bonus Plan, DSP and PSP, as set out in the Remuneration Policy. For the period of 1 January 2020 to 30 June 2020, Andy earned a pro-rata annual bonus award of £116,149 (of which £54,349 is attributable to the period 8 April 2020 to 30 June 2020) as follows:

- Financial elements: £54,203, to be paid in cash.
- Strategic elements: £61,946, to be deferred as an award under the DSP, vesting in the normal timescales in accordance with the rules of the DSP.

Outstanding awards under the DSP and PSP will vest at the same time as other participants' awards. The outstanding PSP awards will be pro-rated for completed months of service between the grant date and 30 June 2020 and will be subject to performance measured at the end of the performance period. Vested shares will be subject to the two-year post-vesting holding period, where required by the relevant Directors' Remuneration Policy.

Award	Date of grant	Awards granted	Pro-rated number of awards	Vesting date
2018 PSP	5 March 2018	218,063	163,547	5 March 2021
2019 PSP	28 March 2019	153,863	64,110	28 March 2022
2018 DSP	5 March 2018	32,055	32,055	5 March 2021
2019 DSP	28 March 2019	22,617	22,617	28 March 2022
2020 DSP	30 March 2020	47,741	47,741	30 March 2023

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 threshold (shares owned by the Director and unvested awards subject to service only – DSP awards – on a net of tax basis). As at 31 December 2020, or the date of ceasing to be a Director if earlier, the shareholding guidelines were 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[3]
Will Gardiner[4]	552,689	£2,072,585	369%	250%
Andy Skelton[5]	169,468	£635,505	174%	200%
Andy Koss[6]	101,275	£177,839	52%	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 2020 of £3.75 for incumbent Directors and the mid-market quotation on 7 April 2020 of £1.756 for Andy Koss, being the date he ceased to be a Director.

(3) Under the existing Directors' Remuneration Policy.

(4) 296,760 shares recorded for Will Gardiner were purchased in the open market between 2015 and 2020 (includes 467,114 shares owned plus 85,575 unvested DSP shares on a net of tax basis).

(5) 142,976 shares recorded for Andy Skelton were purchased in the open market between 2019 and 2020 (includes 142,976 shares owned plus 26,492 unvested DSP shares on a net of tax basis).

(6) The information for Andy Koss is as at 7 April 2020, which is the date he stepped down from the Board.

Remuneration Committee report continued

Directors' interests under share plans

Director	Date of grant	As at 1 January 2020	Awards made during the year	Number of shares vesting during the year	Number of shares lapsing during the year	As at 31 December 2020	Date of vesting[1]	Value of awards[2]
Will Gardiner								
2017 BMP	28 March 2017	50,486	0	50,486	0	0	28 March 2020	£0
2017 PSP	15 May 2017	213,326	0	38,398	174,928	0	15 May 2020	£0
2018 DSP	5 March 2018	40,327	0	0	0	40,327	5 March 2021	£151,226
2018 PSP	5 March 2018	363,725	0	0	0	363,725	5 March 2021	£1,363,969
2019 DSP	28 March 2019	38,941	0	0	0	38,941	28 March 2022	£146,029
2019 PSP	28 March 2019	247,245	0	0	0	247,245	28 March 2022	£927,169
2020 DSP	30 March 2020	0	82,195	0	0	82,195	30 March 2023	£308,231
2020 LTIP	7 May 2020	0	562,506	0	0	562,506	7 May 2023	£2,109,398
2016 Sharesave	5 April 2016	14,778	0	0	14,778	0	1 May 2021	£0
2020 Sharesave	15 April 2020	0	23,603	0	0	23,603	1 June 2025	£58,512
Total		**968,828**	**668,304**	**88,884**	**189,706**	**1,358,542**		**£5,064,533**
Andy Skelton								
2019 PSP	28 March 2019	165,607	0	0	0	165,607	28 March 2022	£621,026
2019 Sharesave	27 March 2019	10,084	0	0	10,084	0	1 May 2024	£0
2020 DSP	30 March 2020	0	49,985	0	0	49,985	30 March 2023	£187,444
2020 LTIP	7 May 2020	0	320,697	0	0	320,697	7 May 2023	£1,202,614
2020 Sharesave	15 April 2020	0	23,603	0	0	23,603	1 June 2025	£58,512
Total		**175,691**	**394,285**	**0**	**10,084**	**559,892**		**£2,069,596**
Andy Koss[3]								
2017 BMP	28 March 2017	40,130	0	40,130	0	0	28 March 2020	£0
2017 PSP	15 May 2017	169,567	0	30,522	139,045	0	15 May 2020	£0
2018 DSP	5 March 2018	32,055	0	0	0	32,055	5 March 2021	£56,289
2018 PSP	5 March 2018	218,063	0	0	54,516	163,547	5 March 2021	£287,189
2018 Sharesave	28 March 2018	8,551	0	7,600	951	0	1 May 2021	£0
2019 DSP	28 March 2019	22,617	0	0	0	22,617	28 March 2022	£39,715
2019 PSP	28 March 2019	153,863	0	0	89,753	64,110	28 March 2022	£112,577
2020 DSP	30 March 2020	0	47,741	0	0	47,741	30 March 2023	£83,833
Total		**644,846**	**47,741**	**78,252**	**284,265**	**330,070**		**£579,603**

Notes:
DSP and Bonus Matching Plan (BMP) awards are not subject to performance conditions. The BMP is the legacy long-term incentive plan which preceded the PSP.
There are no awards which have vested but have not been exercised.
(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 2020 of £3.75 (a share price of £1.756 at 7 April 2020 for Andy Koss). For Sharesave options, this is the intrinsic value, e.g. based on the excess value at 31 December 2020 over and above the exercise price.
(3) Andy Koss stepped down from the Board on 7 April 2020 and was not granted an award under the 2020 LTIP.

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 as at 31 December 2020, when the share price was £3.75 per share.

Director	Number of shares	Value at year end
John Baxter	10,000	£37,500
Philip Cox	60,000	£225,000
David Nussbaum	0	£0
Nicola Hodson	0	£0
Vanessa Simms	0	£0

Service agreements or contracts for services

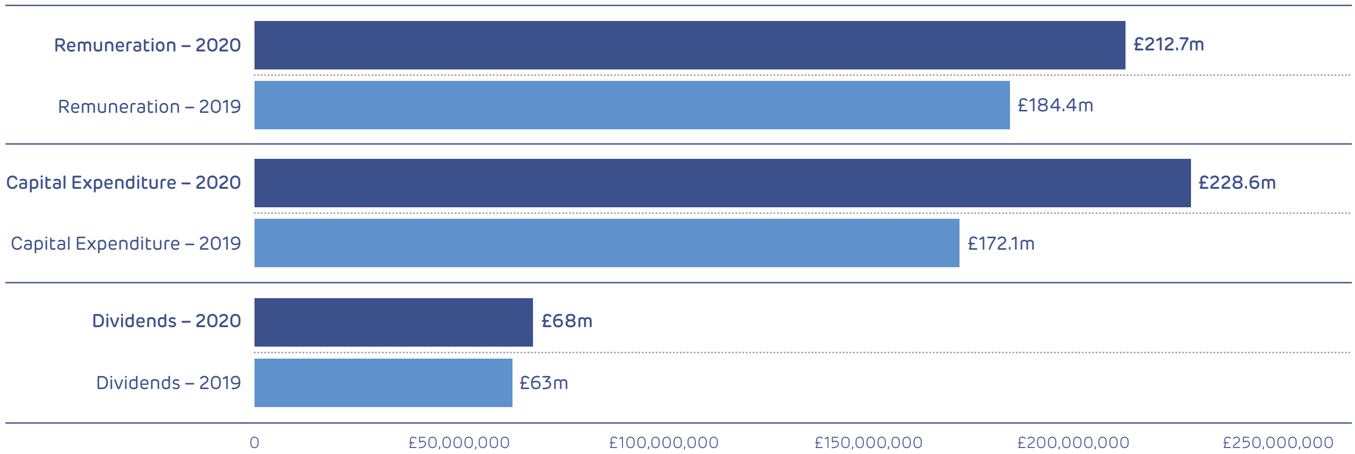
The following table shows, for each director of the Company at 24 February 2021, or those who served as a director of the Company at any time during the year ended 31 December 2020, the start date and term of the service agreement or contract for services, and details of the notice periods. New contracts for services for Philip Cox, Nicola Hodson and David Nussbaum were agreed in 2020.

Director	Contract start date	Contract term (years)	Unexpired term at date of publication	Notice period by the Company (months)	Notice period by the Director (months)
Will Gardiner	16 November 2015	Indefinite term	Not applicable	12	12
Andy Skelton	2 January 2019	Indefinite term	Not applicable	12	12
Andy Koss (1)	6 June 2005	Indefinite term	Not applicable	12	12
John Baxter	17 April 2019	3 years	1 years and 2 months	1	1
Philip Cox	1 January 2021	3 years	2 years and 11 months	6	6
Nicola Hodson	12 January 2021	3 years	2 years and 11 months	1	1
David Nussbaum	1 August 2020	3 years	2 years and 6 months	1	1
Vanessa Simms	19 June 2018	3 years	4 months	1	1

Note:
(1) Andy Koss stepped down from the Board on 7 April 2020.

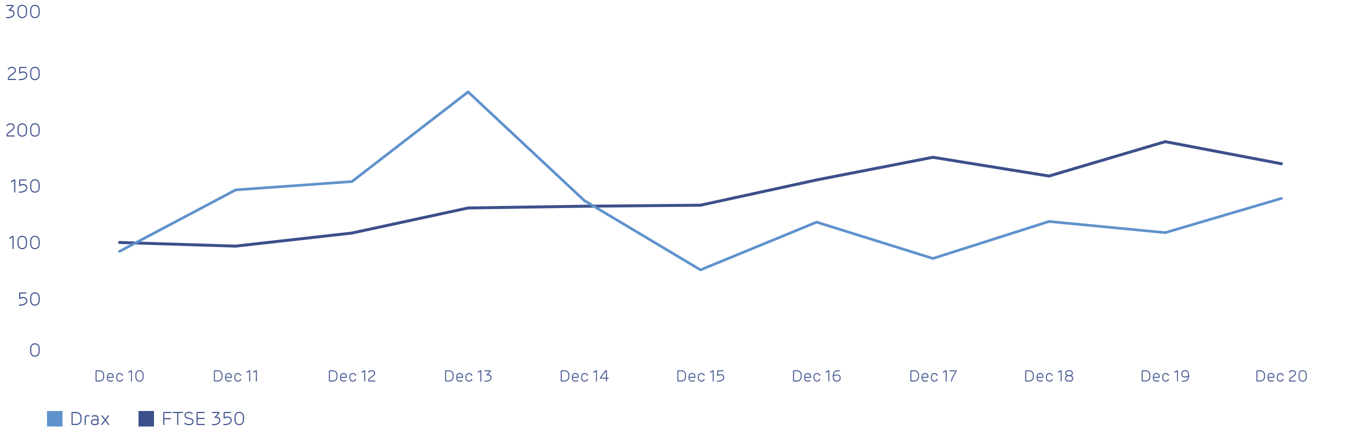
Relative importance of spend on pay

The table below illustrates the relative importance of spend on pay compared to other disbursements from profit, namely distributions to shareholders and capital expenditure. These were the most significant outgoings from the Group in the last financial year, other than normal operating costs.



Drax 10 year Total Shareholder Return performance to 31 December 2020

The graph below shows how the value of £100 invested in both the Company and the FTSE 350 Index (Index) on 31 December 2010 has changed. This Index has been chosen as a suitable broad comparator against which the Company's shareholders may judge their relative returns given that the Company is a member of the FTSE 350 Index. The graph reflects the Total Shareholder Return for the Company and the Index referred to on a cumulative basis over the period from 31 December 2010 to 31 December 2020.



CEO's pay – last 10 financial years

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO's total single figure (£000)	1,196	1,406	3,360	1,854	1,248	1,581	1,236	1,885	1,121	1,900
Bonus (% of maximum awarded)	100%	100%	100%	73%	46%	88%	53%	53%	45%	45%
LTIP Awards (% of maximum vesting)	–	–	–	40.52%	21.66%	15.43%	0%	57.63%	18.00%	57.20%

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 2019 and 2020 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 vast 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)
Will Gardiner	3.0%	0.0%	19.2%
Andy Skelton	3.0%	0.0%	9.4%
Andy Koss(1)	3.0%	0.0%	9.4%
Philip Cox	0%	N/A	N/A
John Baxter	0%	N/A	N/A
Nicola Hodson	0%	N/A	N/A
David Nussbaum	0%	N/A	N/A
Vanessa Simms	0%	N/A	N/A
Average for UK employees	3.0%	0.0%	0.0%

Notes:
(1) Andy Koss stepped down from the Board on 7 April 2020 and continued to be employed until 30 June 2020. In this table his remuneration has been annualised to provide a representative comparison.

The Non Executive Directors only receive a fee and the existing fees were unchanged in 2020. The average base salary increase resulting from the April 2020 pay review was 3% for the wider workforce, which was the same base salary increase which Will Gardiner, Andy Skelton and Andy Koss received. With respect to taxable benefits, there were no material change to Drax's existing benefits policies in 2020, both respect to benefits offered and level of cover. The bonus opportunities for all employees except the Executive Directors were unchanged in 2020, and the 2020 Scorecard outcome was the same as the 2019 Scorecard outcome (0.90). The bonus opportunity for Will Gardiner increased from 150% of salary to 175% in 2020, and for Andy Skelton and Andy Koss it increased from 140% to 150%.

CEO pay ratio

The table below sets out the CEO pay ratio for 2020, along with the comparative ratio for 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 123 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	50th Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2020	Option A	65:1	38:1	25:1
2019	Option A	42:1	25:1	16:1

Notes:
(1) The outturn of this KPI is part of the Group's independent financial audit

The methodology used for calculating the 2019 and 2020 pay ratios was the same. The total remuneration of all UK employees of the Group on 31 December 2020 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2020. 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 2020 for all UK employees on an FTE basis), as we believe it is the most robust and most statistically accurate method of the options permitted and it is in line with the preference of BEIS.

Set out in the table below is the base salary and the total pay and benefits for each of the identified employees.

Element	25th Percentile (P25)	50th Percentile (P50)	75th Percentile (P75)
Base Salary	£25,565	£35,137	£64,485
Total Pay and Benefits	£29,237	£49,793	£76,968

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 2020 pay ratios report a wider gap between actual earnings of the CEO and UK employees (than compared to the 2019 CEO pay ratios) and this is ultimately due to a higher vesting of the 2018 PSP than the increase in the maximum bonus opportunity in the vesting of the 2017 PSP which was included in the 2019 CEO pay ratios (57.2% versus 18.0% respectively) and the increase in bonus opportunity in 2020 for the CEO.

The Group is comprised of various different business units and teams with different levels of pay, including call centre staff, support staff and engineers. The Committee reviews information about employee pay, reward and progression policies of the Group and, (given the relative differences in responsibilities of the roles, the pay relativities between grades within the organisation, and the positioning of pay versus the wider market), is comfortable that the median pay ratio is consistent with these policies.

Statement of implementation of the Remuneration Policy in 2021

This section sets out the proposed implementation of the Directors' Remuneration Policy in 2021. No deviations from the procedure for the implementation of the policy are proposed.

Base salary

Below are the base salaries of the Executive Directors to take effect on 1 April 2021. This is an increase of 2.0%, which is consistent with the base salary increases for the wider workforce in accordance with the Policy.

	Base salary as at 1 April 2020 £000	Base salary as at 1 April 2021 £000	Percentage increase
Will Gardiner	561	572	2.0%
Andy Skelton	366	373	2.0%

Benefits and pension

There are no changes intended to the benefits provided to Executive Directors. Pension contributions for the existing Executive Directors will be unchanged compared to 2020 but will be aligned with the rate applicable for new joiners to the wider workforce (currently 10% of base salary) from 1 January 2023.

Remuneration Committee report continued

Annual bonus

The Group Scorecard measures for 2021 have been established for the Group and for each Group business. The 2021 Scorecard will include fewer metrics than in the Scorecards of previous years. This will enable the metrics which are included in the 2021 Scorecard to have a more meaningful weighting, and more impact on the outturn of the 2021 Bonus.

We announced on the 8 February 2021 the proposed acquisition of Pinnacle Renewable Energy Inc., which is subject to Drax and Pinnacle shareholder approval, and court and regulatory approvals. As this transaction would materially impact all metrics in the 2021 Scorecard, it is not possible to set the precise targets at this time. The targets will be set as soon as is practicable once there is confirmation of whether the acquisition will or will not proceed. As far as possible, details of performance against the metrics will be disclosed in the 2021 Annual Report on Remuneration. The following table sets out the categories and a description of the measures.

Target	Reason for use
Financial metrics (60% weighting in the Scorecard)	
Group adjusted EBITDA (1)	Adjusted EBITDA is our principal financial metric, combining the underlying performance of each business to give a Group outcome.
Leverage (2)	A 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 (40% weighting in the Scorecard)	
Progress on strategic projects	This element will assess progress against key strategic projects. The choice of projects included in this measure will be subject to approval of the Board.
Environmental, employees and sustainability/ reputation (2)	Sustainability and Environmental practices are a critical part of our values, vision and how Drax will create long-term sustainable returns for shareholders. We have adopted an environmental KPI which supports our commitment around tackling climate change. This is combined with independent rating of how well we engage and support our employees, in addition to an independently determined rating of our reputation in sustainable business practices

Notes:
(1) The outturn of this KPI is part of the Group's independent financial audit
(2) The outturn of this KPI is independently reviewed

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.

If the acquisition of Pinnacle Renewable Energy Inc. is approved, it is expected to be completed in Q2 or Q3 2021. It is intended that the 2021 LTIP grant is made on the normal timetable at the beginning of April 2021, but the targets for the EPS performance condition will be set as soon as practicable following either, the completion of the acquisition, or confirmation that the acquisition will not proceed. This will allow the EPS target, which is cumulatively measured over the three year performance period, to more accurately reflect the impact of the acquisition and to align with shareholder experience over the performance period. Full information regarding the targets associated with the performance conditions for the 2021 LTIP grant will be announced via RNS no later than three months after the completion of the acquisition.

Non-Executive Directors' fees

The Chair and Non-Executive Directors' fees were reviewed by the Board in February 2021, and it was agreed that they would increase by 2% for 2021. The increase of 2% is consistent with the average increase of the wider workforce resulting from the 2021 pay review. The new annual fee structure will be disclosed in the 2021 Annual Report on Remuneration.

Shareholder voting

The table below shows the voting outcome at the 2020 AGM on the 2019 Annual Report on Remuneration. The votes cast represent 81.05% of the issued share capital. In addition, shareholders holding 9,833 shares abstained.

Voting on the 2019 Annual Report on Remuneration	For	Against
Number of votes	317,761,152	3,781,556
Proportion of votes	98.82%	1.18%

The table below shows the voting outcome at the 2020 AGM on the Directors' Remuneration Policy. The votes cast represent 81.05% of the issued share capital. In addition, shareholders holding 11,106 shares abstained.

Voting on the 2020–23 Directors' Remuneration Policy	For	Against
Number of votes	304,206,978	17,334,456
Proportion of votes	94.61%	5.39%

Committee activity and key decisions in 2020

The key matters considered and decisions reached by the Committee in 2020 are shown in the table below:

Our workforce
Reviewed the application of the increases from the annual salary review
Approved the outcome of the 2019 Group Scorecard and approved the outturn of the 2019 Group Bonus Plan
Reviewed 2020 Gender Pay Gap statistics and approved the reporting of them
Adopted the 2020 Group Scorecard for the purpose of determining relevant aspects of 2020 remuneration
Reviewed the findings from a review of the all employee Total Reward Offering and inputted on resulting changes

Executives and senior management
Approved a proposal for members of the Executive Committee and senior staff salary review
Approved Executive Director and Executive Committee member annual bonus awards for 2019
Approved the Deferred Share Plan and LTIP awards for 2020
Approved the vesting of the 2017 PSP awards

Committee governance
Reviewed the Directors' Remuneration Policy which was put to shareholders for approval at the 2020 AGM and consulted with major shareholders on the key proposed changes
Considered and approved the 2019 Annual Report on Remuneration
Approved the operation of the all-employee Sharesave Share Plan in 2020 and approved in principle the operation of share plans in 2021
Received an update on workforce engagement
Reviewed the fees paid to PwC as, the Committee's remuneration adviser and reviewed PwC's independence

In 2020, the Remuneration Committee was chaired by Nicola Hodson. Other members of the Remuneration Committee during the year were John Baxter; Philip Cox; David Nussbaum and Vanessa Simms, all of whom are independent Non-Executive Directors. The Group Company Secretary was secretary to the Committee. The CEO was invited to attend meetings of the Committee, except when his own remuneration was discussed, as was the Chief Transformation Officer and the Head of Reward.

Adviser to the Committee

The adviser to the Committee for the year was PwC. PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of Executive Directors and Non-Executive Directors. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest.

From time to time the Group engages PwC to provide financial, taxation and related advice on specific matters. The Committee will continue to monitor such engagements in order to be satisfied that they do not affect PwC's independence as an adviser to the Committee. PwC was paid £101,000, excluding VAT, during 2020 in respect of advice given to the Committee determined on a time and material basis.

This report was reviewed and approved by the Remuneration Committee.

Nicola Hodson
Chair of the Remuneration Committee
24 February 2021

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 2020. 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 206.

Directors

The following Directors held office throughout the year:

Philip Cox
Will Gardiner
Andrew Skelton
Andrew Koss (until 7 April 2020)
David Nussbaum
Nicola Hodson
Vanessa Simms
John Baxter

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.

Annual General Meeting (AGM)

The AGM will be held at 11.30am on 21 April 2021 at 8-10 The Lakes, Northampton NN4 7YD. 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 6.8 pence per share was paid on 2 October 2020 (2019: 6.4 pence), to shareholders on the register on 21 August 2020.

The Directors propose a final dividend of 10.3 pence per share (2019: 9.5 pence), which will, subject to approval by shareholders at the AGM, be paid on 14 May 2021, to shareholders on the register on 23 April 2021.

Details of past dividends can be found on the Company's website at **www.drax.com/investors/dividend-history**.

Share capital

Drax Group plc has a Premium Listing on the London Stock Exchange and currently trades as part of the FTSE 250 Index, under the symbol DRX and with the ISIN number GB00B1VNSX38.

The Company has only one class of equity shares, being ordinary shares of 11 $^{16}/_{29}$ 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 4.5 to the financial statements on page 188.

Shares in issue

At 1 January 2020	410,475,731
Issued in period	373,203
At 31 December 2020	410,848,934
Treasury shares at 31 December 2020	13,841,295
Total voting rights at 31 December 2020	397,007,639
Issued between 1 January and 24 February 2021	1,180
At 24 February 2021	410,850,114
Treasury shares at 24 February 2021	13,841,295
Total voting rights at 24 February 2021	397,008,819

Authority to purchase own shares

At the AGM held on 22 April 2020, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. At the 2021 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 16 can be found in the Notice of Meeting.

Interests in voting rights

Information provided to the Company in accordance with the Financial Conduct Authority's Disclosure and Transparency Rules (DTR) is published in a timely manner on the London Stock Exchange's Regulatory News Service – a Regulatory Information Service and also on the Company's website.

As at 24 February 2021, 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)
Artemis Investment Management	6 May 2020	–	20,017,855	–	20,017,855	5.04%
BlackRock Inc	22 Jun 2020	–	23,524,482	1,178,747	24,703,229	6.22%
Invesco Limited	22 Oct 2020	–	38,578,024	–	38,578,024	9.71%
Orbis Holdings Limited	12 Feb 2021	–	20,018,646	–	20,018,646	5.04%
Schroders plc	24 Feb 2021	–	57,373,627	4,761	57,378,388	14.45%

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/policies. The Articles may only be changed by shareholders by special resolution. The Company is proposing to adopt new Articles at the 2021 AGM. Further details of the proposed changes are contained in the Notice of Meeting for the AGM.

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 that class, or with the sanction of an extraordinary resolution passed at a separate General Meeting of the holders of those shares.
- Transfer of shares – provides detail of how transfers of shares in certificated and uncertificated form 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 and deadlines for exercising voting rights – 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 voting deadlines, the Articles provide for the submission of proxy forms not less than 48 hours 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. A trustee holds shares on behalf of employees in respect of the Group's Share Incentive Plan. The voting rights attached to such shares are not directly exercisable by the employees. The employee may direct the trustee on how to vote at a General Meeting and the trustee may only cast its vote in respect of shares over which it has received a valid direction from employees.

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 did not make any political donations in 2020. 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 being carbon neutral by 2050. Further information on how we engage with stakeholders can be found on pages 40 to 45, and our Political Engagement Policy can be found on the Company's website at: www.drax.com/about-us/drax-political-engagement-policy.

While we do not believe that any expenditure incurred as a result of this engagement would be considered a political donation under the Companies Act 2006 ("the Act"), due to the broad definition of political donations and as a matter of good governance and transparency, we have provided information on areas of expenditure which may be regarded as falling within the scope of the Act. During the year ended 31 December 2020, Drax exhibited at, and held events at, conferences organised by political parties, spending a total of £11,180 (2019: £41,065). These events allow Drax to present its views on a non-partisan basis to politicians from across the political spectrum and non-political stakeholders such as NGOs and other listed and non-listed companies. These payments do not indicate support for any political party. The recipients were the Conservative Party (£1,700) and the Labour Party (£9,480).

At our 2021 AGM, Drax will be seeking renewal from shareholders of the existing authority approved at the 2020 AGM. More details are contained in the Notice of Meeting.

Other significant agreements

- A £300 million facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and as further amended and restated on 18 November 2020) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the "Facility Agreement").
- A £35 million term facility agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and as further amended and restated on 18 November 2020) with Drax Corporate Limited as borrower (the "Term Facility Agreement").
- An indenture dated 26 April 2018 (as amended and supplemented from time to time, including by a supplemental indenture dated 12 February 2019 and a supplemental indenture dated 16 May 2019) between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing $500 million 6.625% senior secured notes due November 2025 (the "2018 Indenture").
- An indenture dated 4 November 2020 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing €250 million 2.625% senior secured notes due 2025 (the "2020 Indenture" and, together with the 2018 Indenture, the "Indentures").
- A £375 million term loan facilities agreement dated 24 July 2019 between, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) (the "2019 Private Placement").
- A £98 million and €126.5 million term loan facilities agreement dated 18 August 2020, amongst others, Drax Corporate Limited and Banco Santander S.A., London Branch (as facility agent) (the "2020 Private Placement").

Under the Indentures, a change of control (a "Notes Change of Control") occurs if any person other than Drax Group plc becomes the ultimate beneficial owner of more than 50% of the voting rights of Drax Group plc's direct subsidiary, Drax Group Holdings Limited (unless replaced by a successor parent company), or else if all or substantially all of the assets of Drax Group Holdings Limited are disposed of outside of the Group. No later than 60 days after any change of control, Drax Group Holdings Limited must offer to purchase any outstanding notes at 101% of the principal amount of such notes plus accrued interest and other unpaid amounts.

Under the Facility Agreement, the Term Facility Agreement, the 2019 Private Placement and the 2019 Private Placement, 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.

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 77 contains disclosures in relation to workforce engagement, stakeholder engagement, diversity, Greenhouse Gas emissions, future development and research activities.

Post balance sheet events

On 15 December 2020 the Group announced the sale of Drax Generation Enterprise Limited, owner of four Combined Cycle Gas Turbine (CCGT) power stations, to VPI Holding Limited for consideration of up to £193.3 million, subject to customary adjustments. The sale completed on 31 January 2021. Following the sale the Group no longer operates any CCGTs.

On 8 February 2021, the Group announced that it had signed an agreement with Pinnacle Renewable Energy Inc. (Pinnacle), providing for the acquisition by Drax Canadian Holdings Inc., an indirect, wholly-owned subsidiary of Drax, of the entire issued share capital of Pinnacle (the Acquisition). The Acquisition will be implemented by way of a statutory plan of arrangement in accordance with the laws of the Province of British Columbia, Canada, at a price of C$11.30 per share (representing a premium of 13% based on the closing market price as at 5 February 2021 of C$10.04 per share and valuing the fully diluted equity of Pinnacle at C$385 million (£226 million), with an implied enterprise value of C$741 million, including C$356 million of net debt.) The Acquisition, which remains subject to Drax and Pinnacle shareholder approval, court approval, regulatory approvals and the satisfaction of certain other customary conditions, is expected to complete in the second or third quarter of 2021.

Auditors and the disclosure of information to the auditor

So far as each person serving as a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing the report, of which the auditor is unaware. Having made enquiries of fellow directors, each Director has taken all steps that he/she ought to have taken as a Director to ascertain any relevant audit information and to establish that the auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act.

Resolutions will be proposed at the AGM for (i) the reappointment of Deloitte LLP as the auditor of the Group; and (ii) authorising the Directors to determine the auditor's remuneration. As explained, the Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and its relationship with the Group, including the level of audit and non-audit fees paid to the auditor. Further details on the work of the auditor and the Audit Committee are set out in the Audit Committee report on pages 98 to 107.

The Directors' report was approved by the Board on 24 February 2021 and is signed on its behalf by:

Brett Gladden
Group Company Secretary

Registered office: Drax Power Station, Selby, North Yorkshire, YO8 8PH

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), set out in FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 24 February 2021 and is signed on its behalf by:

Will Gardiner
CEO

Verification statements

Verification Statement from Lloyd's Register Quality Assurance Limited

Lloyd's Register Quality Assurance Limited ("LR") has provided independent limited assurance to Drax Corporate Limited ("Drax") over specific data within the Drax Group plc Annual Report 2020 ("the Report") including the following:

- Group GHG emissions (Scope 1 and 2)
- Group GHG emissions (Scope 3)
- Water abstraction and discharge
- Total Recordable Injury Rate
- 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. LR'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 2020.

The assurance process was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after December 15, 2015), issued by the International Auditing and Assurance Standards Board.

Bureau Veritas' full assurance statement includes certain limitations, exclusions, observations, and a detailed assurance methodology and scope of work.

The full assurance statement with Bureau Veritas' independent opinion can be found at www.drax.com/sustainability

Giving our workforce a voice

"I've chaired one of the workforce (MyVoice) engagement forums for almost two years, In that time, the forums have transformed, and we've really been able to shape how information is effectively fed back and forth between our Board and our colleagues. We've formed open and honest relationships, enabling everyone to have their say on the things that matter to them at work, from wellbeing through to training and practical ways of working. We can now proudly say that our colleagues – through their My Voice Forums – have been able to influence and have a real, measurable impact on many decisions that our business and the Board have made during 2020."

Lucy Walton,
Internal Comms Business Partner and MyVoice forum chair

Biomass Domes at Drax Power Station, Yorkshire

Doing the right thing

"In 2020, we developed and published two Codes of Conduct, one for colleagues and one for suppliers. These Codes cover a wide range of important topics that help underpin our culture of acting with integrity and doing the right thing. They provide colleagues, non-permanent workers, and suppliers with valuable guidance on the standards and behaviours expected when working at, or with, Drax. The colleague Code also includes embedded videos, which act as a really helpful training tool. Developing the Codes was a fantastic project management opportunity and involved collaboration with many colleagues across the business. Deployment has been a great success, with lots of positive feedback received."

Nicola Garrett,
Business Ethics Manager

Financial statements contents

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 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- 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 151 to 153;
- the notes 2.1 to 8.3 related to the consolidated financial statements; and
- the notes 1 to 9 related to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group for the year are disclosed in note 2.3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided 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	The key audit matters that we identified in the current year were: • Valuation of commodity and foreign exchange contracts • Estimation of Customers unbilled revenue • Impairment of OCGT development assets • Estimation of Opus Energy bad debt provision Within this report, key audit matters are identified as follows: 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 £12.3m In determining materiality we took into consideration a number of metrics, but with particular focus on Earnings before Interest, Taxation, Depreciation and Amortisation, excluding the impact of exceptional items and certain remeasurements (Adjusted EBITDA). Our selected materiality represents approximately 3% of Adjusted EBITDA (from continuing and discontinued operations) for the year.
Scoping	We focused our Group audit scope primarily on the audit work at four components, being Drax Generation, Haven Power, Opus Energy and Drax Biomass. These components represent the principal business units and account for virtually all of the Group's net assets, revenue and profit before tax.
Significant changes in our approach	Estimation of the Opus Energy bad debt provision has been identified as a key audit matter in the current year. This reflects the increase in unpredictability of the collectability of receivables caused by the financial distress created by the Covid-19 pandemic. Other aspects of our audit approach remain broadly consistent with the prior year.

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:

- reviewing the group's borrowing arrangements including consideration of the new £300m revolving credit facility, which matures in 2025;
- assessing the assumptions used in the Group's Business Plan, including performing sensitivity analysis in relation to assumptions for future commodity prices;
- assessing the impact of Covid-19 on the Group; and
- reviewing the amount of headroom in the forecasts.

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 commodity, foreign exchange and other contracts

Key audit matter description	Net losses on derivative contracts recognised in the consolidated income statement in the year, from continuing operations, are £70.3m (2019: losses of £119.2m), with related derivative assets of £283.3m and liabilities of £453.6m recognised on the consolidated balance sheet as at 31 December 2020. The Group has exposure to a number of different financial risks including foreign exchange risk and commodity risk, and uses a variety of derivative contracts to mitigate these risks, including commodity contracts, floating swap forwards and cross currency swaps. The valuation of derivative contracts is complex and requires judgement in areas including the selection of appropriate valuation methodologies, and assumptions, including in respect of future market prices, credit risk factors, time value of money and spread adjustments. Due to the inherent risks as described above, the large volume of data involved in the contract valuations, the complex valuation methodologies and models applied, and the requirement for certain manual adjustments, typically for credit risk, we have identified a risk of error and a potential fraud risk relating to the possibility for management or employees of the company to value trades inappropriately. Further detail of the key judgements are disclosed in the Audit Committee report on pages 102 to 104. Section 7 sets out the financial risk management notes.
How the scope of our audit responded to the key audit matter	We tested the relevant controls related to the valuation of commodity and foreign exchange contracts. With involvement of our internal financial instrument specialists we tested management's key judgements and calculations. This included testing a sample of trades undertaken to trade tickets and checking key contractual terms such as volumes and contracted prices. We have assessed the valuation models used by management, including any manual adjustments to determine the fair value of the derivative instruments and performed independent valuations across a sample of both commodity and foreign exchange contracts. We have analysed the appropriateness of management's forward price curve assumptions by benchmarking these to third party sources. We also reviewed the consistency of the assumptions used across other areas of the financial statements, such as asset impairment, where relevant. We have challenged management's approach and assumptions involved in assessing fair value adjustments such as credit risk, time value of money and spread adjustments through consideration of third party data.
Key observations	From our testing, we are satisfied that the valuation of commodity and foreign exchange contracts is reasonable. We consider the valuation models used by management to be appropriate and the forward price curve assumptions are within acceptable ranges.

5.2. Estimation of Customers unbilled revenue

Key audit matter description	The recognition of retail revenue requires an estimation of customer usage between the date of the last meter reading and year end, which is known as unbilled revenue. Across the Customers division, unbilled revenue at the balance sheet date amounted to £204.6m (2019: £207.6m). The method of estimating unbilled revenue is complex and judgemental and requires assumptions for both the volumes of energy consumed by customers and the related value. We identified a risk of error and a potential fraud risk in relation to revenue recognition in the Customer businesses, in particular to the estimates underpinning unbilled revenue, as these judgemental areas could be manipulated by management to misreport revenue. Further detail of the key judgements are disclosed in the Audit Committee report on pages 102 to 104. Accrued income is disclosed in note 3.6.
How the scope of our audit responded to the key audit matter	We tested the relevant controls related to the estimation of certain aspects of unbilled revenue, including controls over the reconciliation of meter readings provided by the energy markets, and which are used by management to estimate the power supplied. We also tested the controls over the price per unit applied in the valuation of certain aspects of unbilled revenue. When external market information was not available at the balance sheet date, we obtained and evaluated management's reconciliation of the volume of power purchased to their calculations of revenue supplied and completed sample tests to check that the December 2020 unbilled revenue amount was subsequently billed. We also reviewed the aggregate unbilled revenue balance from previous periods to test that the volumes recognised were appropriate in line with the values accrued.
Key observations	Our retrospective reviews of estimated revenues found that management have historically achieved a high level of accuracy. We considered the estimates for revenue earned in the year to be appropriate.

5.3. Impairment of OCGT development assets

Key audit matter description	An asset of £47.0m (2019: £41.9m) is recognised within the consolidated balance sheet at 31 December 2020 in relation to development assets for OCGT projects. Continued development, construction and operation of these assets is ultimately dependent upon the ability to secure sufficient future income at an appropriate level in order to reduce the project risk and associated returns to an acceptable level. The business case for these projects is predicated on the ability to secure a Capacity Market contract at an appropriate level. Historical Capacity Market clearing prices are noted to be below the levels required for further development of these projects and we identified a key audit matter, and a potential fraud risk, in respect of the recoverable value of these assets and whether any impairment is required. Estimating the recoverable value of these assets requires judgement in relation to key assumptions including discount rates, future income levels and capital costs. Assumptions relating to long term revenues and costs are inherently difficult to assess and the headroom calculated is highly sensitive to all these key assumptions. Further detail of the key judgements are disclosed in the Audit Committee report on pages 102 to 104. Intangible assets are disclosed in note 5.3.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls in relation to management's impairment assessment process. We have reviewed management's models and challenged the key assumptions including discount rates, income assumptions and capital costs. We have benchmarked income assumptions against third party reports prepared by reputable market analysts and worked with internal valuation specialists to prepare an independent assessment of discount rates. We have challenged management over the appropriateness of capital cost assumptions in light of asset specifications and procurement strategies for the project. We have undertaken analysis and testing including: • Running a range of sensitivities including alternative scenarios to assess whether an impairment would be required if other assumptions were adopted; • Verifying the mathematical accuracy of the cash flow models; and • Assessing whether the disclosures in note 5.3 of the financial statements appropriately disclose the key judgements taken so that the reader of the accounts is aware of the impact in the financial statements of changes to key assumptions that may lead to impairment.
Key observations	We believe that the assumptions used by management are appropriate and supported by third party independent assessments. Discount rates applied by management (7.0%) are considered to be at the lowest end (that is, optimistic end) of the range expected for projects of this nature. Based on alternative scenarios we are satisfied that no impairment is required.

5.4. Estimation of Opus Energy bad debt provision

Key audit matter description	The financial distress created by the Covid-19 pandemic has increased the rate of defaults across several industries and a rise in the amount of bad debts. Management needs to exercise significant judgement over the level of bad debt provision required on their receivables at reporting dates which is increasingly difficult due to unpredictability of when the economic environment will improve. We identified a risk of error and a potential fraud risk in relation to the estimation of bad debt provision for the customers of Opus Energy given their customers are largely small and medium enterprises ("SME"), including some in the retail, entertainment and hospitality industries. and the range of judgement that could apply is far greater than associated with Haven Power's larger industrial customers. The bad debt provision associated with Opus Energy at the balance sheet date amounted to £51.4m (2019: £37.8m). To calculate the provision, management use a bad debt model, which includes assumptions for the impact of Covid-19 and lifetime expected credit outcomes for receivables. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on page 152 and the Audit Committee report on pages 102 to 104. The bad debt provision is disclosed in note 3.6.
How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls related to the estimation of the bad debt provision. With involvement of our specialist modelling team, we performed a review of the bad debt model. We tested the completeness and accuracy of the data used in the model. We challenged management's assumptions, including for the impact for Covid-19, and challenged whether they reflect the lifetime expected credit outcomes for receivables. This work included analysis of cash payment trends and cancellation of direct debits. We benchmarked the recorded provision against alternative valuation models, including cash collection rates and external valuations.
Key observations	Based on the work performed we concluded that the bad debt provision has been appropriately stated.

6. Our application of materiality

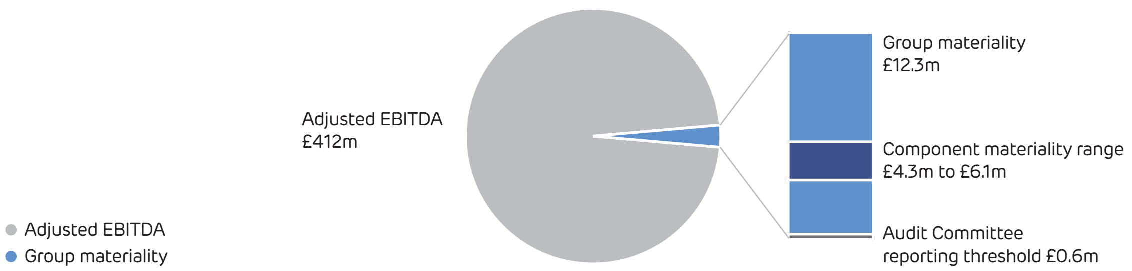
6.1. Materiality

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	£12.3m (2019: £12.2m)	£6.0m (2019: £5.6m)
Basis for determining materiality	In determining materiality we considered by considering a range of possible benchmarks but with a particular focus on Adjusted EBITDA, which excludes the impact of exceptional items and certain remeasurements. We also considered together with profit before and after interest and tax as well as the scale of the balance sheet and the overall size of the business. Our selected materiality represents approximately 3.0% of Adjusted EBITDA (continuing and discontinued operations) for the year (2019: 3.0%) the basis of which is consistent with the prior year.	Component materiality for the parent company has primarily been determined on the basis of the net assets and capped at 49% (2019: 46%) of the materiality identified for the Group. This is a judgement and reflects the significant value of investments held on the balance sheet at the year end (£724.9m). Parent company materiality equates to 0.8% of net assets (2019: 0.8%).

	Group financial statements	Parent company financial statements
Rationale for the benchmark applied	We consider that Adjusted EBITDA is of particular relevance to users of the financial statements and is a key measure of performance used by the Group. It excludes volatility caused in particular by the remeasurements of derivative contracts and exceptional items, defined as those transactions that, by their nature, do not reflect the trading performance of the Group in the period. Although the sale of the non-core gas portfolio has triggered the disclosure of discontinued operations, we consider it appropriate to use both continuing and discontinued operations in the calculation of Adjusted EBITDA as the discontinued operations contributed a full year of results to the Group.	When determining materiality, we considered the net assets of the company as its principal activity is as an investment holding company for the Group.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • The low level of historical uncorrected misstatements within the consolidated financial statements; • Our assessment of the control environment and conclusions from our testing of group wide controls; and • The lack of significant changes in the business in the year which would impact on our ability to forecast expected level of misstatement.	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6m (2019: £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.

Independent Auditor's report to the members of Drax Group plc continued

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 focused our Group audit scope primarily on the audit work at four components, being Drax Generation, Haven Power, Opus Energy and Drax Biomass. These represent the principal business units of the Group and account for virtually all of the Group's net assets, revenue and profit before tax. This is in line with our audit approach from the prior year.

All work was performed by the UK audit team under the supervision of the Senior Statutory Auditor.

A full scope audit was performed for all significant components. This scope was selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. 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 £4.3m to £6.1m (2019: £4.0m to £6.0m).

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

During 2019 the Senior Statutory Auditor visited the primary locations for all four significant components. In the current year, this has not been possible due to the Covid-19 restrictions, and we have audited all locations working remotely.

7.2. Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the group's IT systems. Working with IT specialists we identified and assessed relevant risks of material misstatement arising from each relevant IT system and the supporting infrastructure technologies based on the role of application in the Group's flow of transactions. We obtained an understanding of the IT environment as part of these risk assessment procedures. Relevant controls were identified and tested to address those IT risks over the following systems:

- Oracle
- Aligne
- ERS Billing system at Haven Power

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 enquiries of management, internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions, IT, valuation and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of commodity, foreign exchange and other contracts, estimation of Customers unbilled revenue, impairment of OCGT development assets, estimation of Opus Energy bad debt provision, cut-off of bilateral sales and working capital transactions. 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 frameworks 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 included the UK Companies Act, Listing Rules, Pensions legislation, Tax legislation, and Regulations established by regulators in the key markets in which the Group operates, including the Office of Gas and Electricity Markets (Ofgem). In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified estimation of valuation of commodity and foreign exchange contracts, estimation of Customers unbilled revenue, impairment of OCGT development assets and estimation of Opus Energy bad debt provision as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC;
- in addressing the risk of fraud in cut-off of bilateral sales, in addition to our testing described above we have performed focussed testing on trades close to the year end combined with analytical review procedures to assess accuracy and completeness of revenue recognised; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
  In addition, we have challenged management on the rationale for the use of working capital transactions, entered into. We also reviewed the accounting treatments adopted by management against the specific contractual terms and arrangements associated with each working capital transaction and reviewed the related disclosures in the financial statements;

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's report to the members of Drax Group plc continued

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 27, 64 and 65;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 27, 64 and 65;
- the directors' statement on fair, balanced and understandable set out on page 138;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 66 to 77;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 66 and 67; and
- the section describing the work of the audit committee set out on page 98 to 107.

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 22 April 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2005 to 2020.

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.

Anthony Matthews FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
24 February 2021

Financial statements

Introduction

The consolidated financial statements provide detailed information about the financial performance (Consolidated income statement and Consolidated statement of comprehensive income), financial position (Consolidated balance sheet), reserves (Consolidated statement of changes in equity), and cash flows (Consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on the items in the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity and Consolidated cash flow statement. The notes include explanations of the information presented. In general, the additional information in the notes to the financial statements is required by law, International Financial Reporting Standards (IFRS) or other regulations to facilitate increased understanding of the primary statements set out on pages 154-158, as well as voluntary information which management believe users of the accounts may find useful, in line with the spirit of IFRS.

Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that are measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively).

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the average monthly exchange rate to the extent that this approximates the exchange rate prevailing at the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items are not retranslated.

Foreign exchange gains and losses arising on such retranslations are recognised in the Consolidated income statement within foreign exchange gains/(losses).

Foreign operations

The assets and liabilities of foreign operations with a functional currency other than sterling are translated into sterling using published exchange rates at the reporting date. The income and expenditure of such operations are translated into sterling using the average monthly exchange rate to the extent this approximates the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets, and its results for the year, are recognised in the Consolidated statement of comprehensive income.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 1 to 77 of this Annual Report. In particular, Brexit and Covid-19 are considered in the Financial Review on page 27.

In the viability statement on pages 64 to 65 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 three years.

Consequently, the directors also have a reasonable expectation that the Group will continue in existence for the next 12 months and, therefore, have adopted the going concern basis in preparing these financial statements.

Basis of consolidation

These consolidated financial statements incorporate the financial results of the Company and of all entities controlled by the Company (its subsidiaries) made up to 31 December each year. At 31 December 2020, the Company owned 100% of the equity of all subsidiaries.

Accounting policies

The significant accounting policies for the measurement of an individual item in the financial statements are described in the note to the financial statements relating to the item concerned (see contents on page 142).

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early-adopted any standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the financial statements.

Judgements and estimates

The preparation of financial statements requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements which have the most significant effect on the amounts recognised in the consolidated financial statements, and the key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below. Further detail, including sensitivity analysis where appropriate for the key estimates and assumptions, is included in the related notes.

Critical accounting judgements

The critical judgements made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements are set out below.

Certain remeasurements and exceptional items – Each year management confirms the judgements made regarding transactions to exclude from the Adjusted Results of the Group, as described under Alternative performance measures, below. The judgement as to whether a transaction or group of transactions should or should not be classified as a certain remeasurement or an exceptional item can have a significant impact on the Adjusted Results of the Group. An internal policy governs the judgements made by management and in all instances, these judgements are approved by the Audit Committee.

See note 2.7 on **page 170**

Closure of coal generation at Drax Power Station – On 26 February 2020, following a comprehensive review, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022. As a result of this closure decision, which reflected that the dependencies between the coal and biomass generating units are no longer considered to be significant, the Group has determined the Drax Power Station site to be comprised of two distinct cash-generating units (CGUs), one comprised of biomass generation assets and one comprised of coal generation assets. Previously, the Drax Power Station site was considered to be a single CGU. These Financial statements have been prepared on the basis that this change occurred on the date of the closure decision – 26 February 2020.

Following the closure decision, an impairment review was undertaken for the CGU containing the coal generation assets. This review indicated that the recoverable amount of the coal assets, calculated with reference to a value in use calculation based on the Group's latest approved forecasts, was significantly lower than their carrying value. As described in note 5.1, an asset obsolescence charge of £225.9 million has been recognised in the Consolidated income statement in respect of the coal generation assets CGU. There were no reasonably possible changes in the assumptions underlying the value in use calculation that would have resulted in a material change to the value of the asset obsolescence charge. This view has not subsequently changed. The asset obsolescence charge has been treated as an exceptional item and excluded from the Group's Adjusted Results.

See note 2.7 on **page 170** and note 5.1 on **page 190**

Accounting for biomass purchase and sale contracts – The Group buys and sells biomass from time to time. To date, these contracts have been entirely for operational purposes. During the first half of 2020, the Group approved a change in risk management policies to permit some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. Following this change, the Group undertook an assessment of whether contracts to buy and sell biomass are within the scope of IFRS 9. Previously, the own-use exemption was applied to these contracts, resulting in no amounts being recognised in respect of these contracts until they matured. If the contracts were deemed to be within the scope of IFRS 9, and the own-use exemption could not be applied, this would result in these contracts being required to be recognised at fair value as derivative assets/liabilities from inception.

This assessment concluded that, whilst the own-use exemption was likely to no longer apply to all biomass purchase and sale contracts, if and when sales contracts are executed for optimisation purposes, 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. Accordingly, the accounting for these contracts has not changed from prior periods in these financial statements and therefore the contracts are not recognised until delivery.

Property, plant and equipment – The weighted average remaining useful economic life for assets at Drax Power Station is 17 years. This is shorter than the 19 years to the current estimate of end of station life in 2039 but extends beyond the end date of current subsidies for biomass generation, which is in 2027. The Group does not consider the end of subsidies in 2027 to be an indicator of impairment for these assets, reflecting our expectations for biomass generation beyond this date.

See note 3.1 on **page 173**

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that carry the most significant risk of a material effect on next year's Financial statements – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Measurement of expected credit loss provisions – As a result of Covid-19, the Group has significantly increased its expectation of potential customer business failure rates and the resulting expected credit losses within the Customers business unit. The Group has updated its provisioning methodology, using data for collection performance since the implementation of lockdown measures in the UK during March 2020 and expectations regarding future default rates, to take account of this increased risk. The increase in the charge for impairment losses of trade receivables from £18.0 million in the year ended 31 December 2019 to £43.1 million in the year ended 31 December 2020 is driven by the anticipated impacts of Covid-19 on levels of bad debt, resulting in a closing provision, after adjusting for actual credit losses, of £56.4 million (as at 31 December 2019: £40.7 million).

Whilst the position adopted reflects the Group's current best estimate of possible outcomes, actual rates of bad debt will depend upon the severity and depth of Covid-19, the measures applied during 2021 and beyond, and actual cash collection rates. Accordingly, actual outturn may differ from the position adopted by the Group in these Financial statements.

See note 3.6 on **page 179**

Property, plant and equipment – Property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, anticipated future replacement cycles and other available evidence. Useful economic lives are reviewed at least annually. The carrying value of property, plant and equipment at 31 December 2020 is £1,941.1 million and depreciation on these assets in the year, based on the useful economic lives disclosed in note 3.1, was £125.8 million. If the useful economic lives were to increase or decrease by three years, the impact on the depreciation charge for the year would be approximately £22.4 million.

Impairment – An impairment review is conducted annually of goodwill and intangible assets with an indefinite life and as required for other assets and CGUs where an indicator of possible impairment exists. In 2020, an impairment assessment has been completed for five of the Group's CGUs which have allocated goodwill and intangible assets with an indefinite life. The assessment of future cash flows that underpins such a review is based on management's best estimate of a number of variables including retail margins, future commodity prices, supply volumes, capacity market clearing prices and macro-economic conditions. Certain CGUs have reasonably possible changes in assumptions which, if they were to change over the next twelve months, could lead to a material reduction in headroom, or a small impairment and are therefore additionally disclosed as a source of estimation uncertainty in respect of the disclosures provided. Further detail is contained within the references below.

See note 5.2 on **page 190** and note 5.3 on **page 192**

Pension liabilities – The Group records a net surplus or liability in its balance sheet for its obligation to provide benefits under approved defined benefit pension schemes, less the fair value of assets held by the pension schemes. The actuarial valuations of the schemes' liabilities are performed annually by an independent qualified actuary and depend on assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change. Two of the key estimates within the valuation are the discount and inflation rates. The value of the pension surplus recognised by the Group at 31 December 2020 in relation to the Drax ESPS scheme is £9.5 million and the value of the pension obligation recognised in relation to the Drax 2019 scheme is £1.3 million. Sensitivities in the valuations are discussed in note 6.3.

See note 6.3 on **page 201**

Alternative performance measures (APMs)

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 similar APMs presented by other companies.

Adjusted Results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total Results column on the face of the Consolidated income statement. Exceptional items and certain remeasurements are deducted from the Total Results in arriving at the Adjusted Results for the year. The Group's Adjusted Results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted Results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

The Group presents an additional subtotal in the Adjusted Results column. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. 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.

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, previous precedent and commercial context. Exceptional items are approved by the Audit Committee in line with an approved policy.

Certain remeasurements comprise fair value gains and losses on derivative forward contracts to the extent those contracts do not qualify for hedge accounting, or hedge accounting is not effective which, under IFRS, are recorded in revenue, cost of sales or foreign exchange gains/(losses) as described above. The Group regards all of its forward contracting activity to represent an economic hedge. The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of financial trading (such as forward foreign currency purchases), in the Adjusted Results. The result of this adjustment shows the impact in revenue, cost of sales and foreign exchange gains/(losses) at the time the transaction takes place.

See note 2.7 on **page 170**

Net debt

The Group defines net debt as total borrowings less cash and cash equivalents. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (see note 4.3) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 3.2), pension obligations and trade and other payables. Some of this debt is denominated in foreign currencies and the Group has entered into hedging arrangements associated with this currency exposure.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead were disclosed as operating commitments. This is consistent with the Group's covenant reporting requirements.

The Group also discloses net debt after the impact of relevant currency hedging derivatives. This adjusts the borrowings figure included in the net debt calculation to take into account the effect of financial instruments entered into to hedge movements in, for example, foreign exchange rates in relation to debt principal repayments. The Directors believe that this measure provides useful information about the economic substance of the Group's net debt position.

Net debt to Adjusted EBITDA ratio

The ratio of net debt (as defined above) to Adjusted EBITDA from continuing and discontinued operations, expressed as a multiple. The Group has a long-term target for net debt to Adjusted EBITDA of around 2.0x.

From time to time, the Group discloses a "proforma" ratio, which includes adjustments to reflect the cash flow timing impact of significant one-off or other events outside of the Group's control that, in the view of the directors, would otherwise distort performance in the period. Where applicable, such adjustments are described and a rationale for the adjustment provided.

Section 1: Consolidated financial statements

Consolidated income statement

	Notes	Year ended 31 December 2020 Adjusted Results[1] £m	Year ended 31 December 2020 Exceptional items and certain remeasurements £m	Year ended 31 December 2020 Total Results £m	Year ended 31 December 2019[2] Adjusted Results[1] £m	Year ended 31 December 2019[2] Exceptional items and certain remeasurements £m	Year ended 31 December 2019[2] Total Results £m
Revenue	2.2	**4,235.0**	**9.7**	**4,244.7**	4,457.1	10.5	4,467.6
Cost of sales		**(3,434.8)**	**(84.2)**	**(3,519.0)**	(3,658.7)	(131.7)	(3,790.4)
Gross profit		**800.2**	**(74.5)**	**725.7**	798.4	(121.2)	677.2
Operating and administrative expenses	2.3	**(391.0)**	**(30.0)**	**(421.0)**	(409.1)	–	(409.1)
Impairment losses on financial assets	3.6	**(43.1)**	**–**	**(43.1)**	(18.0)	–	(18.0)
Adjusted EBITDA[1]		**366.1**			371.3		
Depreciation	3.1	**(133.1)**	**–**	**(133.1)**	(151.5)	–	(151.5)
Amortisation	5.3	**(38.4)**	**–**	**(38.4)**	(42.0)	–	(42.0)
Asset obsolescence charges	2.7	**–**	**(239.3)**	**(239.3)**	–	–	–
Losses on disposal of fixed assets	3.1	**(5.9)**	**–**	**(5.9)**	(0.1)	–	(0.1)
Other gains		**–**	**–**	**–**	0.9	–	0.9
Acquisition and restructuring costs	2.7	**–**	**(1.0)**	**(1.0)**	–	(9.0)	(9.0)
Operating profit/(loss)		**188.7**	**(344.8)**	**(156.1)**	178.6	(130.2)	48.4
Foreign exchange (losses)/gains	2.5	**(2.2)**	**(0.6)**	**(2.8)**	(1.6)	2.0	0.4
Interest payable and similar charges	2.5	**(67.7)**	**(8.6)**	**(76.3)**	(61.2)	(5.2)	(66.4)
Interest receivable	2.5	**0.5**	**–**	**0.5**	2.0	–	2.0
Profit/(loss) before tax		**119.3**	**(354.0)**	**(234.7)**	117.8	(133.4)	(15.6)
Tax:							
– Before effect of changes in tax rate	2.6	**(9.1)**	**67.3**	**58.2**	(17.5)	25.1	7.6
– Effect of changes in tax rate	2.6	**(13.8)**	**(4.3)**	**(18.1)**	(1.7)	–	(1.7)
Total tax (charge)/credit		**(22.9)**	**63.0**	**40.1**	(19.2)	25.1	5.9
Net result from continuing operations		**96.4**	**(291.0)**	**(194.6)**	98.6	(108.3)	(9.7)
Net result from discontinued operations	5.5	**21.2**	**15.5**	**36.7**	19.5	(9.3)	10.2
Profit/(loss) for the period		**117.6**	**(275.5)**	**(157.9)**	118.1	(117.6)	0.5

Earnings/(loss) per share:		Pence		Pence	Pence		Pence
For net result from continuing operations							
– Basic	2.8	**24.3**		**(49.0)**	24.9		(2.5)
– Diluted	2.8	**23.8**		**(49.0)**	24.8		(2.5)
For net result for the period							
– Basic	2.8	**29.6**		**(39.8)**	29.9		0.1
– Diluted	2.8	**29.0**		**(39.8)**	29.7		0.1

All results are attributable to owners of the parent.

Notes:

(1) Adjusted Results, including Adjusted EBITDA, are defined on page 153. See note 2.7 for further details.

(2) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2020 £m	2019 £m
(Loss)/profit for the period		**(157.9)**	0.5
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	6.3	**1.4**	(21.5)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	2.6	**(0.3)**	4.3
Losses on equity investments		**–**	(0.1)
Net fair value gains on cost of hedging	7.4	**53.3**	56.3
Deferred tax on cost of hedging	2.6	**(11.7)**	(9.7)
Net fair value losses on cash flow hedges		**(33.0)**	(112.8)
Deferred tax on cash flow hedges	2.6	**5.1**	25.0
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	4.5	**(9.3)**	(11.2)
Net fair value (losses)/gains on cash flow hedges		**(38.4)**	71.9
Net (losses)/gains on cash flow hedges reclassified to the income statement	7.3	**(35.7)**	19.2
Deferred tax on cash flow hedges	2.6	**12.3**	(19.9)
Other comprehensive (expense)/income		**(56.3)**	1.5
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(214.2)**	2.0

Section 1: Consolidated financial statements continued

Consolidated balance sheet

	Notes	As at 31 December 2020 £m	2019 £m
Assets			
Non-current assets			
Goodwill	5.2	**248.2**	248.2
Intangible assets	5.3	**181.8**	206.9
Property, plant and equipment	3.1	**1,941.1**	2,327.4
Right-of-use assets	3.2	**29.0**	31.4
Other fixed asset investments	3.3	**1.5**	3.0
Retirement benefit surplus	6.3	**9.5**	7.0
Deferred tax assets	2.6	**65.3**	45.3
Derivative financial instruments	7.1	**103.8**	152.3
		2,580.2	3,021.5
Current assets			
Inventories	3.5	**208.2**	292.0
ROC assets	3.4	**139.6**	162.7
Trade and other receivables	3.6	**525.3**	608.8
Derivative financial instruments	7.1	**179.5**	193.7
Current tax assets		**9.0**	–
Cash and cash equivalents	4.2	**289.8**	404.1
Assets held for sale	5.5	**261.3**	–
		1,612.7	1,661.3
Liabilities			
Current liabilities			
Trade and other payables	3.8	**(907.0)**	(1,039.2)
Lease liabilities	3.2	**(7.0)**	(6.3)
Current tax liabilities		**–**	(37.8)
Derivative financial instruments	7.1	**(311.5)**	(216.5)
Liabilities directly associated with the assets held for sale	5.5	**(82.5)**	–
		(1,308.0)	(1,299.8)
Net current assets		**304.7**	361.5
Non-current liabilities			
Borrowings	4.3	**(1,065.7)**	(1,245.2)
Lease liabilities	3.2	**(23.2)**	(26.2)
Derivative financial instruments	7.1	**(142.1)**	(72.9)
Provisions	5.4	**(91.2)**	(54.2)
Deferred tax liabilities	2.6	**(222.0)**	(268.9)
Retirement benefit obligation	6.3	**(1.3)**	–
		(1,545.5)	(1,667.4)
Net assets		**1,339.4**	1,715.6
Shareholders' equity			
Issued equity	4.5	**47.5**	47.4
Share premium	4.5	**430.0**	429.6
Treasury shares	4.5	**(50.4)**	(50.4)
Hedge reserve	7.3	**(76.0)**	121.5
Cost of hedging reserve	7.4	**87.2**	40.8
Other reserves	4.5	**747.7**	757.0
Retained profits	2.10	**153.4**	369.7
Total shareholders' equity		**1,339.4**	1,715.6

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 24 February 2021.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Treasury shares £m	Hedge reserve £m	Cost of hedging £m	Other reserves £m	Retained profits £m	Total £m
At 1 January 2019	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**768.2**	**442.7**	**1,826.5**
Profit for the year	–	–	–	–	–	–	0.5	0.5
Other comprehensive (expense)/income	–	–	–	(16.6)	46.6	(11.2)	(17.3)	1.5
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(16.6)**	**46.6**	**(11.2)**	**(16.8)**	**2.0**
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(58.9)	(58.9)
Issue of share capital (note 4.5)	0.4	4.9	–	–	–	–	–	5.3
Total transactions with owners	**0.4**	**4.9**	**–**	**–**	**–**	**–**	**(58.9)**	**(53.6)**
Movements on cash flow hedges released directly from equity	–	–	–	(78.9)	–	–	–	(78.9)
Deferred tax on cash flow hedges released directly from equity	–	–	–	17.1	–	–	–	17.1
Movements on cost of hedging released directly from equity	–	–	–	–	3.8	–	–	3.8
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(0.7)	–	–	(0.7)
Repurchase of shares (note 4.5)[(1)]	–	–	(3.3)	–	–	–	–	(3.3)
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	2.7	2.7
At 31 December 2019	**47.4**	**429.6**	**(50.4)**	**121.5**	**40.8**	**757.0**	**369.7**	**1,715.6**
Loss for the year	–	–	–	–	–	–	(157.9)	(157.9)
Other comprehensive (expense)/income	–	–	–	(89.7)	41.6	(9.3)	1.1	(56.3)
Total comprehensive (expense)/income for the year	–	–	–	(89.7)	41.6	(9.3)	(156.8)	(214.2)
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(64.7)	(64.7)
Issue of share capital (note 4.5)	0.1	0.4	–	–	–	–	–	0.5
Total transactions with owners	0.1	0.4	–	–	–	–	(64.7)	(64.2)
Movements on cash flow hedges released directly from equity	–		–	(133.1)	–	–	–	(133.1)
Deferred tax on cash flow hedges released directly from equity	–		–	25.3	–	–	–	25.3
Movements on cost of hedging released directly from equity	–		–	–	5.2	–	–	5.2
Deferred tax on cost of hedging released directly from equity	–		–	–	(0.4)	–	–	(0.4)
Movement in equity associated with share-based payments (note 6.2)	–		–	–	–	–	5.2	5.2
At 31 December 2020	47.5	430.0	(50.4)	(76.0)	87.2	747.7	153.4	1,339.4

Note:
(1) Repurchase of shares reflects the cost of acquiring ordinary shares as part of the share buy-back programme announced on 20 April 2018. At 31 December 2020 these shares have not been cancelled and are recognised as treasury shares

Consolidated cash flow statement

	Notes	Years ended 31 December 2020 £m	2019 £m
Cash generated from operations	4.4	**413.4**	471.2
Income taxes paid		**(48.3)**	(9.6)
Interest paid		**(59.2)**	(50.3)
Interest received		**0.3**	2.1
Net cash from operating activities, made up of:		**306.2**	413.4
Net cash from continuing operating activities		**269.7**	384.0
Net cash from discontinued operating activities		**36.5**	29.4
Cash flows from investing activities			
Purchases of property, plant and equipment		**(163.8)**	(142.3)
Purchases of software assets		**(10.6)**	(29.1)
Proceeds from the sale of property, plant and equipment		**1.6**	–
Proceeds from the sale of other fixed asset investment		**1.5**	–
Acquisition of subsidiaries		**–**	(691.7)
Net cash used in investing activities, made up of:		**(171.3)**	(863.1)
Net cash used in continuing investing activities		**(134.8)**	(833.7)
Net cash used in discontinued investing activities		**(36.5)**	(29.4)
Cash flows from financing activities			
Equity dividends paid	2.9	**(64.7)**	(58.9)
Proceeds from issue of share capital		**0.5**	5.3
Purchase of own shares		**–**	(3.3)
Repayment of borrowings		**(475.0)**	(550.0)
New borrowings drawn down		**298.9**	1,202.8
Repayment of principal on lease liabilities		**(8.8)**	(7.4)
Other financing costs paid		**–**	(16.9)
Net cash (absorbed by)/generated from financing activities, made up of:		**(249.1)**	571.6
Net cash (absorbed by)/generated from continuing financing activities		**(249.1)**	571.6
Net cash generated from/(absorbed by) discontinued financing activities		**–**	–
Net (decrease)/increase in cash and cash equivalents		**(114.2)**	121.9
Cash and cash equivalents at 1 January		**404.1**	289.0
Effect of changes in foreign exchange rates		**(0.1)**	(6.8)
Cash and cash equivalents at 31 December	4.2	**289.8**	404.1

Non-cash transactions recognised in the income statement are reconciled to operating cash flow as part of the disclosure provided in note 4.4. Significant non-cash transactions in 2020 included asset obsolescence charges of £239.3 million (see note 2.7). There were no material non-cash transactions in the previous year.

The Group recorded a net loss of £275.5 million (2019: net loss £117.6 million) arising on exceptional items and certain remeasurements in the Consolidated income statement in 2020. Acquisition and restructuring costs of £1.0 million (2019: £9.0 million) are included in cash generated from operations (see note 4.4) and cash paid in respect of debt restructuring of £3.8 million in net cash from operating activities (2019: £5.2 million in cash used in financing activities). All other exceptional items and remeasurements are non-cash and adjusted in the reconciliation shown in note 4.4.

Section 2: Financial performance

The financial performance section gives further information about the items in the Consolidated income statement. It includes a summary of financial performance by each of the Group's businesses (see note 2.1), analysis of certain income statement items (notes 2.2–2.6) and information regarding the Adjusted and Total Results, dividends and distributable profits (notes 2.7–2.10). Further commentary on the Group's trading and operational performance during the year, which is predominantly reflected in Adjusted EBITDA, can be found in the Strategic report on pages 1 to 77, with particular reference to key transactions and market conditions that have affected the results.

2.1 Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central corporate office providing certain specialist and shared functions. The Group's businesses, which each represent a reportable operating segment for the purpose of segmental reporting, are:

- Generation: power generation activities in the UK;
- Customers: supply of electricity and gas to business customers in the UK; and
- Pellet Production: production of sustainable compressed wood pellets at our processing facilities in the US.

Information reported to the Board, who are considered the Chief Operating Decision Maker, for the purposes of assessing performance and making investment decisions is based on these three segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA (as defined on page 153).

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Corporate office costs are included within central costs.

Segment revenues and results

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2020. The Board monitors the Adjusted Results for the Group by reportable operating segment as presented in the tables below. The financial information in these tables is comprised solely of results from continuing operations. The net result from discontinued operations of £36.7 million (2019: £10.2 million) is attributable entirely to the Generation segment and is described in further detail in note 5.5:

	Year ended 31 December 2020						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue							
External sales	2,115.7	2,119.3	–	–	4,235.0	9.7	4,244.7
Inter-segment sales	1,530.1	–	231.0	(1,761.1)	–	–	–
Total revenue	3,645.8	2,119.3	231.0	(1,761.1)	4,235.0	9.7	4,244.7
Segment gross profit	608.9	84.3	103.6	3.4	800.2	(74.5)	725.7
Segment Adjusted EBITDA	399.9	(38.9)	51.7	3.4	416.1		
Central costs					(50.0)	–	(50.0)
Consolidated Adjusted EBITDA					366.1		
Asset obsolescence charge					–	(239.3)	(239.3)
Depreciation and amortisation					(171.5)	–	(171.5)
Losses on disposal of fixed assets					(5.9)	–	(5.9)
Acquisition and restructuring costs					–	(1.0)	(1.0)
Operating profit/(loss)					188.7	(344.8)	(156.1)
Net interest charge					(67.2)	(8.6)	(75.8)
Foreign exchange losses					(2.2)	(0.6)	(2.8)
Profit/(loss) before tax					119.3	(354.0)	(234.7)

Other than acquisition and restructuring costs of £1.0 million, exceptional items and certain remeasurements relate entirely to the Generation segment. This includes asset obsolescence charges and inventory provisions, as set out in note 2.7.

2.1 Segmental reporting continued

The following is an analysis of the Group's performance by reportable operating segment for the year ended 31 December 2019:

	Year ended 31 December 2019						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue							
External sales	2,188.0	2,269.1	–	–	4,457.1	10.5	4,467.6
Inter-segment sales	1,512.7	–	229.4	(1,742.1)	–	–	–
Total revenue	3,700.7	2,269.1	229.4	(1,742.1)	4,457.1	10.5	4,467.6
Segment gross profit	580.8	134.1	84.1	(0.6)	798.4	(121.2)	677.2
Segment Adjusted EBITDA	369.0	17.4	31.5	(0.6)	417.3		
Central costs					(46.0)	–	(46.0)
Consolidated Adjusted EBITDA					371.3		
Acquisition and restructuring costs					–	(9.0)	(9.0)
Depreciation and amortisation					(193.5)	–	(193.5)
Losses on disposals					(0.1)	–	(0.1)
Other gains					0.9	–	0.9
Operating profit/(loss)					178.6	(130.2)	48.4
Net interest charge					(59.2)	(5.2)	(64.4)
Foreign exchange (losses)/gains					(1.6)	2.0	0.4
Profit/(loss) before tax					117.8	(133.4)	(15.6)

2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements. The external revenues and results of all the reporting segments are subject to seasonality, with higher dispatch and prices in the winter months compared to summer months.

Capital expenditure by segment

Assets and working capital are monitored on a consolidated basis; however, spend on capital projects is monitored by operating segment.

	Additions to intangible assets 2020 £m	Additions to property, plant and equipment 2020 £m	Additions to intangible assets 2019 £m	Additions to property, plant and equipment 2019 £m
Generation	**1.9**	**157.9**	0.8	129.9
Customers	**6.2**	**0.5**	18.9	0.6
Pellet Production	**–**	**58.5**	0.3	17.9
Central	**0.5**	**3.1**	0.8	2.9
Total	**8.6**	**220.0**	20.8	151.3

Total cash outflows in relation to capital expenditure during the year for continuing and discontinued operations were £174.4 million[(1)] (2019: £171.4 million). See the Group Financial Review on page 20 for further details about the key capital investments in the year.

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 2020, the Pellet Production segment sold wood pellets with a total value of £231.0 million (2019: £229.4 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £1,530.1 million (2019: £1,512.7 million) to the Customers segment.

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

Major customers

Total consolidated revenue for the year ended 31 December 2020 includes £495.2 million from one individual customer (2019: £575.7 million from one individual customer) that represented 10% or more of total revenue for the year. These revenues arose in the Generation segment.

Note:
(1) The difference between the cost capitalised and the cash flow in 2020 is predominantly a result of the recognition of the asset associated with the increase in the decommissioning provision in the year, a non-cash adjustment of £28.9 million.

2.2 Revenue

Accounting policy

Revenue represents amounts receivable for goods or services provided to customers in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excluding transactions between Group companies. Revenue is presented gross in the income statement as the Group controls the specified good or service prior to the transfer to the customer.

Revenues from the sale of electricity by the Group's Generation business are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable. The performance obligations for these contracts are deemed to be a series of distinct goods that are substantially the same and transfer consecutively. Control is deemed to have passed to the customer at the point that the electricity has been supplied. The performance obligation is satisfied over time based on the output method; this method recognises revenue based on the value transferred to the customer. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied.

The Group recognises the income or costs arising from the Contract for Difference (CfD) (see below) in the 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.

Other revenues derived from the provision of services to National Grid (for example, the supply of system support services) are recognised by reference to the stage of completion of the contractual performance obligations. Most such contracts are for the delivery of a service either continually or on an ad-hoc basis over a period of time and thus stage of completion is calculated by reference to the amount of the contract term that has elapsed. Depending on the contract terms this approach may require judgement in estimating probable future outcomes.

Other revenues derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum) are recognised at the point the control of the goods is transferred to the customer, typically at the point of delivery to the customer's premises.

Revenue from the sale of electricity and gas directly to business customers through the Customers business is recognised on the supply of electricity or gas when a contract exists, supply has taken place, a quantifiable price has been established or can be determined and the receivables are expected to be recovered. Energy supplied is measured based upon metered consumption and contractual rates; however, where a supply has taken place but is not yet measured or billed, the revenue is estimated based on consumption statistics and selling price estimates and is recognised as accrued income.

Revenue for contracts satisfied over time is recognised in line with the progress of those contracts. The revenue recognised per unit of energy supplied is based on the total estimated revenue and cost inputs for fixed price Customers contracts, and contracted prices for variable price contracts. Assumptions are applied consistently but third-party costs can be variable, therefore actual outcomes may vary from initial estimates.

The Group is eligible for, and applies, the practical expedient available in IFRS 15 and has not disclosed information related to the transaction price allocated to remaining performance obligations. The right to receive consideration from a customer is at an amount that corresponds directly with the value to the customer of the Group's performance completed to date.

CfD payments

The Group is party to a CfD with the Low Carbon Contracts Company (LCCC), a Government-owned entity responsible for delivering elements of the Government's Electricity Market Reform Programme. Under the contract, the Group makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index and changes in system balancing costs. The strike price at 31 December 2020 was £116.49 per MWh.

When market prices (based on average traded prices in the preceding season) are above/below the strike price, the Group makes/receives an additional payment to/from LCCC equivalent to the difference between that market power price and the strike price, for each MWh produced from the generating unit supported by the CfD. Such payments are in addition to amounts received from the sale of the power in the wholesale market and either increase or limit the total income from the power dispatched from the relevant generating unit to the strike price in the CfD contract.

2.2 Revenue continued

ROC sales

The generation and sale of Renewable Obligation Certificates (ROCs) is a key driver of the Group's financial performance. The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2020 the Group is operating in CP19.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with the UK Retail Price Index. The buy-out price in CP19 is £50.05. ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to suppliers who presented ROCs in a compliance period.

The financial benefit of a ROC recognised in the income statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier relating to the buy-out price and the expected value of the recycle fund benefit to be received at the end of the CP. During the year, the Group made sales (and related purchases) of ROCs to help optimise its working capital position. External sales of ROCs in the table below includes £495.2 million of such sales (2019: £575.7 million), with a similar value reflected in cost of sales. See note 3.4 for further details of ROCs generated and sold by the Generation businesses and those utilised by the Customers business in the year.

Biomass pellet sales

The Group produces biomass pellets. The performance obligation is the delivery of the pellets to the customer. Delivery of the pellets is deemed to be when the customer obtains control of the pellets which is dependent on the individual shipping terms of the contract, but is generally when the product is loaded onto the shipping vessel. The amount of revenue recognised is based on the contract price for the pellets.

Further analysis of revenue for the year ended 31 December 2020 is provided in the table below:

	Year ended 31 December 2020		
	External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,049.2	1,156.3	2,205.5
ROC sales	650.2	373.8	1,024.0
CfD income	342.3	–	342.3
Ancillary services	36.4	–	36.4
Other income	37.6	–	37.6
Customers			
Electricity and gas sales	2,118.8	–	2,118.8
Other income	0.5	–	0.5
Pellet Production			
Pellet sales	–	231.0	231.0
Elimination of intra-group sales	–	(1,761.1)	(1,761.1)
Total adjusted consolidated revenue	4,235.0	–	4,235.0
Certain remeasurements	9.7	–	9.7
Total consolidated revenue	4,244.7	–	4,244.7

Certain remeasurements of £9.7 million (2019: £10.5 million) are comprised of gains and losses on derivative contracts that are used to manage risk exposures associated with the Group's revenue, not designated into hedge accounting relationships under IFRS 9.

2.2 Revenue continued

Revenue recognised in the period that was included within contract liabilities at the start of the year was £13.3 million (2019: £12.5 million). See note 3.8 for further details on contract liabilities.

Revenue recognised in the period from performance obligations satisfied or partly satisfied in the previous period was £nil.

The following is an analysis of the Group's revenues for the year ended 31 December 2019:

	Year ended 31 December 2019(1) External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,123.3	1,115.0	2,238.3
ROC sales	733.7	368.1	1,101.8
CfD income	261.7	–	261.7
Ancillary services	46.2	1.8	48.0
Other income	23.1	27.8	50.9
Customers			
Electricity and gas sales	2,226.1	–	2,226.1
Other income	43.0	–	43.0
Pellet Production			
Pellet sales	–	229.4	229.4
Elimination of intra-group sales	–	(1,742.1)	(1,742.1)
Total adjusted consolidated revenue	4,457.1	–	4,457.1
Certain remeasurements	10.5	–	10.5
Total consolidated revenue	4,467.6	–	4,467.6

In November 2018 the UK Capacity Market was suspended and was subsequently reinstated in 2019. As a result of the reinstatement, included within electricity sales in the 2019 table above is £6.8 million of capacity market income relating to the period from October 2018 – December 2018.

For accounting policies and other disclosures related to contract assets including a reconciliation between opening and closing balances, please see note 3.6.

For accounting policies and other disclosures related to costs incurred to acquire customer contracts, please see note 3.7.

2.3 Operating expenses

This note sets out the material components of operating and administrative expenses in the Consolidated income statement and a detailed breakdown of the fees paid to the Group's auditor, Deloitte LLP, in respect of services they provided to the Group during the year.

	Years ended 31 December(1) 2020 £m	2019 £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	**196.3**	174.3
Repairs and maintenance expenditure on property, plant and equipment	**100.1**	96.3
Other operating and administrative expenses	**124.6**	138.5
Total operating and administrative expenses	**421.0**	409.1

Included in total operating and administrative expenses above is £11.5 million of expenditure relating to research and development activities (2019: £2.7 million). In addition, the Group claims Research and Development Expenditure Credit (RDEC) relief on costs presented within cost of sales.

When defining gross profit within the financial statements, the Group follows the principal trading considerations applied by its Generation and Customers businesses when making a sale. In respect of Generation, this reflects the direct costs of the commodities to generate the power (such as biomass, gas, coal, and carbon, or balancing power purchased) and the relevant grid connection costs that arise. In respect of Customers, this reflects the direct costs of supply being the costs of the power or gas supplied, together with costs levied on suppliers such as network costs, broker costs and renewables incentive mechanisms.

Accordingly cost of sales excludes depreciation, presented separately on the face of the income statement, and staff costs to the extent included in operating and administrative expenses and set out in the table above.

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.

2.3 Operating expenses continued

Auditor's remuneration

	Years ended 31 December 2020 £'000	2019 £'000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**1,025.0**	863.9
Fees payable for the audit of the Company's subsidiaries	**38.0**	36.0
	1,063.0	899.9
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**98.0**	96.2
Other services	**2.0**	2.0
Total audit-related fees	**1,163.0**	998.1
Other assurance services	**226.0**	180.0
Total non-audit fees	**226.0**	180.0
Total auditor's remuneration	**1,389.0**	1,178.1

The Group fee relates to the audit of all the subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries disclosed above. Audit fees payable for the audit of the Group's consolidated financial statements in 2020 includes £88,000 in relation to the 2019 audit.

Other assurance services provided by Deloitte LLP in 2020 consist of agreed upon procedures and other assurance services provided in connection with the bond refinancing in October 2020 and the proposed acquisition of Pinnacle Renewable Energy Inc (2019: assurance and agreed-upon procedures performed in connection with the bond issuance in May 2019).

Details of the Company's policy on the use of the auditor for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out on the Group's website (https://www.drax.com/about-us/compliance-and-policies/) and discussed further in the Audit Committee Report on page 98. No services were provided pursuant to contingent fee arrangements.

2.4 Review of fixed assets for impairment

Accounting policy

The Group reviews its fixed assets (or, where appropriate, groups of assets known as cash-generating units (CGUs)) whenever there is an indication that an impairment loss may have been suffered. The Group assesses the existence of indicators of impairment at least annually.

In respect of the Customers and Pellet Production businesses, the Group considers the smallest groups of assets that generate independent cash flows to be equivalent to the operating entities within those businesses – Haven Power, Opus Energy and Drax Biomass.

In respect of the Generation business, the Group generally considers the smallest groups of assets that generate independent cash flows to be the individual sites that share common infrastructure and control functions. As described on page 190, following the decision to cease commercial coal generation at Drax Power Station, a review of CGUs at that site determined the site to be comprised of two separate CGUs (one for biomass generation assets and one for coal generation assets). Previously, Drax Power Station was considered a single CGU. As described in further detail below and in note 5.1, following this change the coal CGU was subsequently fully written down in the period. Accordingly, excluding the fully written down coal CGU, the Generation business is comprised of (eight CGUs in total) – Drax Power Station (biomass), Damhead Creek, Rye House, Shoreham, Blackburn, Lanark, Galloway and Cruachan. In addition, the Group considers impairment for the OCGTs as a whole, as these intangible assets have an indefinite useful life.

If an indication of potential impairment exists, the recoverable amount of the asset or CGU in question is assessed with reference to the present value of the future cash flows expected to be derived from the continuing use of the asset or CGU (value in use) or the expected price that would be received to sell the asset to another market participant (fair value less costs to sell). The initial assessment of recoverable amount is normally based on value in use.

2.4 Review of fixed assets for impairment continued

The assessment of future cash flows is based on the most recent approved business plan and includes all of the necessary costs expected to be incurred to generate the cash inflows from the CGU's assets in their current state and condition, including an allocation of centrally managed costs. Future cash flows include, where relevant, contracted cash flows arising from the Group's cash flow hedging activities and as a result the carrying amount of each CGU includes the mark-to-market value of those cash flow hedges. Assessments of future cash flows consider relevant environmental and climate factors. In particular, macro-economic, commodity price and third-party cost assumptions reflect considerations in respect of growth in renewable technologies, electrification and the impact of relevant policies on longer-term supply and demand profiles.

The additional value that could be obtained from enhancing the Group's assets is not reflected, nor the potential benefit of any future restructuring or reorganisation that the Group is not yet committed to. In determining value in use, the estimate of future cash flows is discounted to present value using a rate reflecting the specific risks attributable to the CGU in question.

If the recoverable amount is less than the current carrying amount in the financial statements, a provision is made to reduce the carrying amount of the asset or CGU to the estimated recoverable amount. Impairment losses are recognised immediately in the income statement.

Goodwill balances and intangible assets with an indefinite useful economic life are assessed for impairment annually (see note 5.2 and 5.3).

Assessment of indicators of impairment

In February 2020, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022. As a result of this closure decision, which reflected that the dependencies between the coal and biomass generating units are no longer considered to be significant, the Group determined the coal generation assets at Drax Power Station were now a separate CGU. An impairment review was subsequently performed on the coal CGU which resulted in an asset obsolescence charge of £225.9 million, the total net book value of the assets concerned, being recognised due to the recoverable amount of the CGU being significantly lower than its carrying amount. Following this charge, the assets in the coal CGU have been fully written down. See note 5.1 for further details.

During the year, the Board also made the decision not to pursue the option to develop a new CCGT at Drax Power Station. This led to the assets associated with this project becoming obsolete, and therefore an asset obsolescence charge of £13.4 million has been recognised due to the carrying value of these assets being significantly higher than their recoverable amount of £nil, which led to the assets being fully written off. In addition to the £13.4 million obsolescence charge, £1.1 million of associated costs are included within the £30.0 million exceptional operating expenses. See note 2.7.

A review of the Group's remaining CGUs gave rise to an indicator of impairment for the two CGUs which comprise the Customers business unit, as a result of the impact of Covid-19 on their financial performance during 2020. As goodwill is attributed to both of these CGUs, an impairment review is performed annually, see note 5.2.

In determining that no indicator 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 balance sheet date, and the impact of such changes on the Group's long-term planning models and future forecast cash flows. Particular consideration was given to assumptions regarding biomass generation and biomass prices post-2027, when current subsidies for biomass generation are due to expire. Our forecasts indicate that the majority of the carrying amount of the CGU is supported by pre-2027 cash flows. Whilst the Group has a strategic imperative to reduce biomass prices over time, as part of a strategy to secure a long-term future for biomass generation, the long-term models that inform impairment conclusions are subjected to an additional sensitivity to identify the risk that biomass prices do not reduce significantly in the period up to and following the cessation of subsidies. Further consideration of biomass prices is included in the Strategic report on pages 1 to 77. Drax Power Station is viewed as having a useful life until 2039 at least and an expectation of continuing to be in operation until that time.

Impairment considerations for CGUs where goodwill has previously been allocated are set out in note 5.2.

Separate consideration has been given to the impact on the OCGT development assets, see note 5.3.

Apart from the coal generation CGU and Drax Power Station CCGT specific assets, all impairment reviews conducted in 2020 indicated adequate headroom to conclude that no impairment charges were required. Accordingly, apart from the asset obsolescence charges recognised in relation to the coal generation assets and Drax Power Station CCGT (see note 5.1), no other amounts have been charged to the income statement in respect of asset impairment in 2020 (2019: No asset obsolescence charge). Sensitivity analyses are disclosed in respect of the Opus, Lanark and Galloway CGUs and indefinite life OCGT assets in notes 5.2 and 5.3 respectively. Further sensitivities are not provided on other assets because there are no reasonably possible sensitivities which would lead to an impairment.

2.5 Net finance costs

Finance costs reflect expenses incurred in managing the debt structure (such as interest payable on bonds) as well as foreign exchange gains and losses, the unwinding of discounts on provisions for reinstatement of the Group's sites at the end of their useful lives (see note 5.4), net interest charged on the Group's defined benefit pension scheme obligations (see note 6.3) and lease liabilities (see note 3.2). These are offset by interest income that the Group generates through efficient use of short-term cash surpluses, for example through investment in money market funds.

Refinancing activity in 2020

Changes in the Group's financing structure during 2020 are described in note 4.3.

As described in note 2.7, £8.6 million (2019: £5.2 million) of costs associated with the restructuring of the Group's financing structure during the year have been excluded from Adjusted Results and are presented as an exceptional item.

	Years ended 31 December	
	2020 £m	2019[1] £m
Interest payable and similar charges:		
Interest payable on borrowings	(57.1)	(49.8)
Interest on lease liabilities	(1.0)	(1.0)
Unwinding of discount on provisions	(0.4)	(3.8)
Amortisation of deferred finance costs – excluding amounts identified below	(5.9)	(4.2)
Other financing charges	(3.3)	(2.4)
Total interest payable and similar charges included in adjusted results	(67.7)	(61.2)
Interest receivable:		
Interest income on bank deposits	0.3	1.3
Net finance credit in respect of defined benefit scheme (note 6.3)	0.2	0.7
Total interest receivable included in adjusted results	0.5	2.0
Foreign exchange losses included in adjusted results	(2.2)	(1.6)
Total recurring net finance costs included in adjusted results	(69.4)	(60.8)
Exceptional costs of debt restructure:		
Fees to exit existing facilities (note 4.3)	(3.8)	–
Acceleration of deferred costs in relation to previous facilities	(4.8)	(5.2)
Total exceptional costs of debt restructure	(8.6)	(5.2)
Certain remeasurements on financing derivatives	(0.6)	2.0
Total net finance costs	(78.6)	(64.0)

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.

Foreign exchange gains and losses in net finance costs arise on the retranslation of non-derivative balances denominated in foreign currencies to prevailing rates at the balance sheet date.

2.6 Current and deferred taxation

The tax charge includes both current and deferred tax. Current tax is the estimated amount of tax payable on this year's taxable profits (which are adjusted for items upon which the Group is not required to pay tax or, in some cases, for items which are not allowable for tax purposes) and adjusted for estimates for previous years. Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules. This is reflected in differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits. The tax credit reflects the estimated effective tax on the loss before tax for the Group for the year ended 31 December 2020 and the movement in the deferred tax balance in the year, so far as it relates to items recognised in the income statement.

Accounting policy

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit or loss for the year in the relevant jurisdiction. Taxable profit or loss differs from profit/loss before tax as reported in the income statement, because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable/deductible. The Group's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.6 Current and deferred taxation continued

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 tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are recognised in other comprehensive income or directly in equity respectively.

The Group has utilised the relief available under the research and development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants, in line with IAS 20 Government Grants and are recorded in operating profit within the income statement, with the corresponding receivable being offset against corporation tax payable.

In accounting for taxation, the Group makes assumptions regarding the treatment of items of income and expenditure for tax purposes. The Group believes that these assumptions are reasonable, based on prior experience and consultation with advisers. Full provision is made for deferred taxation at the rates of tax prevailing at the period end 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. Where such assets relate to losses incurred by a business unit, particularly one with a history of losses, the Group seeks evidence other than its own internal forecasts to support recognition of the related deferred tax asset.

	Years ended 31 December	
	2020 £m	2019[1] £m
Total tax credit comprises:		
Current tax		
– Current year	11.2	29.0
– Adjustments in respect of prior periods	(12.3)	10.0
Deferred tax		
– Before impact of tax rate changes	(62.4)	(39.3)
– Adjustments in respect of prior periods	5.3	(7.3)
– Effect of changes in tax rate	18.1	1.7
Total tax credit	(40.1)	(5.9)

	Years ended 31 December	
	2020 £m	2019[1] £m
Tax (credited)/charged on items recognised in other comprehensive income:		
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	0.3	(4.3)
Deferred tax on cash flow hedges	(17.4)	(5.1)
Deferred tax on cost of hedging	11.7	9.7
	(5.4)	0.3

	Years ended 31 December	
	2020 £m	2019[1] £m
Tax credited on items released directly from equity:		
Deferred tax on cost of hedging	0.4	0.7
Deferred tax on cash flow hedges	(25.3)	(17.1)
	(24.9)	(16.4)

UK corporation tax is the main rate of tax for the Group and is calculated at 19% (2019: 19%) of the assessable profit or loss for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Certain deferred tax liabilities were valued at 17% in the prior period, being the UK corporation tax rate that had been substantively enacted at the balance sheet date. On 17 March 2020 the UK Government substantively enacted a main UK corporation tax rate of 19%, giving rise to a charge of £18.1 million (2019: £1.7 million) due to the effect of changes in the tax rate.

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.

2.6 Current and deferred taxation continued

The tax charge for the year can be reconciled to the profit before tax as follows:

	Year ended 31 December 2020			Year ended 31 December 2019[1]		
	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	**119.3**	**(354.0)**	**(234.7)**	117.8	(133.4)	(15.6)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19% (2019: 19%)	**22.6**	**(67.3)**	**(44.7)**	22.4	(25.2)	(2.8)
Effects of:						
Adjustments in respect of prior periods	**(7.0)**	**–**	**(7.0)**	2.7	–	2.7
Expenses not deductible for tax purposes	**2.5**	**–**	**2.5**	0.6	0.1	0.7
Effect of changes in tax rate	**13.8**	**4.3**	**18.1**	1.7	–	1.7
Difference in overseas tax rates	**0.1**	**–**	**0.1**	(0.2)	–	(0.2)
Patent box benefit	**(8.0)**	**–**	**(8.0)**	(8.0)	–	(8.0)
Tax effect of RDEC credit	**(1.1)**	**–**	**(1.1)**	–	–	–
Total tax charge/(credit)	**22.9**	**(63.0)**	**(40.1)**	19.2	(25.1)	(5.9)

As a result of tax relief arising from the UK Patent Box regime (see below), partially offset by US federal tax rates of 21%, in the medium term the Group anticipates that the underlying effective tax rate will be marginally lower than the main rate of corporation tax in the UK.

Drax Power was granted a patent to protect certain intellectual property it owns and which attaches to the technology developed to manage the combustion process in generating electricity from biomass. Under UK tax legislation the Company is entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of that technology.

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.

2.6 Current and deferred taxation continued

The movements in deferred tax assets and liabilities during each year are shown below.

Deferred tax (liabilities)/assets

	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 2019	(63.8)	(202.9)	2.0	(26.1)	22.2	(33.2)	17.7	(284.1)
Credited/(charged) to the income statement	25.3	8.3	(0.3)	6.0	5.6	5.7	(5.9)	44.7
Credited to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	4.3	4.3
Credited to other comprehensive income in respect of cash flow hedges	5.1	–	–	–	–	–	–	5.1
Charged to other comprehensive income in respect of cost of hedging	(9.7)	–	–	–	–	–	–	(9.7)
Credited to equity in respect of cash flow hedges	17.1	–	–	–	–	–	–	17.1
Charged to equity in respect of cost of hedging	(0.7)	–	–	–	–	–	–	(0.7)
Effect of changes in foreign exchange rates	–	–	–	–	(0.3)	–	–	(0.3)
At 1 January 2020	**(26.7)**	**(194.6)**	**1.7**	**(20.1)**	**27.5**	**(27.5)**	**16.1**	**(223.6)**
Credited to the income statement	**9.1**	**13.0**	**0.6**	**4.4**	**6.7**	**4.2**	**1.0**	**39.0**
Charged to other comprehensive income in respect of actuarial gains	**–**	**–**	**–**	**–**	**–**	**–**	**(0.3)**	**(0.3)**
Credited to other comprehensive income in respect of cash flow hedges	**17.4**	**–**	**–**	**–**	**–**	**–**	**–**	**17.4**
Charged to other comprehensive income in respect of cost of hedging	**(11.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(11.7)**
Credited to equity in respect of cash flow hedges	**25.3**	**–**	**–**	**–**	**–**	**–**	**–**	**25.3**
Charged to equity in respect of cost of hedging	**(0.4)**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.4)**
Effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**(0.7)**	**–**	**(0.3)**	**(1.0)**
Transferred to liabilities held for sale	**–**	**(1.4)**	**–**	**–**	**–**	**–**	**–**	**(1.4)**
At 31 December 2020	**13.0**	**(183.0)**	**2.3**	**(15.7)**	**33.5**	**(23.3)**	**16.5**	**(156.7)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net deferred tax asset	**13.0**	**–**	**2.3**	**–**	**33.5**	**–**	**16.5**	**65.3**
Net deferred tax liability	**–**	**(183.0)**	**–**	**(15.7)**	**–**	**(23.3)**	**–**	**(222.0)**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so, otherwise they are shown separately in the balance sheet.

Within the above deferred tax balances is a net deferred tax asset of £33.5 million (2019: £27.8 million) in relation to start-up losses and other temporary differences in the US-based Pellet Production business. Based on its business plan and reflecting continuing improvement in operational performance, the Group anticipates that it will generate sufficient profits in the medium term against which to utilise this asset.

2.7 Certain remeasurements and exceptional items

The Group presents Adjusted Results in the Consolidated income statement. The Directors believe that this approach is useful and provides a clear and consistent view of trading performance. Certain remeasurements and exceptional items are excluded from Adjusted Results and presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.

The Group has a policy and framework for the determination of transactions as exceptional. Transactions presented as exceptional are also all approved by the Audit Committee. See the Audit Committee Report on page 98 for further details.

In these financial statements, the following transactions have been designated as exceptional items and presented separately:

- Asset obsolescence charges, which related to coal-specific assets associated with the decision to cease commercial coal generation in 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station. (2020)
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation. (2020)
- Restructuring and integration costs associated with the acquisition and on-boarding of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited) into the Group. (2019)
- Costs incurred as a result of restructuring the Group's debt in 2020 and 2019, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities. Interest costs in 2019 that related to the acquisition bridge facility were classified as exceptional, as they relate directly to the acquisition described above.
- Costs and credits arising as a result of major transactions, namely deal costs and costs to close out outstanding trades on the disposal of the CCGTs, more detail can be found in note 5.5, and proposed acquisition of Pinnacle Renewable Energy Inc.
- Certain remeasurements constitute gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. Once the gains or losses are realised, the previously recognised fair value movements are then reversed through remeasurements and recognised within Adjusted Results either as revenue or cost of sales. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better reflect the trading performance of the Group in Adjusted Results.

	Years ended 31 December	
	2020 £m	2019[1] £m
Exceptional items:		
Inventory provision as a result of coal closure	(4.8)	–
Acquisition and restructuring costs[2]	(1.0)	(9.0)
Operating expenditure	(30.0)	–
Asset obsolescence charges	(239.3)	–
Exceptional items included within Operating Profit	(275.1)	(9.0)
Cost of debt restructure (note 2.5)	(8.6)	(5.2)
Exceptional items included in Profit Before Tax	(283.7)	(14.2)
Taxation on Exceptional items	48.6	2.6
Exceptional items after taxation	(235.1)	(11.6)
Remeasurements:		
Net fair value remeasurements on derivative contracts included in revenue	8.7	(11.4)
Net remeasurements realised on maturity of derivative contracts included in revenue	1.0	21.9
Net fair value remeasurements on derivative contracts included in cost of sales	(46.6)	(76.4)
Net remeasurements realised on maturity of derivative contracts included in cost of sales	(28.2)	(55.3)
Net remeasurements reclassified to profit or loss on discontinued hedges included in cost of sales	(4.6)	–
Net fair value remeasurements on derivative contracts included in Foreign exchange gains	(0.6)	2.0
Remeasurements included in Profit Before Tax	(70.3)	(119.2)
Taxation on certain remeasurements	14.4	22.5
Remeasurements after taxation	(55.9)	(96.7)
Reconciliation:		
Adjusted results	96.4	98.6
Exceptional items after tax	(235.1)	(11.6)
Remeasurements after tax	(55.9)	(96.7)
Loss after tax	(194.6)	(9.7)

Note:
(1) 2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the sale of the CCGT assets. See note 5.5.
(2) Acquisition and restructuring costs of £1.0 million relate to costs incurred at the balance sheet date in respect of the proposed acquisition of Pinnacle Renewable Energy Inc. The Group treats all costs associated with material transactions as exceptional where such costs span multiple periods.

2.7 Certain remeasurements and exceptional items continued

Asset obsolescence charges in the table above is comprised of:

	2020 £m
Asset obsolescence charges for property, plant and equipment due to coal closure (note 3.1)	**225.1**
Asset obsolescence charges for intangible assets due to coal closure (note 5.3)	**0.8**
Asset obsolescence charges due to decision not to develop CCGT at Drax Power Station	**13.4**
Total asset obsolescence charges	**239.3**

2.8 Earnings per share

Earnings per share (EPS) represents the amount of earnings (post-tax profits) attributable to each ordinary share in issue. Basic EPS is calculated by dividing the Group's earnings (profit after tax in accordance with IFRS) by the weighted average number of ordinary shares that were in issue during the year. Diluted EPS demonstrates the impact if all outstanding share options that would vest on their future maturity dates if the conditions at the end of the reporting period were the same as those at the end of the contingency period (such as those to be issued under employee share schemes – see note 6.2) were exercised and treated as ordinary shares as at the balance sheet date.

	Years ended 31 December	
	2020	2019
Earnings attributable to equity holders of the Company (£m), made up of:	**(157.9)**	0.5
Net result from continuing operations	**(194.6)**	(9.7)
Net result from discontinued operations	**36.7**	10.2
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**396.8**	395.5
Effect of dilutive potential ordinary shares under share plans	**8.2**	1.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**405.0**	397.4

Repurchased shares (see note 4.5) are not included in the weighted average calculation of shares. For the purpose of calculating diluted earnings per share, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

	Years ended 31 December	
	2020	2019
Total earnings per share		
(Loss)/earnings per share – basic (pence)	**(39.8)**	0.1
(Loss)/earnings per share – diluted (pence)	**(39.8)**	0.1

Application of the same calculation to Adjusted profit after tax of £117.6 million results in Adjusted basic EPS of 29.6 pence and Adjusted diluted EPS of 29.0 pence (2019: Adjusted profit after tax of £118.1 million, Adjusted basic EPS of 29.9 pence and Adjusted diluted EPS of 29.7 pence).

	Years ended 31 December	
	2020	2019
Earnings per share from continuing operations		
Loss per share – basic (pence)	**(49.0)**	(2.5)
Loss per share – diluted (pence)	**(49.0)**	(2.5)

Application of the same calculation to Adjusted profit after tax from continuing operations of £96.4 million results in Adjusted basic EPS of 24.3 pence and Adjusted diluted EPS of 23.8 pence (2019: Adjusted profit after tax from continuing operations of £98.6 million, Adjusted basic EPS of 24.9 pence and Adjusted diluted EPS of 24.8 pence).

	Years ended 31 December	
	2020	2019
Earnings per share from discontinued operations		
Earnings per share – basic (pence)	**9.2**	2.6
Earnings per share – diluted (pence)	**9.1**	2.6

Application of the same calculation to Adjusted profit after tax from discontinued operations of £21.2 million results in Adjusted basic EPS of 5.3 pence and Adjusted diluted EPS of 5.2 pence (2019: Adjusted profit after tax from discontinued operations of £19.5 million, Adjusted basic EPS of 4.9 pence and Adjusted diluted EPS of 4.9 pence).

2.9 Dividends

	Years ended 31 December 2020 £m	2019 £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 2020 of 6.8 pence per share paid on 2 October 2020 (2019: 6.4 pence per share paid on 11 October 2019)	**27.0**	25.4
Final dividend for the year ended 31 December 2019 of 9.5 pence per share paid on 15 May 2020 (2018: 8.5 pence per share paid on 10 May 2019)	**37.7**	33.5
	64.7	58.9

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 2020 of 10.3 pence per share (equivalent to approximately £41 million) payable on or before 14 May 2021. The final dividend has not been included as a liability as at 31 December 2020. This would bring total dividends payable in respect of the 2020 financial year to £68 million.

The Group has a long-standing capital allocation policy. This policy is based on a commitment to robust financial metrics that underpin the Group's strong credit rating, investment in the core business, paying a sustainable and growing dividend, and returning surplus capital to shareholders. The Board is confident that the dividend is sustainable and expects it to grow as the implementation of the Group's strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-linked revenue streams.

In future years, if there is a build-up of capital in excess of the Group's investment needs, the Board will consider the most appropriate mechanism to return this to shareholders.

Consideration of sustainability, including a link to our dividend, can be found in the Market context section on pages 2 and 3.

2.10 Retained profits

Retained profits are a component of equity reserves. The overall balance reflects the total profits the Group has generated over its lifetime, reduced by the amount of that profit distributed to shareholders. The table below sets out the movements in retained profits during the year:

	Years ended 31 December 2020 £m	2019 £m
At 1 January	**369.7**	442.7
(Loss)/profit for the year	**(157.9)**	0.5
Remeasurement gains/(actuarial losses) on defined benefit pension scheme (note 6.3)	**1.4**	(21.5)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme (note 2.6)	**(0.3)**	4.3
Equity dividends paid (note 2.9)	**(64.7)**	(58.9)
Loss on equity investment	**–**	(0.1)
Net movements in equity associated with share-based payments (note 6.2)	**5.2**	2.7
At 31 December	**153.4**	369.7

Distributable profits

The capacity of the Group to make dividend payments is primarily determined by the availability of retained distributable profits and cash resources.

The Parent Company financial statements set out on pages 228 to 234 of this Annual report, disclose the Parent Company's distributable reserves of £191.5 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 £289.8 million are set out in note 4.2 and the recent history of cash generation within note 4.4. The majority of these cash resources are held centrally within the Group by Drax Corporate Limited for treasury management purposes and are available for funding the working capital and other requirements of the Group.

The Group's financing facilities (see note 4.3) place certain 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.

Section 3: Operating assets and working capital

This section gives further information on the operating assets we use to generate revenue and the short-term liquid assets and liabilities, managed during day-to-day operations, that comprise our working capital balances.

3.1 Property, plant and equipment

This note shows the cost, depreciation and net book value of the physical assets controlled by the Group that are used in the businesses to generate revenue. The cost of an asset is what was paid to purchase or construct the asset. Depreciation reflects the usage of the asset over time and is calculated by taking the cost of the asset, net of any residual value, to the income statement evenly over the useful economic life of the asset. An asset's net book value is its cost less any depreciation (including impairment, if required) charged to date.

Accounting policy

Property, plant and equipment assets are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value.

The Group constructs many of its assets as part of long-term development projects. Assets that are in the course of construction are not depreciated until they are ready for use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful economic lives (UEL) of the assets from the date that they are brought into use (where relevant, limited to the expected decommissioning date of the site where the asset is located).

In accordance with IFRS 5, the depreciation on the Gas-fired assets ceased in December 2020, the point at which the assets were classified as, and transferred to, assets held for sale (note 5.5).

The table below shows the weighted average remaining useful economic lives of the main categories of assets held at the balance sheet date:

	Average UEL remaining
Freehold buildings	22
Plant and equipment	
Electricity generation assets:	
Drax Power Station common plant	15
Drax Power Station biomass-specific assets	18
Drax Power Station coal-specific assets	–
Hydro-electric plants (including pumped storage)	43
Pellet production plant	12
Other plant, machinery and equipment	15
Decommissioning asset	19
Plant spare parts	17

Freehold land held at cost is considered to have an unlimited useful life and is not depreciated. The value of freehold land held at 31 December 2020 is £10.5 million.

The Group's total commitment for future capital expenditure is disclosed in note 7.7.

An impairment charge is recognised immediately if the carrying value of an asset exceeds its recoverable amount. The Group's policy is to recognise an impairment charge through accumulated depreciation and impairment if the asset will continue to be used by the Group or if the asset will be subsequently sold. Assets that will no longer be used by the Group are disposed of by removing both the cost and any accumulated depreciation and impairment.

Electricity generation assets are grouped according to the fuel type of the plant. Certain assets at Drax Power Station are common to the whole plant and are shown separately. Common plant that will continue to be used for biomass generation post coal closure will continue to be recognised. Any common plant that will no longer be used post coal closure has been considered and impaired as necessary as part of the asset obsolescence charge recognised relating to the coal closure (see note 5.1).

Pellet production plant includes the US-based assets of the Group's Pellet Production segment and the assets at the Daldowie Fuel Plant near Glasgow.

Plant spare parts are depreciated over the remaining useful life of the relevant power station or plant.

3.1 Property, plant and equipment continued

Costs relating to major inspections, overhauls and upgrades to the power stations are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence, as well as normal wear and tear. Residual values are based on prices prevailing at the balance sheet date. Any changes are applied prospectively.

Significant estimation uncertainty

Asset lives are reviewed annually at each balance sheet date taking into consideration the impact of climate and environmental change. see note 2.4 for further details.

In February 2020, the Government announced its intention to bring forward the closure date for coal by one year to October 2024. Following a comprehensive review of operations, on 26 February 2020, the Board approved a proposal to accelerate the closure of the Group's two remaining coal-fired generating units at Drax Power Station from 2025 to 2022 (see note 5.1). This acceleration of the closure of the coal generation assets at Drax Power Station, along with a continued reduction in the interdependencies between the coal generation assets and the biomass generation assets at the site, has resulted in the coal generation assets becoming a separate CGU. The coal CGU has been reviewed for impairment and, as a result of this review, an asset obsolescence charge of £225.9 million has been recognised in the current year, of which £225.1 million relates to property plant and equipment. See note 2.7 for further details.

At each balance sheet date the Group reviews its property, plant and equipment to determine whether there is any indication that these assets may be impaired. The Group's accounting policy in respect of impairment, along with details of the impairment review conducted during 2020, are set out in note 2.4.

	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 2019	495.6	2,733.5	66.0	123.2	3,418.3
Additions at cost	0.4	5.3	8.2	137.4	151.3
Disposals	–	(0.8)	(1.4)	(0.9)	(3.1)
Issues/transfers	(70.0)	123.6	(3.7)	(54.6)	(4.7)
Effect of foreign exchange rates	(4.1)	(9.9)	–	(0.5)	(14.5)
At 1 January 2020	**421.9**	**2,851.7**	**69.1**	**204.6**	**3,547.3**
Additions at cost	–	29.6	6.5	183.9	220.0
Disposals	(1.4)	(16.7)	–	–	(18.1)
Asset obsolescence (note 2.7)	–	–	–	(13.4)	(13.4)
Issues to maintenance projects	–	–	(5.4)	–	(5.4)
Transfers between categories	13.0	109.2	2.9	(125.1)	–
Transfers to intangible assets	–	–	–	(5.7)	(5.7)
Transfers to assets held for sale	(40.8)	(129.5)	(3.5)	(52.2)	(226.0)
Effect of foreign exchange rates	(3.4)	(8.0)	–	(3.3)	(14.7)
At 31 December 2020	**389.3**	**2,836.3**	**69.6**	**188.8**	**3,484.0**
Accumulated depreciation and impairment:					
At 1 January 2019	78.2	971.9	20.6	–	1,070.7
Depreciation charge for the year	12.8	142.7	3.5	–	159.0
Disposals	–	(0.7)	(1.1)	–	(1.8)
Issues/transfers	–	–	(4.9)	–	(4.9)
Effect of foreign exchange rates	(0.9)	(2.2)	–	–	(3.1)
At 1 January 2020	**90.1**	**1,111.7**	**18.1**	**–**	**1,219.9**
Depreciation charge for the year	13.6	128.0	2.5	–	144.1
Asset obsolescence (note 2.7)	0.2	223.3	1.6	–	225.1
Disposals	(0.4)	(10.2)	–	–	(10.6)
Issues to maintenance projects	–	–	(1.2)	–	(1.2)
Transfers between categories	0.2	(4.5)	4.3	–	–
Transfers to assets held for sale	(0.3)	(29.9)	(0.4)	–	(30.6)
Effect of foreign exchange rates	(1.0)	(2.8)	–	–	(3.8)
At 31 December 2020	**102.4**	**1,415.6**	**24.9**	**–**	**1,542.9**
Net book value at 31 December 2019	331.8	1,740.0	51.0	204.6	2,327.4
Net book value at 31 December 2020	**286.9**	**1,420.7**	**44.7**	**188.8**	**1,941.1**

3.1 Property, plant and equipment continued

The charge for depreciation to the income statement comprises the following:

	Years ended 31 December 2020 £m	2019 £m
Total depreciation charged on property, plant and equipment	**144.1**	159.0
Total depreciation and impairments charged on right-of-use assets (note 3.2)	**7.9**	6.9
Less:		
Depreciation charged on property, plant and equipment held for sale (note 5.5)	**(18.3)**	(13.8)
Depreciation charged on right-of-use assets held for sale (note 5.5)	**(0.6)**	(0.6)
Depreciation charged for continuing operations	**133.1**	151.5

Plant and equipment shown above includes the following categories of assets:

	Biomass and coal plant £m	Hydro-electric plant £m	Gas thermal plants £m	Pellet production plant £m	Other £m	Total plant and equipment £m
Cost:						
At 1 January 2019	1,924.6	379.5	120.6	296.4	12.4	2,733.5
Additions at cost	–	–	–	4.8	0.5	5.3
Disposals	(0.4)	–	–	–	(0.4)	(0.8)
Issues/transfers	46.0	87.0	(2.9)	(8.7)	2.2	123.6
Effect of foreign exchange rates	–	–	–	(9.9)	–	(9.9)
At 1 January 2020	**1,970.2**	**466.5**	**117.7**	**282.6**	**14.7**	**2,851.7**
Additions at cost	29.1	–	–	–	0.5	29.6
Disposals	(6.3)	–	–	(10.4)	–	(16.7)
Transfers between categories	79.9	4.5	11.8	12.2	0.8	109.2
Transfers to assets held for sale	–	–	(129.5)	–	–	(129.5)
Effect of foreign exchange rates	–	–	–	(8.0)	–	(8.0)
At 31 December 2020	**2,072.9**	**471.0**	**–**	**276.4**	**16.0**	**2,836.3**
Accumulated depreciation and impairment:						
At 1 January 2019	914.2	–	–	49.2	8.5	971.9
Depreciation charge for the year	91.5	15.0	11.3	22.2	2.7	142.7
Disposals	(0.3)	–	–	–	(0.4)	(0.7)
Issues/transfers	8.2	–	–	(6.7)	(1.5)	–
Effect of foreign exchange rates	–	–	–	(2.2)	–	(2.2)
At 1 January 2020	**1,013.6**	**15.0**	**11.3**	**62.5**	**9.3**	**1,111.7**
Depreciation charge for the year	70.9	13.3	18.6	22.7	2.5	128.0
Asset obsolescence	223.2	–	0.1	–	–	223.3
Disposals	(5.2)	–	–	(5.0)	–	(10.2)
Transfers between categories	(4.1)	(0.2)	(0.1)	(0.1)	–	(4.5)
Transfers to assets held for sale	–	–	(29.9)	–	–	(29.9)
Effect of foreign exchange rates	–	–	–	(2.8)	–	(2.8)
At 31 December 2020	**1,298.4**	**28.1**	**–**	**77.3**	**11.8**	**1,415.6**
Net book value at 31 December 2019	956.6	451.5	106.4	220.1	5.4	1,740.0
Net book value at 31 December 2020	**774.5**	**442.9**	**–**	**199.1**	**4.2**	**1,420.7**

Issues and transfers reflect changes in the categorisation of assets during the period e.g. when an asset under construction is complete, it is transferred to the relevant depreciable asset category, or the issue of spare parts for use in repair and maintenance projects. When spare parts are utilised in such projects, the net book value of the part is transferred from the property, plant and equipment balance and recognised as an expense in the income statement within operating costs.

3.2 Leases

Accounting policy

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Group for a period of time. If the Group is deemed to have control of an identified asset, then a lease is recognised on the balance sheet. A right-of-use asset and a corresponding lease liability are recognised.

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. Incremental borrowing rates are calculated bi-annually. The borrowing rate for leased property is derived with reference to property yields specific to the location of the leased property and property type. For non-property leases, the borrowing rate is derived from a series of inputs including a risk-free rate based on LIBOR curves and an adjustment for credit risk based on the Group's credit rating. The liability is subsequently adjusted for interest, repayments and other modifications.

Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets, and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right-of-use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Lease extension or termination options are included within the lease term when the Group, as the lessee, has the discretion to exercise the option and where it is probable that the option will be exercised.

Leases with a term shorter than 12 months or where the identified asset has a value below £3,500 are expensed to the income statement on a straight-line basis over the term of the agreement.

Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost and carrying amount:			
At 1 January 2019	23.4	13.7	37.1
Additions at cost	0.9	0.7	1.6
Effect of foreign exchange rates	(0.1)	(0.4)	(0.5)
At 1 January 2020	**24.2**	**14.0**	**38.2**
Additions at cost	6.3	4.7	11.0
Disposals	(0.2)	(0.7)	(0.9)
Remeasurements	–	0.1	0.1
Transfers to assets held for sale	(6.5)	–	(6.5)
Effect of foreign exchange rates	(0.1)	(0.3)	(0.4)
At 31 December 2020	**23.7**	**17.8**	**41.5**
Accumulated depreciation and impairment			
At 1 January 2019	–	–	–
Depreciation charge for the year	3.5	3.1	6.6
Impairment	0.3	–	0.3
Effect of foreign exchange rates	–	(0.1)	(0.1)
At 1 January 2020	**3.8**	**3.0**	**6.8**
Depreciation charge for the year	3.6	4.3	7.9
Disposals	(0.2)	(0.7)	(0.9)
Transfers to assets held for sale	(1.2)	–	(1.2)
Effect of foreign exchange rates	0.1	(0.2)	(0.1)
At 31 December 2020	**6.1**	**6.4**	**12.5**
Net book value at 31 December 2019	20.4	11.0	31.4
Net book value at 31 December 2020	**17.6**	**11.4**	**29.0**

3.2 Leases continued

Lease liabilities

	Total £m
Carrying amount:	
At 1 January 2019	37.6
Additions	1.5
Interest charged to the income statement	1.2
Payments	(7.4)
Effect of foreign exchange rates	(0.4)
At 1 January 2020	**32.5**
Additions	11.0
Remeasurements	0.1
Interest charged to the income statement	1.2
Payments	(8.8)
Transfers to liabilities directly associated with assets held for sale	(5.6)
Effect of foreign exchange rates	(0.2)
At 31 December 2020	**30.2**

The existence of termination, extension and purchase options have not had a material impact on the determination of the lease liabilities.

In addition to the payments disclosed above, the Group also made total payments of £0.9 million (2019: £0.7 million) during the year in relation to short-term and low value leases. The value of commitments for short-term and low value lease is immaterial. The maturity of the gross undiscounted lease liabilities at 31 December 2020 is as follows:

	Total	
	2020 £m	2019 £m
Within one year	**7.9**	7.2
Within one to two years	**5.9**	6.2
Within two to five years	**12.6**	13.0
After five years	**8.4**	10.6
Total gross payments	**34.8**	37.0
Effect of discounting	**(4.6)**	(4.5)
Lease liabilities recognised in the balance sheet	**30.2**	32.5
Current portion	**7.0**	6.3
Non-current portion	**23.2**	26.2

The Group recognised the following charges from continuing operations relating to leases in the income statement:

	Total	
	2020 £m	2019 £m
Expense for short-term leases	**0.8**	0.7
Interest expense on leases	**1.0**	1.0
Depreciation and impairment expense on leases	**7.3**	6.3

3.3 Other fixed asset investments

Other fixed asset investments include equity investments held by the Group.

Accounting policy

Other fixed asset investments are recognised at fair value, based on quoted market prices where available, at the balance sheet date. The Group designates all of its investments as fair value through other comprehensive income (FVOCI), as they are intended to be held and not traded, in accordance with IFRS 9. Where quoted market prices are not available fair value is estimated based on all available information.

	Total fixed asset investments	
	2020 £m	2019 £m
At 1 January	**3.0**	2.4
Additions	–	0.7
Disposals	**(1.5)**	–
Fair value losses	–	(0.1)
At 31 December	**1.5**	3.0

During the year, the Group disposed of its entire investment in Aggregated Micro Power Holdings Limited (formerly Aggregated Micro Power Holdings plc) for cash consideration of £1.5 million.

See note 7.1 for details on the fair value measurement of investments.

3.4 ROC assets
The Group earns ROC assets, which are accredited by the Office for Gas and Electricity Markets (Ofgem), as a result of burning sustainable compressed wood pellets to generate electricity at Drax Power Station and generating renewable energy at a certain number of the Group's hydro plants. This note sets out the value of these assets that the Group held at the year end.

Accounting policy
ROCs are recognised as current assets in the period they are generated and are initially measured at fair value based on anticipated sales prices. The value of ROCs earned is recognised in the income statement as a reduction to costs of sales in that period.

Where the Customers business incurs an obligation to deliver ROCs to Ofgem, that obligation is provided for in the period incurred.

At each reporting date the Group reviews the carrying value of ROC assets held against updated anticipated sales prices. Where relevant, this takes account of agreed forward sale contracts and the likely utilisation of ROCs generated to settle the Group's own ROC obligations. Any impairment is recognised in the period incurred.

Historical experience indicates that the assumptions used in the valuation are reasonable; however, actual sales prices may subsequently differ from those assumed.

ROC valuations are comprised of two parts: the expected value to be obtained in a sale transaction with a third-party supplier relating to the buy-out price and an estimate of the future benefit that may be obtained from the ROC recycle fund at the end of the compliance period. The recycle fund provides a benefit where supplier buy-out charges (incurred by suppliers who do not procure sufficient ROCs to satisfy their obligations) are paid over to suppliers who presented ROCs in a compliance period on a pro-rata basis. The estimate is based on assumptions about likely levels of renewable generation and also the demand for ROCs over the compliance period and is thus subject to some uncertainty. The Group utilises external sources of information in addition to its own forecasts in making these estimates. Past experience indicates that the values arrived at are reasonable, but they remain subject to possible variation.

	Total 2020 £m	Total 2019 £m
Carrying amount:		
At 1 January	**162.7**	216.7
Earned from generation	**489.5**	527.8
Purchased from third parties	**504.1**	513.1
Utilised by the Customers business	**(376.0)**	(360.3)
Sold to third parties	**(640.7)**	(734.6)
At 31 December	**139.6**	162.7

Recognition of revenue from the sale of ROCs is described in further detail on page 162.

3.5 Inventories
The Group holds stocks of fuels and other consumable items that are used in the process of generating electricity and raw materials used in the production of compressed wood pellets. This note shows the cost of biomass, coal, other fuels and plant consumables held at the end of the year.

Accounting policy
The Group's raw materials and fuel stocks are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel stocks includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport/handling costs. The Group uses forward foreign currency exchange contracts to hedge the costs denominated in foreign currencies. Where these contracts are designated into hedge relationships in accordance with IFRS 9, the stock cost is recognised at the hedged value and all such gains and losses are included in cost of sales when they arise.

Both biomass and coal inventories are weighed when entering, moving within or exiting the Group's sites using technology regularly calibrated to industry standards. The Group does not anticipate purchasing any more coal inventory. 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.

Coal inventories are verified by an independent inventory survey carried out by a suitably trained specialist and a provision is made where the survey indicates a lower level of inventory than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

3.5 Inventories continued

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 stock is surveyed using regularly calibrated RADAR scanning technology to support the methods outlined above.

	As at 31 December	
	2020 £m	2019 £m
Biomass	160.1	164.9
Coal	24.4	103.1
Other fuels and consumables	23.7	24.0
	208.2	292.0

The net realisable value of coal in the table above is stated after provisions of £4.8 million (2019: £nil). The majority of this provision relates to inventory that the Group anticipates it will not be possible to utilise in the period before the coal units are closed in September 2022.

Inventories of biomass at the 31 December 2020 include £3.1 million (2019: £2.6 million) of fibre and other raw materials to be utilised in the production of compressed wood pellets.

The cost of inventories recognised as an expense in the year ended 31 December 2020 was £1,045.8 million (2019: £1,001.3 million). This includes the value of write downs of inventory in the year described above of £4.8 million (2019: £nil) and the reversal of previously written down inventories of £0.2 million (2019: £nil).

3.6 Trade and other receivables

Trade receivables represent amounts owed by customers for goods or services provided but that have not yet been paid for. Accrued income represents income earned in the period but not yet invoiced, largely in respect of power delivered that will be invoiced the following month.

Accounting policy

Trade and other receivables are initially measured at transaction price and subsequently measured at amortised cost.

The Group has access to receivables monetisation facilities under which trade receivables 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 (FVTOCI) in accordance with IFRS 9 due to the objective of the business model being achieved by both collecting contractual cashflows and the selling of the financial assets. All receivables that fall under this business model are sold under these facilities. These receivables are derecognised at the point of sale which is shortly after the initial recognition of the receivable balance. As a result, no fair value gains or losses have been recognised. Fees are recognised in the income statement as incurred.

	Years ended 31 December	
	2020 £m	2019 £m
Amounts falling due within one year:		
Trade receivables	158.0	134.4
Accrued income	211.7	352.6
Prepayments	92.5	67.3
Other receivables	63.1	54.5
	525.3	608.8

Trade receivables and accrued income principally represent sales of energy to counterparties within both the Generation and Customers businesses. At 31 December 2020, the Group had amounts receivable from two significant counterparties representing 12% of total trade receivables and accrued income (2019: two significant counterparties representing 18% of total trade receivables and accrued income).

Of total trade receivables and accrued income at 31 December 2020, £257.4 million (2019: £275.0 million) relates to the Customers business.

3.6 Trade and other receivables continued

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any services provided where payment is not yet due. The balances are included within accrued income. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. The reconciliation from opening to closing contract assets is as follows:

	Years ended 31 December	
	2020 £m	2019 £m
At 1 January	6.7	4.3
Additions as a result of changes in the measure of progress of balances brought forward	1.9	6.7
Additions as a result of new contracts	0.1	–
Contract assets transferred to trade receivables	(6.7)	(4.3)
Transfers to assets held for sale	(0.2)	–
At 31 December	1.8	6.7

Impairment of financial assets

Accounting policy

The Group applies the impairment model in IFRS 9 to provide for expected credit losses on the Group's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables (including accrued income) and contract assets is measured at an amount equal to the lifetime expected credit loss. Contract assets relate to amounts for goods or services provided under customer contracts and therefore have substantially the same risk characteristics as the trade receivables for the same types of contracts.

For other financial assets, the Group recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Group recognises a 12-month expected credit loss provision.

The greatest concentration of credit risk exists in the Customers business. The risk in this business is more prevalent within the SME customer base due to the wide range of customer characteristics within the portfolio. The loss provisioning for these customers is complex and requires a provisioning tool that is more dynamic than the provision matrix method. The provision matrix method is used for the Group's larger consumers within the Customers business and customers within the Generation and Pellet Production businesses.

The Group considers default to be when a customer is in breach of its terms.

The Group writes off a financial asset when there is no realistic prospect of recovery and all attempts to recover the balance have been exhausted. An indication that all credit control activities have been exhausted is where the debt is greater than 365 days old or where there are insolvency issues relating to the customer.

Key sources of estimation uncertainty

As a result of Covid-19, the Group has significantly increased its expectation of potential customer business failure rates and the resulting expected credit losses within the Customers business. Whilst the position adopted reflects the Group's current best estimate of possible outcomes, actual rates of bad debt will depend upon the severity and depth of Covid-19. See page 152 for further details.

Combined probability method

During 2019, the Group implemented a new machine learning algorithm to calculate expected credit losses for its SME customer base. The algorithm predicts the future performance of a debt on an individual account basis using a broad range of indicators that are specific to the customer. The algorithm assesses the likelihood of the debt becoming more than 365 days past due and the likelihood of the customer subsequently defaulting on this debt. The algorithm combines historical default experience and economic conditions that may impact the probability of future defaults.

A binary method was adopted in 2019. This method provided in full for debt where the debt was more likely than not (i.e. more than 50% probability) to become both aged over 365 days and then subsequently default. The Group considered that the overall provision applied from this method and other overlay assumptions was adequate to reflect the risk of default across the whole portfolio.

Since initial implementation in 2019, the algorithm has continued to learn and develop, improving the accuracy of the provisioning estimations. The model no longer adopts a binary approach to the provisioning but instead calculates a specific probability of default for each customer which is then applied to the corresponding debt. The model is now trained on 2020 data and so incorporates experience of the Covid-19 impacted periods. A judgement overlay has also been included to capture Management's estimation of residual risk relating to Covid-19 not yet fully reflected within the data that the model has been trained on.

The Group defines low credit risk as customers that have a probability of less than 25% of defaulting.

3.6 Trade and other receivables continued

Provision matrix method

Larger customers within the Group are grouped according to the age of the debt based on the number of days past due. The provision rates are based on historical collection rates and an expectation of future cash collection. The rate of default increases once the balance is 30 days past due and subsequently in 30-day increments.

The movement in the overall allowance for expected credit losses is laid out in the following table:

	2020			2019		
	Combined probability method £m	Provision matrix method £m	Total £m	Combined probability method £m	Provision matrix method £m	Total £m
At 1 January	37.8	2.9	40.7	39.5	4.5	44.0
Amounts written off	(29.5)	(2.7)	(32.2)	(23.7)	(3.7)	(27.4)
Additional amounts provided against	43.1	4.8	47.9	22.0	2.1	24.1
At 31 December	51.4	5.0	56.4	37.8	2.9	40.7
Gross trade receivables	172.1	42.3	214.4	157.7	17.4	175.1
Average ECL %	30%	12%	26%	24%	17%	23%

The provision above relates to trade receivables in the Customers business. The risk of default within the Generation and Pellet Production businesses is considered to be extremely low and the calculated provision is negligible. This is supported by strong historic collection rates and timely receipts. The expected credit loss provision calculated for other financial assets of the Group was negligible. In terms of sensitivity, the year end provision represents 28% of the gross Customers trade receivables balance. If the coverage were to increase/(decrease) by 1%, the provision value would increase/(decrease) by £2.0 million.

Credit and counterparty risk are disclosed in further detail in note 7.2.

The net charge to the income statement in 2020 for impairment losses on financial assets was £43.1 million (2019: £18.0 million). This is the net of the additional amounts provided against in relation to trade receivables of £47.9 million (2019: £24.1 million) less a £4.8 million benefit in the period in respect of resolution of legacy credit balances (2019: £6.1 million benefit).

The value of provisions calculated using the combined probability model is set out below. This shows the trade receivables balances for SME consumers within the Customers business grouped by the combined probability assigned by the model.

The following table shows the comparative risk profile of amounts due based on the combined probability model at 31 December.

	2020		2019	
Probability of default range %	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	36.8	29.7	22.7	19.3
50–79	16.5	8.9	17.2	14.6
26–49	18.7	5.6	14.0	3.7
0–25	100.1	1.7	103.8	–
Total	172.1	45.9	157.7	37.6
Provision for specific debt		–		0.2
Other adjustments		5.5		–
Closing provision		51.4		37.8

The other adjustments of £5.5 million reflects the judgement overlay discussed above to capture management's estimation of residual risk relating to Covid-19 on future cash collection performance (2019: £nil).

3.6 Trade and other receivables 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, accrued income and contract assets of the Group's larger consumers within the Customers business and customers within the Generation and Pellet Production businesses at 31 December 2020.

	Accrued income	Trade receivables days past due						
	Balances not yet due	Balances not yet due	Between 0-30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Trade receivables Total	Total
Group								
Expected credit loss rate – %	**2%**	**3%**	**15%**	**3%**	**37%**	**68%**	**12%**	**3%**
Estimated total gross carrying amount at default – £m	**215.2**	**22.9**	**2.5**	**11.3**	**0.6**	**5.0**	**42.3**	**257.5**
Lifetime expected credit losses – £m	**3.5**	**0.7**	**0.4**	**0.3**	**0.2**	**3.4**	**5.0**	**8.5**

The expected credit loss rate is a weighted average for the portfolio of larger trade receivables associated with the Customers business. Contract assets, included within accrued income, and the majority of the trade receivables balances not yet due are held in the Generation business where the risk of default is considered to be extremely low and immaterial to provide for. This is supported by strong historic collection rates and timely receipts.

The provision for expected credit losses is implicit in the calculation of accrued income and as a result, the additional amounts provided against relating to accrued income of £3.5 million (2019: £5.8 million) are recognised as a reduction of revenue in the income statement.

The following table shows the comparative risk profile of amounts due from other customers based on the Group's provision matrix at 31 December 2019.

	Accrued income	Trade receivables days past due						
	Balances not yet due	Balances not yet due	Between 0-30 days	Between 31-60 days	Between 61-90 days	Over 90 days	Trade receivables Total	Total
Group								
Expected credit loss rate – %	2%	3%	9%	5%	13%	82%	17%	2%
Estimated total gross carrying amount at default – £m	358.4	7.1	2.9	3.8	1.2	2.4	17.4	375.8
Lifetime expected credit losses – £m	5.8	0.4	0.2	0.2	0.2	1.9	2.9	8.7

3.7 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 on a straight-line basis over the contract period in line with the recognition of revenue. The balance is included within prepayments in note 3.6. This amount includes both current and non-current balances. No impairment losses were recognised in either year. The reconciliation from opening to closing contract costs is as follows:

	Years ended 31 December	
	2020 £m	2019 £m
At 1 January	**42.3**	39.0
Additions	**26.9**	33.7
Amortisation	**(29.1)**	(30.4)
At 31 December	**40.1**	42.3

3.8 Trade and other payables

Trade and other payables represent amounts the Group owes to its suppliers (for trade purchases and ongoing costs), tax authorities and other creditors that are due to be paid in the ordinary course of business. The Group makes accruals for amounts that will fall due for payment in the future as a result of the Group's activities in the current period (e.g. fuel received but for which the Group has not yet been invoiced).

Accounting policy

Trade and other payables are measured at amortised cost.

The Group facilitates a supply chain finance scheme, a form of reverse factoring under which certain suppliers can obtain early access to funding. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to fall away. The amount due is recognised in trade payables.

The Group also has access to payment facilities, utilised to leverage scale and efficiencies in transaction processing. Under these facilities the Group benefits from a short extension to payment terms, within a normal working capital cycle, for a small fee. The original liability is derecognised and the amount due to the facility provider is recognised in other payables. Fees are recognised in the income statement in the period incurred.

The Group does not include trade and other payables in its calculation of net debt, see note 4.1.

	As at 31 December	
	2020 £m	2019 £m
Trade payables	**112.9**	175.0
Fuel accruals	**57.9**	86.1
Energy supply accruals	**326.2**	364.2
Other accruals	**222.0**	208.8
Other payables	**176.9**	183.3
Contract liabilities	**11.1**	21.8
	907.0	1,039.2

Trade payables includes £2.5 million (2019: £4.5 million) due after more than one year.

The Group has not utilised any Covid-19 Government support schemes in the year.

Trade payables includes £43.7 million (2019: £33.1 million) related to reverse factoring. Other payables include £63.7 million (2019: £90.6 million) due under other payment facilities.

Other payables includes £nil of ROC sales made in the period which the Group have not yet been accredited for (2019: £55.0 million).

Energy supply accruals includes £222.9 million (2019: £250.0 million) in relation to the Group's obligation to deliver ROCs arising from Customers activities. The remaining balance principally comprises third party grid charge accruals of £35.4 million (2019: £42.8 million) and Feed-in-Tariff accruals of £31.6 million (2019: £30.4 million).

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU Emission Trading Scheme (ETS). Other accruals at 31 December 2020 includes £37.5 million (2019: £25.5 million) with respect to the Group's estimated net liability to deliver carbon emissions allowances. Allowances are purchased in the market and are recorded at cost.

Other accruals also includes accruals for capital and operating expenditure where the invoice has not yet been received.

Contract liabilities primarily relate to the advance consideration received from customers for fixed price electricity and gas contracts, for which revenue is recognised based on the stage of completion of the multi-year contract. The balance reduces as revenue is subsequently recognised in the following period, offset by further advance consideration received. The reconciliation of opening to closing contract liabilities is as follows:

	Years ended 31 December	
	2020 £m	2019 £m
At 1 January	**21.8**	20.0
Revenue recognised in the year that was included in the contract liability at the start of the period	**(13.3)**	(12.5)
Additions as a result of cash received from customers in the period not yet recognised in revenue	**2.6**	14.3
At 31 December	**11.1**	21.8

Contract liabilities at 31 December 2020 includes £3.5 million due after more than one year (2019: £8.5 million).

Section 4: Financing and capital structure

This section provides further information about the Group's capital structure (equity and debt financing) and cash generated from operations during the year.

4.1 Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 4.3) and subtracting cash and cash equivalents (note 4.2). The table below reconciles net debt in terms of changes in these balances across the year.

	Years ended 31 December	
	2020 £m	2019 £m
Net debt at 1 January	**(841.1)**	(319.1)
(Decrease)/increase in cash and cash equivalents	**(114.2)**	121.9
Decrease/(increase) in borrowings	**165.3**	(645.3)
Effect of changes in foreign exchange rates	**14.1**	1.4
Net debt at 31 December	**(775.9)**	(841.1)

Borrowings include listed bonds, bank debt and revolving credit facilities (RCFs), net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities, pension obligations and trade and other payables.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead disclosed as operating commitments.

A reconciliation of the change in borrowings during the year is set out in the table on page 185.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments in respect of the Group's US dollar (USD) and euro denominated debt (see note 4.3). If USD and euro balances were translated at the hedged rate, rather than the rate prevailing at the balance sheet date, the carrying amount of the Group's borrowings would be impacted. The table below reconciles net debt excluding the impact of hedging instruments, as disclosed in the table above, to net debt including the impact of hedging instruments through translating the borrowings at the hedged rates.

	Years ended 31 December	
	2020 £m	2019 £m
Net debt excluding the impact of hedging instruments at 31 December	**(775.9)**	(841.1)
Impact of hedging instruments	**(43.2)**	(3.9)
Net debt including the impact of hedging instruments at 31 December	**(819.1)**	(845.0)

4.2 Cash and cash equivalents

Cash and cash equivalents include cash held in current and other deposit accounts that is accessible on demand. 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	
	2020 £m	2019 £m
Cash and cash equivalents	**289.8**	404.1

4.3 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 life of the instrument.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the repayment date is fixed regardless of when the loan is drawn down, are recognised on a systematic basis over the period the Group is able to draw down. Loan commitment fees payable to the lender, which entitle the Group to draw down at any time over a fixed period, but the loan has the same fixed term regardless of when the loan is drawn down, are deferred until draw down and recognised over the life of the instrument as part of the effective interest rate, if draw down is probable. If draw down is not probable they are recognised on a systematic basis over the period the Group is able to draw down.

4.3 Borrowings continued

Fees that are paid for the availability of a facility, such that the amount and timing of draw down can vary at the Group's discretion (such as an RCF facility) are recognised on a systematic basis over the life of the facility.

Debt instruments denominated in foreign currencies are revalued using period end exchange rates, with any exchange gains and losses arising recognised as a component of net interest charges in the period they arise. The Group hedges foreign currency risk in accordance with the policy set out in note 7.2. Where hedging instruments are used to fix cash flows associated with debt instruments, the debt instrument and the hedging instrument are measured and presented separately on the balance sheet.

Reconciliation of borrowings

The tables below show the movement in borrowings during the current and previous year:

	Year ended 31 December 2020		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	1,267.5	(22.3)	1,245.2
Cash movements:			
Extension of ESG facility	–	(0.8)	(0.8)
2025 €250 million loan notes draw down	225.5	(3.4)	222.1
Repayment of ESG facility	(125.0)	–	(125.0)
UK infrastructure private placement draw down	81.4	(3.8)	77.6
Repayment of 2022 fixed loan notes	(350.0)	–	(350.0)
Non-cash movements:			
Acceleration of deferred finance costs in relation to previous facilities (note 2.5)	–	4.8	4.8
Indexation of linked loan	0.5	–	0.5
Amortisation of deferred finance costs (note 2.5)	–	5.9	5.9
Amortisation of USD loan note premium	(0.4)	–	(0.4)
Effect of foreign exchange rates	(14.2)	–	(14.2)
Borrowings at 31 December	1,085.3	(19.6)	1,065.7

On 10 June 2020, the Group extended the final maturity on the £125.0 million ESG facility to 2025.

On 18 August 2020, the Group agreed a new infrastructure term loan facilities agreement providing committed facilities with a range of maturities between 2024 and 2030 further extending the Group's debt maturity profile. The initial agreement included sterling denominated commitments of £45.0 million and euro denominated commitments totalling €126.5 million. The agreement also included an option for the Group to increase the facilities by up to a further £75.0 million of commitments, if agreed between the Group and its lenders. On 18 November 2020, a further £53.0 million with a 2028 maturity was agreed under this option. These commitments have effective interest rates of 3.7%, which is inside the Group's current average cost of debt.

On 13 November 2020, the €31.5 million facility was drawn down, followed by £53.0 million on 2 December 2020. The remaining committed facilities were drawn on 18 February 2021.

On 4 November 2020, the Group issued €250.0 million of euro denominated senior secured notes, with a 2025 maturity date. The notes were issued at 100% of their nominal value and have a fixed interest rate of 2.625% which the Group has swapped back to achieve an effective sterling equivalent rate of 3.240%.

The Group has entered into a number of interest rate swaps and cross-currency interest rate swaps to fix the variable and non-sterling interest payments on the new infrastructure term loan facilities and euro notes. In addition to fixing the sterling value of these interest payments over a three to six year period, the sterling repayment of the euro principals have been fixed for between two and five years.

On 19 November 2020, the Group used the proceeds of the euro denominated notes issue, along with existing cash reserves, to redeem the Group's £350.0 million 2022 fixed loan notes as well as the £125.0 million ESG facility. The £350.0 million 2022 sterling notes were redeemed at a price equal to 101.063% of the principal amount. The early redemption premium of 1.063% has been recognised as an exceptional item.

On 18 November 2020, the Group also refinanced its existing RCF which had a maturity date of 2021. The new ESG RCF facility has a value of £300.0 million and matures in 2025, with an option to extend by one year, with lender agreement. The facility is able to be fully drawn in cash. The facility includes an embedded ESG component which adjusts the margin based on the Group's carbon intensity which is measured against an annual benchmark.

The Group's financing structure also includes US $500.0 million loan notes and a £375.0 million UK infrastructure private placement which was committed and drawn in 2019.

4.3 Borrowings continued

The US senior secured notes have a fixed interest rate of 6.625% equating to an effective sterling interest rate of 4.9%. Cross-currency interest rate swaps have been used to fix the sterling value of interest payments over a five-year period. This instrument also fixed the sterling repayment of the principal in 2023.

The £375.0 million LIBOR-linked UK infrastructure private placement agreed in 2019 has maturities extending out to between 2024 and 2029. The Group has entered into interest rate swaps to fix the effective interest rates inside the Group's current cost of debt.

	Year ended 31 December 2019		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	622.9	(14.8)	608.1
Cash movements:			
2025 US $200 million loan notes draw down	152.8	(3.4)	149.4
£550 million acquisition bridge facility draw down	550.0	(1.4)	548.6
UK infrastructure private placement draw down	375.0	(10.0)	365.0
ESG facility draw down	125.0	(2.1)	122.9
Repayment of £550 million acquisition bridge facility	(550.0)	–	(550.0)
Non-cash movements:			
Acceleration of deferred finance costs in relation to previous facilities	–	5.2	5.2
Indexation of linked loan	0.8	–	0.8
Amortisation of deferred finance costs	–	4.2	4.2
Amortisation of USD loan note premium	(0.3)	–	(0.3)
Effect of foreign exchange rates	(8.2)	–	(8.2)
Reclassification of finance leases	(0.5)	–	(0.5)
Borrowings at 31 December	1,267.5	(22.3)	1,245.2

Amounts drawn against each facility in the Group's financing structure in the current and previous year is shown in the tables below. All borrowings are due after more than one year.

	As at 31 December 2020		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2025 €250 million loan notes	**223.4**	**(3.3)**	**220.1**
2025 US $500 million loan notes	**367.4**	**(5.0)**	**362.4**
Index-linked loan	**38.4**	**–**	**38.4**
UK infrastructure private placement facilities (2019)	**375.0**	**(7.5)**	**367.5**
UK infrastructure private placement facilities (2020)	**81.1**	**(3.8)**	**77.3**
Total borrowings	**1,085.3**	**(19.6)**	**1,065.7**

The Group's committed £300 million ESG RCF had no cash drawings as at 31 December 2020. The Group also has further committed undrawn amounts under the new infrastructure term loan facilities agreement described above totalling £45.0 million and €95.0 million. On 18 February 2021, these facilities were drawn down in full. The Group has no other committed facilities, although it has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 4.4, which are utilised to accelerate working capital cash inflows and defer cash outflows.

	As at 31 December 2019		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 fixed loan notes	350.0	(5.3)	344.7
2025 US $300 million loan notes	379.6	(5.9)	373.7
Index-linked loan	37.9	–	37.9
UK infrastructure private placement facilities (2019)	375.0	(9.3)	365.7
ESG facility	125.0	(1.8)	123.2
Total borrowings	1,267.5	(22.3)	1,245.2

4.3 Borrowings continued

The Group's financing structure, including the index-linked loan, the USD and euro loan notes, the ESG RCF, private placement and infrastructure term loan facilities are secured against the assets of a number of the Group's subsidiaries including property, plant and equipment, with the exception of the Group's US land and buildings.

In addition, the Group had a secured commodity trading line, which allowed it to transact prescribed volumes of commodity trades without the requirement to post collateral and FX trading lines with certain banks. Counterparties to these arrangements are entitled to share in the security as described above. During the year the Group opted to close the secured commodity trading line and as such no further trades are able to utilise the line. The final trades utilising this line are due to mature by the end of March 2021 and as at 31 December 2020 were valued at £0.8 million (2019: £32.7 million).

4.4 Notes to the consolidated cash flow statement

Cash generated from operations

Cash generated from operations is the starting point of the Group's cash flow statement on page 158. The table below makes adjustments for any non-cash accounting items to reconcile the Group's net (loss)/profit for the year to the amount of cash generated from the Group's operations.

	Years ended 31 December	
	2020 £m	2019 £m
(Loss)/profit for the year	**(157.9)**	0.5
Adjustments for:		
Interest payable and similar charges	**74.0**	66.5
Interest receivable	**(0.6)**	(1.3)
Effect of foreign exchange rates	**(1.0)**	–
Tax credit	**(31.7)**	(3.3)
Depreciation and amortisation	**190.4**	207.9
Asset obsolescence charge	**239.4**	–
Losses on disposal	**6.0**	1.2
Certain remeasurements of derivative contracts	**31.4**	254.0
Defined benefit pension scheme current service cost	**8.4**	7.1
Defined benefit pension scheme past service cost	**7.4**	–
Non-cash charge for share-based payments	**5.2**	2.7
Provision movements recognised in the income statement	**20.4**	–
Other non-cash gains	**–**	(0.5)
Operating cash flows before movement in working capital	**391.4**	534.8
Changes in working capital:		
Decrease/(increase) in inventories	**87.1**	(67.8)
Decrease/(increase) in receivables	**25.1**	(142.6)
(Decrease)/increase in payables	**(98.4)**	101.6
Decrease in carbon assets	**–**	4.3
Decrease in ROC assets	**23.1**	54.0
Total cash released from working capital	**36.9**	(50.5)
Defined benefit pension scheme contributions	**(14.9)**	(13.1)
Cash generated from operations	**413.4**	471.2

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the income statement and cash realised from derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve pending release to the income statement in the period the hedged transaction occurs.

The Group has a strong focus on cash flow discipline and managing liquidity. The Group optimises its working capital position by managing payables, receivables and inventories to make sure the working capital committed is closely aligned with operational requirements. When compared to the year-end position, such measures have been utilised to a broadly consistent level throughout the year unless otherwise stated. The impact of these actions on the cash flows of the Group is described below.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group are able to accelerate cash flows over a proportion of these assets. The net impact of ROC purchases and ROC sales on operating cash flows was a £74.0 million outflow (2019: £131.2 million inflow), due to fewer ROCs being sold at the end of 2020 compared to the end of the previous year. This is reflected as an increase (2019: decrease) in ROC assets and is a component of the overall net decrease (2019: decrease) in ROC assets shown in the table above. The level of ROCs generated, purchased and sold during the period is set out in note 3.4. The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. These facilities were utilised during the year but no amounts remained outstanding at 31 December 2020 (2019: £nil).

4.4 Notes to the consolidated cash flow statement continued

Utilisation of both of these methods to accelerate cash flows is higher around the middle of ROC compliance periods as the Group has generated a large amount of ROCs but energy suppliers do not yet require ROCs to settle their obligation. At the start of the compliance period the Group has not generated large amounts of ROCs, and towards the end of the compliance period energy suppliers are purchasing ROCs to settle their obligation, therefore utilisation of these methods is lower as the Group has less ROCs available.

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2020, this generated a working capital outflow due to less cash being released from rebased trades at the end of 2020 than in the prior year. This is reflected as an adjustment to derivative remeasurements in the table on page 187. The total cash benefit released from related trades that remained outstanding at 31 December 2020 was £80.1 million (2019: £106.8 million). This cash benefit includes £24.4 million (2019: £84.3 million) released from foreign currency contracts and £55.7 million (2019: £22.5 million) from cross-currency interest rate swaps.

The Customers business has access to a facility which enables it to accelerate cash flows associated with trade receivables on a non-recourse basis, which generated a net cash inflow of £7.8 million in the year ended 31 December 2020, reflected as a reduction in receivables in the table on page 187 (2019: net cash inflow of £12.8 million reflected as a reduction in receivables in the table on page 187). The facility terms were amended in the prior year, increasing the facility size to £200.0 million from £150.0 million. Utilisation of the facility was £170.0 million at 31 December 2020 (2019: £162.2 million).

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which funds can be accelerated in advance of the normal payment terms. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 31 December 2020, the Group had trade payables of £43.7 million (2019: £33.1 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 31 December 2020 was £63.6 million (2019: £90.6 million).

Changes in liabilities arising from financing cash flows

A reconciliation of the movements in liabilities arising from financing activities for both cash and non-cash changes is provided below:

	As at 31 December 2020		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	**1,245.2**	**32.5**	**1,277.7**
Cash flows from financing activities	**(176.1)**	**(8.8)**	**(184.9)**
Impact of foreign exchange rates	**(14.2)**	**(0.2)**	**(14.4)**
Other movements	**10.8**	**6.7**	**17.5**
Balance at 31 December	**1,065.7**	**30.2**	**1,095.9**

	As at 31 December 2019		
	Borrowings £m	Lease liabilities £m	Total £m
Balance at 1 January	607.6	0.5	608.1
Cash flows from financing activities	635.9	(7.4)	628.5
Impact of foreign exchange rates	(8.2)	(0.4)	(8.6)
Other movements	9.9	39.8	49.7
Balance at 31 December	1,245.2	32.5	1,277.7

Other movements principally relate to the amortisation of deferred finance costs and discounting of lease liabilities. In 2019 other movements also includes the initial recognition of lease liabilities on transition to IFRS 16.

4.5 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

Accounting policy

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.5 Equity and reserves continued

	As at 31 December	
	2020 £m	2019 £m
Authorised:		
865,238,823 ordinary shares of 11 16⁄29 pence each (2019: 865,238,823)	**100.0**	100.0
Issued and fully paid:		
2020: 410,848,934 ordinary shares of 11 16⁄29 pence each (2019: 410,475,731)	**47.5**	47.4

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2020 (number)	2019 (number)
At 1 January	**410,475,731**	407,193,168
Issued under employee share schemes	**373,203**	3,282,563
At 31 December	**410,848,934**	410,475,731

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.

Shares issued under employee share schemes

Throughout January to December 2020, a total of 373,203 shares were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan, Performance Share Plan and Bonus Matching Plan (deferred shares).

Share buy-back programme

In 2018 the Group announced the commencement of a £50.0 million share buy-back programme. On 21 January 2019, the buy-back programme concluded. In total, the Group purchased 13.8 million shares for total consideration of £50.4 million, including transaction costs. These shares are held in a separate Treasury Share reserve awaiting reissue or cancellation and have no voting rights attached to them.

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued. Movements in the share premium reserve reflect amounts received on the issue of shares under employee share schemes.

	Share premium	
	2020 £m	2019 £m
At 1 January	**429.6**	424.7
Issue of share capital	**0.4**	4.9
At 31 December	**430.0**	429.6

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	Total other reserves £m
At 1 January 2019	1.5	55.9	710.8	768.2
Exchange differences on translation of foreign operations	–	(11.2)	–	(11.2)
At 31 December 2019	**1.5**	**44.7**	**710.8**	**757.0**
Exchange differences on translation of foreign operations	–	(9.3)	–	(9.3)
At 31 December 2020	**1.5**	**35.4**	**710.8**	**747.7**

The capital redemption reserve arose when the Group completed a share buy-back programme in 2007.

Exchange differences relating to the translation of the net assets of the Group's US-based subsidiaries from their functional currency (USD) into sterling for presentation in these consolidated financial statements are recognised in the translation reserve.

The share premium and the merger reserve arose on the financial restructuring of the Group which took place in 2005.

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.

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 Coal closure

On 26 February 2020, following a comprehensive review, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022, at which point they will cease to operate.

Asset obsolescence charges

Drax Power Station's biomass generation assets and coal generation assets had previously been assessed as being part of the same CGU, due to the interdependencies between these assets. Following a reduction in the significance of the interdependencies between these assets over time, as of 26 February 2020 they were assessed as being two separate CGUs. Following the coal generation assets becoming a separate CGU and the decision to cease commercial coal generation in March 2021, an impairment review was undertaken.

The recoverable amount of the coal generation assets was determined based on a value in use calculation. This calculation uses cash flow projections based on the Group's established planning model approved by the Board covering the period through to coal closure in September 2022.

The calculation concluded that the recoverable amount of the coal CGU was significantly lower than the carrying amount of the coal generation assets in the Group's balance sheet. Accordingly, in the year ended 31 December 2020, an asset obsolescence charge of £225.9 million has been recognised to write the coal generation assets down to their recoverable amount of £nil. Sensitivity analysis indicated that any reasonably possible changes in the key assumptions, which are the allocation of operating costs and discount rate, would not result in a materially different outcome. The discount rate used in the calculation was 8%.

The asset obsolescence charge and the associated deferred tax impact have been treated as exceptional items and excluded from the Group's Adjusted Results.

Provisions

As a result of the coal closure decision, one-off costs of closure, comprising termination benefits, required safety works, and costs of disposal for associated assets will be incurred. The coal closure programme is expected to result in a reduction of 206 roles from April 2021. Communication and consultations have been taking place since the coal closure decision regarding the reduction in roles. These discussions and communications are sufficiently progressed that as at 31 December 2020 a restructuring provision of £9.6 million has been recognised for these expected costs. The majority of this provision is expected to be utilised in 2021.

Total cost	Notes	£m
Site engineering work		11.0
Redundancy		9.6
Total restructuring provisions	5.4	**20.6**
Pensions	6.3	7.4
Inventory write offs	3.5	4.8
Other costs		0.9
Total coal closure costs		**33.7**

The other costs of £0.9 million in the table above were expensed in the year.

5.2 Goodwill

Goodwill arises on the acquisition of a business when the consideration paid exceeds the fair value of the identifiable assets acquired.

Accounting policy

Goodwill is initially recognised and measured at the acquisition date. Goodwill is not amortised but reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the CGU to which it relates and the recoverable amount for that CGU assessed. The table below shows the carrying amount of goodwill:

	Goodwill £m
Cost and carrying amount:	
At 1 January 2019, 31 December 2019 and 31 December 2020	**248.2**
CGU allocation:	
Haven Power CGU: Haven Power acquired in 2009	**10.7**
Opus Energy CGU: Opus Energy acquired in 2017	**159.2**
Lanark CGU: Drax Generation Enterprise acquired in 2018	**11.3**
Galloway CGU: Drax Generation Enterprise acquired in 2018	**40.1**
Cruachan CGU: Drax Generation Enterprise acquired in 2018	**26.9**

5.2 Goodwill continued

Impairment review

Haven and Opus

The recoverable amounts of the Haven Power and Opus Energy CGUs are measured annually, based on a value in use calculation. This calculation depends on a broad range of assumptions, the most significant of which are customer margins and supply volumes. Estimates regarding these assumptions are based on management's expectations of future growth, wholesale energy and third-party costs and achieved profitability. Inherent in these assumptions are expectations about future energy prices and supply costs. Management has projected cash flows based on a business plan period of eight years, reflecting consideration of aspects of the plan which are realised over a long term horizon. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 1%. This growth rate is based on prudent expectations of market share and/or profitability along with more general macro environmental factors which were obtained from the Group's established planning model along with external macro-economic forecasts. The growth rate does not exceed the relevant long-term average growth rate for the industry. The impact of climate and environmental impacts are discussed in note 2.4. These businesses are principally focused on renewable electricity sales and therefore consideration of climate and environmental impacts are already a key feature of their business models.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount £m	Discount Rate
Haven	47.5	7.2%
Opus	288.5	7.2%

The expected future cash flows of the CGU were discounted using a discount rate of 7.2%, calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Customers business. The Group believes that this rate reflects the prospects for a well-established Customers business, reflecting the comparatively long trading record and customer bases these businesses hold. The value in use of the Haven Power CGU, including the goodwill, was significantly in excess of its carrying amount. Reflecting the significant headroom in the analysis, the Group does not believe that any reasonably possible change in the key assumptions would result in a recoverable amount for the Haven Power CGU that was lower than its carrying amount.

The carrying amount of the Opus Energy CGU at 31 December 2020 includes intangible assets of £111.0 million. The discount rate was assessed as being in line with that of Haven Power at 7.2%. The recoverable amount of the Opus Energy CGU was assessed under several scenarios that reflect the Group's future plans for the business. In each case, whilst headroom was materially reduced from prior years due to the impact of Covid-19 on forecasts of near-term future earnings, the recoverable amount remained in excess of its carrying amount assuming a recovery trajectory that returns to profitability.

The Group conducted a sensitivity analysis on the estimates of future cash flows for the Opus Energy CGU and concluded that no reasonable possible change in any of the key assumptions would result in the recoverable amount falling below its carrying amount. It was noted that EBITDA forecasts in the business plan period would need to fall by a further 53% to completely erode available headroom.

Lanark, Galloway and Cruachan

The Group tests the goodwill associated with the Lanark, Galloway and Cruachan CGUs annually. The recoverable amount of each CGU was calculated based on a value in use calculation using the Group's established planning model. The model depends on a broad range of assumptions, the most significant of which are power prices, operating model, sources of stability income and the discount rate applied. Estimates regarding these assumptions are based on management's expectations of future wholesale energy prices, operational factors and capital investment. Management has projected cash flows based on the business plan period of 14 years. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 2%. This growth rate is based on macro environmental factors which were obtained from publicly available forecasts and does not exceed the relevant long-term average growth rate for the industry. The impact of climate and environmental impacts have been discussed in note 2.4.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount £m	Discount Rate
Lanark	59.6	6.5%
Galloway	194.5	6.5%
Cruachan	312.1	6.5%

The discount rates were calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Generation business.

5.2 Goodwill continued

The value in use for the Cruachan CGU in the table above, including allocated goodwill, was significantly in excess of its carrying amount. No reasonably possible change in the key assumptions would result in a recoverable amount that was lower than its carrying amount.

The nature of the run-of-river assets and the application of fair value accounting on acquisition in 2018 results in a limited level of headroom for the Lanark and Galloway CGUs of £4 million and £13 million respectively. The value in use calculations for Lanark and Galloway are sensitive to the discount rate applied. An increase in the discount rate of 0.5% for Lanark and 0.4% for Galloway would result in a recoverable amount that was lower than the carrying amount for each CGU. Having conducted a sensitivity analysis of all key assumptions, no other reasonable possible changes that would result in the elimination of all headroom were identified. It is not expected that there would be any reasonably possible change in key assumptions that would result in a material impairment loss in the next 12 months.

5.3 Intangible assets

Intangible assets are not physical in nature but are identifiable and separable from other assets. Intangible assets can be acquired in business combinations (such as the acquisition of Opus Energy during 2017) or purchased separately. The Group routinely purchases computer software and carbon emissions allowances, which are considered intangible assets.

Accounting policy

Intangibles acquired in business combinations are measured at fair value on the acquisition date. Other intangible assets are measured at cost. Cost comprises the purchase price (net of any discount or rebate) and any directly attributable costs to bring the asset into the condition and location required for use as intended by management.

Intangible assets are amortised over their anticipated useful lives. Useful lives are reviewed at each balance sheet date. No changes to useful lives were made as at 31 December 2020. Amortisation calculations are specific to each category of assets and are explained in further detail below.

Carrying amounts are assessed for indicators of impairment at each balance sheet date. The customer-related assets and brand are attributed to the Opus Energy CGU and details of the impairment test relating to this CGU are included in note 5.2.

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Carbon assets £m	Total £m
Cost and carrying amount:						
At 1 January 2019	211.0	11.3	95.1	21.0	4.3	342.7
Additions at cost	–	–	20.8	–	–	20.8
Transfers from Property, plant and equipment	–	–	3.1	–	–	3.1
Utilised in the period	–	–	–	–	(4.3)	(4.3)
Effect of foreign exchange rates	–	–	0.3	–	–	0.3
At 1 January 2020	**211.0**	**11.3**	**119.3**	**21.0**	**–**	**362.6**
Additions at cost	–	–	8.6	–	–	8.6
Transfers from Property, plant and equipment	–	–	5.7	–	–	5.7
Disposals	–	–	(1.4)	–	–	(1.4)
Transfers to assets held for sale	–	–	(0.5)	–	–	(0.5)
Effect of foreign exchange rates	–	–	(0.2)	–	–	(0.2)
At 31 December 2020	**211.0**	**11.3**	**131.5**	**21.0**	**–**	**374.8**
Accumulated amortisation						
At 1 January 2019	71.5	2.2	40.2	–	–	113.9
Charge for period	30.2	1.2	10.6	–	–	42.0
Effect of foreign exchange rates	–	–	(0.2)	–	–	(0.2)
At 1 January 2020	**101.7**	**3.4**	**50.6**	**–**	**–**	**155.7**
Charge for period	24.9	1.1	12.4	–	–	38.4
Asset obsolescence (note 2.7)	–	–	0.8	–	–	0.8
Eliminated on disposal	–	–	(1.4)	–	–	(1.4)
Transfers to assets held for sale	–	–	(0.5)	–	–	(0.5)
At 31 December 2020	**126.6**	**4.5**	**61.9**	**–**	**–**	**193.0**
Net book value						
At 31 December 2019	109.3	7.9	68.7	21.0	–	206.9
At 31 December 2020	**84.4**	**6.8**	**69.6**	**21.0**	**–**	**181.8**

5.3 Intangible assets continued

Customer-related assets

Customer-related assets reflect the value of customer contracts acquired on the acquisition of Opus Energy in February 2017, which provided the Group with access to a broad customer base with contracted cash flows. The asset valuation of £211.0 million reflected the estimated value of the future cash flows associated with this customer base at the acquisition date and is dependent upon estimates of both current and expected future contract margins and assumed customer retention rates. The cash flows have been discounted using a discount rate of 10.7%. The asset has an estimated useful life from acquisition of 11 years, calculated based on customer churn-rate analysis, and is being amortised on a reducing balance basis to reflect the diminishing rate of contract renewals over time.

Opus Energy brand

The Opus Energy brand was acquired as part of the acquisition in February 2017 and valued at £11.3 million on a relief-from-royalty method. The brand is being amortised on a straight-line basis over its assumed 10-year useful life from acquisition.

Computer software

Additions in the period include those in the ordinary course of business, which principally reflect ongoing investment in business systems to support the Customers segment. Software assets are amortised on a straight-line basis over estimated useful lives ranging from three to five years.

As at 31 December 2020, computer software assets in the course of construction amounted to £30.7 million (2019: £40.5 million). This includes £19.2 million (2019: £19.2 million) for a billing system where the Group has stopped development in 2019 and is engaged in active discussion with the supplier reflecting the supplier's failure to perform under this contract. No amounts have been provided in respect of these assets as the Group believes that the carrying amount will be recovered in full, supported by legal advice.

Development assets

The development assets arose on the acquisition of four OCGT projects in December 2016 and reflect the value of planning and consents. Until operations commence, the assets are considered to have an indefinite life and thus are not amortised and are subject to impairment testing at each balance sheet date. We believe there is a need for flexible, dispatchable generation, but this must support the UK's target of net zero carbon emissions by 2050.

At 31 December 2020, the recoverable amount of the development assets was established using a value in use calculation derived from the Group's established planning model. The assessment incorporated key assumptions related to likely Capacity Market clearing prices, construction costs, and the ongoing revenues to be derived from the projects once constructed. The Group's primary focus is on flexible and renewable generation; however the Group continues to see an important role for gas in the provision of system support and we believe the OCGT projects are an attractive means though which these services could be provided. Accordingly, the Group remains committed to the development of options for the OCGT projects and expects to recover the carrying amount in full.

The analysis assumed a Capacity Market clearing price that was higher than recently observed clearing prices but was supported by independent forecasts of future prices.

The expected future cash flows were discounted using a rate of 7%, which included an assessment of the level of construction and execution risk inherent in the existing assets and quality of revenue if constructed. The analysis indicated a recoverable amount in excess of the current carrying amount of the development assets, with headroom in excess of £50 million. The analysis is sensitive to the key assumptions described above and the discount rate applied. Set out below are the individual changes in these assumptions that would result in a recoverable amount that is less than the carrying amount. Whilst all of these changes would not be expected to arise in the next 12 months, a combination of smaller changes across these assumptions could be reasonably possible to erode headroom to £nil.

- Increasing the discount rate by approximately 1.8%
- A reduction in the Capacity Market clearing price forecast of 34%
- An increase in the total construction cost of 21%
- A reduction in system stability revenue streams of 54%

If any of these circumstances were to materialise, individually or in aggregate and without mitigation, the Group may not proceed with the projects and the assets currently recognised on the balance sheet may be impaired. In particular, the analysis depends upon achieving an acceptable clearing price in future Capacity Market auctions.

Carbon assets

Carbon assets arise on the purchase of carbon emissions allowances in excess of the amount allocated under the Emissions Trading Scheme and required for the current financial year, and are measured at cost, net of any impairment. Given their short term nature, carbon assets are not amortised.

The charge to the income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy the obligation for the current year and takes into account generation and market purchases allocated to the current financial year, and to the extent further purchases are required, is based on the market price at the balance sheet date.

5.4 Provisions

The Group makes provision for reinstatement to cover the estimated costs of decommissioning and demolishing its generation assets and remediating the sites at the end of the useful economic lives of the assets. Other provisions are made when the Group has an obligation as a result of an event occurring in the period. During 2020, the Group has recognised a restructuring provision in respect of coal closure.

Accounting policy

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Specifically, provision is made for the estimated decommissioning costs at the end of the useful economic life 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 costs. The discount rate used is a risk-free rate that reflects the duration of the liability. The average discount rate used across the Group's decommissioning provisions is 0.75% (2019: 1.20%). The use of a risk-free rate reflects the fact that the estimated future cash flows have built-in risks specific to the liability. An amount equivalent to the discounted provision is capitalised within property, plant and equipment and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

The Group recognises a restructuring provision when it has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring either by starting to implement the plan or announcing its main features to those affected by it. The restructuring provision includes only the direct expenditures arising from the restructuring programme, these are costs that would have been avoided if the restructuring programme did not go ahead. Any costs to be incurred relating to the ongoing activities of the Group are excluded from the provision.

A provision for termination benefits is recognised at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs.

Other provisions include a small provision in respect of dilapidation costs for leased offices.

	Decommissioning provision £m	Restructuring provision (note 5.1) £m	Other provisions £m	Total £m
Carrying amount:				
At 1 January 2020	**53.9**	**–**	**0.3**	**54.2**
Additions	28.9	20.6	0.4	49.9
Released	–	–	(0.2)	(0.2)
Unwinding of discount	1.1	–	–	1.1
Transfers to liabilities held for sale	(13.8)	–	–	(13.8)
At 31 December 2020	**70.1**	**20.6**	**0.5**	**91.2**

Of the restructuring provision an immaterial amount is expected to be utilised in 2021.

Decommissioning provisions are made in respect of the Group's thermal generating plants (Drax Power Station and CCGT power stations). The most recent updates took place in December 2020 for Drax Power Station, and September 2020 for CCGT sites. The provision related to the CCGT sites was transferred to liabilities held for sale during the year.

Decommissioning provisions are based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of each site (which varies between 2026 and 2039) and has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis. During the year a comprehensive decommissioning assessment was performed as part of the future planning for the site at Drax Power Station. This resulted in an increase in the provision of £28.9 million.

5.5 Assets held for sale and discontinued operations

Assets held for sale are non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than through continuing use. If a component of an entity is disposed of or classified as held for sale its results are classified as a discontinued operation.

Non-current assets and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Accounting policy

Non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than continuing use are classified as held for sale if they are available for immediate sale in their present condition and if the sale is considered highly probable. A sale is deemed highly probable if all the following criteria are met:

- the appropriate level of management is committed to a plan to sell the asset (or disposal group)
- an active programme to locate a buyer and complete the plan has been initiated
- the asset (or disposal group) are being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once an asset (or disposal group) has been classified as held for sale it is recognised at the lower of its carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets, investment properties measured at fair value and contractual rights under insurance contracts, which are exempt from this requirement and continue to be measured in line with their relevant IFRS requirements.

Impairment losses and subsequent reversals of impairment losses are recognised in the income statement. Reversals of impairment losses are only recognised to the extent they reverse a prior impairment. If an impairment loss is recognised in relation to a disposal group the impairment would be allocated first to goodwill and then on a pro-rata basis to the non-current assets within the disposal group.

A discontinued operation is a component of the Group that meets one of the following criteria:

- represents a separate major line of business or geographic area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria.

When an operation is classified as a discontinued operation its results are presented separately in the income statement. The results of the discontinued operation are also re-presented in the income statement as discontinued in any comparative periods.

Assets held for sale

On 15 December 2020, the Group announced it had reached agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT power stations, to VPI Generation Limited for headline cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek. Accordingly, these assets are a disposal group and have been recognised as held for sale at 31 December 2020. The sale subsequently completed on 31 January 2021. The results of these operations previously formed part of the Generation segment for segmental reporting. The assets were disposed of as the assets did not form part of the Group's core flexible and renewable generation strategy.

The following assets and liabilities were reclassified as held for sale in relation to the agreed sale of DGEL:

	Notes	As at 31 December 2020 £m
Property, plant and equipment	3.1	195.4
Right-of-use assets	3.2	5.3
Trade and other receivables		58.3
Inventories		0.9
Deferred tax asset	2.6	1.4
Total assets		**261.3**
Lease liabilities	3.2	(5.6)
Provisions	5.4	(13.8)
Trade and other payables		(63.1)
Total liabilities		**(82.5)**
Net assets held for sale		**178.8**

5.5 Assets held for sale and discontinued operations continued

Discontinued operations

The income and expenses of the CCGT portfolio have been classified as discontinued operations. The prior period comparatives have been re-presented.

	Year ended 31 December 2020			Year ended 31 December 2019		
	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	205.8	(25.3)	180.5	245.8	–	245.8
Cost of sales	(127.3)	47.7	(79.6)	(177.1)	(11.6)	(188.7)
Gross profit	78.5	22.4	100.9	68.7	(11.6)	57.1
Operating expenses	(32.6)	(3.3)	(35.9)	(30.2)	–	(30.2)
Adjusted EBITDA	45.9			38.5		
Depreciation and amortisation	(19.2)	–	(19.2)	(15.5)	–	(15.5)
Other gains and losses	–	–	–	2.2	–	2.2
Operating profit/(loss)	26.7	19.1	45.8	25.2	(11.6)	13.6
Net finance costs	(0.7)	–	(0.7)	(0.8)	–	(0.8)
Profit before tax on discontinued operations	26.0	19.1	45.1	24.4	(11.6)	12.8
Total tax (charge)/credit	(4.8)	(3.6)	(8.4)	(4.9)	2.3	(2.6)
Profit after tax from discontinued operations and total profit from discontinued operations	21.2	15.5	36.7	19.5	(9.3)	10.2

Earnings per share	Pence		Pence	Pence		Pence
on profit for the period from discontinued operations attributable to owners of the parent						
– Basic	5.3		9.2	4.9		2.6
– Diluted	5.2		9.1	4.9		2.6

	Year ended 31 December 2020			Year ended 31 December 2019		
	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m	Adjusted EBITDA £m	Adjusted profit after tax £m	Total profit after tax £m
Continuing operations	366.1	96.4	(194.6)	371.3	98.6	(9.7)
Discontinued operations	45.9	21.2	36.7	38.5	19.5	10.2
Total	412.0	117.6	(157.9)	409.8	118.1	0.5

5.6 Post balance sheet events

On 8 February 2021, the Group announced the proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle), which is subject to the approval of Drax and Pinnacle shareholders, court approval and regulatory approvals. If all required approvals are received, the acquisition is expected to complete in the second or third quarter of 2021. Under the acquisition agreement, Drax will acquire the entire issued share capital of Pinnacle, valuing the fully diluted equity of Pinnacle at C$385 million (£226 million at a rate of C$1.7/£), with an enterprise value of C$741 million, including C$356 million of net debt.

Section 6: Our people

The notes in this section relate to the remuneration of the directors and employees of the Group, including the Group's obligations under retirement benefit schemes.

6.1 Colleagues including directors and employees

This note provides a more detailed breakdown of the cost of employees, including executive directors of the Group. The average number of employees in Operations (staff based at production sites), Customers services (employees in our Customers segment) and Central and administrative functions are also provided.

Further information in relation to pay and remuneration of the executive directors can be found in the Remuneration Committee report, starting on page 108.

Staff costs (including executive directors)

	Years ended 31 December	
	2020 £m	2019 £m
Wages and salaries	**147.6**	151.6
Social security costs	**17.3**	16.2
Pension costs (note 6.3)	**24.5**	19.6
Share-based payments (note 6.2)	**6.3**	3.5
Termination benefits	**17.0**	–
	212.7	190.9

£196.3 million of staff costs in the table above are included in operating and administrative expenditure (note 2.3). The remaining amounts of £3.8 million (2019: £6.5 million) were capitalised in the year and £12.6 million (2019: £10.1 million) relates to discontinued operations. The £17.0 million of termination benefits relates to coal closure, details can be found in note 5.1. The Pension costs of £24.5m (2019: £19.6m) are made up of Defined contribution pension cost of £14.6m (2019: £12.5m), Defined Benefit pension current service cost of £8.4m (2019: £7.1m) and Pension scheme admin costs of £1.5m (2019: £nil). Defined benefit past service costs of £7.4m (2019: £nil) are recognised as termination benefits relating to the coal closure.

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2020 (number)	2019 (restated number)
Generation operations	**968**	969
Pellet Production operations	**253**	254
Customers services	**1,071**	1,188
Central and administrative functions	**723**	577
	3,015	2,988

The Group restructured the staff hierarchies of certain employees during the year. The restructure saw employees within administrative functions that were previously allocated to the Generation and Customers business units now allocated to Central and administrative functions, with costs directly attributable to business units being recharged. The 2019 comparatives have been re-presented to reflect what the comparative would have been under this new structure.

6.2 Share-based payments

The Group operates three share option schemes for employees: the Long Term Incentive Plan 2020 (LTIP 2020) 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. The Group incurs a non-cash charge in respect of these schemes in the income statement, which is set out below along with a detailed description of each scheme and the number of options outstanding.

In the year the Group has granted share appreciation rights (SARs) to employees in the form of "One Drax Awards". No Executive Directors participate in these awards. These are cash awards that are tracked by reference to the Group share price over the vesting period. At the grant date of the award the employee is granted a number of phantom shares based on the value of the cash award divided by the Group share price at the date of the grant. At the end of the vesting period, the employee receives the cash award based on the Group share price at the date of vesting.

Accounting policy

The LTIP 2020, PSP, DSP and SAYE share-based payments are equity settled. Equity-settled share-based payments are measured at the fair value of the equity instrument at the date of grant and are recognised in the income statement on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest as a result of the effect of non-market based vesting conditions, which is revised at each balance sheet date.

6.2 Share-based payments continued

The One Drax Awards are cash-settled share-based payments. Cash-settled share-based payments are recognised as a liability, with the corresponding expense recognised as an employee benefit expense. Cash-settled share-based payments are measured at fair value. The fair value of the amount to be paid under cash-settled share-based payments is recognised as an expense over the period the employee becomes unconditionally entitled to the payment. The fair value of the liability for cash-settled share-based payments is remeasured at each reporting date and at the settlement date.

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December	
	2020 £m	2019 £m
Equity settled		
LTIP 2020 (granted from 2020)	0.4	–
PSP (granted from 2017)	0.8	0.8
DSP (granted from 2017)	0.7	0.6
BMP (granted in periods prior to 2017)	–	(0.5)
SAYE	3.3	1.8
Cash settled		
One Drax awards	1.1	0.8
Total share-based payment expense (note 6.1)	6.3	3.5

Of the total share-based payment expense in the table above, £0.7 million relates to discontinued operations (2019: £0.2 million).

Share Incentive Plan (SIP)

Between 2008 and 2010, qualifying employees could buy up to £1,500 worth of Partnership Shares in any one tax year. Matching shares were awarded to employees to match any shares they bought, in a ratio of one-to-one, with the cost of matching shares borne by the Group. There have been no awards under the SIP Partnership and Matching Share plan since 2010.

Shares in the Company held under trust and under the Company's control as a result of the SIP are as follows:

	Shares held at 1 January 2020 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2020 (number)	Cost at 31 December 2020 £	Nominal value at 31 December 2020 £	Market value at 31 December 2020 £
SIP	70,044	–	(10,671)	59,373	557	6,859	222,649

Long Term Incentive Plan 2020 (LTIP 2020)

The LTIP 2020 was introduced in 2020 for executive directors and senior employees. This replaced the Performance Share Plan which operated from 2017 to 2019 (see below). Under the LTIP 2020, annual awards of performance and service-related shares are made for no consideration to Executive Directors and other senior employees up to a maximum of 200% of their annual base salary. Vesting of a proportion of shares (50%) is conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares (50%) is conditional upon performance of Cumulative Adjusted EPS over three years.

The fair value of the LTIP awards of £3.1 million made in 2020 is being charged to the income statement on a straight-line basis over the three-year vesting period. The fair value of LTIP 2020 awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2020 awards are the share price at the grant date of 203 pence, expected volatility of 37%, and risk-free interest rate of 0.05%.

Movements in the number of shares outstanding for the LTIP 2020 is shown below. As this is a new scheme in the year, there are no comparatives presented:

	2020 (number)
At 1 January	–
Granted	3,093,600
Forfeited	(38,432)
Exercised	–
Expired	–
At 31 December	3,055,168

The weighted average fair value of the options granted during the year was 156 pence.

6.2 Share-based payments continued

All of the LTIP 2020 options outstanding at the end of the period had an exercise price of £nil. The weighted average remaining contractual life was 29 months.

The number of options exercisable at the year end was nil.

Performance Share Plan (PSP)

The PSP was introduced for executive directors and senior employees to replace the BMP from 2017. Under the PSP, annual awards of performance and service-related shares were made for no consideration up to a maximum of 175% of their annual base salary. Vesting of a proportion of shares (50%) was conditional upon whether the Group's Total Shareholder Return (TSR) matches or outperforms an index (determined in accordance with the scheme rules) over three years and vesting of a proportion of shares is conditional upon performance against the internal balanced corporate scorecard. No PSP awards were granted in 2020.

Movements in the number of shares outstanding for the PSP awards are as follows:

	2020 (number)	2019 (number)
At 1 January	**3,001,565**	2,675,336
Granted	**–**	918,136
Forfeited	**(553,820)**	–
Exercised	**(159,429)**	–
Expired	**(480,709)**	(591,907)
At 31 December	**1,807,607**	3,001,565

No shares were granted in the year, the weighted average fair value of the options granted during the previous year was 299 pence.

All of the PSP options outstanding at the end of the period had an exercise price of £nil (2019: £nil). The weighted average remaining contractual life was 8 months (2019: 20 months).

The number of options exercisable at the year end was nil (2019: nil).

The weighted average share price of options exercised during the period at the date of exercise was 202 pence.

Deferred Share Plan (DSP)

In addition, the Group operates the DSP, under which executive directors defer into shares a minimum of 40% (2019: 35%) of their annual bonus. DSP awards are granted at nil cost and vest after three years subject to continued employment or "good leaver" termination provisions. The share price on the grant date of DSP awards made in 2020 was 149 pence (2019: 378 pence) and the fair value of these awards of £0.3 million (2019: £1.9 million) is being charged to the income statement on a straight-line basis over the three-year vesting period.

The fair value of DSP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. The key inputs to the valuation model for the 2020 awards are the share price at date of grant, expected volatility of 37% (2019: 35%), and risk-free interest rate of 0.05% (2019: 0.98%).

Movements in the number of share options outstanding for the DSP awards are as follows:

	2020 (number)	2019 (number)
At 1 January	**648,248**	226,588
Granted	**179,921**	495,366
Forfeited	**(47,115)**	–
Exercised	**(90,616)**	–
Expired	**–**	(73,706)
At 31 December	**690,438**	648,248

The weighted average fair value of the options granted during the year was 149 pence (2019: 378 pence).

All of the DSP options outstanding at the end of the period had an exercise price of £nil (2019: £nil). 100% of the DSP options granted in 2020 will vest in three years; the weighted average remaining contractual life was 16 months (2019: 21 months).

The weighted average share price of options exercised during the period at the date of exercise was 154 pence.

The number of options exercisable at the year end was nil (2019: nil).

6.2 Share-based payments continued

Sharesave Plan (SAYE)

In March 2020, participation in the SAYE plan was offered again to all UK qualifying employees. Options were granted for employees to acquire shares at a price of 127 pence (2019: 298 pence), representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts. The fair value of the options granted in connection with the SAYE plan of £4.9 million (2019: £2.8 million) is being charged to the income statement over the term of the relevant contracts.

Movements in the number of share options outstanding for the SAYE plans are as follows:

	2020				2019			
	Three-year Weighted average exercise price	SAYE three-year (number)	Five-year Weighted average exercise price	SAYE five-year (number)	Three-year Weighted average exercise price	SAYE three-year (number)	Five-year Weighted average exercise price	SAYE five-year (number)
At 1 January	**271**	**3,055,918**	**244**	**1,656,746**	212	3,884,950	212	1,107,394
Granted	**127**	**8,951,973**	**127**	**3,225,364**	298	2,090,547	298	680,463
Forfeited	**204**	**(81,835)**	**319**	**(6,195)**	248	(54,226)	206	(16,046)
Exercised	**267**	**(81,817)**	**206**	**(13,089)**	203	(2,527,770)	203	(30,874)
Expired	**270**	**(2,320,423)**	**249**	**(1,213,201)**	271	(337,583)	276	(84,191)
At 31 December	**137**	**9,523,816**	**139**	**3,649,625**	271	3,055,918	244	1,656,746

The fair value of SAYE awards is calculated using a Black-Scholes model, which compares exercise price to share price at the date of grant. The fair value of SAYE options granted and the inputs to the option pricing model used in the current and previous year are set out in the table below:

Grant date	14 April 2020 three-year	14 April 2020 five-year	27 March 2019 three-year	27 March 2019 five-year
Share price at grant date (pence)	**185**	**185**	379	379
Vesting period	**3 years**	**5 years**	3 years	5 years
Exercise price (pence)	**127**	**127**	298	298
Dividend yield	**8.6%**	**8.6%**	4.1%	4.6%
Annual risk-free interest rate	**0.04%**	**0.10%**	1.00%	1.06%
Expected volatility	**35.0%**	**39.6%**	34.6%	38.1%
Fair value of options granted (pence)	**41**	**39**	100	106

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three and five years respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

For the SAYE options exercised during the period, the weighted average share price at the date of exercise was 296 pence (2019: 325 pence).

The range of exercise prices of SAYE options outstanding at the end of the period was between 127 pence and 298 pence (2019: 203 pence and 319 pence). The weighted average remaining contractual life was 33 months (2019: 26 months).

The number of options exercisable at the year end was 3,857 (2019: nil).

One Drax Awards

The One Drax Award scheme is a SAR scheme that awards certain employees phantom shares. These shares are to be retained by the employee for a period of one year. The number of phantom shares awarded to the employees is calculated by taking the cash value awarded, divided by the Drax Group share price at the grant date. The phantom shares are tracked on the Drax Group share price over the retention period and, at the end of this period, the intrinsic value of the phantom shares is paid to the employees. The Group records a liability for the amount of cash to be paid to the employees calculated at FVTPL. The fair value of the SARs are determined by reference to the share price.

All awards issued were settled before the year, as a result, there was no liability recognised at 31 December 2020 or 31 December 2019.

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on page 108.

6.3 Retirement benefit obligations

The Group operates two defined benefit and four 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
Haven Power Personal Pension Plan	Defined contribution	Open to new members	UK
Opus Energy Group Personal Pension Plan	Defined contribution	Open to new members	UK
Drax Biomass Inc. 401(K) Plan	Defined contribution	Open to new members	US

Trustee governance (defined benefit pension schemes)

The UK defined benefit plans are administered by a separate board of trustees, which is legally separate from the Company. The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy for the assets and the day-to-day administration of the benefits.

Accounting policy

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Group in respect of the current period.

For the defined benefit pension schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

Significant estimation uncertainty

Measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of pension scheme actuaries. However, actual results may differ from such assumptions.

The assumptions applied in 2020 have been prepared on a consistent basis with those in the previous period, other than inflation, which has taken account of the expected changes as a result of RPI reform. The assumptions have been prepared in accordance with independent actuarial advice received.

Defined contribution schemes

The Group operates four defined contribution schemes for all qualifying employees. Pension costs for the defined contribution schemes are as follows:

	Years ended 31 December	
	2020 £m	2019 £m
Total included in staff costs	**14.6**	12.5

As at 31 December 2020, contributions of £0.3 million (2019: £0.6 million) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further outstanding payment obligations once the contributions have been paid.

Defined benefit schemes

The pension surplus and liability are shown gross on the Balance Sheet as there is no legal right of offset between the two defined benefit pension schemes. The net pension surplus for the two defined benefit pension schemes is as follows:

	As at 31 December	
	2020 £m	2019 £m
Drax Power Group section of ESPS	**9.5**	3.1
Drax 2019 Scheme	**(1.3)**	3.9
Total net surplus recognised in the balance sheet	**8.2**	7.0

6.3 Retirement benefit obligations continued

The DPG section of the ESPS and the Drax 2019 scheme are collectively referred to as the Defined Benefit Schemes or the Schemes below. At 31 December 2020, application of the accounting assumptions used in relation to the Defined Benefit Schemes, which are described in further detail below, continued to result in a net position of surplus assets over liabilities.

The DPG section of the ESPS was closed to new members as of 1 January 2002 unless they had qualified through being existing members of another part of the ESPS. Members who joined before this date continue to build up pension benefits as part of the scheme. Members are typically entitled to an annual pension on retirement of 1/80th of final pensionable salary for each year of service plus a tax-free lump sum of three-times pension.

On 31 December 2018, Drax completed a transaction to acquire assets from ScottishPower. Under the terms of the Sale and Purchase Agreement, employees with defined benefit pension rights were also transferred to Drax.

Over the summer of 2019 each transferring member was given the option to either transfer their past service benefits into the Drax 2019 Scheme or keep their past service in the ScottishPower Pension Scheme. As part of this, 81 members agreed to transfer their past service into the Drax 2019 Defined Benefit Scheme. From 1 January 2020, a further 15 members have begun to build up future service within the Drax 2019 Scheme.

Under the Drax 2019 Scheme, employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). No other post-retirement benefits are provided. The Scheme is open to future accrual of benefits but closed to new members.

The Schemes expose the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The Schemes' liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The ESPS Scheme holds a significant proportion of growth assets (diversified growth funds, direct lending and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given this Scheme's long-term objectives.
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 scheme.
Inflation risk	The majority of the Schemes' obligations to pay benefits are linked to inflation and, as such, higher inflation will lead to higher liabilities. The majority of the assets held by the Scheme are either unaffected by or only loosely correlated with inflation, such that an increase in inflation will also increase the deficit. 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 a substantial proportion of this risk is hedged.
Credit risk	A proportion of the Schemes' funded liabilities are currently hedged against interest rates and inflation using liability-driven investments. Note that the Schemes hedge interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the Group should yields on gilts and corporate bonds diverge. The Schemes' exposure to corporate bonds mitigates this risk to some extent.
Risk management	The Company and trustees have agreed a long-term strategy for reducing investment risk as and when appropriate. This includes an asset-liability matching policy which aims to reduce the volatility of the funding level of the Scheme by investing in assets that perform in line with the liabilities of the Scheme so as to protect against interest rates being lower or inflation being higher than expected.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension schemes through new legislation) and other demographic risks (such as making a higher proportion of members with dependants eligible to receive pensions from the Group). The Trustees ensure certain benefits are payable on death before retirement.

The most recent funding valuation of the DPG ESPS was carried out by Aon Hewitt, a qualified independent actuary, as at 31 March 2019. The actuarial review at 31 December 2020 is based on the same membership and other data as this funding valuation. The scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the scheme cost.

The results of the latest funding valuation at 31 March 2019 have been adjusted to the balance sheet date, taking into account experience over the period since that date, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation and the related current service costs were measured using the projected unit credit method.

6.3 Retirement benefit obligations continued

The 2019 Scheme is yet to have completed its first triennial valuation. Work commenced on the first valuation dated 31 March 2020 and is expected to conclude in 2021.

The principal assumptions for the Schemes are set out below. Where absolute assumptions differ between the two schemes, reflecting differences in the expected duration of the scheme liabilities, a weighted average is shown.

	As at 31 December	
	2020 % p.a.	2019 % p.a.
Discount rate	1.5	2.1
Inflation (RPI)	2.6	2.9
Rate of increase in pensions in payment and deferred pensions	2.6	2.9
Rate of increase in pensionable salaries	3.2	3.5

Mortality assumptions are based on recent actual mortality experience of scheme members and allow for expected future improvements in mortality rates. The assumptions are that a member aged 60 in 2020 will live, on average, for a further 26 years if they are male (2019: 26 years) and for a further 28 years if they are female (2019: 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 (2019: 27 and 29 years respectively). The expected duration of the DPG ESPS at 31 December 2020 based on the IAS 19 position was around 20 years (2019: around 20 years). The expected duration of the 2019 Scheme at 31 December 2020 based on the IAS 19 position was 25 years (2019: 25 years).

The net surplus recognised in the balance sheet in respect of the Schemes is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

	As at 31 December	
	2020 £m	2019 £m
Defined benefit obligation	(378.1)	(345.4)
Fair value of plan assets	386.3	352.4
Net surplus recognised in the balance sheet	8.2	7.0

The total charges recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December	
	2020 £m	2019 £m
Included in staff costs (note 6.1):		
Current service cost	8.4	7.1
Past service cost	7.4	–
Included in finance costs (note 2.5):		
Interest on net defined benefit surplus	(0.3)	(0.8)
Total amounts recognised in the income statement	15.5	6.3

The past service cost relates to an increase in pension liability as a result of coal closure, further details can be found in note 5.1. The calculation was performed by a qualified actuary using the same assumptions as those applied to the rest of the scheme and the past service cost represents the difference between the liability relating to the standard Group benefits as per the current reserve in the calculation of the Group's IAS 19 position and the corresponding liability in respect of the equivalent redundancy benefits offered to those employees to be made redundant.

Section 6: Our people continued

6.3 Retirement benefit obligations continued

Changes in the present value of the defined benefit obligation of the Schemes are as follows:

	Years ended 31 December	
	2020 £m	2019 £m
Defined benefit obligation at 1 January	**345.4**	312.2
Current service cost	**8.4**	7.1
Past service cost	**7.4**	–
Employee contributions	**0.2**	0.2
Interest cost	**6.9**	9.0
Actuarial losses	**30.5**	49.8
Benefits paid	**(20.7)**	(32.9)
Defined benefit obligation at 31 December	**378.1**	345.4

As described in note 5.5 on 31 January the Group disposed of the CCGT portfolio. This led to 42 members, of a pre-transaction total of 96, ceasing to accrue benefits in the Drax 2019 Scheme. However, the pension scheme did not form part of the transaction and therefore the assets and liabilities in relation to the Drax 2019 Scheme will remain on the Group's Balance Sheet.

The actuarial losses of £30.5 million (2019: losses of £49.8 million) reflect losses of £30.0 million arising from changes in financial assumptions (2019: losses of £50.3 million), gains arising from scheme experience of £0.3 million (2019: losses of £3.4 million) and losses of £0.8 million arising from changes in demographic assumptions (2019: gains of £3.9 million).

The losses due to changes in financial assumptions principally reflect the decrease in the present value of the scheme liabilities arising as a result of the change in discount rate assumption to 1.5% (2019: 2.1%) following decreases in corporate bond yields.

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2020 £m	2019 £m
Fair value of plan assets at 1 January	**352.4**	333.8
Interest on plan assets	**7.2**	9.9
Remeasurement gains	**32.3**	28.3
Employer contributions	**14.9**	13.1
Employee contributions	**0.2**	0.2
Benefits paid	**(20.7)**	(32.9)
Fair value of plan assets at 31 December	**386.3**	352.4

Employer contributions included payments totalling £5.3 million (2019: £5.2 million) to reduce the actuarial deficit. There were contributions of £0.9 million outstanding at the end of the year (2019: £0.9 million).

The actual return on plan assets in the period was £39.5 million (2019: £38.2 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2020 £m	2019 £m
Gilts	**160.7**	100.3
Equities(1)	**26.8**	24.6
Fixed interest bonds(2)	**35.6**	30.7
Property	**38.3**	36.7
Investment funds	**27.2**	36.9
Cash and other assets(3)	**97.7**	123.2
Fair value of total plan assets	**386.3**	352.4

Notes:
(1) At 31 December 2020 the ESPS scheme's long-term asset strategy was: diversified growth funds (37%), direct lending (10%), absolute return bonds (3%), liability driven investing (40%) and long lease property (10%). The 2019 scheme's long term investment strategy is to move gradually towards a fully hedged position but to maintain assets which generate returns such as equity options, swap options and credit strategy
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds
(3) Other assets include £24.2 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2019: £19.4 million). The fair value of these investments is derived in accordance with International Private Equity and Venture Capital Valuation (IPEV) Guidelines. All other assets are quoted in an active market Cash and other assets include £22.3 million in relation to a strategy to hedge liabilities and achieve active exposure to equity returns

The pension plan assets do not include any ordinary shares issued by Drax Group plc or any property occupied by the Group.

6.3 Retirement benefit obligations continued

The assumptions for discount rate, inflation rate, rate of increase in pensions paid and expected return on plan assets all have a potentially significant effect on the measurement of the scheme surplus. The following table provides an indication of the sensitivity of the pension surplus at 31 December 2020 to changes in these assumptions:

			Increase/ (decrease) in net surplus £m
Discount rate	– Increase	0.5%	37.6
	– Decrease	0.5%	(41.6)
Inflation rate[1]	– Increase	0.5%	(33.2)
	– Decrease	0.5%	30.2
Life expectancy	– Increase	1 year	(14.6)
	– Decrease	1 year	14.6

Note:
(1) The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation

The Group is exposed to investment and other risks, as described above, and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

The sensitivity on discount rate above is lower than the actual rate of change experienced during 2020. However, given events and circumstances in 2020 (Covid-19 pandemic, Brexit uncertainty, US Presidential elections) we do not anticipate the same level of movement going forwards, and therefore 0.25% is deemed an appropriate sensitivity to apply.

The DPG ESPS defined benefit obligation includes benefits for current employees of the Group (50%), former employees of the Group who are yet to retire (5%) and retired pensioners (45%).

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).

The last actuarial valuation of the DPG section of the ESPS was carried out by the Trustee's actuarial advisers, Aon Hewitt, as at 31 March 2019. The 2019 Scheme is yet to have completed its first triennial valuation. Work commenced on the first valuation dated 31 March 2020 and is expected to conclude in 2021.

Such valuations 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 next funding valuation of the DPG Section of the ESPS is due no later than 31 March 2022, at which progress towards full-funding will be reviewed.

Following the latest actuarial valuation of the DPG Section of the ESPS, 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 expects to make total contributions of £13.4 million to the Schemes during the 12 months ended 31 December 2021.

The Group has also agreed to make additional contributions over the period to 31 December 2025 to eliminate the self-sufficiency deficit. At this point the scheme is expected to be self-sufficient and fully funded, unless material adverse changes in economic conditions arise compared to those assumed in the valuation. The Group is confident that the additional contributions are manageable within the Group's business plan.

The Trust Deed provides the DPG section of the ESPS with an unconditional right to a refund of surplus assets assuming the gradual settlement of plan liabilities over time. Furthermore, in the ordinary course of business the Trustees have no right to unilaterally wind up, or otherwise augment the benefits due to members of the DPG section of the ESPS. Based on these rights, any net surplus in the plan is recognised in full.

Section 7: Risk management

This section provides disclosures around financial risk management, including the financial instruments the Group uses to mitigate such risks.

7.1 Financial instruments and their fair values

The Group hold a variety of derivatives and non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from operations.

Accounting classifications and fair values

The tables below show the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for 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 4.2), trade and other receivables (note 3.6) and trade and other payables (note 3.8) generally have a short time to maturity. For this reason, their carrying values, on the historical cost basis, approximate to their fair value. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn against term loans (note 4.3). These financial liabilities have been measured at amortised cost.

	Carrying amount						Fair Value			
31 December 2020 £m	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	102.1	60.5	–	–	–	162.6	–	162.6	–	162.6
Financial contracts	–	20.0	–	–	–	20.0	–	20.0	–	20.0
Foreign currency exchange contracts	40.3	41.9	–	–	–	82.2	–	82.2	–	82.2
Interest rate and cross-currency contracts	0.1	–	–	–	–	0.1	–	0.1	–	0.1
Inflation rate swaps	6.2	12.2	–	–	–	18.4	–	18.4[(1)]	–	18.4
Equity investments	–	–	1.5	–	–	1.5	–	–	1.5	1.5
Financial assets not measured at Fair value										
Trade and other receivables	–	–	–	432.8	–	432.8				
Cash and cash equivalents	–	–	–	289.8	–	289.8				
Financial liabilities measured at Fair value										
Commodity contracts	(106.4)	(49.6)	–	–	–	(156.0)	–	(156.0)	–	(156.0)
Financial contracts	–	(36.8)	–	–	–	(36.8)	–	(36.8)	–	(36.8)
Foreign currency exchange contracts	(57.0)	(136.8)	–	–	–	(193.8)	–	(193.8)	–	(193.8)
Interest rate and cross-currency contracts	(67.0)	–	–	–	–	(67.0)	–	(67.0)	–	(67.0)
Financial liabilities not measured at Fair value										
Secured bank loans	–	–	–	–	(483.2)	(483.2)	–	(500.2)	–	(500.2)
Secured bond issues	–	–	–	–	(582.5)	(582.5)	(614.5)	–	–	(614.5)
Lease liabilities	–	–	–	–	(30.2)	(30.2)	–	(30.7)	–	(30.7)
Trade and other payables	–	–	–	–	(619.4)	(619.4)				

Note:
(1) The UK inflation rate swaps 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.

7.1 Financial instruments and their fair values continued

31 December 2019 £m	Carrying amount Fair value-hedging instruments	Mandatorily at FVTPL-others	FVOCI-equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Fair Value Level 1	Level 2	Level 3	Total
Financial assets measured at Fair value										
Commodity contracts	152.1	0.2	–	–	–	152.3	–	152.3	–	152.3
Financial contracts	–	33.7	–	–	–	33.7	–	33.7	–	33.7
Foreign currency exchange contracts	76.9	65.0	–	–	–	141.9	–	141.9	–	141.9
Interest rate and cross-currency contracts	1.7	–	–	–	–	1.7	–	1.7	–	1.7
Inflation swaps	16.4	–	–	–	–	16.4	–	16.4(1)	–	16.4
Equity investments	–	–	3.0	–	–	3.0	1.5	–	1.5	3.0
Financial assets not measured at Fair value										
Trade and other receivables	–	–	–	541.5	–	541.5				
Cash and cash equivalents	–	–	–	404.1	–	404.1				
Financial liabilities measured at Fair value										
Commodity contracts	(83.1)	(38.2)	–	–	–	(121.3)	–	(121.3)	–	(121.3)
Financial contracts	(4.0)	(42.2)	–	–	–	(46.2)	–	(46.2)	–	(46.2)
Foreign currency exchange contracts	(46.0)	(68.8)	–	–	–	(114.8)	–	(114.8)	–	(114.8)
Interest rate and cross-currency contracts	(7.1)	–	–	–	–	(7.1)	–	(7.1)	–	(7.1)
Financial liabilities not measured at Fair value										
Secured bank loans	–	–	–	–	(526.8)	(526.8)	–	(548.1)		(548.1)
Secured bond issues	–	–	–	–	(718.4)	(718.4)	(762.9)	–	–	(762.9)
Lease liabilities	–	–	–	–	(32.5)	(32.5)	–	(33.0)	–	(33.0)
Trade and other payables	–	–	–	–	(683.0)	(683.0)				

Note:
(1) The UK inflation rate swaps contain unobservable inputs in their fair value valuation techniques. However, these unobservable inputs are not material to the valuation and therefore they have been categorised as Level 2 in the fair value hierarchy in line with IFRS 13.

The derivative financial instruments used by the Group and not subject to the own-use exemption have been categorised as follows:

- Commodity contracts – forward contracts for the sale or purchase of a physical commodity which is expected to be settled through physical delivery of the commodity.
- Financial contracts – freight and weather-related contracts, as well as contracts for commodities that are not expected to be settled through physical delivery of the commodity.
- Foreign currency exchange contracts – currency related contracts including forwards, vanilla options, 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, 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, and interest swaptions.
- Inflation rate swaps – 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 fair value** – The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date.
- **Financial contracts fair value** – The fair value of financial contracts that do not qualify for the own-use exemption, is calculated by reference to forward market prices at the balance sheet date.
- **Foreign currency exchange contracts fair value** – The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Interest rate and cross-currency contracts** – The fair value of interest rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant interest index. The fair value of cross-currency interest rate swaps is calculated using the relevant forward currency exchange market rates for fixed-to-fixed swaps and by using the relevant forward currency exchange market rates and interest index for floating-to-fixed swaps.
- **Inflation rate swaps** – The fair value of inflation rate swaps is calculated by reference to forward market curves at the balance sheet date for the relevant inflation index.

Given the maturity profile of all these contracts, liquid forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The Group has reviewed all significant contracts for the presence of embedded derivatives. The 2025 USD loan notes, the 2025 EUR loan notes, and the infrastructure term loan facilities, all contain early repayment options that meet the definition of embedded derivatives. However, in all cases, these do not require separate valuation as they are deemed to be closely related to the host contract.

IFRS 13 requires categorisation of the Group's financial instruments in accordance with the following hierarchy in order to explain the basis on which their fair values have been determined:

- Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Fair value measurements are those derived from inputs, other than quoted prices, included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The fair value of commodity contracts, financial contracts, foreign currency exchange contracts, interest rate and cross-currency contracts, and US inflation swaps are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2.

The fair value of the UK inflation swaps comprises an RPI and CPI component. Whilst the RPI component is based on observable market rates, CPI is based on unobservable rates and therefore deemed to be Level 3 in the fair value hierarchy. However, this component is not material to the overall valuation and therefore the instruments as a whole are determined to be Level 2 in line with IFRS 13.

The valuation technique used for non-listed equity investments comprises unobservable inputs and are therefore classified as Level 3. However, given the valuations as a whole for Level 3 equity investments are immaterial, it is not deemed necessary to include all Level 3 disclosures.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

Accounting for derivatives

Derivatives (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price the Group has secured in the contract, and the price the Group could achieve in the market at that point in time.

Changes in fair value are recognised either within the income statement or the hedge reserve and cost of hedge reserve, dependent upon whether the contract in question qualifies as an effective hedge under IFRS 9 (see note 7.2).

Where possible, the Group has taken advantage of the own-use exemption which allows qualifying contracts to be excluded from fair value marked-to-market accounting. This applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements.

7.1 Financial instruments and their fair values continued

Contracts for non-financial assets which do not qualify for the own-use exemption – principally power, gas, financial oil, financial coal and carbon emissions allowances – are accounted for as derivatives in accordance with IFRS 9 and are recorded in the balance sheet at fair value. Changes in fair value are reflected through the hedge reserve (note 7.3) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the income statement where the hedge accounting requirements are not met. To ensure these derivatives are not reflected in the underlying performance of the Group, they are excluded from the Adjusted Results in the income statement.

The Group's biomass risk management policy permits some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. As such the own-use exemption would likely not apply to these biomass contracts. However the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9.

Derivative financial instruments with a maturity date within 12 months from the balance sheet date are classified as current assets or liabilities. Instruments with a maturity date beyond 12 months are classified as non-current assets or liabilities.

	As at 31 December	
	2020 £m	2019 £m
Non-current derivative financial instrument assets	**103.8**	152.3
Current derivative financial instrument assets	**179.5**	193.7
Total derivative financial instrument assets	**283.3**	346.0
Non-current derivative financial instrument liabilities	**(142.1)**	(72.9)
Current derivative financial instrument liabilities	**(311.5)**	(216.5)
Total derivative financial instrument liabilities	**(453.6)**	(289.4)
Total derivative financial instruments	**(170.3)**	56.6

The gains and losses recognised in the period relating to derivative financial instruments mandatorily measured at fair value through profit or loss are detailed below. The Group had no financial assets or financial liabilities voluntarily designated at fair value through profit or loss. In addition to the amounts disclosed below, gains and losses relating to derivatives qualifying for hedge accounting are disclosed in notes 7.2 to 7.4.

	Gains/(losses) recognised	
	2020 £m	2019 £m
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in revenue	**8.7**	(11.4)
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in cost of sales	**(46.6)**	(76.4)
Gains/(losses) on derivative financial instruments not qualifying for hedge accounting – recognised in foreign exchange (losses)/gains	**(0.6)**	2.0
Total gains/(losses) on derivative financial instruments not qualifying for hedge accounting	**(38.5)**	(85.8)

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 66) which identify, evaluate and hedge financial risks in close co-ordination with the Group's trading and treasury functions under policies approved by the Board of directors.

7.2.1 Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of power, gas, sustainable wood fibre and pellets, other fuels and the price of carbon emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

7.2 Financial risk management continued

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices and the impact on profit after tax and other components of equity of reasonably possible increases/decreases in commodity prices. The analysis assumes all other variables were held constant.

As a result of the increased volatility, predominantly due to Covid-19, sensitivities for larger changes in prices have been included in the current year.

	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
31 December 2020				
Power	**6.8**	**(6.8)**	**5.7**	**(5.7)**
Carbon	**(2.7)**	**2.7**	**–**	**–**
Gas	**(11.0)**	**11.0**	**–**	**–**
Oil	**(7.6)**	**7.6**	**–**	**–**

7.2 Financial risk management continued

	Impact on profit after tax		Impact on other components of equity, net of tax	
	5% decrease £m	5% increase £m	5% decrease £m	5% increase £m
31 December 2019				
Power	–	–	8.6	(8.6)
Carbon	–	–	(3.7)	3.7
Gas	(3.0)	3.0	–	–
Oil	(4.5)	4.5	–	–
Other	0.7	(0.7)	(0.7)	0.7

Profit after tax is sensitive to increases/decreases in commodity prices as a result of the impact on the fair value of derivative financial instruments not designated as hedging instruments under cash flow hedge accounting. The Group designates certain derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to increases/decreases in commodity price risk in relation to the impact on the hedge reserve of these movements. Profit after tax is sensitive to power and carbon price changes in the current year due to the discontinuance of hedge accounting relating to certain power and caron trades in the year. See below for further details on the power and carbon trades for which hedge accounting has been discontinued.

Commodity risk management

The Group has a policy of securing forward power sales, purchases of fuel and carbon emissions allowances when profitable to do so and in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years out. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of power.

The Group purchases sustainable biomass and other fuels under either fixed or variable priced contracts with different maturities principally from a number of international sources. The Group considers all such contracts to be economic hedges. If these contracts are within the scope of IFRS 9, the Group, where possible, either applies the own-use exemption or hedge accounting in accordance with IFRS 9. If the own-use exemption or hedge accounting are not applicable then the contracts are recognised at fair value through profit or loss.

Where forward power curves are less liquid, the Group uses financially settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group also purchases gas under fixed-price contracts to meet the demand of Customers' customers and the CCGT assets as a fuel for its gas-fired generation portfolio.

The Group purchases carbon emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase carbon emissions allowances under fixed price contracts were previously designated as cash flow hedges as they reduced the Group's cash flow exposure resulting from fluctuations in the price of carbon emissions allowances. However, in 2020, as a result of the UK leaving the EU and the EU emissions trading scheme (ETS) no longer applying to the Group, hedge accounting of carbon was discontinued in the year. See the hedge accounting section below for further details.

7.2 Financial risk management continued

Hedge accounting

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power and purchase carbon). Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is at the point when the underlying power is delivered.

Included in amounts released from equity are gains and losses on financial instruments that matured in a previous period, released to the income statement in the period the hedged transaction occurs. No ineffectiveness was recognised in the income statement on continuing hedges in the year (2019: £nil). Due to the use of 'all-in-one' hedges, this results in the movement in value for the hedged items and hedging instruments being identical.

The only source of ineffectiveness regarding the "all-in-one" hedges would be if delivery of the commodities was no longer expected to occur, which would result in hedge accounting being discontinued. The main sources of ineffectiveness regarding financial contracts would be as a result of timing differences and credit risk.

In February 2020, the Group announced its decision to cease commercial coal generation in March 2021, ahead of the 2025 deadline. The Group had a number of financial contracts that were designated as cash flow hedges in relation to the forecast purchases of coal. As a result of this decision, the Group's forecast coal requirements were reduced. This resulted in the cash flows for the purchase of coal, that the financial coal contracts were hedging, no longer being expected to occur. The hedges therefore no longer met the hedge accounting requirements, and accordingly, all gains or losses relating to these hedges were reclassified to the income statement. This resulted in a loss of £5.6 million being reclassified to the income statement.

The Group has a number of forward purchase contracts for carbon to hedge its exposure to carbon prices under the EU ETS. During the year it became clear that the UK was intending to set up a separate ETS once the UK had left the EU. As a result, the purchases of EU carbon emissions allowances, that were hedge accounted, were no longer expected to occur. At this point hedge accounting was discontinued and any gains or losses accumulated in the hedge reserve were reclassified to the income statement. This resulted in a gain of £1.7 million being reclassified to the income statement, of which £0.7 million related to discontinued operations.

The Group also has a number of forward sale contracts for power relating to forecast generation from the CCGT assets that are designated as cash flow hedges. As a result of the sale of the CCGT assets on 31 January 2021, the cash flow hedges in relation to forecast generation of the CCGT assets in the period post 31 January 2021 no longer meet the hedge accounting requirements. This is due to the forecast transactions for the sale of power no longer being expected to occur from the Group's perspective. As such, at the point the forecast transactions were deemed as no longer being expected to occur, hedge accounting for these transactions was discontinued, with the gains or losses on these contracts being reclassified to the income statement. This resulted in a £25.3 million loss on forward power contracts being reclassified to the income statement within discontinued operations.

A net £2.6 million loss has been recognised in the year on derivative contracts relating to the period after disposal of the CCGT assets on 31 January 2021. This includes the above £25.3 million loss on power trades, a gain of £17.5 million relating to gas trades, and a gain of £5.2 million relating to carbon trades. All of these amounts are included within discontinued operations.

All subsequent fair value movements on hedges that have been discontinued are recognised in the income statement.

The reconciliation of the reserves and time period when the hedge will affect the profit or loss are disclosed in note 7.3.

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 2020						
Exposure	Notional value of contracts (Mwh, tonnes)	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	1,203,257	£52.32	(36.6)	102.1	(106.4)	(3.4)	–
Purchase of carbon emissions allowances	–	n/a	16.5	–	–	–	–
Financial contracts							
Financial coal	–	n/a	(1.6)	–	–	–	–

	31 December 2020							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness £m	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 £m
Commodity contracts								
Sale of power	36.6	(36.6)	–	Revenue	–	(65.2)	25.3	Revenue
Purchase of carbon emissions allowances	(16.5)	16.5	–	Cost of sales	(28.8)	–	(1.7)	Intangible assets
Financial contracts								
Financial coal	1.6	(1.6)	–	Cost of sales	–	–	5.6	Cost of sales

	31 December 2019						
Exposure	Notional value of contracts (Mwh, tonnes)	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	4,596,250	£61.23	68.6	151.2	(79.0)	60.0	–
Purchase of carbon emissions allowances	4,341,000	€25.46	(3.3)	0.9	(4.1)	11.6	–
Financial contracts							
Financial coal	396,000	£73.59	(4.0)	–	(4.0)	(3.3)	–

7.2 Financial risk management continued

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 £m	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 £m
	31 December 2019							
Commodity contracts								
Sale of power	(68.6)	68.6	–	Revenue	–	11.7	–	Revenue
Purchase of carbon emissions allowances	3.3	(3.3)	–	Cost of sales	1.6	–	–	Intangible assets
Financial contracts								
Financial coal	4.0	(4.0)	–	Cost of sales	0.4	–	–	Cost of sales/ Inventory

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 and EUR.

The Group also has a limited exposure to translation risk in relation to its net investment in its US subsidiary, Drax Biomass Inc.

Foreign currency sensitivity

The analysis below shows the impact on profit after tax and other components of equity of reasonably possible strengthening/ weakening of currencies against GBP. The analysis assumes all other variables were held constant.

As a result of the increased volatility, predominantly due to Covid-19, sensitivities for larger changes in exchange rates have been included in the current year.

	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
31 December 2020				
USD	**159.3**	**(58.7)**	**249.2**	**(204.1)**
EUR	**36.3**	**(22.8)**	**10.1**	**(8.3)**
CAD	**27.7**	**(17.8)**	**25.6**	**(21.0)**

	Impact on profit after tax		Impact on other components of equity, net of tax	
	5% strengthening £m	5% weakening £m	5% strengthening £m	5% weakening £m
31 December 2019				
USD	164.0	(84.3)	119.7	(108.5)
EUR	18.8	(17.0)	4.0	(3.6)
CAD	18.1	(4.8)	13.1	(11.9)

Profit after tax is sensitive to the strengthening/weakening of other currencies as a result of the impact on the fair value of foreign currency derivatives not designated as hedging instruments under cash flow hedge accounting. The Group designates certain foreign currency derivatives as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to the strengthening/weakening of other currencies in relation to the impact on the hedge reserve of these movements.

Foreign currency risk management

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to fix the sterling value 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 and EUR (see note 4.3). The Group utilises derivative contracts, including cross-currency interest rate swaps, to manage exchange risk on foreign currency debt.

7.2 Financial risk management continued

Hedge accounting

The Group designates certain foreign currency exchange contracts as hedging instruments. Foreign currency exchange contracts that are designated as hedges are transferred from equity to inventory for hedges of fuel purchases or transferred to intangible assets for hedges of carbon EUAs. However, in 2020, as a result of the UK leaving the EU and the EU ETS no longer applying to the Group, hedge accounting of carbon was discontinued in the year. See the hedge accounting section below for further details.

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 euro denominated hedged borrowings.

The Group has taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with USD $500 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has also taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with €250 million 2025 fixed rate loan notes to again fix the sterling cash flows payable on the debt. On the EUR denominated facilities agreed as part of the new infrastructure term loan, both drawn and committed, the Group has fixed the sterling cash flows payable on this debt through a combination of fixed-to-fixed and floating-to-fixed cross-currency interest rate swaps.

The main sources of ineffectiveness relating to foreign currency exchange contracts are timing differences and credit risk. The main sources of ineffectiveness relating to cross-currency interest rate swaps are differences in the critical terms, differences in repricing dates and credit risk.

The reconciliation of the reserves and when the amount will affect the income statement or will be removed from equity and included in the initial cost of the non-financial item are disclosed in notes 7.3 and 7.4.

The summary of the amounts relating to the hedging instruments and any related ineffectiveness in the period is presented in the table below. Ineffectiveness on foreign currency exchange contracts is recognised in cost of sales if it relates to hedges of biomass. Ineffectiveness on cross-currency interest rate swaps that are hedging principal and interest payments are recognised in interest payable and similar charges if the ineffectiveness relates to interest payments, and foreign exchange losses/(gains) if it relates to the principal repayment.

There are €95 million of floating-to-fixed cross-currency interest rate swaps that are hedging both foreign currency risk and interest rate risk. These swaps have been separated into synthetic floating-to-floating cross-currency interest rate swaps, that are hedging foreign currency risk, and synthetic floating-to-fixed GBP interest rate swaps, that are hedging interest rate risk. The synthetic floating-to floating cross-currency interest rate swaps are disclosed in this section, and the synthetic floating-to-fixed GBP interest rate swaps are disclosed in note 7.2.3 relating to interest rate risk.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's foreign currency hedging instruments that qualify for hedge accounting in accordance with IFRS 9. The rates do not reflect the overall average rate of the Group's total portfolio of currency derivatives that are used to protect the sterling value of future cash flows.

	31 December 2020						
Exposure	Notional value of contracts (US $m €m, CAD $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	3,229.4	1.38	(44.2)	36.6	(51.7)	(82.3)	–
Purchases in foreign currency – EUR	67.0	1.11	(0.3)	–	(2.2)	(0.2)	–
Purchases in foreign currency – CAD	499.6	1.76	(3.4)	3.7	(3.1)	(5.1)	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	(1.4)	–	(47.2)	3.6	–
Interest and principal repayments – EUR	376.5	3.32%/ 3M LIBOR + 125.3bps	(1.5)	0.1	(1.5)	(0.8)	–

7.2 Financial risk management continued

	31 December 2020							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness £m	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 £m
Foreign currency purchase contracts								
Purchases in foreign currency – USD	44.2	(44.2)	–	Cost of sales	(102.2)	–	–	Inventory
Purchases in foreign currency – EUR	0.3	(0.3)	–	Cost of sales	6.5	–	–	Intangible assets
Purchases in foreign currency – CAD	3.4	(3.4)	–	Cost of sales	(12.5)	–	–	Inventory
Foreign currency denominated debt								
Interest and principal repayments – USD	1.4	(1.4)	–	Interest payable and similar charges	–	(9.9)	–	Interest payable and similar charges
			–	Foreign exchange (losses)/ gains	–	11.8	–	Foreign exchange (losses)/ gains
Interest and principal repayments – EUR	1.5	(1.5)	–	Interest payable and similar charges	–	0.3	–	Interest payable and similar charges
			–	Foreign exchange (losses)/ gains		0.3	–	Foreign exchange (losses)/ gains

	31 December 2019						
Exposure	Notional value of contracts (US $m €m, CAD $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
Foreign currency purchase contracts							
Purchases in foreign currency – USD	3,713.4	1.40	(101.4)	117.6	(23.3)	37.3	–
Purchases in foreign currency – EUR	90.3	1.09	(5.7)	–	(6.1)	(4.7)	(0.7)
Purchases in foreign currency – CAD	527.6	1.82	1.6	13.0	(3.0)	8.1	–
Foreign currency denominated debt							
Interest and principal repayments – USD	500.0	4.9%	(8.3)	21.8	–	3.2	–

7.2 Financial risk management continued

	31 December 2019							
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 £m	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 £m
Foreign currency purchase contracts								
Purchases in foreign currency – USD	101.4	(101.4)	–	Cost of sales	(79.8)	–	–	Inventory
Purchases in foreign currency – EUR	5.7	(5.7)	–	Cost of sales	(4.2)	–	–	Intangible assets
Purchases in foreign currency – CAD	(1.6)	1.6	–	Cost of sales	3.1	–	–	Inventory
Foreign currency denominated debt								
Interest and principal repayments – USD	8.7	(8.3)	–	Interest payable and similar charges	–	(1.1)	–	Interest payable and similar charges
			–	Foreign exchange (losses)/ gains	–	8.2	–	Foreign exchange (losses)/ gains

7.2.3 Interest rate risk

The Group has exposure to interest rate risk, principally in relation to variable rate debt, cash and cash equivalents and the RCF, should it be drawn. The Group has taken out a LIBOR floating-to-fixed interest rate swap to fix the interest payments on the £375 million private placement issued in 2019. On the new infrastructure term loan facilities that were agreed in the year, both drawn and committed, the Group has fixed the interest rate payable on the £98 million of GBP denominated facilities through floating-to-fixed LIBOR interest rate swaps. The Group has also fixed the interest rate payable on the variable rate euro denominated debt through floating-to-fixed cross-currency interest rate swaps. As detailed in section 7.2.2 above, the floating-to-fixed cross-currency interest rate swaps are hedging both interest rate risk and foreign currency risk, as such the disclosures relating to interest rate risk are included in this section. See note 7.2.2 for the foreign currency risk disclosures relating to the floating-to-fixed cross-currency interest rate swaps

At December 2020, the Group has fixed all of its debt instruments through the use of swaps and therefore has no variable rate debt once the impact of the swaps is considered.

The return generated on the Group's cash balance, or on amounts drawn on the RCF are also exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

Further information about the Group's instruments that are exposed to interest rate risk and their repayment schedules is provided in note 4.3.

Interest rate benchmark reform

The only interest rate benchmarks to which the Group are exposed to within its hedge accounting relationships and that are subject to interest rate benchmark reform are LIBOR and EURIBOR. These exposures relate to the hedge of the £375 million private placement (2019) and £98 million of the new infrastructure term loan facilities using a floating-to-fixed LIBOR interest rate swap. Also, €95 million of the new infrastructure term loan facilities are hedged using floating-to-fixed EURIBOR cross-currency interest rate swaps.

The Group is closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from LIBOR to Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

7.2 Financial risk management continued

In response to the announcements, the Group will be engaging the following work streams: risk management, tax, treasury, legal and accounting. The aim of the programme is to identify any LIBOR exposures that are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. This will involve considering appropriate alternative benchmark rates in line with those proposed by different working groups in the industry and engaging with counterparties to implement appropriate wording in relevant contracts.

The Group has not early adopted phase 2 of interest rate benchmark reform, as it has not currently replaced its existing interest rate benchmarks.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole year.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in interest rates. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	100 basis points increase £m	100 basis points decrease £m	100 basis points increase £m	100 basis points decrease £m
31 December 2020				
Variable rate debt	**(3.5)**	**0.1**	**–**	**–**
Interest rate swaps	**4.1**	**(0.1)**	**17.8**	**(0.4)**
Net	**0.6**	**–**	**17.8**	**(0.4)**
31 December 2019				
Variable rate debt	(4.2)	4.2	–	–
Interest rate swaps	3.1	(3.1)	15.8	(15.8)
Net	(1.1)	1.1	15.8	(15.8)

Profit after tax is sensitive to an increase/decrease in interest rates as a result of the impact on the interest payable in the period on any floating rate debt. The Group has reduced its exposure to interest rate risk on variable rate debt through the use of floating-to-fixed interest rate swaps and therefore a change in interest rates would not have a significant effect on profit after tax. The Group designates certain floating-to-fixed interest rate swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase/decrease in interest rates in relation to the impact on the hedge reserve of these movements.

Certain of the Group's variable rate debt and interest rate swaps have a floor of 0% for the benchmark interest rate. As a result of very low or negative benchmark interest rates, a 100 basis points increase has a much larger impact on profit after tax and other components of equity, than a 100 basis points decrease. Additionally, the group has hedges in place for debt that is committed but not yet drawn. As a result a change in basis points has a larger impact on the profit after tax than the variable rate debt due to the impact of the undrawn borrowings not being included. The undrawn borrowings were drawn down on 18 February 2021 and if the impact of these undrawn borrowings on profit after tax was included at the year end, the impact of the variable rate debt and interest rate swaps would have offset.

Interest rate risk management

The Group has a risk management policy in place relating to interest rate risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast interest rate exposure.

Hedge accounting

The Group designates the floating-to-fixed GBP interest rate swaps and the floating-to-fixed cross-currency interest rate swaps as hedging instruments against interest rate risk. The GBP interest rate swaps are hedges of the interest payments relating to the £375 million private placement (2019) and the £98 million of facilities (£53 million drawn, £45 million committed) as part of the new infrastructure term loan. The cross-currency interest rate swaps are hedges of both interest rate risk and foreign currency risk relating to the €95 million of committed infrastructure term loan facilities. As such this has been separated into synthetic floating-to-floating cross-currency interest rate swaps and synthetic floating-to-fixed GBP interest rate swaps. The synthetic floating-to-floating cross-currency interest rate swaps swap the €95 million variable rate EURIBOR linked debt to variable rate LIBOR linked GBP debt with a principal of £85.8m. The synthetic floating-to-fixed GBP interest rate swaps then swaps this for a fixed GBP interest rate. Details of the floating-to-fixed GBP interest rate swaps are included in the disclosures below.

Gains and losses on the interest payments on interest rate swaps are released to interest payable and similar charges at the same time as the interest expense on the hedged borrowings.

The main sources of ineffectiveness relating to interest rate risk hedges are differences in the critical terms, differences in repricing dates and credit risk.

7.2 Financial risk management continued

The summary of the amounts relating to the sterling interest rate hedging instruments and any related ineffectiveness in the period is presented in the table below.

	31 December 2020						
Exposure	Notional value of contracts £m	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Interest rate							
Variable rate GBP debt	**558.8**	**1.06%**	**(15.9)**	**–**	**(18.3)**	**(13.8)**	**–**

	31 December 2020							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness £m	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 £m
Interest rate								
Variable rate GBP debt	**17.5**	**(15.9)**	**–**	**Interest payable and similar charges**	**–**	**3.0**	**–**	**Interest payable and similar charges**

	31 December 2019						
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	375.0	1.05%	(4.8)	–	(4.8)	(3.6)	–

	31 December 2019							
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 £m	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 £m
Interest rate								
Variable rate GBP debt	4.8	(4.8)	–	Interest payable and similar charges	–	0.4	–	Interest payable and similar charges

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 revenues are linked to UK RPI and its Contract for Difference revenue is linked to UK CPI. In addition, a proportion of the Group's fuel costs are linked to US/CAD CPI. The Group has entered UK and US CPI swaps to hedge the future cashflows relating to a proportion of its exposure. The Group also benefits from a natural hedge arising from its inflation-linked borrowings (see note 4.3).

Inflation risk sensitivity

The sensitivity analysis below has been determined based on the exposure to inflation rates for both derivatives and non-derivative instruments at the balance sheet date.

The analysis below shows the impact on profit after tax and other components of equity of a reasonably possible increase/decrease in inflation rates. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	1% increase £m	1% decrease £m	1% increase £m	1% decrease £m
31 December 2020				
UK CPI inflation swaps	–	–	(1.6)	1.6
US CPI inflation swaps	4.9	(4.9)	–	–

	Impact on profit after tax		Impact on other components of equity, net of tax	
	1% increase £m	1% decrease £m	1% increase £m	1% decrease £m
31 December 2019				
UK CPI inflation swaps	–	–	(15.5)	15.5

The Group designates the UK CPI inflation swaps as hedging instruments under cash flow hedge accounting. As such, other components of equity are sensitive to an increase/decrease in UK inflation rates in relation to the impact on the hedge reserve of these movements. The sensitivities in the current year have a much smaller impact on equity than in the prior year due to the Group crystalising gains on £235 million out of the £250 million notional that was initially hedged. Profit after tax is sensitive to an increase/decrease in UK inflation rates due to the impact these rate changes would have on the amount reclassified to the income statement. Profit after tax is sensitive to an increase/decrease in US inflation rates due to the impact this would have on the fair value of the unhedged US inflation swap.

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

As the Group has contracts for which the revenue is contractually linked to UK CPI inflation, the Group has been able to designate this risk component as a hedged item. UK CPI inflation swaps are utilised as the hedging instrument for this inflation risk.

Gains and losses on the inflation swaps are held in the hedge reserve and reclassified to the income statement within the revenue line at the same time the revenue from the inflation linked contracts impacts on the income statement.

During the year the Group crystalised the gains on a number of UK inflation swaps. The forecast cash flows that these inflation swaps were hedging are still expected to occur. Therefore the gain of £24.4 million that has been crystalised relating to these contracts has been deferred in the hedge reserve and will be reclassified to the income statement when the hedged item impacts the income statement.

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 2020						
Exposure	Notional value of contracts (GBP)	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Inflation							
Inflation linked sales contracts – CPI	15.0	2.44%	17.0	6.2	–	1.6	24.4

	31 December 2020							
Exposure	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Hedging gains/(losses) recognised in OCI in the period £m	Hedge ineffectiveness recognised in the income statement in the period £m	Line item in the income statement that includes hedge ineffectiveness £m	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 £m
Inflation								
Inflation linked sales contracts – CPI	(17.0)	17.0	–	Revenue	–	(1.3)	–	Revenue

	31 December 2019						
Exposure	Notional value of contracts (GBP)	Average fixed rate	Change in fair value of hedging instrument during the reporting period used for measuring ineffectiveness £m	Fair value recognised in balance sheet (Assets) £m	Fair value recognised in balance sheet (Liabilities) £m	Balance in the hedge reserve for continuing hedges net of deferred tax £m	Balance in the hedge reserve for hedging relationships for which hedge accounting is no longer applied net of deferred tax £m
Inflation							
Inflation linked sales contracts – CPI	250.0	2.48%	16.4	16.4	–	13.6	–

	31 December 2019							
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 £m	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 £m
Inflation								
Inflation linked sales contracts – CPI	(16.4)	16.4	–	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 ROCs and other items are derecognised from the balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.4.

7.2 Financial risk management continued

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 2020					
	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	**2.5**	**10.4**	**49.7**	**270.5**	**222.8**	**555.9**
Loan notes, gross value	**–**	**30.1**	**30.1**	**679.5**	**–**	**739.7**
Borrowings, contractual maturity	**2.5**	**40.5**	**79.8**	**950.0**	**222.8**	**1,295.6**
Trade and other payables	**576.0**	**40.9**	**0.4**	**2.1**	**–**	**619.4**
Lease liabilities	**2.1**	**5.8**	**5.9**	**12.6**	**8.4**	**34.8**
	580.6	**87.2**	**86.1**	**964.7**	**231.2**	**1,949.8**

Trade and other payables of £619.4 million (2019: £683.0 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

	As at 31 December 2019					
	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	7.1	9.2	16.2	316.8	261.9	611.2
Loan notes, gross value	–	39.9	39.9	430.1	398.9	908.8
Borrowings, contractual maturity	7.1	49.1	56.1	746.9	660.8	1,520.0
Trade and other payables	354.7	323.8	4.5	–	–	683.0
Lease liabilities	1.8	5.4	6.2	13.0	10.6	37.0
	363.6	378.3	66.8	759.9	671.4	2,240.0

Interest payments are calculated based on forward interest rates estimated at the balance sheet date using publicly available information.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.88% (2019: 3.99%).

The following tables set out details of the expected contractual maturity of derivative financial liabilities which are marked-to-market based on the undiscounted cash flows. Where the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to projected commodity prices, or foreign currency exchange rates, as illustrated by the yield or other forward curves existing at the reporting date. Where derivatives are expected to be gross settled the gross cash flows have been presented. Commodity contracts and foreign currency exchange contracts are expected to be gross settled. Where derivatives are expected to be net settled, the net cash flows expected to occur based on the current fair value have been disclosed. Financial contracts and other foreign exchange contracts (excluding forwards) are expected to be net settled. Interest rate contracts and inflation rate contracts are presented based on net settlement of the interest rate and inflation rate differentials. Gross settlement of the principal of cross-currency interest rate swaps is expected and as such this element of the swap is presented gross.

	As at 31 December 2020			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	**13.5**	**17.3**	**7.7**	**38.5**
Financial contracts	**25.8**	**9.4**	**1.8**	**37.0**
Foreign currency exchange contracts	**2,409.6**	**381.3**	**767.7**	**3,558.6**
Interest rate and cross-currency contracts	**7.0**	**10.9**	**53.5**	**71.4**
	2,455.9	**418.9**	**830.7**	**3,705.5**

	As at 31 December 2019			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(6.7)	43.3	11.0	47.6
Financial contracts	(42.8)	(37.1)	(65.0)	(144.9)
Foreign currency exchange contracts	1,581.1	803.6	2,176.8	4,561.5
Interest rate and cross-currency contracts	3.9	2.5	(2.3)	4.1
Inflation rate contracts	1.8	3.2	11.8	16.8
	1,537.3	815.5	2,132.3	4,485.1

7.2 Financial risk management continued

7.2.6 Counterparty risk

As the Group relies on third party suppliers and counterparties for the delivery of currency, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of power to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

7.2.7 Credit risk

The Group's gross exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, as summarised below:

	As at 31 December	
	2020 £m	2019 £m
Financial assets:		
Cash and cash equivalents (note 4.2)	**289.8**	404.1
Trade and other receivables (note 3.6)	**492.7**	588.0
Derivative financial instruments (note 7.1)	**283.3**	433.3
	1,065.8	1,425.4

Trade and other receivables are stated gross of the provision for expected credit losses of £59.9 million (2019: £46.5 million) and exclude non-financial receivables such as prepayments.

Of the Group's three operating segments, the Generation and Customers segments 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 only trades intra-group.

The highest risk is in the Customers segment, with a high number of customers of varying sizes operating in a variety of markets. In particular, its SME customers carry lower concentrations but higher levels of credit risk, owing to a customer base comprised largely of smaller retail and commercial entities.

In the Customers segment, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector. The Customers segment extended its trade credit insurance programme in the prior year to increase its mitigation to credit risk.

For the Generation segment, the risk arises from treasury, trading and energy procurement activities, as well as the sale of by-products from generation activities. Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating. Counterparty credit exposures are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of parent company guarantee, deed of charge, cash collateral, letters of credit and surety bonds. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

Further details on the impact of credit risk on trade and other receivables is disclosed in note 3.6.

The investment of surplus cash is undertaken with the objective of ensuring that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out minimum rating requirements, maximum investment with any one counterparty based on their rating, and the maturity profile.

Whilst cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The Group is exposed to credit risk on derivative contracts, but to which the impairment requirements of IFRS 9 are not applied. The carrying amount of these financial assets, disclosed above, represents the Group's maximum credit risk exposure.

Capital management

The Group is disciplined in its management of capital to ensure it is able to continue as a going concern; maintain a strong credit rating underpinned by robust financial metrics; invest in its core business and pay a sustainable and growing dividend while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus net debt. Net debt is comprised of borrowings and cash and cash equivalents as disclosed in note 4.3 and 4.2 respectively.

7.2 Financial risk management continued

	As at 31 December 2020 £m	2019 £m
Borrowings	**1,065.7**	1,245.2
Cash and cash equivalents	**(289.8)**	(404.1)
Net debt	**775.9**	841.1
Total shareholders' equity, excluding hedge and cost of hedging reserves	**1,328.2**	1,553.3

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 tables below detail of the gains/(losses) recognised in the year on hedging instruments, the amounts reclassified from equity due to the hedged item affecting profit or loss, and the amounts reclassified due to the hedged future cash flows no longer being expected to occur. See section 7.2. for further details on these amounts.

	Hedge reserve				
	Commodity price risk £m	Foreign currency exchange risk £m	Interest rate risk £m	Inflation rate risk £m	Total £m
At 1 January 2019	**6.2**	**193.7**	**–**	**–**	**199.9**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	61.3	(113.8)	(4.8)	16.4	(40.9)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventory	0.4	(77.5)	–	–	(77.1)
– Reclassified to cost of intangible assets (Carbon)	1.6	(3.4)	–	–	(1.8)
– Reclassified to the income statement – included in revenue	11.7	–	–	–	11.7
– Reclassified to the income statement – included in interest payable and similar charges	–	(1.1)	0.4	–	(0.7)
– Reclassified to the income statement – included in foreign exchange (losses)/gains	–	8.2	–	–	8.2
Related deferred tax, net (note 2.6)	(12.9)	37.0	0.9	(2.8)	22.2
At 31 December 2019	**68.3**	**43.1**	**(3.5)**	**13.6**	**121.5**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	(21.7)	(50.8)	(15.9)	17.0	(71.4)
Reclassified from equity as the hedged item has affected profit or loss:					
– Reclassified to cost of inventory	–	(114.7)	–	–	(114.7)
– Reclassified to cost of intangible assets (Carbon)	(28.8)	6.5	–	–	(22.3)
– Reclassified to the income statement – included in revenue	(65.2)	–	–	(1.3)	(66.5)
– Reclassified to the income statement – included in interest payable and similar charges	–	(9.6)	3.0	–	(6.6)
– Reclassified to the income statement – included in foreign exchange (losses)/gains	–	12.1	–	–	12.1
Reclassified from equity as the hedged future cash flows are no longer expected to occur					
– Reclassified to the income statement – included in cost of sales	3.9	–	–	–	3.9
– Reclassified to the income statement – included in cost of sales	25.3	–	–	–	25.3
Related deferred tax, net (note 2.6)	14.8	28.6	2.6	(3.3)	42.7
At 31 December 2020	**(3.4)**	**(84.8)**	**(13.8)**	**26.0**	**(76.0)**

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 2020			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity risk	(9.6)	7.7	(1.5)	(3.4)
Foreign currency exchange risk	(21.9)	(21.6)	(41.3)	(84.8)
Interest rate risk	(4.1)	(4.1)	(5.6)	(13.8)
Inflation risk	1.8	2.6	21.6	26.0
	(33.8)	(15.4)	(26.8)	(76.0)

	As at 31 December 2019			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	62.1	8.0	1.5	71.6
Financial contracts	(3.0)	(0.3)	–	(3.3)
Foreign currency exchange contracts	58.4	(4.3)	(14.2)	39.9
Interest rate contracts	3.2	2.5	(6.0)	(0.3)
Inflation contracts	1.5	2.6	9.5	13.6
	122.2	8.5	(9.2)	121.5

7.4 Cost of hedging reserve

The Group allocates unrealised gains and losses on the forward rate of foreign currency derivative contracts to a cost of hedging reserve in accordance with IFRS 9.

A large proportion of the derivative contracts held relate to foreign exchange contracts, including forward contracts, options and swaps. Consistent with prior periods, the Group has continued to designate the change in fair value of the spot rate in the Group's cash flow hedge relationships. The Group designates the cost of hedging – being the change in fair value associated with forward points including currency basis – to equity. All amounts within the cost of hedging reserve relate to foreign currency exchange risk.

The tables below detail of the cost of hedging gains/(losses) recognised in the year on hedging instruments and the amounts reclassified from equity due to the hedged item affecting profit or loss.

	Cost of hedging	
	2020 £m	2019 £m
At 1 January	40.8	(8.9)
Gains recognised:		
– Change in fair value of hedging instrument recognised in OCI	53.3	56.3
Reclassified from equity as the hedged item has affected profit or loss:		
– Reclassified to cost of inventory	4.8	3.1
– Reclassified to cost of intangible assets (Carbon)	0.4	0.7
Related deferred tax, net (note 2.6)	(12.1)	(10.4)
At 31 December	87.2	40.8

The expected release profile from equity of post-tax cost of hedging gains and losses is as follows:

	As at 31 December 2020			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	34.5	20.8	31.9	87.2

	As at 31 December 2019			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign currency exchange risk	(3.6)	10.5	33.9	40.8

7.5 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group also has financial asset and liabilities with certain counterparties that are subject to master netting agreements. Financial assets and liabilities do not meet the criteria for offsetting in the balance sheet, 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 agreements were offset.

	As at 31 December 2020			As at 31 December 2019		
	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m	Gross amounts of financial instruments in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets						
Derivative financial instruments	**283.3**	**(229.4)**	**53.9**	346.0	(209.1)	136.9
Financial liabilities						
Derivative financial instruments	**(453.6)**	**229.4**	**(224.2)**	(289.4)	209.1	(80.3)

7.6 Contingent assets and liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of the control of the Group. The amount or timing of any payment is uncertain and cannot be measured reliably.

Guarantees

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 31 December 2020, the Group's contingent liability in respect of letters of credit issued under the RCF amounted to £67.9 million (2019: £77.0 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £86.7 million (2019: £96.1 million).

7.7 Commitments

The Group has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in the balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of coal and biomass, contracts for the construction of assets and contracts for the provision of services.

	As at 31 December	
	2020 £m	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements	**49.8**	57.2
Future support contracts not provided in the financial statements	**53.6**	36.5
Future commitments to purchase ROCs	**221.1**	295.0
Future commitments to purchase fuel under fixed and variable priced contracts	**3,667.4**	4,332.9

The contractual maturities of the future commitments to purchase fuel are as follows:

	As at 31 December	
	2020 £m	2019 £m
Within one year	**782.4**	840.1
Within one to five years	**2,400.1**	2,997.4
After five years	**484.9**	495.4
	3,667.4	4,332.9

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station over the period from 2021–2027 and the delivery of gas to be used in the Gas-thermal plants. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in the financial statements owing to them not being within the scope of IFRS 9 and therefore not required to be measured at fair value (see note 7.1).

Section 8: Reference information

This section details reference information relevant to the compiling of the financial statements and provides the general information about the Group (e.g. operations and registered office). The Group also set out the basis of preparation of the accounts and general accounting policies that are not specific to any one note.

8.1 General information

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) have three principal activities:

- Power generation;
- Gas and electricity supply to business customers; and
- Manufacturing of sustainable compressed wood pellets for use in electricity production.

The Group's activities are principally based within the UK, with the wood pellet manufacturing activities situated in the US.

The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom. A full list of operating companies of the Group is disclosed in note 5 to the Company's separate financial statements, which follow these consolidated financial statements.

8.2 Basis of preparation

Adoption of new and revised accounting standards

A number of new and amended standards became effective for the first time in 2020. The Group adopted the following from 1 January 2020:

IFRS 3 (amended) – Business Combinations – effective from 1 January 2020

IAS 1 (amended) – Presentation of Financial Statements and IAS 8 (amended) Accounting Policies, Changes in Accounting Estimates and Errors – effective from 1 January 2020

Conceptual Framework for Financial Reporting (amended) – effective from 1 January 2020

These updates and amendments have not had a material impact on the financial statements of the Group.

In 2019 the Group elected to early adopt the 'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. These amendments were therefore first reflected in the Group's Annual Consolidated Financial Statements for the year ended 31 December 2019.

The amendments are relevant to the Group given that it applies hedge accounting to its GBP LIBOR interest rate exposure on the £375 million private placement that is hedged using the floating-to-fixed GBP interest rate swap, and the £98m of new infrastructure term loan facilities. The amendments are also relevant to the Group's EURIBOR exposure on the €95 million of new infrastructure term loan facilities.

At the date of authorisation of these financial statements, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU – marked by *):

IFRS 16 (amended) – Covid-19 related Rent Concessions – effective for periods beginning on or after 1 June 2020

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

IFRS 17 Insurance contracts – effective from 1 January 2021*

IFRS 3 (amended) – Reference to the Conceptual Framework – effective from 1 January 2022*

IAS 16 (amended) – Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022*

IAS 37 (amended) – Onerous Contracts – Cost of Fulfilling a Contract – effective from 1 January 2022*

Annual Improvements 2018-2020 Cycle – effective from 1 January 2022*

IAS 1 (amended) – Classification of Liabilities as Current and Non-current – effective from 1 January 2023*

IFRS 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely*

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group. The Group will continue to monitor the developments of these new or amended standards as and when they are endorsed for use in the United Kingdom from 1 January 2021.

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 key management personnel. Amounts below are the total amount of transactions that have been entered into with any related parties in the year.

Remuneration of key management personnel

The remuneration of the directors and Executive Committee members, who are considered to be the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors, together with the directors' interests in the share capital of Drax Group plc, is provided in the audited part of the Remuneration Committee report.

	Years ended 31 December	
	2020 £'000	2019 £'000
Salaries and short-term benefits	**5,101**	4,543
Aggregate amounts receivable under share-based incentive schemes	**1,381**	636
Company contributions to money purchase pension schemes	**562**	43
	7,044	5,222

Amounts included in the table above reflect the remuneration of the 14 (2019: 16) members of the Board and Executive Committee as described on page 108, including those who have resigned during the year.

Amounts receivable under incentive schemes represents the expenses arising from share-based payments included in the Consolidated income statement, determined based on the fair value of the related awards at the date of grant (see note 6.2), as adjusted for non-market-related vesting conditions.

There were no other transactions with directors for the periods covered by these consolidated financial statements.

Company financial statements

Company balance sheet

	Notes	As at 31 December 2020 £000	2019 £000
Non-current assets			
Investment in subsidiaries	5	**724,911**	719,654
Deferred tax asset		**1**	–
		724,912	719,654
Current assets			
Other debtors		**94**	18
Amounts due from other Group companies		**5,585**	2,842
Cash at bank and in hand		**2,375**	130
		8,054	2,990
Current liabilities			
Amounts due to other Group companies		**(14,187)**	(12,790)
Net current liabilities		**(6,133)**	(9,800)
Net assets		**718,779**	709,854
Capital and reserves			
Called-up share capital	6	**47,460**	47,417
Share premium account		**429,974**	429,646
Treasury shares		**(50,440)**	(50,440)
Capital redemption reserve		**1,502**	1,502
Retained profits		**290,283**	281,729
Total equity shareholders' funds		**718,779**	709,854

The Company reported a profit for the financial year ended 31 December 2020 of £68.0 million (2019: £57.3 million).

These financial statements were approved by the Board of directors on 24 February 2021.

Signed on behalf of the Board of directors:

Andy Skelton
CFO

Company statement of changes in equity

	Share capital £000	Share premium £000	Treasury shares £000	Capital redemption reserve £000	Retained profits £000	Total £000
At 1 January 2019	47,038	424,742	(47,143)	1,502	280,773	706,912
Share capital issued (note 6)	379	4,904	–	–	–	5,283
Own shares purchased	–	–	(3,297)	–	–	(3,297)
Profit and total comprehensive income for the year	–	–	–	–	57,332	57,332
Credited to equity for share-based payments	–	–	–	–	2,489	2,489
Equity dividends paid (note 8)	–	–	–	–	(58,865)	(58,865)
At 1 January 2020	**47,417**	**429,646**	**(50,440)**	**1,502**	**281,729**	**709,854**
Share capital issued (note 6)	43	328	–	–	–	371
Profit and total comprehensive income for the year	–	–	–	–	68,008	68,008
Credited to equity for share-based payments	–	–	–	–	5,225	5,225
Equity dividends paid (note 8)	–	–	–	–	(64,679)	(64,679)
At 31 December 2020	**47,460**	**429,974**	**(50,440)**	**1,502**	**290,283**	**718,779**

In 2018, the Company announced the commencement of a £50 million share buy-back programme. On 21 January 2019, the buy-back programme concluded. In total, the Group repurchased 13.8 million shares for a total consideration of £50.4 million, including transaction costs. These shares are held in a separate Treasury Share reserve awaiting reissue or cancellation and have no voting rights attached to them.

Notes to the Company financial statements

1. Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council (FRC).

The financial statements have been prepared in accordance with FRS 101, 'Reduced Disclosure Framework'.

The Company applied certain new and amended standards for the first time in 2020. The full list of standards adopted is set out in the consolidated financial statements in note 8.2. These updates and amendments have not had a material impact on the financial statements of the Company.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, share-based payments, capital risk management, standards not yet effective and certain related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are summarised below and have been consistently applied to both years presented.

2. Summary of significant accounting policies

Investment in subsidiaries

Investments in subsidiaries are stated at cost less, where relevant, provision for impairment.

Financial instruments

Issued equity – Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting all of its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. The share premium account records amounts by which the proceeds from issuing shares exceeds the nominal value of the shares issued unless merger relief criteria within the Companies Act 2006 are met, in which case the difference is recorded in retained earnings.

Cash and cash equivalents – Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3. Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

The critical accounting judgements made in preparation of the Company's financial statements are set out below:

Impairment of fixed asset investments

Determining whether the Company's investments in subsidiaries have been impaired requires estimates of the investments' values in use. The methodology for calculation of value in use is consistent with that of the Group, as detailed in note 2.4 to the consolidated financial statements.

There were no areas of significant estimation uncertainty within these accounts.

4. Profit and loss account

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The Company's profit and loss account was approved by the Board on 24 February 2021. The net profit attributable to the Company is £68.0 million.

The Company received dividend income from its subsidiary undertakings totalling £70.0 million in 2020 (2019: £60.5 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 2020 was £23,153 (2019: £22,050).

5. Fixed asset investments

	Years ended 31 December 2020 £000	2019 £000
Carrying amount:		
At 1 January	**719,654**	717,044
Capital contribution	**5,257**	2,610
At 31 December	**724,911**	719,654

Investments in subsidiary undertakings

The capital contribution in 2020 and 2019 relates to the share-based payment charge associated with the Savings-Related Share Option Plan and Bonus Matching Plan schemes, which arises because the beneficiaries of the scheme are employed by subsidiary companies. For more information see note 6.2 to the consolidated financial statements.

Full list of subsidiary undertakings

The table below lists the Company's direct and indirect subsidiary undertakings as at 31 December 2020:

Name and nature of business		Country of incorporation and registration	Type of share	Registered number
Abergelli Power Limited***	Power generation	England and Wales	Ordinary	08190497
Abbott Debt Recovery Limited***	Non-trading company	England and Wales	Ordinary	05355799
Amite BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	5128116
Arkansas Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881707
Baton Rouge transit LLC*	Trading company, fuel supply	Delaware, USA	Common	5128759
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	5305470
Donnington Energy Limited	Dormant	England and Wales	Ordinary	07109298
Drax Biomass Acquisitions LLC*	Non-trading company	Delaware, USA	Common	7897331
Drax Biomass Inc.*	Wood pellet manufacturing	Delaware, USA	Common	5068290
Drax Biomass Holdings Limited	Dormant	England and Wales	Ordinary	08322715
Drax Biomass Holdings LLC*	Dormant	Delaware, USA	Common	5128115
Drax Biomass International Holdings LLC*	Holding company	Delaware, USA	Common	5250168
Drax Biomass Transit LLC*	Holding company	Delaware, USA	Common	5128118
Drax CCS Limited	Dormant	England and Wales	Ordinary	07885329
Drax Corporate Limited	Group-wide Corporate Services	England and Wales	Ordinary	05562058
Drax Finco plc	Finance company	England and Wales	Ordinary	10664639
Drax Fuel Supply Limited***	Non-trading company	England and Wales	Ordinary	05299523
Drax Generation Developments Limited***	Development company	England and Wales	Ordinary	07821368
Drax Generation Enterprise Limited** (formerly ScottishPower Generation Limited)	Trading Company, power generation	Scotland	Ordinary	SC189124
Drax Generation (Selby) Limited	Dormant	England and Wales	Ordinary	06657393
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	09887429
Drax Holdings Limited +	Holding company	Cayman Islands	Ordinary	92144
Drax Hydro Limited (formerly Domus Energy Limited)	Trading company, power generation	England and Wales	Ordinary	08654218
Drax Innovation Limited***	Development company	England and Wales	Ordinary	10664715
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	09824989
Drax Power Limited	Trading company, power generation	England and Wales	Ordinary	04883589
Drax Pumped Storage Limited (formerly Drax Corporate Developments Limited)	Dormant	England and Wales	Ordinary	06657336
Drax Retail Developments Limited	Dormant	England and Wales	Ordinary	10711130
Drax Research and Innovation Holdco Limited***	Holding company	England and Wales	Ordinary	06657454
Drax River Hydro Limited (formerly Damhead Creek II Limited)	Dormant	England and Wales	Ordinary	05956747
Drax Smart Generation Holdco Limited	Holding company	England and Wales	Ordinary	07821911
Drax Smart Sourcing Holdco Limited	Holding company	England and Wales	Ordinary	07821375
Drax Smart Supply Holdco Limited	Holding company	England and Wales	Ordinary	10664625

5. Fixed asset investments continued

Name and nature of business		Country of incorporation and registration	Type of share	Registered number
Farmoor Energy Limited***	Trading company, power retail	England and Wales	Ordinary	07111074
Haven Heat Limited	Dormant	England and Wales	Ordinary	06657428
Haven Power Limited	Trading company, power retail	England and Wales	Ordinary	05893966
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	07352734
Hirwaun Power Limited***	Power generation	England and Wales	Ordinary	08190283
Iberia Bioenergy LLC*	Non-trading company	Delaware, USA	Common	7881704
Jefferson Transit LLC *	Dormant	Delaware, USA	Common	6297176
LaSalle Bioenergy LLC *	Trading company, fuel supply	Delaware, USA	Common	6297174
Millbrook Power Limited***	Power generation	England and Wales	Ordinary	08920458
Morehouse BioEnergy LLC *	Trading company, fuel supply	Delaware, USA	Common	5128117
Opus Energy (Corporate) Limited	Trading company, power retail	England and Wales	Ordinary	05199937
Opus Energy Limited	Trading company, power retail	England and Wales	Ordinary	04382246
Opus Energy Group Limited	Holding company, power retail	England and Wales	Ordinary	04409377
Opus Energy Marketing Limited***	Non-trading company	England and Wales	Ordinary	05030694
Opus Energy Renewables Limited	Trading company, power retail	England and Wales	Ordinary	07126582
Opus Gas Limited***	Non-trading company	England and Wales	Ordinary	05680956
Opus Gas Supply Limited	Trading company, power retail	England and Wales	Ordinary	06874709
Opus Water Limited	Dormant	England and Wales	Ordinary	09425319
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	10769036
Progress Power Limited***	Power generation	England and Wales	Ordinary	08421833
SMW Limited**	Trading company, fuel supply	Scotland	Ordinary	SC165988
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	09735929
Tyler Bioenergy LLC *	Dormant	Delaware, USA	Common	6297175

Drax Group plc directly holds 100% of the equity of Drax Group Holdings Limited. All other investments are held indirectly, the effective shareholding for these investments is 100%.

Registered Office

Incorporated in the UK
The registered office of all the companies incorporated in England and Wales is Drax Power Station, Selby, North Yorkshire, YO8 8PH.

*Incorporated in the USA
Principal business address for all subsidiaries incorporated in the USA is 850 New Burton Road, Suite 201, Dover DE 19904.

**Incorporated in Scotland
Principal business address for all subsidiaries incorporated in Scotland is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

***Exempt from audit
These subsidiaries have taken advantage of the exemption from audit available under section 479A of the Companies Act 2006 for the 2020 statutory accounts. These companies are all incorporated in England and Wales.

+Registered in Cayman Islands
The address of Drax Holdings Limited is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1 9005, Cayman Islands.

All subsidiary undertakings have 31 December year ends.

6. Called-up share capital

	As at 31 December	
	2020 £000	2019 £000
Authorised:		
865,238,823 ordinary shares of 11 16⁄29 pence each	**99,950**	99,950
Issued and fully paid:		
2020: 410,848,934 ordinary shares of 11 16⁄29 pence each	**47,460**	47,417

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2020 (number)	2019 (number)
At 1 January	**410,475,731**	407,193,168
Issued under employee share schemes	**373,203**	3,282,563
At 31 December	**410,848,934**	410,475,731

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.

Issued under employee share schemes

From January to December 2020 a total of 373,203 shares (2019: 3,282,563 shares) were issued in satisfaction of options vesting in accordance with the rules of the Group's Savings-Related Share Option Plan.

The total cash received, split between nominal value and share premium, is shown in the statement of changes in equity on page 157.

Full details of share options outstanding are included in note 6.2 to the consolidated financial statements.

7. Distributable reserves

The Company considers its distributable reserves to be comprised of the profit and loss account, less credits in respect of share schemes, less treasury shares, with a total value of £191.5 million. Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current year final dividend of £41 million. Based on a total dividend for 2020 of £68 million, the Company has sufficient distributable reserves to pay two years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded (see note 2.10 to the consolidated financial statements for additional information).

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. The Group has sufficient cash resources with which to meet the proposed dividend (see note 4.2 to the consolidated financial statements for additional information).

8. Dividends

	Years ended 31 December	
	2020 £m	2019 £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 2020 of 6.8 pence per share paid on 2 October 2020 (2019: 6.4 pence per share paid on 11 October 2019)	**27.0**	25.4
Final dividend for the year ended 31 December 2019 of 9.5 pence per share paid on 15 May 2020 (2019: 8.2 pence per share paid on 10 May 2019)	**37.7**	33.5
	64.7	58.9

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 2020 of 10.3 pence per share (equivalent to approximately £41 million) payable on or before 14 May 2021. The final dividend has not been included as a liability as at 31 December 2020.

9. Contingent liabilities

The Company has provided unsecured guarantees to third parties in respect of contracts held by a subsidiary company. The guarantees have been issued for £nil consideration and the Company has not charged the subsidiary for the guarantees.

The Company has provided guarantees over the liabilities of its subsidiaries that have taken the advantage of the audit exemption available in section 479A of the Companies Act 2006. The list of subsidiaries who have taken this exemption can be found in note 5.

The Company has granted a charge over the assets of certain subsidiaries, in respect of the Group's debt (detailed in note 4.3 to the consolidated financial statements), which is guaranteed and secured directly by each of the subsidiary undertakings of the Company that is party to the security arrangement. The Company itself is not a guarantor of the Group's debt.

Shareholder information

Key dates for 2021
At the date of publication of this document, the following are the proposed key dates in the 2021 financial calendar:

Annual General Meeting	21 April
Ordinary shares marked ex-dividend	22 April
Record date for entitlement to the final dividend	23 April
Payment of final dividend	14 May
Financial half year end	30 June
Announcement of half year results	29 July
Financial year end	31 December

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.

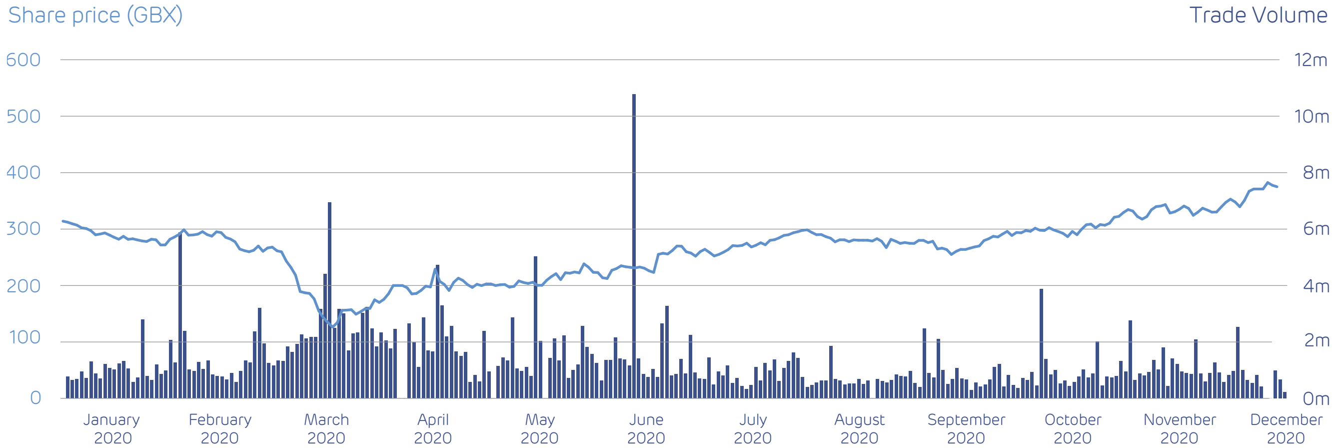
Results announcements
Results announcements are issued to the London Stock Exchange and are available on its news service. Shortly afterwards, they are available under "Regulatory news" within the Investor section on the Company's website.

Share price
Shareholders can access the current share price of Drax Group plc ordinary shares on our website at www.drax.com. 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 2020, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2019	Low during the year (23 March 2020)	High during the year (29 December 2020)	Closing price on 31 December 2020
314.0 pence	126.4 pence	382.4 pence	375.0 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 2020, was approximately £1,541 million (2019: £1,289 million).

Financial reports
Copies of all financial reports we publish are available from the date of publication and can be downloaded from our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail to Drax.Enq@drax.com.

Shareholder information continued

Drax shareholder queries

The Company's share register is maintained by Equiniti Limited ("Equiniti"), who is primarily responsible for updating the share register and for dividend payments.

Shareholders should contact Equiniti directly if they have a query relating to their Drax shareholding, in particular queries regarding:

- transfer of shares;
- change of name or address;
- lost share certificates;
- lost or out-of-date dividend cheques;
- payment of dividends direct to a bank or building society account; and
- death of a registered shareholder.

Equiniti can be contacted as follows:

- Call Equiniti on 0371 384 2030 from within the UK. Lines are open from 8.30am to 5.30pm, Monday to Friday, (excluding Bank Holidays) or +44 121 415 7047 from outside the UK.
- Write to Equiniti at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

When contacting Equiniti by telephone or in writing it is advisable to have your shareholder reference to hand and quote Drax Group plc, as well as the name and address in which the shares are held.

Online communications

Registering for online communications allows you to have more control over the administration of your shareholding. The registration process is easy via Equiniti's secure website **www.shareview.co.uk**.

Once registered with Shareview you are able to:

- elect how Drax communicates with you;
- amend some of your personal details;
- amend the way you receive dividends; and
- buy or sell shares online.

Registering for electronic communications does not mean that you can no longer receive paper copies of documents. We are able to offer a range of services and tailor the communications to meet your needs.

A range of frequently asked shareholder questions can also be found on our website at **www.drax.com/investors/faq**.

Tax on dividends

The way that dividends are taxed changed in 2017. Below is a brief summary of the guidance provided by HMRC as it relates to the current tax year. If you are in any doubt as to the impact on your personal circumstances, you are recommended to seek your own financial advice from a professional adviser authorised under the Financial Services and Markets Act 2000.

There is a tax-free Dividend Allowance of £2,000 per annum in the 2020-2021 tax year (2019-2020: £2,000) This means that there is no tax to pay on the first £2,000 of dividend income, no matter what non-dividend income a shareholder may have. Dividends paid on shares held within pensions and ISAs are unaffected and remain tax-free.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £2,001 but less than £10,000 are required to notify HMRC that they have this source of income.

Non-taxpayers and basic rate taxpayers who receive dividend income of more than £10,001 are required to file a self-assessment return with HMRC.

The above requirements apply to Share Incentive Plan participants receiving cash dividends on their plan shares.

Further information and updates on tax on dividends can be found on the Gov.UK website at **www.gov.uk/tax-on-dividends**

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**.

Share frauds ("boiler room scams")

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence offering to purchase their shares at apparently inflated prices. It is often the case that the caller, or message in the correspondence claims that they represent a majority shareholder who is looking to take over the Company. At the time of this report, the Company was not the subject of a take-over attempt, hostile or otherwise, and approaches such as those outlined are usually made by unauthorised companies and individuals. Shareholders should be very wary of any unsolicited advice, offers to buy shares at a premium or offers of free reports into the Company. Below is the advice from the Financial Conduct Authority (the "FCA").

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud:

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register from **www.fca.org.uk** to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at **www.fca.org.uk/scams**.
- 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.

Company information

Drax Group plc

Registered office and trading address

Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone +44 (0)1757 618381
www.drax.com

Registration details

Registered in England and Wales
Company Number: 5562053

Group Company Secretary

Brett Gladden

Enquiry e-mail address

Drax.Enq@drax.com

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Brokers

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Brokers

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Financial PR

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Remuneration advisers

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1 Embankment Place, London WC2N 6RH

Solicitors

Slaughter and May

One Bunhill Row, London EC1Y 8YY

Glossary

Adjusted EBITDA
Earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is typically stated as the combined value from both continuing and discontinued operations.

Adjusted Results
Financial performance measures prefixed with "Adjusted" are stated after adjusting for material, one-off exceptional items (such as asset obsolescence charges, acquisition and restructuring costs or debt restructuring costs), and certain remeasurements on derivative contracts.

Ancillary services
Services provided to national grid used for balancing supply and demand or maintaining secure electricity supplies within acceptable limits, for example Black Start contracts. They are described in Connection Condition 8 of the Grid Code.

Availability
Average percentage of time the units were available for generation.

BECCS
Bioenergy with carbon capture and storage, with carbon resulting from power generation captured and stored.

BEIS
The Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change (formerly DECC).

Black start
Procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

Biomass
Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. Drax uses woody biomass from low grade wood, sawmill residues and forest residues, in the form of compressed wood pellets, to generate electricity at Drax Power.

Capacity market
Part of the Government's Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

Carbon price support
A tax upon fossil fuels (including coal) used to generate electricity. It is charged as a levy on coal delivered to the power station.

CCC
The UK's Climate Change Committee

Contracts for difference (CfD)
A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the "strike price". Generators will receive revenue from selling their electricity into the market as usual. However, when the market reference price is below the strike price they will also receive a top-up payment from suppliers for the additional amount. Conversely if the reference price is above the strike price, the generator must pay back the difference.

Combined Cycle Gas Turbines (CCGT)
A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

ESG
Environmental, Social and Governance

EU ETS
The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO_2; the scheme is capable of being extended to cover all greenhouse gas emissions.

Forced outage
Any reduction in plant availability, excluding planned outages.

Frequency response
The automatic change in generation output, or in demand, to maintain a system frequency of 50Hz

Grid charges
Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).

Headroom and footroom
Positive "reserve" (see below) may be termed headroom and negative reserve as footroom.

IFRSs
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.

Glossary continued

Net debt
Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

Net debt to Adjusted EBITDA ratio
The value of Net debt divided by Adjusted EBITDA (both as defined above), expressed as the number of times the value of Net debt exceeds the value of Adjusted EBITDA. The Group has a long-term target of 2.0x Net debt to Adjusted EBITDA.

NGO
Non-governmental organisation

Open Cycle Gas Turbine (OCGT)
A free-standing gas turbine, using compressed air, to generate electricity

Planned outage
A period during which scheduled maintenance is executed according to the plan set at the outset of the year.

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.

RIDDORS
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

ROCs
A Renewable Obligation Certificate ("ROC") is a certificate issued to an accredited generator for electricity generated from eligible renewable sources. The Renewable Obligation (RO) is currently the main support scheme for renewable electricity projects in the UK.

Summer
The calendar months April to September.

System operator
National Grid Electricity Transmission. Responsible for the coordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

Total recordable incident rate (TRIR)
The frequency rate is calculated on the following basis: (fatalities, lost time injuries + worse than first aid injuries)/hours worked x 100,000.

Total results
Financial performance measures prefixed with "Total" are calculated in accordance with IFRS.

Value from flexibility
A measure of the value from flexible power generation, support services provided to the power network and attractively priced coal fuels.

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.

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Cautionary note regarding forward looking statements
This annual report may contain certain statements, expectations, statistics, projections and other information that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), including in respect of the proposed acquisition of Pinnacle Renewable Energy Inc. ('Pinnacle) and, (subject to and conditional upon shareholders approval and other material matters precedent to completion), thereafter the performance and integration of Pinnacle as part of Drax, together forming the enlarged business, are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

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