Enabling a zero carbon, lower cost energy future

Drax Group plc Annual report and accounts 2019

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 operations – creating a negative carbon footprint for the company

Our strategic aims are:

To build a long-term future for biomass

Building on our world class expertise, we believe biomass can deliver carbon negative dispatchable renewable energy.

To be the leading provider of power system stability

Through a portfolio of dispatchable flexible assets and new technologies – ours and our customers' – we will support the system and decarbonise through the growth of intermittent renewable energy.

To give our customers control of their energy

Through the provision of insight and digitisation we provide control over energy and access to markets to optimise energy use and lower costs.

Front cover
Sapling at a tree nursery run by Drax Biomass supplier, Weyerhaeuser, Mississippi, USA, where tens of millions of saplings are grown each year to be planted in forests in the southern US.

See more online at
www.drax.com

2019 Highlights

Adjusted revenue [1]

£4,703m

(2018: £4,237m)

Adjusted gross profit [1]

£867m

(2018: £601m)

Adjusted EBITDA[1]

£410m

(2018: £250m)

Total revenue

£4,713m

(2018: £4,229m)

Total gross profit

£734m

(2018: £639m)

Total operating profit

£62m

(2018: £60m)

Net debt

£841m

(2018: £319m)

Percentage of total UK renewable electricity generated

12%

(2018: 12%)

Total recordable incident rate

0.22

(2018: 0.22)

Dividend per share

15.9p

(2018: 14.1p)

Customer meter points

419k

(2018: 396k)

Wood pellets produced

1,407kt

(2018: 1,351kt)

(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 exceptional items, to provide additional information about the Group's performance. Adjusted financial performance measures are described more fully on page 131, with a reconciliation to their statutory equivalents in note 2.7 to the consolidated financial statements on page 149. 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).

Contents

Core activities at a glance

We operate an integrated value chain across three principal areas of activity: sustainable wood pellet production; flexible, low carbon and renewable energy generation; and energy sales and services to business customers.

Where we operate:

- Pellet production sites
- Customers
- Drax Power Station
- Options for Open-Cycle Gas Turbine (OCGT) projects
- Options for Closed-Cycle Gas Turbine (CCGT) projects
- Hydro and gas generation assets acquired in 2018

UK

US

Pellet Production

A leading producer of wood pellets from sustainable low-value commercial forestry residues

Our pellets provide a sustainable, low carbon fuel source. This can be safely and efficiently delivered through our global supply chain and used by Drax's Generation business to make flexible, renewable electricity for the UK. Our manufacturing operations also promote forest health by incentivising local landowners to actively manage and reinvest in their forests.

Our assets:

- 2 x 525 kt pellet plants
- 1 x 450 kt pellet plant
- 350 kt planned expansion of existing facilities, under construction
- 2.4 Mt export facility at Baton Rouge port

Pellets produced
1,407kt

Sales of pellets
£229m

Find out more at
www.drax.com/about-us/

Generation

A portfolio of flexible, low carbon and renewable UK power generation

Our multi-site, multi-technology generation portfolio 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.

Our assets:
- Renewable biomass – 2.6GW
- Hydro – 0.6GW
- Thermal:
  - Gas – 2.0GW
  - Coal – 1.3GW

Generation
17.3TWh

Renewables
79%

Customers

A leading supplier of renewable energy solutions to industrial and business customers

Our B2B Energy Supply business – comprised of Opus Energy and Haven Power – is the third largest B2B power supplier in the UK and the largest supplier of renewable energy to British businesses.

We are giving our customers control of their energy, which in turn supports the stability of the energy system.

Our assets:
- Opus Energy
- Haven Power

Customer meters
419k

Electricity and gas sales
18.9TWh

Business model

Our resources

Financial
- Multi-site, multi-technology portfolio of assets
- Growing proportion of non commodity-related earnings
- Long-term debt, foreign exchange and trading facilities

Manufactured
- Flexible, low carbon and renewable power generation
- Pellet production capabilities

Human
- Diverse range of expertise, skills and knowledge
- Strong health and safety culture

Intellectual
- World leaders in sustainable biomass generation and logistics
- Innovation in Bioenergy Carbon Capture and Storage (BECCS)

Natural
- Low-value, sustainable forestry residues sourced from sustainably managed forests, supporting forest health and growth
- Our hydro and pumped storage assets use natural resources to produce electricity

Social
- Active community engagement
- Visitor centres at plant sites
- Employee volunteering
- Corporate charitable giving

Our purpose and aims

Enabling a zero carbon, lower cost energy future

1 To build a long-term future for sustainable biomass

Building on our world class expertise, we believe biomass can deliver carbon negative dispatchable renewable energy

2 To be the leading provider of power system stability in the UK

Through a portfolio of dispatchable flexible assets and new technologies – ours and our customers' – we can support the system and decarbonise through the growth of intermittent renewable energy

3 To give our customers control of their energy

Through our insight and digitisation we provide control over energy and access to markets to optimise energy use and lower costs

Our essential enablers .... Innovation .... People ....

Principal risks **page 54**
Working with our stakeholders **page 24**

Outputs

Group adjusted EBITDA
£410m
(2018: £250m)

Average net debt
£950m
(2018: N/A)

Total recordable incident rate
0.22
(2018: 0.22)

Cost of production
$9.08/GJ
(2018: $9.37/GJ)

Fines (a measure of wood pellet quality)
7.9%
(2018: 8.0%)

Commercial availability
88%
(2018: 89%)

Value from flexibility
£129m
(2018: £79m)

Gross margin (minus bad debt) for Customers business
£116m
(2018: £112m)

Cost to serve customers
£208/MPAN
(2018: £206/MPAN)

Group Scorecard outcomes **page 105**

Drax is a constituent of the FTSE4Good Index Series

In 2019, Drax received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment*

Drax received a score of B in the CDP Forests Programme and C in the CDP Climate Change Programme

*www.drax.com/sustainability

Value creation

Financial
- High quality earnings
- Sustainable and growing dividend
- Strong balance sheet

Manufactured
- We generate 12% of the UK's renewable power
- Drax is the fourth largest energy generator in the UK
- Drax is a leading hydroelectricity generator

Human
- Our Future Creators programme develops 22 high-potential individuals to grow our leadership pipeline

Intellectual
- We are making progress in developing carbon capture and storage technology which could make Drax the world's first carbon negative power station

Natural
- The carbon intensity of our electricity generation reduced by over 85% from 2012 to 2019
- We announced our ambition to be carbon negative by 2030

Social
- We contributed £290k in 2019 through community partnerships, employee match funding, payroll giving, our community fund and national fundraising days
- We monitor ethical matters and business conduct risks of third parties with whom we do business
- We are a signatory to the Social Mobility Pledge

Reputation ······ Safety ······ Sustainability

Chair's statement

> "We continue to advance our purpose of enabling a zero carbon, lower cost energy future."
>
> **Philip Cox CBE**
> Chair

Investment case

- Critical to decarbonisation of the UK's energy system and a major source of flexible, low carbon and renewable power from a nationwide portfolio of generation technologies
- Underlying growth in the core business and attractive investment opportunities
- Increasing earnings visibility, reducing commodity exposure
- Strong financial position and clear capital allocation plan

Introduction

Drax Group's purpose is to enable a zero carbon, lower cost energy future. Since 2012 Drax has reduced its reported carbon emissions by over 85%. In December, we took a step further and announced an ambition to become carbon negative by 2030. With the right support and negative emissions framework from the UK Government, we believe we can realise this ambition.

Through these activities we expect to play a major role in delivering the UK's legally binding objective to become carbon neutral by 2050.

The Group's purpose informs our strategy through which we aim 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.

In 2019 we continued to make good progress in delivering this strategy. In doing so we are delivering higher quality earnings, reducing commodity exposure and creating opportunities for growth aligned with the UK's carbon neutral agenda.

Biomass has a long-term role to play in the UK and global energy markets as a flexible and sustainable source of renewable energy, as well as a means to deliver negative emissions. Key to securing this long-term role is reducing the cost of biomass. We aim to increase biomass self-supply to five million tonnes by 2027, which we believe will drive significant cost reduction and attractive returns to shareholders. We have made good progress in 2019 and will continue to implement measures to reduce costs and develop expansion opportunities in 2020.

The Group is working with a range of partner organisations to outline a plan for the decarbonisation of the Humber area. This is an industrial area in the northeast of England with one of the highest levels of CO_2 emissions, making it a natural and cost-effective location for the deployment of carbon capture and storage, using Bioenergy with Carbon Capture and Storage (BECCS) at Drax Power Station. Through these initiatives we hope to deliver long-term benefits to a wide range of stakeholders and support the UK's transition to net zero.

This is one example of how our engagement with stakeholders is an enabler to the delivery of our strategy. On pages 24 to 29 of the Annual Report, we provide further detail on our stakeholders and how members of the Board, including Non-Executive Directors, have participated in discussions and sought to understand views in order to inform decision making.

Drax Power Station is the UK's largest single source of renewable electricity, providing 11% of the total. During 2019 the Generation business managed a programme of major planned outages. The business also optimised biomass operations to reflect weather-related

Corporate governance
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biomass supply chain constraints. Over the same period coal generation has reduced, reflecting challenging market conditions. Following a comprehensive review of operations and discussions with National Grid, Ofgem and the UK Government, the Board of Drax has determined to end commercial coal generation at Drax Power Station. Drax will shortly commence a consultation process with employees and trade unions with a view to ending coal operations in September 2022. Under these proposals, commercial generation from coal will end in March 2021 but the two coal units will remain available to meet Capacity Market obligations until September 2022.

In December 2018 we completed the acquisition of a portfolio of hydro and gas generation assets from ScottishPower, making Drax the fourth largest electricity generator in the UK and a leading provider of system support services. During 2019 we successfully integrated these assets into our generation portfolio. The assets have performed strongly, with returns significantly ahead of the Group's cost of capital.

Following weather-restricted production in the first quarter of 2019, our US Pellet Production business produced at full capacity. Our focus remains on the production of good quality and low-cost biomass. Although pellet quality improved in 2019, it was below the level we expect and we are focused on delivering further improvements during 2020.

In our Customers business, which supplies electricity and gas to business customers, we made progress reducing cost, increased the margin per MWh and installed more smart meters year-on-year. However, in a challenging market financial performance was below the level we expect and we have more work to do to realise the opportunities we continue to see in this area. During 2019 we consolidated the management team at Haven Power and Opus Energy into a single integrated team. We expect this new structure to improve operational efficiency.

Results and dividend

Adjusted EBITDA in 2019 of £410 million grew by 64% compared to 2018 (£250 million). This reflects high levels of renewable power generation from sustainable biomass, a strong performance from the hydro and gas generation businesses, as well as continued growth in our Pellet Production business.

At the 2019 half year results we confirmed an interim dividend of £25 million (6.4 pence per share). The Board proposes to pay a final dividend in respect of 2019 of £38 million, equivalent to 9.5 pence per share, making the full year 2019 dividend £63 million (15.9 pence per share) (2018: £56 million, 14.1 pence per share). This represents a 13% increase on 2018 and is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers stable earnings, strong cash flows and opportunities for growth.

The Group has a clear capital allocation policy which it has applied throughout 2019. In determining the rate of growth in dividends from one year to the next the Board will take account of contracted cash flows, the less predictable cash flows from the Group's commodity based business and future investment opportunities. If there is a build-up of capital, the Board will consider the most appropriate mechanism to return this to shareholders.

Governance and values

Sustainability is at the heart of the Group and its culture. It covers the sustainable sourcing of biomass, which is a core principle of the Group, and also long-term sustainability. This means achieving a positive economic, social and environmental impact and considering long, medium and short-term factors in our stewardship of the business.

We are committed to promoting the UN Global Compact principles on respect for human rights, labour rights, the environment and anti-corruption.

Our aim is to maintain an open and collaborative culture across the Group. Setting the right standards helps to protect the business and the interests of our stakeholders. We remain committed to the highest standards of corporate governance, and the Board and its committees play an active role in guiding the Company and leading its strategy.

In 2019 we saw several changes to the Board, including the appointment of Andy Skelton as Chief Financial Officer (CFO). Andy is highly experienced, having previously served as CFO at Fidessa Group plc.

We greatly value the contribution made by our Non-Executive Directors and during a time of growth their role remains especially important. David Lindsell, Tony Thorne and Tim Cobbold each stepped down, and I would like to thank all three for their very significant contributions to the Board and the stewardship of the business.

John Baxter joined the Board in April 2019 and brings a wealth of industry, engineering and safety management expertise.

Our people

Our people – employees and contractors – remain a key asset of the business and we are focused on creating a diverse and inclusive working environment that is both safe and supportive.

We recognise the importance of listening to employees to understand their concerns and act on them. To that end, in 2019, we established an enhanced programme of workforce engagement to improve communication and feedback between the Board, senior management and our workforce. Together with Will Gardiner, our CEO, I participated in meetings with the chairs of our newly established engagement forums. More information on this can be found on page 28.

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 to health, safety and wellbeing governance across the Group.

To conclude, in 2019 we delivered strong financial performance and made good progress with our strategic objectives. I look forward to building on these in 2020. Through this strategy we will deliver sustainable long-term value, support the communities in which we operate and realise our purpose of enabling a zero carbon, lower cost energy future.

Philip Cox CBE
Chair

Group CEO's review

2019 highlights

- Strong growth in Adjusted EBITDA
- Delivered ahead of target net debt to Adjusted EBITDA ratio, after adjusting for deferred cash receipt of Capacity Market payments
- Reduction in CO_2
- Reduction in biomass self-supply cost
- Strong system support performance
- Completion of private placement and ESG debt facilities
- Development of Bioenergy Carbon Capture and Storage project

2019 was an important year for Drax Group. Following the acquisition of the hydro and gas generation assets from ScottishPower in December 2018, we are now the UK's fourth largest generator, meeting 5% of its power requirements, and generating 12% of the country's renewable power.

In 2019, we continued to advance our purpose of enabling a zero carbon, lower cost energy future. In December 2019, we announced a world first ambition to become a carbon negative company by 2030, removing more CO_2 from the atmosphere than we put into it. We have made significant progress towards that goal, as the carbon emissions from the Group have reduced by over 85% since 2012. We now expect to take this a step further with the end of commercial coal generation in 2021 and the formal closure of the coal units in 2022. For more information on this please see page 118.

The safety and wellbeing of our workforce is paramount to the Group. We continue to invest in the systems, governance and training to keep our workforce and assets safe.

Total Recordable Incident Rate (TRIR), a key scorecard measure of safety, was 0.22. This was the same as in 2018 although behind the challenging scorecard target for 2019. Safety remains our priority and as always there is more we can do in our pursuit of zero incidents.

Alongside a good operational performance, we delivered Adjusted EBITDA of £410 million, an increase of 64% on 2018. We propose to pay a dividend in respect of 2019 of £63 million, an increase of 13% on 2018. By the end of 2019, net debt was £841 million, 1.9x net debt to EBITDA, ahead of target of 2.0x, after adjusting for deferred cash receipt of Capacity Market payments of £72 million, received in January 2020.

Purpose and Strategy

Drax's purpose, to enable a zero carbon, lower cost energy future, sits at the heart of everything we do. We see growing opportunities to create value for shareholders as well as significant benefits for all stakeholders as we deliver that purpose.

2019 saw increasing global recognition of the need for urgent action to tackle climate change by reducing greenhouse gas emissions. The UK Government has taken a lead by putting in place legally binding targets to deliver net zero carbon emissions across the UK economy by 2050. This is an ambitious target which can only be delivered with action and investment now.

We are playing a key role in this transformation. The CO_2 emissions at Drax Power Station were less than one million tonnes for the first time, a 97% reduction since 2012, and it is now the UK's largest source of renewable power generation.

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> "Our ambition is to become a carbon negative company by 2030."

Will Gardiner
Group CEO

This was achieved through our continued focus on renewable biomass combined with operational excellence and innovative engineering.

While others target net zero, in December 2019, Drax became the first company in the world to announce an ambition to become carbon negative by 2030 – removing CO_2 from the atmosphere using Bioenergy with Carbon Capture and Storage (BECCS) to safely capture and store CO_2 at scale.

In May 2019 the UK Committee on Climate Change published its pathway for how the UK can deliver net zero carbon emissions by 2050. It highlighted the need for BECCS. Drax is in a leading position to deliver BECCS at scale in the UK and provide as much as a third of the negative emissions the UK will require. We believe we can deliver the engineering solution, but our ambition also requires the right regulatory framework and policy support to underpin an investment decision.

To support that process, in May 2019 we joined with National Grid and Equinor to advocate for a framework to support the development of a carbon cluster in the Humber region, one of the most carbon intensive areas of the UK. This programme is called Zero Carbon Humber.

The Group's purpose informs the three pillars of our strategy (i) to build a long-term future for biomass, (ii) to be the leading provider of power system stability and (iii) to give our customers control of their energy.

In 2019 we continued to make good progress delivering our purpose and strategy. Through addressing UK energy needs, and those of our customers, our strategy is designed to deliver excellent long-term financial performance across the Group. In doing so we are reducing our historic exposure to commodity markets and delivering higher quality earnings, strong cash generation, increased dividends to shareholders and further opportunities for growth.

A good example of this is the successful integration of a generation portfolio of flexible, low-carbon and renewable hydro and gas generation assets acquired in December 2018. Our expanded asset base has improved the risk profile of the Group and provided more opportunities to deliver system support services to the UK energy market. Our expected EBITDA from these assets was £90-£110 million and they have delivered £114 million of high-quality earnings, with financial returns significantly ahead of the Group's cost of capital.

As part of our strategy to deliver a long-term future for sustainable biomass, in November 2019, we announced plans to expand our supply chain to self-supply five million tonnes of biomass to our generation business by 2027. In 2019 we self-supplied 1.4 million tonnes. We expect this expansion to be delivered through existing sites, new developments and a wider fuel envelope of sustainable biomass. Through these initiatives we expect to reduce the cost of biomass from around £75/MWh to £50/MWh by 2027, assuming an exchange rate of $1.45/£. This is a level at which we believe renewable electricity from biomass can be economic without the current support mechanisms.

These activities, alongside the development of a biomass trading capability, could enable Drax to develop an unsubsidised biomass generation business by 2027, with the option to service wood pellet demand in Europe, North America and Asia.

Summary of 2019

Overall performance of the Group and its business units is measured as part of our Group Scorecard which covers a combination of financial, environmental, social and governance issues. The Group's score in 2019 was 0.9, with a score of 1.0 being on target.

Adjusted EBITDA, a key financial KPI, of £410 million represents a 64% increase on 2018. This includes £78 million of Capacity Market income in respect of the whole of 2019 and the last two months of 2018.

Despite challenging weather conditions in early 2019, Pellet Production increased output across the full year from 1.35 million tonnes to 1.40 million tonnes. At the same time, the cost of producing and delivering wood pellets to our port facility at Baton Rouge reduced from $166/tonne in 2018 to $161/tonne in 2019, although challenges remain in terms of pellet quality.

In Generation, the integration and performance of the acquired assets was a success. At Drax Power Station we managed lower levels of biomass availability, which restricted generation in early 2019. By optimising biomass generation under the Renewables Obligation (RO) scheme we were able to partially offset the constraint by producing higher levels of biomass generation later in the year, particularly December, in which we reported record monthly renewable generation. The business also completed a programme of major planned outages across the portfolio.

In our Customers business, which supplies electricity and gas to business customers, we have made progress reducing cost, however performance elsewhere has been below our expectation. This in part reflects a challenging market and we have more work to do to deliver the opportunities we continue to see in this area.

Group CEO's review continued

During the year we completed the refinancing of the funding used to acquire the hydro and gas generation assets. These new facilities extend the Group's debt maturity profile to 2029, incorporating a £125 million Environmental, Social and Governance (ESG) facility with a mechanism that adjusts the interest margin based on Drax's carbon emissions against an annual benchmark. We believe we are one of the first companies to implement such a feature within its debt, demonstrating our commitment to embedding ESG in financial performance. The Group's cost of debt is now below 4% and below 3% on the new facilities, reflecting a reduced business risk.

Operational review

In the US, our Pellet Production operations reported Adjusted EBITDA of £32 million up 52% (2018: £21 million).

High levels of rainfall in the US Gulf in early 2019 restricted the level of commercial forest extraction and the availability of low-cost fibre for wood pellet production. This in turn had an impact on the shipment of pellets from the port of Baton Rouge. Since then commercial forestry processes, wood pellet production and shipments to the UK have increased. As a result, wood pellet volumes for 2019 were 1.40 million tonnes, up 4% (2018: 1.35 million tonnes).

Pellet quality, as measured by the amount of fines (larger particle-sized dust) in each cargo, is a KPI for the Group. Lower levels of fines result in fuel that is easier and safer to handle at ports and at Drax Power Station. The quality of the pellets we produced was below our target level in 2019 and we are taking steps to address this issue in 2020.

We have remained focused on opportunities across the supply chain to deliver improved operational performance and cost savings as part of our programme to reduce the cost of biomass to £50/MWh by 2027. We have made good progress with increased volumes, operational improvements and greater utilisation of low-cost fibre which have contributed to lower cost wood pellet production.

A co-location agreement with Hunt Forest Products (a sawmill operator) led to the development of a sawmill next to our LaSalle site. The sawmill commenced production in February 2019 providing greater access to low-cost sawmill residues, lower transportation costs and a reduction in the number of stages in the production process.

A new rail spur linking LaSalle to the regional rail network and our port facility at Baton Rouge was commissioned in May 2019. This will increase transportation efficiency, provide economies of scale and reduce both cost and carbon footprint.

We expect to benefit from further economies of scale in rail associated with the commissioning of an enlarged chambering yard at the port of Baton Rouge in 2020, allowing 80-car train sets to operate from our LaSalle and Morehouse sites.

These initiatives and others have contributed to a year-on-year reduction in cost per tonne of 3%, which represents a saving of $5 per tonne compared to 2018.

We expect to deliver further savings by expanding our existing sites (LaSalle, Morehouse and Amite) by 350,000 tonnes over the next two years – an investment of £50 million. This will expand total capacity to 1.85Mt, provide economies of scale and allow greater utilisation of low-cost residues. We believe these projects offer returns significantly ahead of the Group's cost of capital, with payback in advance of 2027.

These larger projects are accompanied by small operational improvements such as greater efficiency in the loading of road haulage, saving 50 cents per tonne. Over time these improvements, when applied across the supply chain, can deliver significant incremental savings.

Taking the savings in 2019 together with the other initiatives we have described, we believe there are opportunities to reduce the cost of biomass by $35 per tonne (£13/MWh) on our existing portfolio by 2022. This represents good progress, but more work and investment will be required to deliver our goal of making biomass power generation economically sustainable without subsidy. We expect to do this by using a greater proportion of lower cost wood residues, expanding our self-supply capacity to five million tonnes and exploring ways to expand our fuel envelope to include a wider range of sustainable low-cost biomass residues.

> "We have remained focused on opportunities to reduce the cost of biomass to £50/MWh by 2027."
>
> **Will Gardiner**
> Group CEO

In Generation, Adjusted EBITDA of £408 million was up 76% (2018: £232 million). This includes £114 million from the hydro and gas generation assets acquired in December 2018. These assets have performed strongly, exceeding our financial expectation in the first year of ownership.

Commercial availability, which measures the time we are available to operate in our markets, was 88% (2018: 89%). This was below our target and principally reflects restricted biomass generation in the first quarter of 2019 and gas unit outages. The engineering challenges associated with such an outage are significant and the completion of the work and recommissioning, which allowed a strong operational performance, is testament to the skill and commitment of our people.

In 2019, we completed two major planned biomass outages, including the first in a series of three high-pressure turbine upgrades which we expect to increase thermal efficiency and reduce the cost of biomass generation.

Notwithstanding these planned outages our biomass units produced 11% of the UK's renewable electricity – enough to power four million homes. This level of renewable generation, combined with the flexibility of our expanding portfolio, allows the Group to support the continued deployment of intermittent renewables and the UK's plans for decarbonisation.

Over the last five years the operational experience with biomass generation has been positive and we are now exploring a wider range of sustainable biomass materials. In time we believe that utilisation of this expanded fuel mix will support a reduction in the cost of biomass generation.

Our hydro assets, which include the Cruachan pumped storage power station as well as Lanark and Galloway hydro schemes, have performed strongly, providing flexible, renewable and low carbon electricity. Cruachan Power Station – the largest of these assets (440MW) – plays an important role in the provision of system support services to the UK energy market. Over 80% of Cruachan's earnings are from non-commodity sources, including Balancing Market activities, Ancillary Services and the Capacity Market.

We operate 2.0GW of Combined Cycle Gas Turbines (CCGT) – Damhead Creek, Shoreham, Rye House and Blackburn. These units produced 2.9TWh, representing around 17% of our total generation. The location of three of the four units in southeast England makes them well placed to provide system support services to the UK energy market.

During the year we completed two planned outages, including turbine repairs and interim inspection work at Shoreham Power Station, providing the option for a future turbine upgrade to take place.

Since the start of 2019 seasonal electricity prices have weakened, reflecting a mild winter and high levels of European gas storage. The market for coal generation has remained challenging and our two coal units continue to focus on short-term power market opportunities during higher demand periods. Coal generation of 0.6TWh represents 4% of the Group's output. Where we sold forward volumes on a limited basis, weaker power prices allowed us to buy back some of those volumes at a lower price, adding margin.

The flexibility and dispatchable nature of our generation portfolio is an important source of value and was a key factor in our acquisition of the hydro and gas generation assets. Given the shift towards wind generation, which will provide the majority of the UK's future electricity requirements, we anticipate a growing need for system support services. In 2019 Value from Flexibility (a scorecard measure of the value from flexible power generation, system support services and attractively priced coal fuels) was £129 million (2018: £79 million), which was ahead of plan, reflecting a 63% increase on 2018.

We believe there is a need for flexible, large-scale dispatchable generation, but this must support the UK's target of net zero carbon emissions by 2050. To that end we continue to develop options for four 299MW Open Cycle Gas Turbines (OCGTs) and 5.4GW of CCGTs between Damhead Creek and Drax Power Station.

We expect the CCGTs to be among the most efficient assets in their class and hence sit high in the UK merit order, in addition to being available for system support services. The OCGTs will perform a system support role and meet peak power demand at short notice.

An appropriate clearing price in a future Capacity Market will be required to underpin investment in new-build gas. We will remain disciplined through this process and at the most recent auction in January 2020 Drax did not accept a Capacity Market agreement for these projects. We remain committed to developing the most cost-effective capital programmes for all of our gas projects, which we believe can make them competitive in future capacity auctions.

Planning approval for the CCGT at Drax Power Station is subject to a judicial review and we will not participate in future Capacity Market auctions until the outcome is known.

Our Customers business, which focuses on B2B supply, has faced a challenging market environment. Taken together with integration costs, Adjusted EBITDA of £17 million is lower than prior year (2018: £28 million). This includes £8 million of investment in restructuring to integrate the Haven Power and Opus Energy brands under a single operating structure. The creation of a single management team is now complete and will help drive alignment of decision making, effective market segmentation and operational efficiencies.

During the year significant focus was given to cash collection to address historic challenges associated with bad debt at Opus Energy. As a result we have seen further improvements in the management of bad debts during the period, reflected in a reduced charge to the income statement of £18 million (2018: £31 million), whilst maintaining a prudent level of provision.

We have a differentiated market position – selling purely renewable power, helping over 2,000 independent renewable generators access the market and developing products which will meet our customers' needs. We continue to believe this approach will support long-term growth.

Over time, we expect this business, through efficiency and demand-side response, to contribute increasingly to balancing the power system and we are excited about our opportunity to make a difference in this area.

Biomass sustainability

Under well-established UK and European legislation, sustainably sourced biomass is a renewable source of electricity. The rules and the science which underpins this treatment are clear.

We source 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 CO_2 emissions are absorbed by new forest growth. We use feedstocks that have been shown to have no carbon debt associated with them.

> "We maintain a rigorous and robust approach to biomass sustainability."
>
> **Will Gardiner**
> Group CEO

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 sustainability standards as well as those of the European Union. Since the introduction of the Renewable Obligation Certificate (ROC) scheme in 2002 Drax has maintained full compliance with UK and European legislation.

However, there are carbon emissions associated with the biomass supply chain. Under UK legislation biomass is the only source of electricity generation required to report its supply chain emissions. The Group's biomass life cycle carbon emissions are 124 $kgCO_2$-eq/MWh of electricity (2018: 131 $kgCO_2$-eq/MWh), less than half the UK Government's 285 $kgCO_2$-eq/MWh of electricity limit for biomass. This equates to an 87% carbon emission saving against coal, inclusive of biomass supply chain emissions, but excluding those of coal, which means the actual saving from biomass is even greater.

Reflecting this and a lower level of coal generation, reported carbon emissions under the European Union Emissions Trading Scheme fell by 50% to 113tCO_2/GWh (2018: 226tCO_2/GWh).

Strengthening our leadership on biomass sustainability, we introduced a new Responsible Sourcing Policy for Biomass and established an Independent Advisory Board, chaired by Sir John Beddington, the UK's former Chief Scientific Adviser. We responded to the Climate Disclosure Programme's (CDP) Climate Change and Forests questionnaires.

Environmental, social and governance

The health, safety and wellbeing of our employees and contractors is vital to the success of the Group and remains our priority. We believe that a safe and sustainable business model is critical to our strategy and long-term performance. In 2019 we implemented a new Group-wide approach to health, safety and wellbeing, as well as the establishment of a new Group-wide workforce engagement forum.

In March 2019 we published our second gender pay report. While the data showed that our businesses were in line with the energy sector overall, it highlighted that we still have work to do.

In June 2019, we published our third statement on the prevention of slavery and human trafficking in compliance with the UK Modern Slavery Act (2015) and we are a signatory to the UN Global Compact (UNGC). We are committed to promoting the UNGC principles on respect for human rights, labour rights, the environment and anti-corruption.

Brexit

Brexit remains a key issue for the UK. To date, the impact on the Group has been limited, with the principal risk being weaker Sterling affecting the cost of biomass, which is generally denominated in US dollars. Through our use of medium-term foreign exchange hedges the Group has protected its position out to 2024 at rates close to those that we saw before the Brexit referendum vote.

Outlook

Our focus remains 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.

These activities continue to be underpinned by safety, sustainability and operational excellence.

In Pellet Production we remain focused on the production of good quality pellets at the lowest cost, cross-supply chain optimisation and an expanded self-supply capacity to five million tonnes by 2027.

Our Generation proposition is strong: flexible, renewable and low carbon electricity and system support services. We will continue to provide high levels of renewable electricity to the UK and support increased deployment of intermittent renewables necessary to support the UK's transition to a net zero carbon economy.

Flexible dispatchable gas has an important long-term role to play in supporting the transition to a net zero carbon economy. We will optimise our portfolio to meet this demand and develop carbon capture and storage ready projects – options which could include hydrogen fuelling – subject to the right price in future capacity auctions.

Our ambition to become a carbon negative company is underpinned by the development of BECCS. Working in partnership, and with the right support from the UK Government, we could develop BECCS at scale before 2030. By reducing our biomass supply chain cost we will support this objective and deliver further attractive returns to shareholders.

In our Customers business we will remain focused on operational excellence, reducing our cost to serve customers, growing gross profit per MWh and managing bad debt. We will offer attractive propositions and develop our presence in the market for system support through flexible demand management and other value-added services.

We are making good progress with the delivery of our strategy and will build on this as we achieve our targets. We will also 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
Group CEO

Climate change is the biggest challenge of our time and we have a crucial role in tackling it.

Q&A

CEO Will Gardiner answers questions on climate change

Q How is Drax helping the UK reach its climate goal to be net zero by 2050?

We're committed to a zero carbon, lower cost energy future and are stepping up our efforts to help the UK become net zero by 2050. We have already successfully converted two thirds of Drax Power Station to run on sustainable biomass instead of coal in what was the largest decarbonisation project in Europe. This means we're generating 12% of the UK's renewable electricity and we've reduced our carbon emissions by more than 85% since 2012.

We now want to become a carbon negative company by 2030, which we can do by applying carbon capture and storage technology to our biomass units. This is known as BECCS and, through our BECCS pilot project at Drax Power Station, we have the capability to capture one tonne of carbon a day. With the right investment framework and support mechanisms in place, we believe we could capture 16 million tonnes of CO_2 a year.

Q What are negative emissions and why are they important?

Negative emissions mean Drax will be removing more carbon dioxide from the atmosphere than it produces from its operations. The UK needs negative emissions to help offset emissions from sectors that are harder to decarbonise than transport and power, for example aviation and shipping.

Both the UN's Intergovernmental Panel on Climate Change and the UK's Committee on Climate Change have said negative emissions with BECCS technology will be critical to limiting global temperature rise to 1.5 degrees.

Q What impact has the move to biomass had on Drax's carbon emissions?

Biomass has been a critical element in the UK's decarbonisation journey, helping the country get off coal much faster than anyone thought possible.

Since 2012, at Drax Power Station we have reduced our carbon emissions by 97%, becoming the largest decarbonisation project in Europe. And we want to do more.

We've also expanded our generation operations to include hydro and gas generation, and we've continued to bring coal off the system.

Q What happens to the forests where Drax sources its biomass?

Sustainable biomass from managed forests is helping to promote healthy forest growth and biodiversity as well as decarbonising the UK's energy system.

The biomass we use comes from sustainably managed forests that supply industries like construction and furniture. We use residues from forestry and sawmills, like sawdust, that other industries don't use.

The biomass that we use is renewable because the forests are growing and continue to capture more carbon than we emit from the power station.

You can read more about our approach to biomass sustainability on **page 34.**

Q Why did you decide to work at Drax?

I took this job because Drax had already made a contribution to the energy transition in the UK. Climate change is the most important challenge we face and I passionately believe Drax has a crucial role in tackling it.

I want to use all of our capabilities to fight climate change. I also want to make sure that we listen to what everyone else has to say to ensure that we continue to do the right thing. Our people are very engaged on issues relating to climate change and I'm proud of the passion and innovation I see around the business.

Q Does building gas power stations mean the UK will be tied into fossil fuels for decades to come?

Our energy system is changing rapidly, as we increase our use of wind and solar energy, but the wind doesn't always blow and the sun doesn't always shine, so we need technologies that can operate when needed to fill in those gaps.

We're looking at a range of options to generate power and support the electricity system as it decarbonises. These include BECCS, hydrogen and gas, which can help enable more renewables to connect to the system.

As I said already, gas is one option we're looking at but it won't happen without the right investment conditions. If we do decide to build new natural gas plants, we will make sure that it is ready for carbon capture and storage. We will also look at converting the plants to run on hydrogen.

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

Group financial review

"We've delivered 64% growth in Adjusted EBITDA and a Net Debt to Adjusted EBITDA ratio ahead of our target of 2x."

Andy Skelton
Chief Financial Officer

2019 Highlights

- 64% Adjusted EBITDA growth to £410 million
- Delivered net debt to Adjusted EBITDA ratio ahead of target of 2x, after adjusting for deferred cash receipt of Capacity Market payments of £72 million, received in January 2020
- Strong performance of acquired generation assets with Adjusted EBITDA of £114 million
- Significant increase in Adjusted profit after tax to £118 million resulting in improved Adjusted earnings per share of 30 pence
- Total operating profit of £62 million, increased from £60 million
- Net cash flow from operating activities of £413 million, compared to £311 million in 2018
- 13% increase in dividend to £63 million or 15.9 pence per share

Introduction

The Group has delivered significant growth during 2019, with Adjusted EBITDA increasing by 64% from £250 million in 2018, to £410 million.

Total operating profit, which includes the effect of remeasurement losses of £133 million (2018: remeasurement gains of £38 million) on derivative contracts, also increased from £60 million in 2018 to £62 million.

Our new portfolio of pumped storage, hydro and gas generation assets (hereafter referred to as the "new generation assets"), acquired on 31 December 2018, delivered Adjusted EBITDA of £114 million. Growth was further supported by an increased contribution from renewable power generation from sustainable biomass at Drax Power Station and our Pellet Production business.

This performance is particularly pleasing when considering the challenges we faced in the first half of the year where both our pellet production operations and biomass generation were impacted by lower levels of biomass supply as a result of historically bad weather conditions in the US Gulf.

Following the reinstatement of the UK Capacity Market in October 2019, the results for the year include £78 million of capacity market income, including £7 million for the period in 2018 after its suspension. The associated cash was

Financial Performance Summary

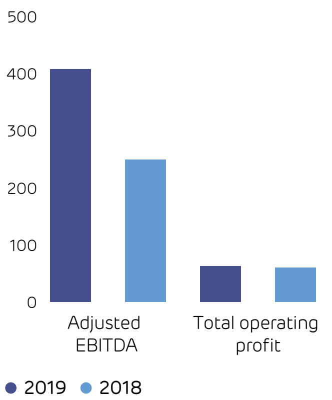
Adjusted revenue	Adjusted EBITDA	Adjusted profit after tax
£4,703m	£410m	£118m
(2018: £4,237m)	(2018: £250m)	(2018: £42m)
Total revenue	**Total operating profit**	**Total profit after tax**
£4,713m	£62m	£1m
(2018: £4,229m)	(2018: £60m)	(2018: £20m)
Net debt	**Cash from operating activities**	**Dividend per share**
£841m	£413m	15.9p
(2018: £319m)	(2018: £311m)	(2018: 14.1p)

subsequently received after the year end and does not form part of our reported net debt at 31 December 2019.

The Group improved its access to capital during 2019. We refinanced the acquisition bridge facility, used to part-fund the acquisition in December 2018 of the new generation assets from ScottishPower, in three stages.

In May, we issued an additional US$200 million of the existing 2025 6.625% loan notes. In July, we entered into two new senior debt facility agreements, a £375 million private placement and a £125 million environmental, social and governance (ESG) facility. The average rate of the two new facilities is below 3%, reducing the Group's overall cost of debt to below 4%, reflecting a reduced business risk profile.

Adjusted EBITDA/Total Operating Profit (£m)



Driven by strong cash generation in the period, supported by active management of working capital, net debt at 31 December 2019 was £841 million (2018: £319 million), delivering a net debt to Adjusted EBITDA ratio of 1.9x, ahead of our target of 2.0x for the year end after adjusting for the deferred receipt of £72 million cash in respect of Capacity Market payments received in January 2020.

We remain committed to 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 £63 million, or 15.9 pence per share, an increase of £7 million or 1.8 pence per share when compared to 2018.

Financial Performance

Adjusted EBITDA

Group consolidated Adjusted EBITDA of £410 million includes a contribution of £114 million from our new generation assets, acquired at the end of 2018. This is an excellent result and exceeds our forecast range of £90-£110 million, reflecting strong operational performance across the portfolio, better than expected performance in ancillary and balancing services and excellent progress with the integration of the assets into our existing generation business, which is now complete.

In total, the Generation business contributed Adjusted EBITDA of £408 million (2018: £232 million), an increase of £176 million or 76%. This performance comes despite industry-wide challenges with wood pellet production and associated supply constraints in the first half of the year, and includes the contribution of £114 million from our new generation assets, described above.

Following the reinstatement of the Capacity Market in October 2019, we have recognised related income totalling £78 million across the Generation portfolio. Our financial results for 2018 excluded £7 million of capacity market income following its suspension in October 2018, and this amount has now been recognised in 2019.

Total output at Drax Power Station reduced, as we continue our transition away from coal; however, our biomass units delivered output broadly in line with 2018, of 13.4TWh (2018: 13.7 TWh). The small reduction in part reflected an outage over the summer period on Unit 1, which is supported by the Contract for Difference (CfD) regime.

Despite lower CfD generation, overall renewable support under the CfD and ROC regimes remained broadly in line with the prior period, due to higher ROC generation and indexation of support payments.

Overall captured spreads improved following efficiency gains as a result of our programme of investment in the performance of generating units at Drax Power Station and benefits from our trading position and portfolio.

We continue to derive value from flexibility (balancing mechanism, ancillary services and advantaged fuels), which improved from £79 million in the prior year to £129 million in 2019, an increase of 63%. Our new hydro and pumped storage assets performed particularly strongly in this area, a demonstration of the contribution of the acquisition to our strategy to become the leading provider of system stability in the UK.

The Generation business acquires biomass pellets predominantly in US dollars, 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 are subject to UK 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. This year such activity included restructuring in-the-money foreign currency exchange contracts, to balance short and long periods across the duration of the hedge. During 2019 we also realised value from closing out positions as expectations for coal generation reduced, the benefit of which is included in value from flexibility, above. The financial impact of these activities – which is driven by market prices at the point of execution – is recognised in the cost of sales of our Generation business and therefore is reflected in our Adjusted Gross profit and Adjusted EBITDA.

Our Customers business contributed Adjusted EBITDA of £17 million in 2019, an £11 million reduction when compared to 2018.

The 2019 result for Customers includes £8 million of investment cost in the restructuring of the business, to more closely integrate our two brands and bring them under one management team (In 2018, £3 million of restructuring and integration costs were treated as exceptional and excluded from Adjusted results in the first year post-acquisition of Opus Energy), and a further £7 million for the development of next-generation IT systems (2018: £6 million).

We delivered the new ERP system at Opus Energy during the second half of 2019 but have stopped the implementation of a new billing system and are in ongoing discussions with the supplier. We have incurred approximately £19 million of costs to date, held on the balance sheet, which we believe have value and will be recovered.

Overall volumes sold were down by 9% compared to 2018, which largely reflects a mild 2018/19 winter that led to a challenging first half of the year. As a result, overall gross profit fell from £143 million in 2018 to £134 million in 2019.

During the year, significant attention was focused on improving cash collections, where we have seen a positive performance. As a result of this, in addition to a £6 million benefit in respect of resolution of legacy credit balances, bad debt charges reduced from £31 million in 2018 to £18 million in 2019. The higher charge in the prior year reflected an increased level of provisioning required due to reduced collection performance, plus a £3 million one-off expense in respect of SME business. The closing provision at 31 December 2019 of £41 million is slightly lower than the prior year (2018: £44 million), reflecting the improved performance during the year.

Pellet Production Adjusted EBITDA of £32 million increased 52% from £21 million in 2018.

Production in the year increased slightly to 1,406kt (2018: 1,351kt), reflecting a full year of operations at the LaSalle pellet plant. This would have been higher but for challenging weather conditions in the first quarter, resulting from unseasonably high rainfall and associated high river levels, which materially restricted output at all three of our pellet plants and caused difficulties in loading ships at the port.

We have made good progress with biomass cost reduction projects in the year, with the average cost per gigajoule of our self-supplied pellets falling to US$161/tonne in 2019 compared to US$166/tonne in the prior year.

Key contributions to this saving came from the benefit of a full year of lower operational costs as a result of the headquarters relocation from Atlanta to Monroe during 2018 and the rail spur project at our LaSalle plant, commissioned in early May 2019, saving transport costs across the rest of 2019 with a positive impact on supply chain emissions. Furthermore, the sawmill co-location project at the same plant has delivered further savings.

The total savings from these projects delivered in 2019 was £14 million, which more than offset the weather impact described above.

Central and other costs of £46 million have increased by £18 million in 2019.

This increase includes incremental research and innovation costs associated with key strategic initiatives – including those relating to Bio-Energy Carbon Capture and Storage (BECCs).

As we described at the half year, and in connection with the integration of the acquired generation assets; we incurred one-off costs implementing a new organisational structure that we believe will enable us to execute our strategy more effectively. Costs associated with delivering working capital initiatives have also increased.

Total Operating Profit

Total operating profit of £62 million has increased 3% from £60 million in 2018. This includes the effect of acquisition and restructuring costs 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 131.

Acquisition and restructuring related costs of £9 million (2018: £28 million) reflect the first-year costs of integrating the new generation assets into our existing Generation business, following transaction costs associated with the acquisition last year. The integration is now complete, and in line with our policy no further acquisition and restructuring costs in relation to the acquired assets will be excluded from Adjusted EBITDA in 2020.

Net fair value remeasurement losses on derivative contracts included in operating profit were £131 million (2018: gains of £38 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.

The losses in 2019 are predominantly the result of the strengthening of sterling in the period and the resulting impact on the value of our extensive portfolio of foreign currency exchange contracts, which provide a rolling five-year hedge against changes in exchange rates for fuel purchases denominated in foreign currencies.

Profit After Tax and Earnings per Share

Adjusted profit after tax of £118 million compares to £42 million for the prior year, resulting in Adjusted earnings per share (EPS) of 30 pence (2018: 10 pence) which represents a 200% increase.

Improvements in Adjusted profit after tax and EPS largely reflect the growth in Adjusted EBITDA described above, although this has been partially offset by higher depreciation charges resulting from the new generation assets, and an increase in interest charges as a result of the new debt issued to part-fund the acquisition, as described in further detail below.

Total profit after tax of £1 million is lower than £20 million for last year, with a corresponding reduction in Total EPS from 5 pence in 2018 to nil pence in 2019.

Total profit after tax reflects exceptional items and certain remeasurements, including the derivative remeasurements and acquisition and restructuring costs described above. In addition, it includes a further £5 million of interest charges relating to the acquisition bridge facility. These costs have been treated as exceptional given the direct link to the acquisition and their one-off nature (2018: £7 million).

The total tax credit of £3 million (2018: £6 million) reflects an effective tax rate that is lower than the standard rate of tax in the UK. This principally reflects the benefit of patent box tax credits in respect of biomass research and development expenditure. Total patent box credits included in the overall tax credit for 2019 are £8 million (2018: £8 million).

Cash taxes paid during the year were £9 million (2018: £1 million).

Capital Expenditure

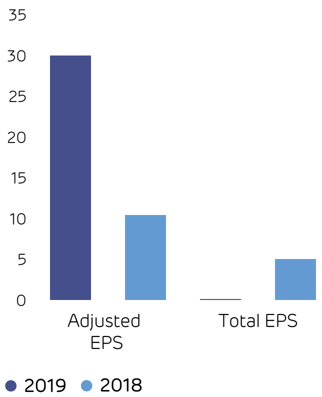
We maintain a disciplined approach to capital expenditure, with all significant projects subject to appraisal and prioritisation by a Capital Committee prior to approval, overall ensuring adherence to our capital allocation policy and maintenance of an appropriate net leverage profile.

Total capital expenditure of £172 million in 2019 was higher than £114 million in the prior year.

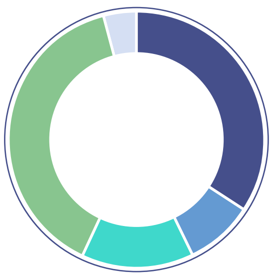
The increase principally reflects additional expenditure in respect of the new generation assets, strategic projects and investments to progress our objective of increasing self-supply of pellets to 5 million tonnes and reduce the cost of pellets.

We have made an initial investment in biomass expansion projects in the Pellet Production business, ahead of full delivery in 2020, in line with our strategy to expand self-supply. We have also continued investment in our gas development projects – our four OCGT sites, a new CCGT at Drax Power Station and the expansion option at Damhead Creek.

Earnings per Share (pence)



Capital Expenditure



Maintaining operational performance	£59m
New generation assets	£15m
Enhancements	£24m
Strategic	£67m
Other	£7m

Group financial review continued

Cash and Net Debt

At 31 December 2019, total borrowings were £1,245 million (2018: £608 million) and net debt was £841 million (2018: £319 million).

Following the reinstatement of the Capacity Market in October, we accrued the £78 million of associated income in full; however, the cash payments were not received until after the year end. After adjusting for the receipt of £72 million of cash in January 2020 in respect of Capacity Market payments, covering the standstill period, this reflects a net debt to EBITDA ratio for 2019 of 1.9x (2018: 1.3x), within our target of less than 2x. Without adjusting year end net debt for this payment our closing net debt to EBITDA ratio was 2.1x.

The increase in borrowings and net debt in 2019 reflects the additional debt drawn to part-fund the acquisition of the new generation assets, for which the cash consideration was settled in January 2019.

Taking this into account, and allowing for a full year of EBITDA from the new generation assets in 2018, this represents a significant deleveraging on a like-for-like basis from a net debt to EBITDA ratio of 3.1x.

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition, with the remainder of the consideration funded from the Group's cash resources. At inception, the acquisition bridge facility was due to mature in the second half of 2020.

During 2019, we refinanced the acquisition bridge facility in three stages, including two new long-term debt facilities.

On 16 May 2019, we issued an additional US $200 million of the existing 2025 6.625% US dollar loan notes. The proceeds from the issuance were used to repay £150 million of the drawn down acquisition bridge facility. Reflecting the strong investor appetite, the notes were issued at 101.5% of their face value which, when swapped back into sterling, achieved an interest rate of 4.74%.

On 24 July 2019, we entered into two new senior debt facilities agreements, a £375 million private placement with infrastructure lenders with maturities between 2024 and 2029, and a £125 million ESG facility agreement that matures in 2022. The ESG facility includes a mechanism that adjusts the margin based on carbon emissions against an annual benchmark.

Together these new facilities extend the Group's debt maturity profile beyond 2027 and reduce the Group's overall cost of debt to below 4%.

A full reconciliation of the Group's borrowings in the period is provided in note 4.3 to the consolidated financial statements.

The Group continued to generate strong cash from operating activities in 2019, with a total inflow of £413 million in 2019 (2018: £311 million). The increase principally reflects improved profitability, the contribution from newly acquired generation assets and a disciplined approach to working capital, partially offset by increased interest payments on the expanded debt portfolio.

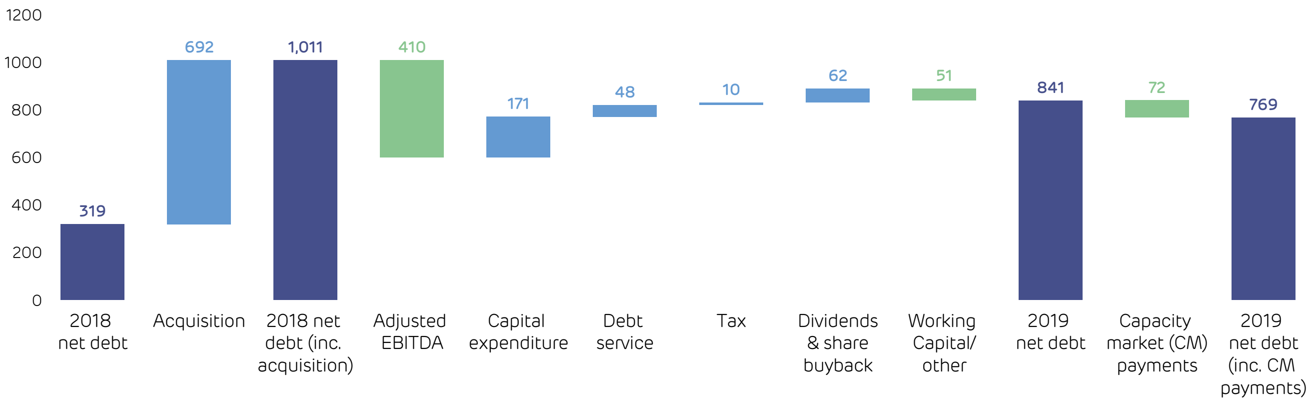
In addition to the improvements in operating performance described above, the Group has a strong focus on cash flow discipline. We also use various methods to manage liquidity through the business' cash generation cycle.

The Group has access to a £315 million revolving credit facility, which can be used to manage low points in the cash cycle, which expires in 2021. No cash was drawn under this facility at 31 December 2019 (2018: £nil). We actively optimise our working capital position by managing payables, receivables and inventories to ensure that the working capital committed is closely aligned with operational requirements.

The key working capital benefits in 2019, in terms of cash flow, arise from making sales and purchases of ROC assets and rebasing foreign currency exchange contracts.

Historically, cash from ROCs has typically been realised several months after the ROC was earned 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. For 2019, such transactions generated a net cash inflow of £131 million and supported an overall working capital inflow from ROCs of £54 million. The Group also has access to facilities enabling it to sell ROC trade receivables

Net Debt Development (£m)



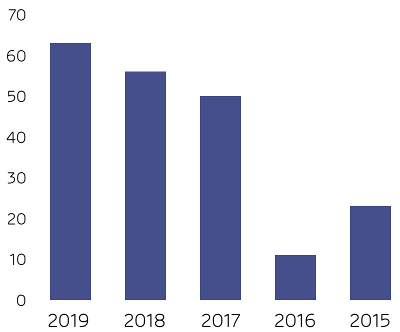
arising on a non-recourse basis. These facilities were not utilised at 31 December 2019 (2018: £nil).

During 2019 the Group rebased several foreign currency contracts, which resulted in a working capital benefit. The total cash released from related trades still outstanding at the end of the year was £84 million (2018: £3 million) reflected in cash generated from operations. By undertaking a similar exercise on cross-currency swaps, we released a further cash benefit of £23 million (2018: £nil). This has no impact on Adjusted EBITDA, the gains are held on the Group's balance sheet, until the rebased trades expire.

In addition, the Group has access to a £200 million receivables monetisation facility (extended from £150 million in 2018), which accelerates associated cash flows and mitigates exposure to credit risk, and a number of payment facilities to leverage scale and efficiencies in transaction processing. We also facilitate a supply chain financing scheme, which enables certain suppliers to access payment earlier than contractually agreed payment terms and supports the wider working capital efficiency of the Group. The balances outstanding at 31 December 2019 and 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 inflow for the year was £122 million (2018: £66 million), after cash payments for capital expenditure of £171 million (2018: £104 million), dividend payments of £59 million (2018: £53 million), net proceeds from new borrowings of £653 million (2018: net repayment of £5 million) and payments in respect of acquisitions of £692 million (2018: £nil).

Total Dividends (£m)



Distributions

We have a long-standing capital allocation policy – a commitment to robust financial metrics that underpins our strong credit rating, invest in our core business, pay a sustainable and growing dividend and return surplus capital to shareholders as appropriate.

At the Annual General Meeting on 17 April 2019, shareholders approved payment of a final dividend for the year ended 31 December 2018 of 8.5 pence per share (£34 million). The final dividend was paid on 10 May 2019.

On 23 July 2019, the Board resolved to pay an interim dividend for the six months ended 30 June 2019 of 6.4 pence per share (£25 million), representing 40% of the expected full year dividend. The interim dividend was paid on 11 October 2019.

At the forthcoming Annual General Meeting, on 22 April 2020, the Board will recommend to shareholders that a resolution is passed to approve payment of a final dividend for the year ended 31 December 2019 of 9.5 pence per share (£38 million), payable on or before 10 May 2020. Shares will be marked ex-dividend on 23 April 2020. This brings the total dividend payable for 2019 to £63 million and delivers 13% growth on 2018.

The Group's £50 million share buy-back scheme, which commenced in April 2018, concluded in January 2019. In total, 13.8 million shares were repurchased and are now held in treasury.

Other Information

New Accounting Standards

The impact of adopting IFRS 16 during the financial year – the new accounting standard for leases – is set out in note 8.3 to the consolidated financial statements. On transition, the Group elected to use the practical expedient available, allowing the standard to only be applied to those contracts identified as leases under the previous standards. As a result, adoption of IFRS 16 has not resulted in any retrospective changes to amounts recognised in the Group's annual consolidated financial statements for the year ended 31 December 2018.

Adoption of IFRS 16 has resulted in a reduction of operating costs in 2019 of £7.4 million, with the costs of leases now reflected as depreciation and interest charges.

Had the standard been applied in 2018, the equivalent reduction in operating costs for the year ended 31 December 2018 would have been £6.3 million.

Restatement of Comparative Financial Information

The Group consolidated financial statements (see page 133), include comparative information for the year ending 31 December 2018.

The 2018 comparatives have been restated, from those originally published, in respect of the following items:

- Finalisation of the opening values of assets and liabilities acquired in respect of the acquisition of the new generation assets on 31 December 2018. During 2019, we concluded a completion statement process and identified adjustments to fixed asset values totalling £4 million. The net effect of these changes was a £5 million increase in consideration payable and a £3 million reduction in goodwill. See note 5.1 to the financial statements.
- Correction of an historical error identified in respect of translation of fixed assets in our US-based business into the consolidated group financial statements. Application of the correct foreign exchange rates resulted in an increase in fixed asset carrying values at 1 January and 31 December 2018 of £34 million and £56 million respectively, with an equivalent amount recognised in the translation reserve. The correction has no impact on previously reported profit or cash amounts.

Andy Skelton
Chief Financial Officer

Remuneration at a glance

A new Remuneration Policy which aligns with our purpose of enabling a zero carbon, lower cost energy future and rewards sustainable long-term performance

"The Committee has undertaken a full review of the policy, taking into account shareholder feedback."

Nicola Hodson
Remuneration Committee Chair

Drax has continued to evolve since the last full review of the Directors' Remuneration Policy (the policy). The Group has a broader position in the energy market following the biomass conversion programme and the acquisitions in the Customers business and, more recently, in Generation with the successful integration of the hydro, pumped storage and gas assets.

To ensure that our approach to remuneration supports the strategy, the Remuneration Committee has undertaken a full review of the policy, taking into account the Group's strategy, shareholder feedback and the new provisions in the Corporate Governance Code.

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

The proposed new policy is designed to support delivery of our core business against a smaller number of stretching annual financial, operational and strategic targets, rewarding the delivery of growth, innovation and sustainability over the long term.

The proposed new remuneration structure is simplified, with annual bonus payments linked to these goals – a decision informed by engagement with shareholders.

In the long-term incentive, Total Shareholder Return (TSR) will be retained but the Group scorecard will be replaced with cumulative adjusted EPS. We feel this change will help to drive further shareholder value over the medium to longer term.

Attracting and retaining the right talent capable of delivering high quality business performance and growth is critical in achieving our strategy. We believe the new long-term incentive, focused on rewarding stretching performance, and with extended holding requirements will enable this.

I have met a number of our major shareholders and have incorporated their feedback. I welcome further feedback on the proposed policy.

You can read more about our new policy in our Directors' remuneration report on **page 91.**

The full Policy appears on page 91

Our purpose: enabling a zero carbon, lower cost energy future

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

Making sure that executive remuneration is closely linked to the performance of the Company	Simplifying the design and application of our executive remuneration programmes	Incentives earned for the delivery of stretching corporate, financial, strategic and operational targets	Attracting and retaining the right talent through market-aligned incentive opportunity	Aligning executive reward with shareholder value, over the longer term, through the new Long-Term Incentive Plan (LTIP)

Our new remuneration policy is aligned with the provisions of the 2018 Corporate Governance Code

Clarity

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

Simplicity

- Annual Bonus: Simplifying the bonus by focusing on a smaller number of financial and strategic measures, which provide greater clarity and simplicity
- Revised long-term incentive plan (LTIP). Replacing the scorecard element of the LTIP with cumulative adjusted EPS, which reflects the capability to deliver more stable earnings and the implementation of a metric aligned to shareholder interests in delivering growth

Risk

- Greater proportion of remuneration linked to the longer term, ensuring stronger alignment with the shareholder experience
- Increased shareholding requirement for Executive Directors during and post employment
- Malus and clawback provisions mitigate behavioural risks by enabling payments to be reduced or reclaimed in specific circumstances.

Predictability

- Transparent performance measures and targets make clear the possible range of remuneration outcomes and these potential outcomes are illustrated in the Directors' Remuneration Policy
- The Committee will continue to have discretion to override formulaic outcomes to ensure that remuneration appropriately reflects overall performance

Proportionality

- Performance measures are linked to the Company's strategy and aligned with long-term creation of value for shareholders
- Stretching targets ensure that payments are only made for strong corporate performance

Alignment to culture

- Bonus measures for all employees, including Executive Directors, are the same so that all employees are focused collectively on, and rewarded for, the delivery of strategic goals
- The annual bonus contains measures related to health and safety, people and reputation which underpin the Company's value and business strategy

Market context

Decarbonisation, electrification and flexibility

Globally the energy market in 2019 was marked by geopolitical tension, commodity prices which varied within a relatively stable range and, most importantly, rising awareness of climate change and its implications. The UK energy market is increasingly shaped by three major trends: the pace of decarbonisation of the sector is increasing; the need for electrification and more electricity is growing as the heat and transport sectors decarbonise; and the need for flexible sources of power is greater than ever.

Decarbonisation – In July 2019 the UK Government passed legislation requiring the UK economy to be net zero carbon by 2050. Tackling climate change is high in the public consciousness and widespread engagement and activism suggests that the UK public increasingly expects the Government and industry to work together to provide solutions. To date the power sector has led the way in the UK's efforts to decarbonise, and we believe it will have an even greater role in helping to realise net zero. In fact, to hit net zero by 2050, including the hard to decarbonise sectors such as aviation and agriculture, we envisage that the power sector will have to contribute negative emissions to the overall carbon balance.

Electrification – Decarbonisation on the scale outlined above is likely to require an absolute increase in the amount of electricity produced and consumed due to the electrification of heating and transport. The UK Government has signalled a commitment to end diesel and petrol car sales by the middle of the next decade, which is expected to increase the number of electric vehicles on the road and further add to the demand for electrification. Furthermore, a report from the Energy Transitions Commission (November 2018) estimated that electricity's contribution to global energy supply must rise from 20% to 60% by 2060.

Flexibility – Renewable power generation, driven by wind and solar, is increasing and is expected to provide over 80% of power by 2050. Delivered by smaller, more widely distributed, sources of generation this will mean the UK power grid will need to manage more volatility, and energy customers will increasingly need more control over the way they use or generate their own energy. The need for more flexible generation was thrown into sharp relief by the power supply issues on 9 August 2019 which saw over one million people go without power when 1.9GW of power failed in a short period of time.

On the next page we explore three aspects of Drax's response to changes in the energy market in more detail.

Towards a net zero carbon future

1 Meeting the net zero by 2050 target

Hitting net zero and limiting average temperature rises to less than 1.5 degrees Celsius will require huge investment. The precise path to achieve this goal is not yet certain for all sectors but it is becoming increasingly clear that carbon removal technologies and negative emissions will have a significant role to play. Organisations such as the International Panel on Climate Change and the UK's Committee on Climate Change agree that carbon capture technologies, in particular those which could lead to the removal of carbon from the atmosphere, will be important.

Our response

In 2019 Drax produced 13.7 TWh of renewable power and we have reduced our carbon footprint by over 85% since 2012. Coal accounted for only 4% of Drax's generation in 2019. In December 2019 we announced an ambition to become a carbon negative company by 2030. This means by 2030 Drax would be removing more carbon dioxide from the atmosphere than we are emitting.

2 Evolving mix of generation

The use of intermittent renewables, such as wind and solar, continues to increase. Flexible, thermal generation, such as coal and older gas plant generation continues to decline. This places additional pressure to balance the energy system. More distributed generation and the increase in intermittent renewables are driving increased levels of volatility in short-term prices and a need for assets to provide system support services. There is an increasing need for flexible sources of power which can provide services such as response, reserve, reactive power, black start and inertia.

Our response

Drax's portfolio of flexible generation assets (biomass, hydro and gas) provide these increasingly important balancing services. Drax now has generation assets with a capacity of 6.5GW distributed across Scotland, northern and south east England, and options to develop generation assets in Wales and the East of England.

Drax saw a 63% increase in the value derived from flexibility in 2019 compared to 2018.

3 Changing customer behaviours and expectations

The business-to-business energy market is highly competitive and customers demand access to both low cost and renewable power. Customers want more control of their energy in order to manage both cost and their environmental impact. Energy suppliers therefore need to provide the services which customers need. Our business customers increasingly seek to create value from their portfolios through the installation of their own generation capabilities, the provision of demand side response and energy trading.

Our response

Drax is now the third largest supplier of energy to businesses and supplies more of its customers with 100% renewable power than any of its competitors. Our investment in digital technologies is providing new opportunities, a reduced cost to serve and an enhanced customer experience.

In 2019 Drax launched a partnership with SES Water to provide an end-to-end electric vehicle offer, and a new partnership with Eaton allowed Drax to install batteries as an energy service on our customers' property. Services like this mean Drax can open up power and flexibility markets to more of our customers and ultimately generate value for both us and our customers through our trading expertise.

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

Working with our stakeholders

Engaging with our stakeholders is 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. In this section, we explain how we have identified our stakeholders and engaged with them to inform the way we operated our business in 2019.

Stakeholder relations

High quality engagement with the full breadth of our stakeholders is key to well-informed decision-making that pays appropriate regard to stakeholder views.

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 those stakeholders.

We have a comprehensive stakeholder engagement strategy. This is detailed in the Communications Strategy, which is presented to the Board at least annually and sets out our stakeholders and provides oversight of how the Group intends to engage with them.

Engagement with stakeholders informs both our day-to-day decision making, that ensures the smooth running of the business, and the strategic decisions which help set our direction for the years and decades to come.

Drax employs dedicated teams to engage both proactively and reactively with particular stakeholder groups. This includes a stakeholder relations team, an investor relations team, an internal relations team, a sustainable business team, a business ethics team, a media relations team and a digital engagement team.

Methods of engagement with stakeholders vary according to the issue at hand and the stakeholder concerned. The table on page 25 sets out the broad stakeholder groups that we identified and engaged with during 2019. It also highlights why we engaged, how we engaged and the areas of focus.

Companies Act, Section 172 Statement

Meaningful engagement with all our stakeholder groups supports our obligations under Section 172 of the Companies Act 2006.

On pages 24 to 29 we set out how the Board, and the Group more widely, has had regard to stakeholder interests when discharging its duty to promote the success of the Company.

On pages 49 and 50 we explain how we seek to maintain our high standards of business conduct.

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

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

To ensure clear feedback to the Board, the CEO regularly reports to the Board on key stakeholder relations activity, current issues and the relevant feedback received from interaction with stakeholders. This is supported by the Group Director of Corporate Affairs, the Corporate Affairs team and the relevant owners of direct stakeholder engagement.

Supporting the Board's duty to promote the success of the Company, as set out in Section 172 of the Companies Act 2006, Board and Executive Committee discussions include information on stakeholders likely to be affected by items under discussion and the potential impact. This ensures that the interests of all relevant stakeholders are considered in decision-making.

The Group Director of Corporate Affairs and the Group External Affairs Director presented a detailed report on stakeholder engagement in July 2019, to both the Board and the Executive Committee. This included the Board's response to the 42% vote against the political donations resolution at the 2019 AGM and the development of a new policy for political expenditure. You can read more about this on page 27.

In 2019, we developed a new Remuneration Policy. Nicola Hodson, the Remuneration Committee Chair, led the engagement with our shareholders, to gain their feedback on the proposed Policy. You can read more about the new Policy in the Directors' Remuneration Report on page 86.

As part of his induction, John Baxter visited 12 Drax sites in 2019, meeting with local management to discuss the business, in particular health and safety and plant management.

On appointment as Senior Independent Director in April 2019, David Nussbaum wrote to our largest shareholders to confirm his availability to meet with them. David also attended the Group's Capital Markets Day in November 2019 and met with a variety of investors.

Stakeholder	Why	How	Areas of focus
Communities and local authorities 	Drax is an active participant in the communities in which it operates. Good community relationships strengthen our licence to operate in those areas	We engage regularly with the communities around our businesses through supporting local initiatives, holding quarterly meetings and formal drop in sessions. For example, we invested £100,000 to support local initiatives via the Galloway Glens Landscape Partnership	Jobs and employment, local environmental impact, community initiatives and sponsorship
Customers 	Engagement allows us to better understand our customers' needs and how we can deliver continuous improvement in customer service	Our Customers business engages with our customers through channels including social media, our website, by phone and through our complaints procedure	Energy costs, customer service support, Third Party Intermediary relationships, sales and product details, energy efficiency, carbon footprint
Government and political bodies 	Constructive engagement with Government is key to Drax's purpose to enable a zero carbon lower cost energy future	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. For example, engagement with political stakeholders at Party Conferences through All-Party groups	Energy costs, Decarbonisation and Carbon Price Support, nationalisation risks, Impact of Brexit, Capacity Market, decarbonisation, climate change mitigation, biomass sustainability, Station ROC cap, development of policy to support BECCS, delivery of UN Climate Change Conference (COP26), unabated coal closure

Working with our stakeholders continued

Stakeholder	Why	How	Areas of focus
Non-governmental organisations (NGOs)	Engagement with NGOs helps us to challenge and enhance our practices on behalf of the wider society	We engage directly with NGOs on a wide range of topics from biomass sustainability through to carbon pricing. For example, our new Biomass Sustainability Policy addresses stakeholder issues	Biomass sustainability, coal phase out, potential gas phase out, climate change, Carbon price support
Regulators & network operators	Engagement with Ofgem and National Grid allows us to help deliver a secure, reliable network with the least cost	We engage directly with the relevant teams at Ofgem and National Grid. For example, we engage with National Grid and Ofgem over the growing need for financial mechanisms to support the provision of system services to the grid	Targeted Charging Review, Smart meter installation, energy trading compliance, environmental compliance, health & safety compliance, compliance with biomass sustainability policy, ROC compliance, and business ethics compliance, including data protection
Schools and colleges	Engagement with schools and colleges allows us to promote interest in science, engineering and the energy sector, with a particular focus on under-represented sections of society	We engage directly with schools and colleges and offer free access to our site tours for all students in term time. For example, Drax's Women of the Future event in November 2019 formed part of the Company's continuing efforts to encourage girls to study STEM subjects	Jobs and employment, local environmental impact, community initiatives and sponsorship
Shareholders and investors	Engagement allows us to understand their concerns and priorities and take these into account in our decision-making	We engage through a wide range of channels including our website, AGM, full-year and half-year results, a Capital Markets Day, an ongoing programme of investor relations meetings, engagement by the Chair of the Remuneration Committee on the proposed new Remuneration Policy, engagement on the new Political Engagement Policy and an investor audit	Drax strategy, capital allocation and dividend policy, reinstatement of the Capacity Market, share price performance, operational performance, remuneration policy, political engagement policy
Suppliers and contractors	Strong relationships with suppliers and contractors allow us to mitigate health and safety risk, promote high standards and ensure realistic expectations on project delivery	Drax's procurement, business ethics and sustainability functions engage directly with suppliers around key issues to ensure our values and our policies are upheld throughout our supply chain	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
Think tanks and academics	Engagement allows us to keep abreast of the latest thinking and likely policy developments across a range of areas	We engage with think tanks and academics through direct participation in events and round tables. We directly sponsor several PhDs at British universities. Established an Independent Advisory Board on sustainable biomass	Carbon pricing, CCS policy, biomass sustainability, future energy policy
Trade and industry associations	Active membership of a wide range of trade and industry associations allows us to keep track of best practice in our sector	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	Energy policy, reputation of energy sector, reputation of biomass sector, Ofgem's targeted charging review, Health & Safety best practice
Workforce	To create an engaging environment where our employees can thrive and people want to work	We maintain regular dialogue with our workforce through our MyVoice Forums, briefings, weekly updates and Q&A from our CEO and our annual survey	One Drax awards, benefits review, Beyond Coal, impact of transformation and restructure, future strategy, trade union relations, learning and development, career progression and wellbeing

Engagement over political donations policy

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. The engagement includes, for example, sponsorship of events at party conferences and facilitating visits to the areas in which we operate where such activity is closely tied to our business objectives. While this type of expenditure is typically classified as "commercial spend", Drax is mindful of the potential for these activities to be considered political, or to be included on the Electoral Commission Register.

At Drax's 2019 AGM, a majority of shareholders voted in favour of an increase in the authority which would allow for inadvertent political spending. However, 42% of shareholders voted against the proposed increase. This represented a significant fall in support compared to previous years so we implemented a systematic programme to engage with shareholders to understand how our approach could better align with our investors' expectations and address the concerns expressed at the 2019 AGM.

We reviewed initial feedback received from shareholders at the time of the AGM; analysed spend from political engagement activities; engaged a third party to conduct an external benchmarking exercise on political donations authorities; developed a new Political Engagement Policy (Policy), which included an aggregate expenditure cap of £125,000 reflecting initial shareholder feedback; developed a strategy for engagement with shareholders which was approved by the Board in July 2019, along with the new Policy; engaged with major shareholders both in writing and in person; considered further feedback received; published an update on our website in October 2019, within six months of the AGM, and published the new Policy on our website: **drax.com/about-us/drax-political-engagement-policy/**

Workforce engagement

Workforce engagement forums – MyVoice – were implemented in 2019. In determining the most appropriate engagement method to adopt, the Board considered that the workforce forums already in place in parts of the business provided a strong basis on which to develop and grow a Group-wide structure. It was therefore agreed to expand the existing infrastructure, create a more formal governance framework and provide appropriate resourcing to support the forums.

The forums are aligned to our operating model, representing the Pellet Production, Generation and Customers businesses, and Core Services. Each forum comprises up to 12 colleague representatives, including the chair, and meets as regularly as each forum feels is appropriate for local needs.

Each forum is made up of members drawn from nominated colleagues from across the relevant business unit, and each forum chair has been selected by membership vote. MyVoice forum members attended an independently facilitated two-day training course to develop the skills needed to be confident in fulfilling their role. Penny Small, Chief Transformation officer, is the Executive Committee sponsor.

The chairs of each of the forums come together quarterly to discuss workforce issues across the business. The chairs then meet with the Group Chair and CEO to discuss the key issues raised, with feedback from these meetings then shared with all forum members.

Matters discussed during 2019 include how effectively communication filters down from senior leadership to the wider business: wellbeing, including a greater focus on mental health; and living our values. In response to MyVoice feedback, the Safety, Health, Environment and Welfare Leadership Executive Committee, a sub-committee of the Executive Committee, has developed plans to address wellbeing across Drax Group, including mental wellbeing, which have been shared with the MyVoice forums to seek their input before rolling out in 2020.

Capital Markets Day

In November 2019 we hosted a Capital Markets Day to update investors on our strategy. Around 80 participants joined the Capital Markets Day presentation, reflecting a combination of existing shareholders, investors and lenders.

A key theme of the event was the business case behind our plans to increase our self-supply of pellets. The event included a presentation by Dr Rebecca Heaton, our Group Head of Climate Change, on the ways in which we ensure our biomass supply is sustainable (for more on this see page 34).

There was an opportunity for attendees to ask questions and, once the main presentations were over, meet with members of senior management, including the CEO, CFO, CEO Generation and Senior Independent Director. Questions focused on the long-term cost of biomass, biomass sustainability and the growing focus on Environmental, Social and Governance (ESG) matters.

Following the Capital Markets Day we hosted an ESG site visit at Drax Power Station to discuss biomass sustainability, the future of gas and the Just Transition.

All materials from the Capital Markets Day, together with a video of the presentations and the Q&A session, have been made available on the website at www.drax.com/investors/capital-markets-day

In 2019 around

80

participants joined the Capital Markets Day presentation

Ask the CEO

Each week employees are able to ask, anonymously, questions of the CEO on any subject. The CEO then sends a weekly email to all colleagues with his thoughts and highlights of the week followed by his responses to the latest questions.

In 2019 employees asked nearly 2,000 questions in "Ask Will". Subjects ranged from questions about strategy – with employees enquiring and challenging to gain deeper understanding of what we do and plan to do; climate change – including what Drax is doing to help to tackle climate change, what employees can do as individuals and Will's own views; 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 the development of a car-sharing programme, enhancements to the cycle-to-work scheme and the development of a Group-wide charitable giving programme.

In 2019 employees asked nearly

2,000

questions in "Ask Will"

Zero Carbon Humber

In 2019 Drax Group, Equinor and National Grid Ventures launched the Zero Carbon Humber campaign which commits them to work together to explore how a large-scale carbon capture use and storage (CCUS) and hydrogen production facility could be constructed in the Humber in the mid-2020s.

This initiative was the first significant response from industry following the UK Committee on Climate Change's Net Zero report which found that CCUS and hydrogen technology developed in regional industrial structures is essential if the UK is going to achieve a net zero carbon economy by 2050.

The programme means we will work with partners including the Humber Local Enterprise Partnership, local Councils, trade unions, politicians, and businesses across the region to deliver what could be the world's first net zero carbon region.

In September 2019, the partnership launched Capture for Growth, a roadmap to guide the delivery of the net zero industrial cluster on Humberside by 2040. The cluster could secure 55,000 jobs and capture 15% of the UK's current annual CO_2 emissions – the biggest contribution to the UK's climate commitments of any region.

At the UN Climate Change Conference in Madrid in December 2019 we announced our ambition to become a carbon negative company by 2030.

Biomass cost reduction

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

The key to delivering this objective is reducing the cost of wood pellets to a level where biomass generation is economic without subsidy.

Current biomass generation at Drax Power Station is supported under two separate schemes. Three biomass units receive support under the Renewable Obligation scheme and one unit receives support under the Contract for Difference scheme. The support under both these mechanisms ends on 31 March 2027. Today, without these schemes, it is uneconomic to produce renewable electricity from biomass.

The Group's objective is to reduce the cost of biomass by about 30% by 2027 – from around £75/MWh in 2019 to around £50/MWh. We believe that delivering this reduction will establish an economic model for unsubsidised biomass generation beyond 2027.

How will we do this?

Optimise existing capacity and generation

Drax currently uses around seven million tonnes of biomass, 1.4 million tonnes of which are self-supplied by our operations in the US Gulf.

As Drax's pellet production business is relatively immature – its first assets were commissioned in 2015 – there are significant opportunities to optimise, improve processes and drive greater efficiencies.

Current initiatives:

A co-location agreement with sawmill operator Hunt Forest Products next to the LaSalle pellet plant began production in February 2019 and provides:

- Low-cost sawmill residues
- Reduced transportation costs
- Reduced processing. As sawmill residues are a semi-processed material, we can reduce the number of steps in the production process, eliminating chipping, drying and debarking

A rail spur linking LaSalle to the regional rail network and our port facility at Baton Rouge was commissioned in May 2019. This increases transportation efficiency, economies of scale, reduces cost and carbon footprint.

Development of an enlarged chambering yard at the port of Baton Rouge, by the regional rail operator.

- Economies of scale in rail allowing 80-car train sets to operate from our LaSalle and Morehouse sites (previously 45-car train sets)

These initiatives and others have contributed to a 3% year-on-year reduction in cost per tonne, which represents a saving of $5 per tonne compared to 2018.

The larger projects will be accompanied by small projects to improve operational efficiency such as greater efficiency in the loading of road haulage, which saves 50 cents per tonne. Over time these improvements, when applied across the supply chain, have the potential to deliver significant incremental savings.

We have also identified plans to expand our existing three sites, LaSalle, Morehouse and Amite, by 350,000 tonnes over the next two years – an investment of £50 million. This will expand total capacity to around 1.85Mt, provide economies of scale and allow even greater utilisation of low-cost residues. These projects support lower cost wood pellets, while delivering an attractive return on capital, with payback before 2027.

Further expansion of self-supply capacity

Ownership of the supply chain provides the opportunity to reduce cost and create significant value, both pre- and post-2027. This is why Drax aims to increase self-supply capacity to five million tonnes by 2027.

We are considering the development of low-cost satellite plants in the US Gulf which would be able to use our existing infrastructure and sawmill residues to produce low-cost wood pellets. We believe this could add up to 0.5 million tonnes of new capacity.

We will continue to assess opportunities to build or buy new capacity to support this ambition – both in the US Gulf and elsewhere.

Expansion of the fuel envelope

When we converted Drax Power Station units from coal to biomass we took a conservative approach to boiler chemistry and decided to use sustainable biomass, such as US pine, because we knew it would mitigate the risk of boiler fouling issues.

To date, the operational experience has been positive and this has allowed us to now expand the fuel envelope and chemistries we will consider for renewable residues. This opens up the opportunity to consider a broader range of products and geographies which could have attractive cost characteristics while meeting our strict sustainability criteria.

Over the last decade, as part of our work on biomass, we have screened hundreds of different types of materials, and we're now using this knowledge of chemistries and operational characteristics to inform the expansion of the fuel envelope.

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

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 not proprietary trading, through which we aim to:

- manage internal supply, or short-term supply imbalances
- optimise internal and external supply as we build our self-supply capacity
- manage the different levels of demand we might see after 2027
- take advantage of opportunities in other markets as the global biomass market develops

Beyond 2027

Biomass cost reduction is a significant value opportunity, with attractive returns delivered pre-2027. With a lower cost base, we believe that biomass can be economic without subsidy. We also believe that reducing costs supports the development of bioenergy with carbon capture and storage (BECCS). The UK requires more renewables and BECCS if it is to achieve its target of net zero by 2050. These factors inform our expectations.

However, if biomass generation is uneconomic post-2027, we retain the option to sell to other international markets which we expect to grow in the coming decade. Being the largest low-cost producer in the world would give us strategic optionality and a competitive advantage in this regard.

How can we be the leading provider of system stability?

What's the issue?

Keeping the lights on requires not just electricity generation, but also a range of non-generation activities which help provide stability, flexibility and reliability. These system support services include:

Inertia – The stored energy in synchronous generators which slow down the rate of changes in system frequency,

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.

Reserve – The system operator must be able to ensure a balance between demand and generation at all times to prevent power cuts at times of peak demand. This increased and decreased generation is sometimes referred to as headroom and footroom respectively. Managing demand can also be used to the same effect.

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

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.

Historically, large coal- and gas-fired power stations were able to deliver these services as a by-product of producing reliable baseload electricity.

Now, these older coal and gas plants are being shuttered 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.

So as demand for system support services increases, there are fewer assets, such as large power stations, able to provide them. This is increasing the cost of operating the system and is a growing source of value for generators like Drax who can provide these services.

How can we do this?

Our focus as a generator is to provide the flexible, renewable and low carbon generation millions of households rely on. Drax operates a portfolio of sustainable biomass, hydro and gas assets which are well positioned, both geographically and operationally, to provide these services to the UK electricity market.

These assets include:

Sustainable biomass – Drax Power Station in north Yorkshire has 2.6GW of flexible renewable generation in the centre of the UK. The power station is well-situated to provide system support services to central and northern England and Scotland.

Pumped Storage Hydro – Cruachan Power Station in western Scotland has 440MW of fully flexible electricity generation that can be brought online in two minutes from rest. Cruachan has large-scale energy storage as well as a full suite of system support capabilities. The power station, which is capable of 15 hours of full-load generation and storage, is well located to support regional nuclear and offshore Scottish wind farms.

Gas – CCGT – Drax has 2GW of flexible generation at Damhead Creek, Shoreham and Rye House power stations in southeast England. These are well located in a key demand centre.

Demand-side response – System support is 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 we expect to provide demand-side response services to the electricity market – reducing demand at times of lower supply and vice versa.

Giving customers control of their energy

We provide all customers with the ability to control and optimise energy use, cost and source.

Through the provision of insight, digitisation, and services, we provide all customers with the opportunity to control and optimise energy use, cost and source.

Demand-side Response

Haven Power is the leading challenger brand provider of renewable energy and services to Industrial and Commercial customers. Haven's large portfolio of industrial and commercial customers provides opportunities to provide system support services to the energy market and create value for 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 off, non-essential equipment at times of peak demand depending on the customer's needs.

Haven installs its technology to turn down or off customers' energy demand in peak times to reduce costs, and is designed to always work within the constraints set by the customer. For example, turning down an industrial fridge or freezer where the ambient temperature can remain within certain limits even if it isn't running at full blast for the whole time. It's 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 tariff.

By reducing demand, typically at times of peak demand, which are also periods of higher carbon intensity, Drax Group is supporting the energy system and delivering the Group's purpose of enabling a zero carbon, lower cost energy future.

Electric Vehicles (EVs)

Drax is developing an end-to-end bundle aimed at making it easier for companies to switch to EVs. SES Water was the first partner to trial this bespoke package, which includes charging infrastructure, operating software, EV leasing, and the renewable electricity needed to power them.

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.

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.

Customers are asking us about technologies to make their sites more efficient and sustainable, so we're reacting to that. Lots of our customers want to improve the resilience of their sites. This area will continue to grow.

Q&A

with Dr Rebecca Heaton, Group Head of Climate Change at Drax

Why sustainable biomass is good for forests and the climate

There's widespread recognition among leading science-based organisations, such as the UN's Intergovernmental Panel on Climate Change, that sustainable biomass has a vital role to play in meeting climate targets. Sustainable biomass has three big benefits: it generates renewable electricity, supports forest growth and is a route to negative emissions using BECCS. At Drax, replacing coal with biomass to generate power has already delivered carbon savings of more than 80% since 2012.

Generation of electricity using biomass functions as a closed loop carbon system. When trees grow, they absorb carbon dioxide. Emissions from using biomass to generate electricity are balanced by the absorption of CO_2 from the forests that are growing. This differs from burning coal where the emissions remain in the atmosphere.

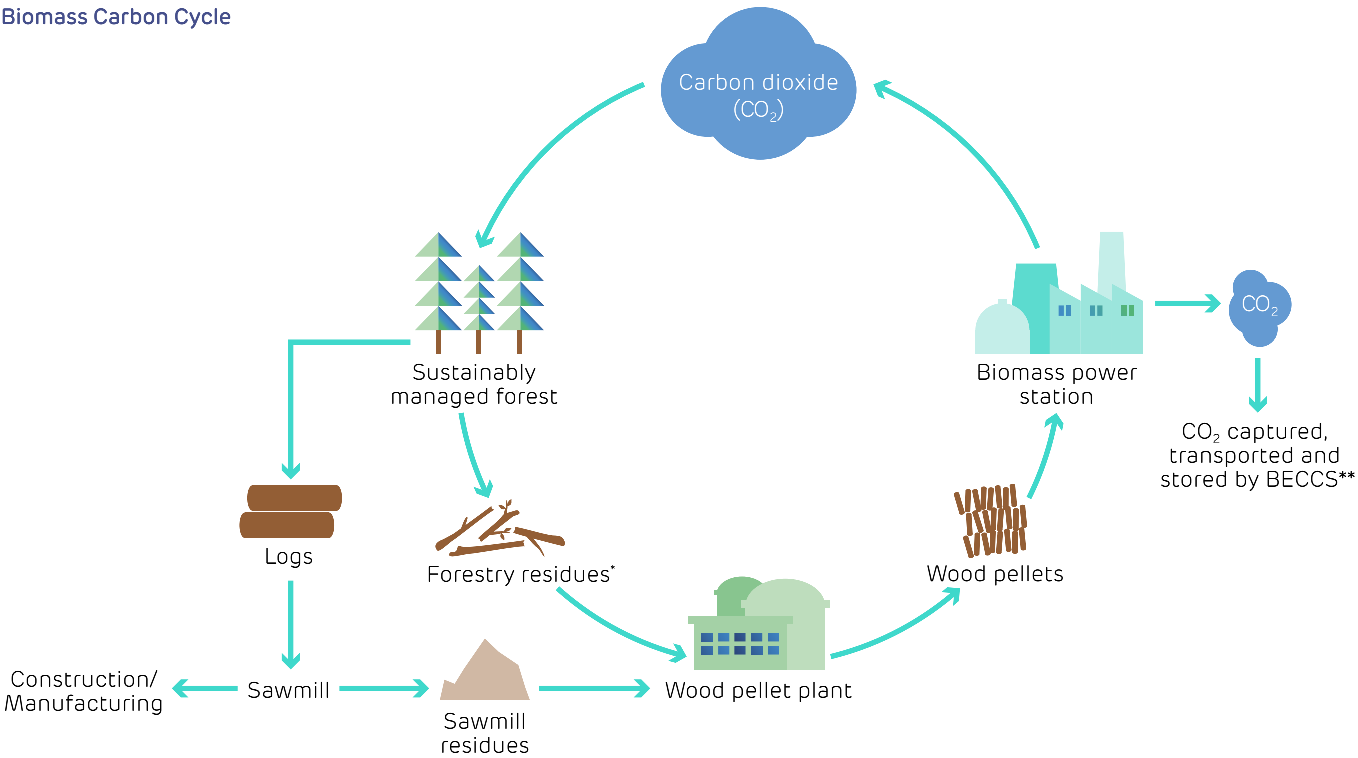
It's important to remember that the carbon benefits are only realised if the biomass is sustainable. There are many criteria for sustainable biomass, including taking wood from managed forests – those that are replanted after harvesting, not causing deforestation, or cutting old-growth forests or harvesting wood from protected areas.

We're committed to sustainable biomass which is why our Responsible Sourcing Policy for Biomass goes beyond existing regulations, and commits us to only take feedstocks that the science says delivers climate benefits. Sustainable biomass helps to provide a market for the low-value residues from a working forest.

This creates an incentive for landowners to have more forests under management, contributing to greater forest growth and more CO_2 captured. Sustainably managed forests are typically healthy, support biodiversity and can absorb more carbon than unmanaged forests.

We can see evidence of this in the US, where we source almost two thirds of our pellets. According to US Forest Service data (Forestry Inventory Analysis database, November 2019) there is an average annual surplus of nearly 200 million m^3 of new growth compared to harvesting. In Canada, in 2017, the surplus of growth compared to harvesting was 63 million m^3 (National Forestry Database, 2017).

Biomass Carbon Cycle



* Forestry residues includes branch tops and bark, thinnings and low-grade roundwood. For more information, see Sourcing Sustainable Biomass on page 41

** BECCS is a bioenergy, carbon capture and storage system, with CO_2 resulting from power generation captured and stored in an aquifer under the North Sea

See more online at www.vimeo.com/244685668

Forests are managed for multiple objectives, including biodiversity, water management and timber production. The main timber product from a forest is saw logs. These large, high-value logs produce wood products for construction or furniture, ending up as long-term carbon storage. Around half of a saw log going into a sawmill comes out as sawdust. In some parts of the world, that is simply burned or ends up in a landfill.

Almost 40% of our wood pellet feedstock is, in fact, those sawmill residues. Of the rest, around 30% is thinnings, branches, tops and bark and 30% low-grade roundwood.

Around a fifth of the material we use to make pellets is thinnings, where trees are taken out at various intervals to allow the remaining trees to grow bigger. Thinning also stops pests, diseases and fire from ripping through the forests and supports biodiversity. Providing a market for these thinnings helps these forests thrive.

Q How do you know that the wood Drax uses is sustainable?

Everything we do is independently audited and we abide by all the current requirements for sustainable biomass.

The UK and EU have robust regulatory frameworks for sustainable biomass. Drax's requirements on biomass sustainability exceed these rules. We also use external certification through the Sustainable Biomass Program (SBP), which sets a standard that is audited by independent third-party auditors.

It's also about choosing the right feedstocks in the first place – something we're committed to ensuring.

> "We're committed to sustainable biomass which is why our biomass sourcing policy goes beyond existing regulations."

Q Why do you ship wood from the US and Canada to the UK?

Biomass is best sourced from vast forests with established forest industries which generate a lot of low-value residue. North America, with its well-established and sustainable commercial forest industry, meets those conditions. That's why we bring a lot from the US. We transport the pellets mostly by train and ship, with a small proportion of the journey using fuel-efficient trucks. We track and manage all the journeys to ensure the supply chain is as low carbon as possible, and report the final number for our biomass supply chain on page 43, which is independently audited.

We're also involved in various transportation initiatives such as the Smart Green Shipping Alliance.

Q Tell us about the new Responsible Sourcing Policy for Biomass

As a significant user of sustainable biomass for energy we wanted our policy to go beyond existing legislation and requirements.

The policy we published in 2019 (available here www.drax.com/sustainability) draws on recommendations made by Forest Research, the research agency of the Forestry Commission, in a report commissioned by the European Climate Foundation. Alongside the new policy, we also launched an Independent Advisory Board of scientists, who will keep us at the forefront of the latest scientific thinking and best practice on biomass sourcing.

Our policy has four parts to it. First, we commit to only use feedstocks which the science says delivers climate benefits. This means we won't use biomass that drives harvesting decisions that would adversely affect the long-term potential of forests to store carbon. Second, we will protect the natural environment – for example, by not causing deforestation. Third, we will support people and communities. Finally, we committed to carry out research, outreach and intervention, which includes active engagement with the communities where we operate and NGOs.

Q How will the Independent Advisory Board (IAB) work?

The six-member IAB is chaired by the UK government's former chief scientific adviser Professor Sir John Beddington. The IAB will help to keep our sourcing guidelines under regular review so they can evolve as the science develops. You can read more about the IAB on page 41.

We expect the IAB to challenge us every step of the way, and believe it's right that companies using biomass go beyond existing regulations to ensure that it makes a positive contribution to our climate and the environment.

Q What are the next steps?

A big part of our work in 2020 is to increase transparency on our biomass sourcing and its impacts. We will provide that evidence by using big data and satellite images to evaluate the impact on forest cover, forest carbon and biodiversity in areas that supply Drax's pellet mills (see Healthy Forest Landscapes on page 44).

We are working with non-profit groups and NGOs, including Earthworm Foundation and biodiversity-focused group NatureServe, to understand the social and economic impacts and benefits in the areas where we source our biomass.

In 2020, we will broaden our work with Earthworm on our healthy forest landscapes programme. We will also expand the pilot that evaluates the impact on forest cover and biodiversity to more sites and publish findings from our initial work.

Ensuring the sustainability of the biomass we use is vital if we're to move to the next stage and deliver negative emissions using bioenergy carbon capture and storage while continuing to supply flexible, renewable power to the UK grid.

Dr Rebecca Heaton
Group Head of Climate Change

Achieving a positive long-term economic, social and environmental impact together.

Additional information on our approach to sustainability is available at **www.drax.com/sustainability**

At Drax, being a sustainable business means achieving a positive long-term economic, social and environmental impact as part of the Company strategy.

Our Priorities

We have identified non-financial priorities that are material to our business and important to our stakeholders. Our 2019 progress and performance are reported under each priority area as follows:

Our Impact on the Sustainable Development Goals

The 17 United Nations' Sustainable Development Goals (SDGs) are a blueprint to achieve a better and more sustainable future for everyone. We have identified six SDGs and associated targets where we can make the greatest positive impact. Drax is a participant of the United Nations Global Compact (UNGC) and sits on the UNGC UK Advisory Group.

Environment

Carbon Emissions **page 38**
Environmental Impact **page 40**
Sourcing Sustainable Biomass **page 41**
Healthy Forest Landscapes **page 44**

Affordable and Clean Energy

We contribute to the share of renewable energy in the global energy mix.

Climate Action

We contribute to SDG 13 to take action to combat climate change and its impacts across our business.

Life on Land

We promote the implementation of sustainable forest management in all working forests that we source from.

Social

People and Culture **page 45**
Health, Safety and Wellbeing **page 46**
Positive Social Impact **page 48**

Industry, Innovation and Infrastructure

We contribute to investment in infrastructure and innovation in the energy sector, progressing the technological capabilities of our sector and contributing to research and development spending.

Sustainable Cities and Communities

We contribute to SDG 11 to make cities and human settlements inclusive, safe, resilient and sustainable.

Partnerships for the Goals

We proactively collaborate and engage with stakeholders and seek partners to achieve our purpose of enabling a zero carbon, lower cost energy future. This directly enhances the global partnership for sustainable development to support the achievement of the Goals.

Ethics and Integrity

Ethics and Integrity **page 49**

Our activities are underpinned by ethics and integrity. We are committed to conducting business responsibly, in accordance with our values and all relevant laws and regulations. We believe in doing the right thing in all our business activities, wherever we operate.

Environment

Carbon Emissions

Drax has a significant role to play in the transition to a low-carbon economy and this informs our purpose to enable a zero carbon, lower cost energy future. We are committed to supporting the UK government to achieve net zero carbon emissions by 2050.

Managing Climate Change Risks and Opportunities

We are committed to the identification, 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).

In 2019, we responded to the CDP Climate questionnaire and received a score of C. We introduced climate change as a new principal risk category (see Principal Risks and Uncertainties on page 54).

Our Negative Emissions Ambition

At the UN Climate Change Conference COP 25 in December 2019, Drax announced our ambition to become carbon negative by 2030. We have signed up to the Science Based Targets initiative to further assure that our target is aligned with climate science.

Using technologies such as Bioenergy with Carbon Capture and Storage (BECCS), Drax aims to remove more carbon dioxide from the atmosphere than it produces, creating a negative carbon footprint for the Group. Our leading ambition is only achievable with an effective negative emissions policy and investment framework for technologies such as BECCS.

Innovating to Decarbonise our Business

Carbon capture and utilisation is part of our business strategy and we made progress on this work in 2019.

Drax has set up a Bioenergy Carbon Capture and Storage (BECCS) demonstration pilot at Drax Power Station with C-Capture, a start-up from the University of Leeds. We also secured funding from the UK Government to explore the feasibility of building a second carbon capture pilot at Drax Power Station, using molten carbonate fuel cells as a technology for capturing carbon dioxide.

> "Drax's ambition is to be carbon negative by 2030. Having pioneered the use of sustainable biomass, Drax now produces 12% of the UK's renewable electricity. With the right negative emissions policy, we can do much more, removing millions of tonnes of emissions from the atmosphere each year."
>
> **Will Gardiner**
> Group CEO

In September 2019, together with Equinor and National Grid Ventures, we launched the Zero Carbon Humber Campaign (www.zerocarbonhumber.co.uk) to develop the first zero carbon industrial cluster in the UK by 2040.

Carbon Emissions Performance

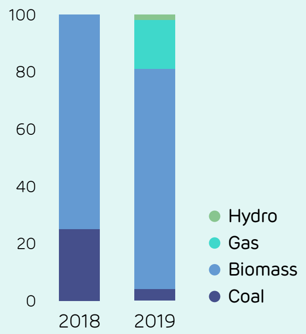
Group total carbon emissions (Scope 1 and 2) fell 47% between 2018 and 2019. This reflects a reduction in coal generation and an increased share of generation from biomass, gas, hydro and pumped storage. The reduction in carbon emissions at Drax Power Station had the most significant impact. With four of the six generating units now converted to biomass from coal, emissions from Drax Power Station have fallen from 22.7 million tCO_2 in 2012 to below 1 million tCO_2 in 2019.

Significant emissions reduction activities undertaken in 2019 included the installation of a new high-pressure turbine on Unit 2 at Drax Power Station, at a cost of £12.5 million, to improve its efficiency. We have also improved the energy efficiency at some of our Customers business facilities, with measures such as installing solar panels, LED lighting and battery storage.

Generation Technology Mix

From 2018 to 2019, the mix of technologies in the Generation business diversified as we expanded our portfolio of dispatchable, flexible assets to support the energy system's growing use of intermittent renewable energy.

Share of Actual Generation Output by Technology Type (%)



	Unit	2019	2018	2017
Carbon Emissions				
Generation Carbon Emissions[1]	$ktCO_2$	**1,958 ***	4,139 §	6,215 §
Group Total Scope 1[2]	$ktCO_2e$	**2,049 ***	4,233 §	6,296 §
Group Total Scope 2[3]	$ktCO_2e$	**322 ***	252 §	209 §
Group Total Scope 1 and 2	$ktCO_2e$	**2,371 ***	4,484 §	6,505 §
Proportion of Group emissions within the UK	%	**93.2**	96.5	98.5
Biologically Sequestered Carbon Emissions (Biomass Combustion)				
Biologically sequestered carbon[4]	$ktCO_2e$	**12,795**	13,019	12,212
Total Energy Consumption				
Group total energy consumption	kWh	**46,025,306,198**	50,269,781,751	–
Group total energy consumption within the UK	kWh	**43,852,816,521**	48,075,425,472	–

Notes
Greenhouse gas emissions (GHGs) are reported against a criterion of operational control. This means emissions from all sites that are wholly owned by Drax or where Drax has operational control of the emission pathway through the opportunity to select and manage its own suppliers. GHGs are reported in units of carbon dioxide equivalent (CO_2e). Conversions from non-CO_2 GHGs use the most up-to-date published IPCC global warming potentials for a 100-year period without climate carbon feedbacks. A materiality threshold of 75 tCO_2e/year has been applied.

(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) Scope 1 covers all direct emissions from our own business operations, across all sites
(3) Scope 2 covers all indirect emissions associated with our electricity and heat consumption, across all sites
(4) The biogenic CO_2 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
§ 2017 and 2018 data has been recalculated to reflect an update to the materiality threshold applied
* Limited external assurance using the assurance standard ISAE 3000 for 2019 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

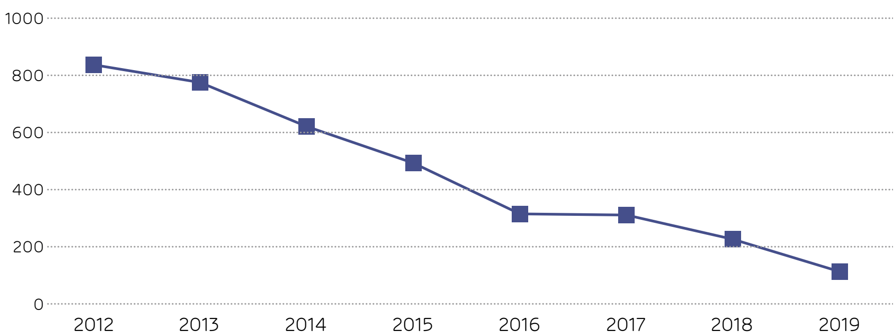
Carbon Intensity Performance

The expansion and diversification of our generation portfolio to include hydro, pumped storage and gas, alongside reduced coal generation and increased biomass generation, has reduced the carbon intensity of our total generation by 50% in 2019 compared to 2018.

	Unit	2019	2018	2017
Carbon Intensity				
Generation[5]	GWh	**17.3**	18.3	20.0
Generation emissions per GWh of electricity generation	tCO_2/GWh	**113**	226	311
Group emissions per GWh of electricity generation	tCO_2e/GWh	**137**	245	325

(5) Excluding Cruachan Power Station which utilises electricity import for pumping to balance the grid

Generation[6] Emissions Intensity (tCO_2/GWh)



Notes:
(6) 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)

Zero Carbon Energy Supply

Our Customers business is committed to sourcing the renewable power that our customers want. We provided over 150,000 UK businesses with 100% renewable electricity, making our Customers business the largest renewable electricity supplier to UK business in the Ofgem compliance period ending in 2019.

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

Building a sustainable business continued

Environmental Impact

We are committed to managing, monitoring and reducing the environmental impact of our operations and the Group environment policy outlines our approach.

The Environmental Management Systems (EMS) at our Generation sites in the UK are certified to ISO 14001. The EMS at our Pellet Production sites in the US are based on the principles of, but not certified to, ISO 14001.

We self-reported one environmental permit breach at Drax Power Station in 2019. The regulator categorised it as having no impact on human health, quality of life or the environment.

Emissions to Air

Our work in 2019 focused on future compliance with the requirements of the EU Best Available Techniques reference documents (BREFs), which will further reduce emission limits, entering into force in 2021.

At Drax Power Station, emissions of nitrogen oxides, sulphur dioxide and particulates continued to trend downward. This can be partially attributed to a reduction in total generation, as well as the first full year of operation of Unit 4 since its conversion to biomass from coal.

Our UK gas generation and biomass production sites are also permitted for releases to air by the Environment Agency and Scottish Environment Protection Agency respectively. 2019 emissions to air were in line with expectations for the generation and production levels achieved.

Water Use

Water is utilised at our thermal generation sites for operational and cooling processes, and losses occur through steam and ancillary processes. Procedures are in place to manage water system efficiency and usage and to ensure that all discharge consent limits are met.

The Galloway and Lanark Hydro Scheme utilises abstracted water that is returned to the environment immediately.

At Cruachan Power Station, water abstracted from the upper reservoir is used for generation and water abstracted from Loch Awe is used for pumping.

	Unit	2019
Thermal Generation Emissions to Air by Fuel Type		
Biomass Generation[1]		
Nitrogen Oxides	t	**7,104**
Sulphur Dioxide	t	**986**
Particulates	t	**415**
Coal Generation[2]		
Nitrogen Oxides	t	**746**
Sulphur Dioxide	t	**601**
Particulates	t	**35**
Gas Generation[3]		
Nitrogen Oxides	t	**625**
Carbon Monoxide	t	**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

	Unit	2019
UK Biomass Production[4] Emissions to Air		
Nitrogen Oxides	t	**4.76**
Sulphur Dioxide	t	**1.68**
Carbon Monoxide	t	**1.76**
Particulates	t	**0.04**

(4) UK Biomass Production covers Daldowie Fuel Plant

	Unit	2019
Thermal Generation[5] Water Use		
Total water abstracted	m^3	**177,215,811***
Total water discharged	m^3	**167,953,231***

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

	Unit	2019
Hydro Generation[6] Water Use		
Total water abstracted	m^3	**3,370,272,574***

(6) Hydro Generation covers Galloway and Lanark Hydro Scheme

	Unit	2019
Pumped Storage[7,8] Water Use		
Total water abstracted from reservoir	m^3	**263,015,328***
Total water abstracted from Loch Awe	m^3	**207,277,224***

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

Notes:
'Total water abstracted' covers water data reported to the Environment Agency and Scottish Environment Protection Agency as abstraction.

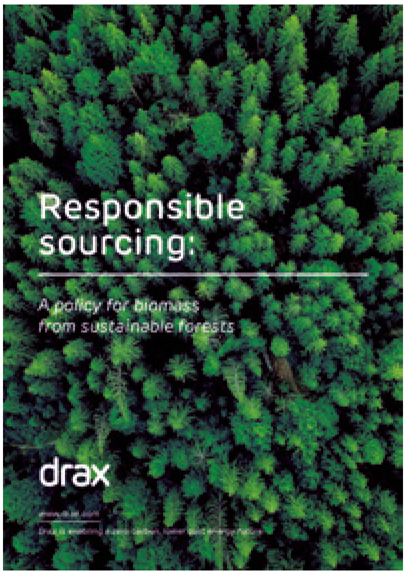
* Limited external assurance using the assurance standard ISAE 3000 for 2019 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Sourcing Sustainable Biomass

At Drax we use wood pellets sourced from sustainably managed working forests and residues from forest industries to generate low-carbon, renewable electricity. We ensure our biomass is sustainable and compliant with appropriate legislation through a combination of proactive supplier engagement, third-party certification schemes and our own audits and checks.

The 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**.

Responsible Sourcing Policy for Biomass



In 2019, we published Responsible Sourcing: A policy for biomass from sustainable forests, available at **www.drax.com/sustainability/responsible-sourcing/**. This Responsible Sourcing policy for biomass strengthens our approach in line with recommendations made by a report commissioned by the European Climate Foundation. 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.

The Responsible Sourcing policy outlines our forest biomass sustainability commitments:

1. We will reduce carbon dioxide emissions
We are committed to ensuring the biomass we use makes a positive contribution to tackling the climate change crisis and fulfilling the UK's Paris Agreement targets.

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.

Independent Advisory Board

During the year, we established an Independent Advisory Board (IAB) of scientists and leaders in the field of sustainability to provide impartial advice and guidance. The IAB will advise on feedstock options, forest science and how Drax can optimise carbon benefits. It will also give advice on the role of sustainable biomass in Drax's climate change mitigation activities and in supporting the transition to a net zero energy system.

The advice 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.

The independent group is chaired by Professor Sir John Beddington, former UK government Chief Scientific Adviser. It will meet twice a year and will provide feedback and make recommendations on Drax's sustainable biomass approach and performance, which will be published on our website.

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

Sir John Beddington,
IAB Chair

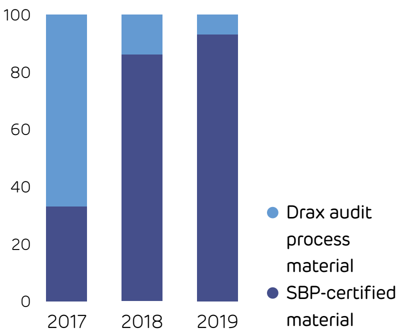
Building a sustainable business continued

Our Sustainable Biomass Sourcing Requirements

At Drax, all our biomass suppliers must demonstrate that all necessary sustainability and legal requirements are met. Supplier compliance is evidenced either by our own checks and third-party audits or by Sustainable Biomass Program (SBP) certification. Drax was instrumental in the creation of SBP, which is a certification system for woody biomass. We encourage our suppliers to progress from our own checks and third-party audits commissioned by Drax towards SBP certification. In 2019 93% of the woody biomass we sourced was SBP certified, an increase compared to 86% in 2018 and exceeding our target of 92% for 2019.

No concerns regarding biomass supplier sustainability compliance were raised or escalated to the Group Ethics and Business Conduct Committee or the Executive Committee in 2019.

Average % SBP-certified material



Maintaining Forest Carbon Stocks

We are committed to sourcing sustainable biomass that contributes to the long-term maintenance of growing stock and productivity and that helps to improve the health and quality of forests at a local and regional level.

We monitor forest inventory data and local industry trends, in addition to certification and our auditing process, to determine whether biomass demand is having an impact on regional forest industries. This allows us to make informed sourcing decisions.

Drax has recently completed the first phase of our planned Catchment Area Analysis reports at the Drax Biomass Amite and Morehouse Bioenergy Plants in the US South and also for our suppliers in Estonia. These reports are available on the Drax website. The aim of this analysis is to evaluate the trends occurring in the forestry sector around the plant and to determine what impact the pellet mill may have had in influencing those trends, positively or negatively. This includes the impact on harvesting levels, carbon stock, growth rate, wood prices and the production of all wood products.

The "total growing stock" is the amount of wood stored in the forest. Between 2006 and 2018 the total growing stock surrounding the Drax Biomass Morehouse Bioenergy Plant increased by 68 million metric tonnes.

Biomass Sources in 2019

In 2019 our biomass was sourced from established, responsibly managed working forests in the US South, Europe, Canada, South America and Russia. To enhance our biomass supply chain transparency, we provide detailed supply chain information at **Drax ForestScope http://forestscope.info**.

Drax Power Station Biomass Pellet Feedstock Sources in 2019

Country	Sawmill Residues (t)	Branches, Tops and Bark (t)	End of Life Timber (t)	Thinnings (t)	Low Grade Roundwood (t)	Short Rotation Forestry (t)	Agricultural Residues (t)	Total (t)
USA	1,345,906	710,231	231	1,393,377	1,126,435	–	32,625	**4,608,805**
Canada	956,170	127,996	–	–	31,034	–	–	**1,115,199**
Latvia	273,081	106	–	3,535	343,592	–	–	**620,315**
Portugal	19,144	5,465	3,450	44,600	91,500	2,524	–	**166,684**
Estonia	55,267	4,280	–	61,261	14,210	–	–	**135,018**
Russia	45,715	7	–	–	–	–	88,776	**134,498**
Brazil	–	–	–	–	115,700	–	–	**115,700**
Belarus	71,387	<1	–	–	5,047	–	–	**76,434**
UK	–	–	–	–	–	–	30,920	**30,920**
Lithuania	17,524	<1	–	954	–	–	–	**18,478**
Other European	5,902	<1	–	–	–	–	22,761	**28,665**
Total	2,790,096	848,087	3,681	1,503,728	1,727,518	2,524	175,082	**7,050,717**

Biomass Supply Chain Emissions

We monitor each step in the supply chain to ensure our requirements are met and greenhouse gas (GHG) emissions associated with producing our biomass are calculated according to 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 285 $kgCO_2$-eq/MWh of electricity, reducing to 200 $kgCO_2$-eq/MWh of electricity in 2020. In 2019, our average biomass supply chain GHG emissions amounted to 124 $kgCO_2$-eq/MWh* of electricity. This is lower than our 2018 average biomass supply chain GHG emissions and 56% less than the UK Government limit.

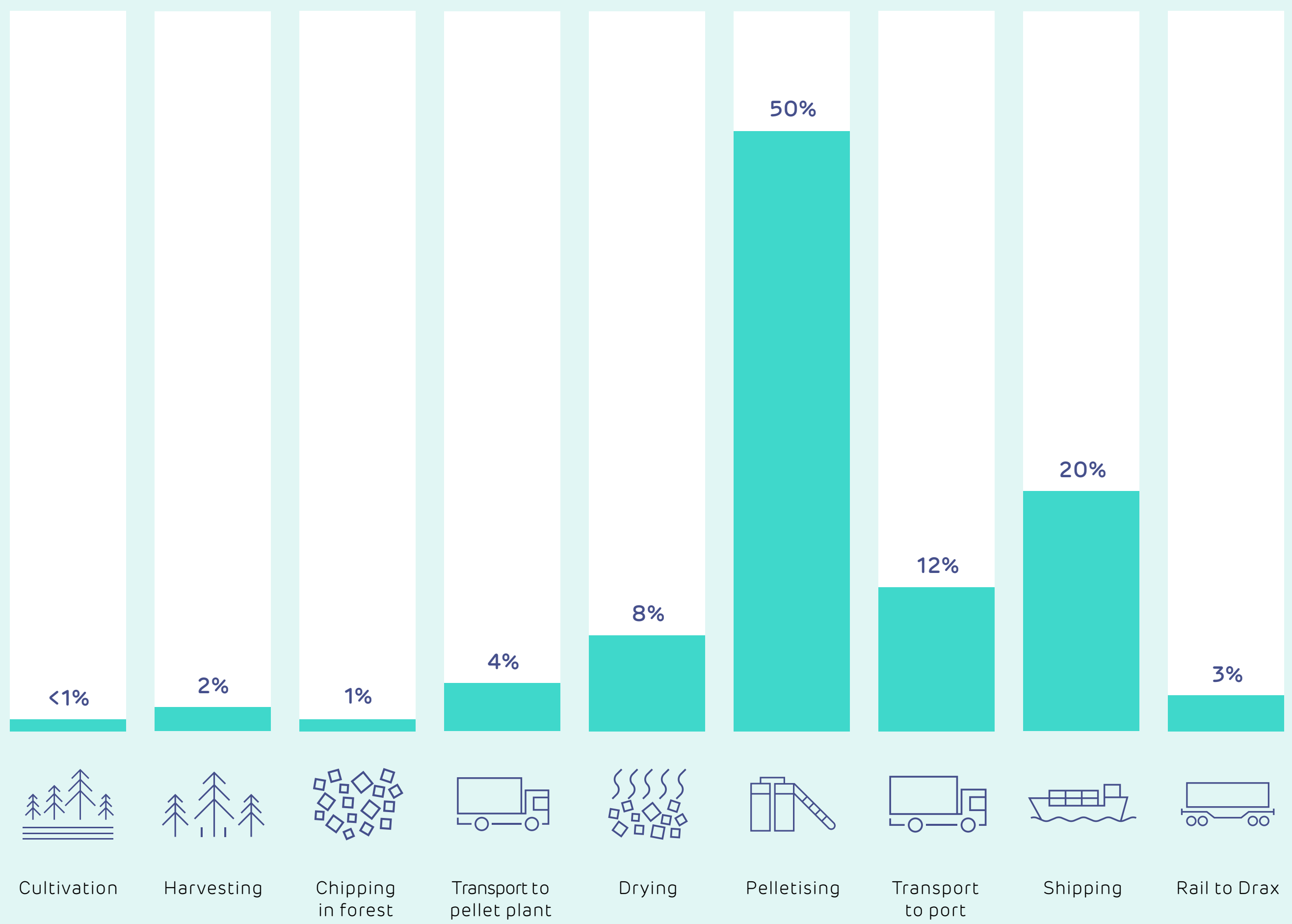
* Limited external assurance using the assurance standard ISAE 3000 for 2019 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Additional information on our biomass sourcing is available at **www.drax.com/sustainability**

Drax Power Station Average Biomass Supply Chain GHG Emissions

	Unit of Measure	2019	2018	2017	2016	2015
Average Biomass Supply Chain GHG Emissions	$kgCO_2$-eq/MWh	**124 ***	131	130	122	114

Drax Power Station Average Biomass Supply Chain GHG Emissions in 2019 (%)



Building a sustainable business continued

Healthy Forest Landscapes

Our Partnership with Earthworm

Drax has partnered with Earthworm Foundation (formerly The Forest Trust) to support our approach to responsible biomass sourcing. Earthworm are not-for -profit, responsible sourcing experts, experienced in working with corporate entities developing landscape scale approaches in similar commodity supply chains.

The core programme we are jointly pioneering has been called Healthy Forest Landscapes.

Healthy Forest Landscapes Programme

At Drax, our approach to sourcing biomass responsibly is governed by environmental regulation, our Sustainability and Responsible Sourcing policies, our own checks and third-party audits or Sustainable Biomass Program (SBP) certification.

We recognise such traditional approaches and certification audits are detailed and, although we publish summaries of the output, are not readily digestible by a wide, interested audience. The Healthy Forest Landscapes programme aims to provide further objective and quantified transparency and assurance on our ecological, social and economic impacts in our supply catchment areas. The programme is piloting an approach to capturing remotely sensed data, and other credible origin publicly available information, and sharing the arising metrics that consider the entire source catchment area we are operating in – albeit that the Drax demand is only one small part of a larger, dynamic market for wood in each catchment.

Alongside this, we are looking for opportunities to proactively intervene, as appropriate and feasible, in those instances where changes in our sourcing landscapes have been identified.

Developing our Programme Approach

During the year, we undertook a stakeholder engagement process with Earthworm in the source catchment area around one of our pellet mills and with other stakeholders. We identified and confirmed four key forest biomass source catchment metrics to be used as common indicators across all our sourcing geographies. These are: forest cover, biodiversity, carbon stock and socio-economic wellbeing.

Looking Ahead

During 2020, we will continue piloting technology options in other geographies with third party providers. We aim to be in a position to share more widely the selected technology, programme challenges and more detailed output during 2020. We expect to socialise the approach with other purchasers of wood products derived from the same geographies to test the appetite for broader collaborative adoption.

Over the next four years, we aim to roll out the Healthy Forest Landscapes programme for all our wood source catchment areas. Ultimately Drax will be able to track and report these key metrics for our specific and aggregate impact on key dimensions of forest landscape health in a very timely and accessible way.

Piloting Technology Options

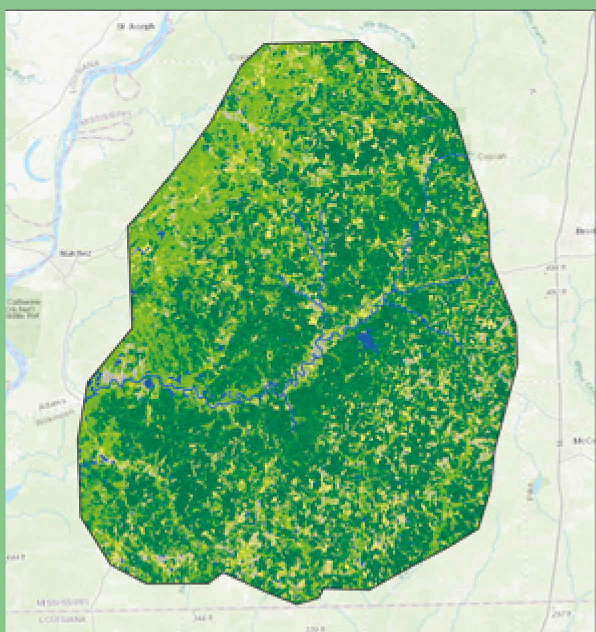
In 2019, we began to pilot technology options to establish how best to gather the data needed to provide credible and replicable measures for our identified metrics.

We piloted the use of big data and remote sensing in the source catchment area of our Amite BioEnergy Plant in Mississippi, USA. Big data and automated interpretation of satellite imagery was applied to develop a time series from before our plant started operation of forest cover, biodiversity and carbon stock metrics.

Forest Cover Maps

The forest cover analysis is arguably the simplest, of the metrics.

The mapping captures the changes in forest cover across the Amite source catchment area from 2010, before the Amite BioEnergy Plant was commissioned in 2015, until 2018. Analysis then shows forest cover, in aggregate, modestly increasing over the time series – supporting our commitment and other publicly available data that there has been no deforestation in the catchment. Detailed analysis shows a working landscape where forests are harvested and replanted, as we'd expect, in a continuous cycle. Satellite data supports on the ground analysis (Forest Inventory and Analysis data) that also indicates an increase in forest cover of 1% (4,000 ha) since the plant opened.



Land Cover Classification for the Amite BioEnergy fibre catchment 2018

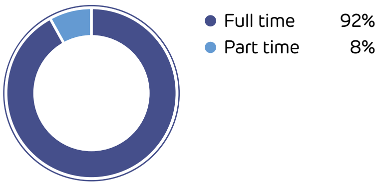
Land cover
- Coniferous
- Deciduous
- Low
- Open

Hydrology
- Watercourse
- Waterbody

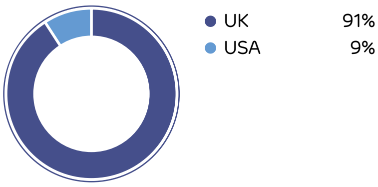
Data Sources:
a) Land cover classification is based on Sentinel-2 imagery using random forest classification, Hatfield, 2019.
b) Background Topographic Map, Esri Online Service.

Social

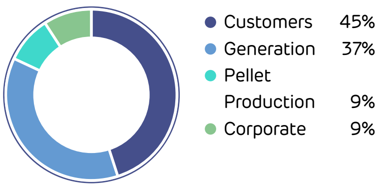
Employment contracts*



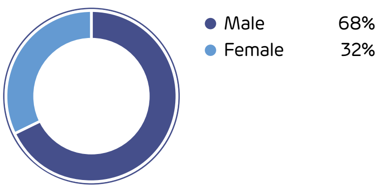
Employees per country*



Employees per business unit*



Employment gender*



* Limited external assurance using the assurance standard ISAE 3000 for 2019 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

Further information on gender diversity is available in the Corporate Governance Report on **page 69**

People and Culture

We work to maintain consistently high standards in our employment practices and all our colleagues benefit from policies to support them in the workplace. These include policies designed to enable different work and lifestyle preferences, processes for employees to raise grievances or concerns about safety, along with supporting a diverse and inclusive workplace. Our people strategy focuses on valuing our people, driving business performance and developing talent to deliver our strategic and operational objectives.

During 2019, we focused on the integration of our new Generation colleagues following the acquisition of hydro and gas generation assets in December 2018. We reorganised our structure to align with our business strategy. We are centralising Finance, Procurement, HR and Internal Communications in order to deliver core services consistently across the Group.

Investing in the development of our people is essential to the delivery of our business strategy. Our Potential and Succession processes enable senior leaders to identify individuals with the skills and capability needed for critical roles. Individuals identified can be nominated for our Future Creators programme. Launched in 2019, the programme is designed to develop and retain 22 high-potential individuals and grow our leadership pipeline. Each individual has a personal development plan and an Executive Committee mentor with whom they meet regularly throughout the year. A One Drax award may also be awarded for those identified as having potential to add significant value to Drax.

Diversity and Inclusion

Drax Group is fully committed to the elimination of unlawful and unfair discrimination and we value the benefits that a diverse workforce brings to the organisation. Our goal is to create and maintain a working environment that is both safe and supportive of all our people and where every employee has the opportunity to realise their potential.

Our Diversity and Inclusion Steering Group meets monthly to consider and recommend plans to increase diversity and inclusion. The Steering Group is co-sponsored by the Chief Transformation Officer and Director of Corporate Affairs, both of whom are members of the Executive Committee.

Our 2019 progress included the roll out of eLearning training to all managers, to understand and promote appreciation to correct unconscious bias. We introduced a voluntary keep in touch days process for colleagues on parental leave and reviewed internal data on gender pay. We also focused on recruitment and added a diversity and equality statement to our careers webpages. We hosted around 100 female students from our partner schools at Drax Power Station in November to meet female colleagues and understand the diverse career opportunities in our sector.

Going forward we will set diversity and inclusion objectives for all managers and include diversity training in our leadership and management development programmes. In our recruitment practices, we will provide gender ratio guidance for interview lists and more broadly seek to improve the gender and diversity balance for our apprentice and graduate recruitment. Through our My Voice Forums we will also seek colleague views on establishing diversity networks.

In our 2019 annual survey, we included questions on diversity and inclusion and we will continue to track our performance in this area.

Women of the Future Event Inspires Next Generation

In November 2019 we hosted our first Women of the Future event at Drax Power Station. Around 100 girls from local schools and colleges, aged between 14 and 18, attended the event, as part of our ongoing efforts to encourage young women to study science, technology, engineering and maths (STEM) subjects, increase diversity in our workforce and support the communities where we operate. Female colleagues ran group activities, games and mini workshops to illustrate the skills they use in their daily jobs and explained their own career stories.

Employee Representation and Engagement

We have two main sets of arrangements to engage colleagues and provide them with representation across the Group. We engage with colleagues who are represented by trade unions (22% 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, quarterly newsletter and Open Forum meetings. Colleagues can ask our Group CEO questions through a weekly online question and answer portal, with the CEO's responses shared across the Group. During the year, we established My Voice Forums, one for each business unit and each with up to 12 colleague representatives. The Forum Chairs meet quarterly with our Group CEO and Group Chair to provide feedback on topics raised by colleagues. For more information on our workforce engagement, please see the case study on page 28.

We track employee engagement through our annual survey and in 2019 this was completed by 67% of employees. Key themes highlighted included colleague careers, manager development and the wellbeing of our colleagues. Responding to themes raised in our 2018 survey, we introduced employee volunteering days and established the My Voice Forums as an additional colleague feedback mechanism.

Health, Safety and Wellbeing

As explained by our CEO Will Gardiner (see page 12), the health, safety and wellbeing of our employees and contractors is vital to the success of the Group and remains our priority.

In 2019, we established our vision for health and safety with One Safe Drax: everyone, every day, safe and well. The building blocks to this are Safe People, Safe Systems & Process, and Safety Assurance.

Safe People

Suitably trained, qualified and experienced people who know what's expected of them and choose to do the right thing.

Safe Systems and Process

Fit for purpose plant, operations and maintenance activities. Robust management systems.

Safety Assurance

The checks and balances put in place to ensure things are working as intended and to provide continual improvement.

Read more on ethics and integrity and our social impact at www.drax.com/sustainability

Health and Safety Performance

In 2019, our Group TRIR was 0.22 per 100,000 hours worked (2019 target: 0.18) (2018: 0.22 per 100,000 hours worked). Our LTIR in 2019 was 0.08 per 100,000 hours worked (2018: 0.09 per 100,000 hours worked). This represents an improvement compared with the previous year.

	2019 Actual	2018	2017
Drax Group Health and Safety			
LTIR[1]	**0.08**	0.09	0.13
TRIR[2]	**0.22***	0.22	0.27
RIDDOR	**5**	9	7

(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
* Limited external assurance using the assurance standard ISAE 3000 for 2019 data as indicated. For assurance statement and basis of reporting see www.drax.com/sustainability

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 subject to regular audits. Our hydro and gas generation assets have an integrated management system covering Safety, Environment & Quality and the safety component will transition to ISO 45001 in 2020. Our Pellet Production sites in the US meet the requirements of OSHA 1910 and the SMS is aligned with, but not certified to, OHSAS 18001. At our Customers and Core Services sites in the UK, we began implementing a Health and Safety Management System in 2019, to create a health and safety culture which prevents accidents and promotes both physical and mental wellbeing.

Safety performance is reported and reviewed regularly by each local management team. Incidents and findings are shared across the Company via safety bulletins, enabling preventative action to be taken to mitigate the risk of future occurrences. Each business unit reports monthly on Key Performance Indicators (KPIs), including Total Recordable Incident rate (TRIR), 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.

In 2019, we established the Safety, Health, Environment and Wellbeing Leadership Executive Committee (SHEWLEC). The Committee is chaired by the CEO Generation and meets quarterly to receive reports regarding significant safety, health, environmental and wellbeing aspects that are prominent within the business. The Committee also establishes standards for relevant health, safety, environmental and wellbeing 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 governance arrangements across the business. Key risks and mitigation associated with health, safety, environment and welfare are routinely reported to the SHEWLEC. The Committee also receives a summary of results of internal and external audits where the scope falls within the remit of the Committee. In addition, the Committee receives and considers potential implications for the Group of information regarding any significant changes in regulation or legislation and oversees how business units amend their arrangements accordingly.

Key issues raised in 2019 include: management of dust at relevant locations, tracking of findings from third-party audits, development and implementation of a Group-wide Wellbeing policy and framework and standardisation of a set of group-wide minimum standards for safety Golden Rules.

In 2019, Drax introduced Intelex as our Group reporting tool for Safety, Health, Environment and Production incidents. The system went live at our Pellet Production sites in July and at Drax Power Station, our Customer sites and our Head Office in November. We are considering plans to align all Drax sites to a common integrated incident management system.

Process safety is a key focus for the operational business units. Drax implemented lessons learned from the fire at Drax Power Station pellet handling system in 2017 to make the plant more robust to potential ignition events by installing additional fire detection and suppression equipment. Work on the installation will complete in 2020. Incoming fuel quality and metallic contamination in fuel are key performance measures, since these factors can influence levels of dust, potential for fuel line blockages or ignition events. In 2019, there was greater collaboration with the supply chain and our UK port operators. Drax held a conference in April to share best practice.

Following a major safety incident in December 2018 at our Pellet Production site LaSalle in the US, we identified 42 action items. In 2019, we implemented and closed these corrective action items and focused on supervisor training and improving safety culture.

In 2019, multiple assurance audits were completed across the Group. Drax Power Station was externally audited to OHSAS 18001 with no major findings and the Health and Safety Executive completed a scheduled control of major accident hazards (COMAH) audit with no major findings.

Wellbeing at Drax

The Drax-wide Wellbeing programme encompasses three areas and focuses on building resilience.

- **Healthy Body** – A healthy body means looking after yourself first – finding ways to incorporate a healthy diet, an active lifestyle and healthy habits into the routines of work and home.
- **Healthy Mind** – A healthy mind is about colleagues being able to focus on what's important at work.
- **Healthy Workplace** – We believe that a healthy workplace at Drax supports and encourages healthy behaviours in our colleagues, making healthy choices easy.

Internal Audit commissioned Turner & Townsend to complete a Group-wide audit of health and safety which confirmed that the control framework is generally designed and operating effectively, and effective health and safety management systems were in place. The audit made recommendations to help advance the management of health and safety across the Group as it evolves and an action plan to implement the recommendations has been put in place.

Wellbeing

We recognise the importance of promoting the physical and mental wellbeing of all our colleagues. In 2019, we began implementing a holistic Wellbeing programme across Drax, covering the three areas of Healthy Body, Healthy Mind and Healthy Workplace. To oversee the programme and measure progress, we set up a Wellbeing Steering Committee. The Committee represents all business units across Drax and meets monthly to ensure effective implementation.

In 2019, we introduced a single private medical insurance and reward programme to our UK colleagues. We aim to achieve complete coverage for UK colleagues in 2020, after the roll out to our hydro and gas generation sites. In addition, all colleagues have access to an Employee Assistance Programme.

Our Customers business continued to expand their workplace wellbeing education programmes in 2019. We have trained nearly 200 Customers colleagues over 2018 and 2019 on the topics of mental health and emotional resilience.

Positive Social Impact

We provide jobs, support economic growth, pay tax responsibly and deliver charitable and employee volunteering initiatives in the communities where we operate.

Our social strategy focuses on improving opportunity and social mobility by promoting education, science, technology, engineering and maths (STEM) skills and employability. We signed the UK cross-party Social Mobility Pledge, demonstrating our commitment to accessing and progressing talent from all backgrounds. In 2019, we recruited 18 apprentices and 6 graduates. This included expanding our apprenticeship scheme to Drax's Scottish sites where we recruited 5 new apprentices. Our partnership with Teach First enabled the recruitment, placement and training of eight STEM teachers in 2019, improving the STEM education of 1,000 students.

We pledged £100,000 support over four years to support the Galloway Glens Landscape Partnership where our Galloway Hydro Scheme operates. The funding will be used to promote the region's heritage, boost the local economy and support sustainability initiatives in local communities.

Community and Charitable Giving

During the year, we launched our new Community and Charity policy, strengthening our charitable giving across the business and enabling colleagues to volunteer one working day annually. In 2019, Drax colleagues volunteered over 2,000 hours and we contributed £290,000 through community partnerships, employee match funding, payroll giving, our community fund and national fundraising days.

Drax Power Station welcomed 9,763 visitors in 2019. Our tours are focused on learning outcomes and tailored for visitors of all ages. Cruachan Power Station in Scotland received 36,646 visitors in 2019 and offers free tours to school children and academic institutions.

Ethics and Integrity

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

Our compliance framework consists of principles, policies and guidance. The principles are set out in our ethics handbook, Doing the right thing, which identifies the behaviours expected from colleagues and contractors on topics including human rights, ethical business conduct and integrity. The Doing the right thing principles form part of our terms of employment and have been converted into a series of training videos used in our new starter induction programme. The scope of Doing the right thing will be expanded with the implementation of a new Group Code of Conduct in 2020.

Our policies and guidance documents provide further instruction. These include our Group Corporate Crime policy and Gifts and Hospitality, Conflicts of Interest and Due Diligence guides. In 2019, we published board-approved updates to our Group Corporate Crime policy, Fair Competition policy and associated guides.

In 2019, we established and deployed new eLearning across the Group, including Data Protection and Anti-Bribery and Corruption training for all colleagues. Targeted training on Supply Chain Human Rights, the Criminal Finances Act and Fair Competition was provided for managers and teams in higher risk areas. Refresher training was also provided on Market Abuse Regulation for the Board, Executive Committee and relevant management and employees.

Responsibility for Ethics

Governance of our framework is overseen by the Group Ethics and Business Conduct Committee (EBCC). The EBCC comprises of senior leaders, meets quarterly and is chaired by the Group CFO. EBCC activities are reported annually to the Audit Committee. Management across the Group is responsible for demonstrating leadership on ethical matters and supporting teams to apply our ethical principles, set out in our Doing the right thing booklet, and business ethics policies.

Our Group Business Ethics team manages our various business ethics programmes, taking steps to understand our risk profile, developing policy and procedures, awareness raising and training, as well as investigating any potential breaches of policy, and administrating our external Speak Up (Whistleblowing) service. Our Internal Audit team provides assurance on the robustness of our business ethics programmes and any recommendations for improvement are duly considered and as appropriate, implemented.

The Group Business Ethics team conducts annual risk assessments of each of its programmes, which relate to areas including anti-bribery and corruption, conflicts of interest, data protection, fair competition, and human rights in the supply chain. This is to ensure policy and procedures remain fit for purpose and to recommend any further mitigation measures. Our annual review timetable also includes a review of the Group gifts and hospitality record and a colleague business ethics declaration. Results of annual reviews, details of investigations conducted, whistleblowing reports, and audit outcomes are reported quarterly to both the EBCC and the Audit Committee.

Working with Others

We are a signatory to the UN Global Compact (UNGC) and maintained our representation on their Modern Slavery Working Group in 2019. This enables us to benchmark our compliance programmes and exchange experience with peers, with a particular focus on our response to modern slavery.

We seek to work with suppliers, partners, agents, intermediaries, contractors, consultants and counterparties whose standards are consistent with our own. Third parties are subject to our precontract due diligence checks and regular monitoring through the lifecycle 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.

At Drax Group, we are committed to conducting business ethically and in compliance with all relevant laws and regulations.

In 2019, we enhanced our due diligence process, which assesses for risks associated with financial crime, conflicts of interest, anti-competitive behaviour, trade sanctions and other improprieties, such as modern slavery. We centralised these across the business.

Anti-bribery and Anti-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 system. Conducting business in higher risk countries must receive prior approval from the Group Ethics and Business Conduct Committee.

Following country approval, third parties are then put forward for our due diligence process. Suppliers in higher risk countries receive a higher level of initial due diligence and ongoing monitoring. We also screen the affiliates (directors, shareholders) of these suppliers and refresh their information on a more frequent basis, compared to our lower risk suppliers. Third parties with operations in, or linked to, higher risk countries are escalated to the EBCC for review prior to engagement. Ongoing monitoring is performed with new information provided to the Group Ethics and Business Conduct Committee, as appropriate.

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 2019, we published our third 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 keep our programme and statement under review to ensure it reflects our activities, global presence and wider evolving practice.

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 Corporate Crime policy and our Corporate Responsibility (CR) statement.

Our CR statement outlines the standard of ethical business conduct we expect from suppliers. Businesses in our supply chain should offer a safe workplace for their employees that is free from harm, intimidation, harassment and fear. We have incorporated further provisions in our statement template to manage these risks within our procurement contracts and further advanced this effort in 2019 with the drafting of a Code of Conduct and a Supplier Code of Conduct.

With the implementation of a Supplier Code of Conduct in 2020, we will emphasise our requirement for our suppliers and contractors working on our behalf to challenge unethical behaviour and promote a "speak up" culture. We will provide the details of our Speak Up service for their use.

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 our people, customers and the third parties we engage with have confidence in our data handling practices.

The EBCC supports and oversees the Group privacy programme and reviewed the first formal programme risk assessment and risk register in 2019. In addition, policies, guides, privacy notices, third party due diligence questionnaires and contractual terms were updated and our first eLearning refresher training ("Overview of Data Protection") was developed and deployed across the Group. Internal Audit completed an audit of our privacy programme and no red-rated findings were identified. We continue to monitor and adapt our compliance with the requirements of the General Data Protection Regulation, the UK Data Protection Act 2018, regulatory guidance and other associated legislation such as the e-Privacy & Electronic Communications Regulation.

Security risk management has continued to mature through 2019, with a comprehensive improvement plan implemented and intended to enable key IT Security control effectiveness to achieve best practice. The plan was initiated in 2019 and work will continue through 2020. In addition, a security governance structure was put in place to assess and communicate the evolving threat landscape and identify appropriate responses. An ongoing security assurance programme is in place.

We maintain risk-based security controls to protect our employee and customer data, by detecting and preventing threats and security breaches. In addition to traditional security measures, we undertake advanced threat monitoring and analytics measurement intended to detect, identify, respond to and resolve cyber threats and attacks. We are conscious that such threats continue to change. Accordingly, our security programme seeks to evolve our controls and response to cyber threats.

Speak Up (Whistleblowing)

As part of our commitment to transparency and openness, we encourage those working for or on behalf of Drax to raise genuine concerns about practices which could breach laws, regulations or standards. This is supported by our Doing the right thing handbook and Speak Up (Whistleblowing) policy. Colleagues can either raise concerns internally, through line management, a member of the Group Business Ethics team, the Group Company Secretary (Whistleblowing Officer), directly with a member of the EBCC or externally through our anonymous third-party Speak Up service.

The Group Business Ethics team manages the Speak Up (Whistleblowing) programme. The team maintains relevant records and investigates ethical-related matters under the supervision of the Whistleblowing Officer and governance of the EBCC and Board. Where required, relevant senior leadership are consulted, and a course of action agreed. Drax has a zero tolerance of retaliation and considers it a disciplinary matter to victimise or retaliate in any way against someone who has raised a genuine concern.

During 2019, communications on speaking up were rolled out to all colleagues, temporary colleagues and certain contractors as part of the 2019 Business Ethics policy deployment and eLearning programme. In 2019, six concerns were reported via internal channels and two via our anonymous third-party Speak Up service. This is an increase from zero reports in the previous year and demonstrates the effectiveness of our efforts to increase awareness of our reporting channels and promote an open, "speak up" culture.

Non-Financial Information Statement

We have summarised in this Annual Report and Accounts our policies, standards 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.

UN Global Compact	Non-Financial Reporting Requirement	Policies, due diligence processes and outcomes	Page reference
Environment	Environmental matters	Environmental policy	
		Sustainability policy	Page 41
		Responsible Sourcing policy	Page 41
		Carbon Emissions	Page 38
		Environmental Impact	Page 40
		Sourcing Sustainable Biomass	Page 41
		Healthy Forest Landscapes	Page 44
Labour	Employees	Health and Safety policy	
		Doing the right thing handbook	
		Gender Pay Reporting	
		People and Culture	Page 45
		Diversity and Inclusion	Page 45
		Health, Safety and Wellbeing	Page 46
	Social matters	Community and Charity policy	
		Positive Social Impact	Page 48
Human Rights	Respect for human rights	Corporate Responsibility (CR) statement	
		Corporate Crime policy	
		Modern Slavery Act statement	
		Ethics and Integrity	Page 49
Anti-corruption	Anti-corruption and anti-bribery matters	Doing the right thing handbook	
		Corporate Crime policy	
		Ethics and Integrity	Page 49
	A description of the company's business model	Business Model	Page 04
	A description of the principal risks	Principal Risks and Uncertainties (Climate Change, People, Environment, Health & Safety risks)	Page 54
	A description of the non-financial key performance indicators	Remuneration Report (Total Recordable Incident Rate Group KPI)	Page 86

Viability statement

In accordance with the UK corporate governance code, the Directors have assessed the prospects of the Group over a period significantly longer than the 12 months required by the going concern provision.

The assessment of viability was led by the Group Chief Executive and Chief Financial Officer 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, selected for the following reasons:

- The Group's Business Plan (Plan) which is prepared annually, updated twice 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.

Review of principal risks

The Group's principal risks and uncertainties, set out in detail on pages 54 to 61, 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 2020, before the Plan was adopted by the Group.

The Group has a proven track record of 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 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 2019. 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, 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.

The Board considers the most material scenario in the assessment period to be a significant deterioration of commodity market prices, leading to a fall in the available price for power and thus a fall in the margins available to the Group from power generation and supply activities. This impact would however be partially mitigated through the earnings stability provided by the CfD, the Group's ability to trade effectively in volatile power markets and reductions to 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 consolidated financial statements (page 163). 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 the year the Group drew down and subsequently restructured £550 million of its £725 million acquisition bridge facility that was used to partially fund the acquisition of the hydro and gas generation assets. In May 2019 an additional $200 million of the existing 2025 6.625% USD loan notes was issued, the proceeds of which were used to repay £150 million of the acquisition bridge facility. In July 2019 the refinancing of the remaining £400 million was concluded in the form of two new facilities with combined proceeds of £500 million, a £375 million UK infrastructure private placement and an environmental, social and governance facility of £125 million. These arrangements both reduced the overall cost of debt and extended the maturity profile to 2029 to further strengthen the balance sheet.

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. 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 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 key risks.

Group approach to risk management

The risk appetite determined by the Board varies depending on the risk, and guides the principles of the Group's culture, behaviour and the intensity of risk management activities in achieving our business objectives. We consider a range of risk categories including environment, health, safety, strategic, financial, political, regulatory and operational. The Group has a Risk Management Policy, approved by the Board, which defines the Group's 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. We then assess the likelihood of the risk occurring and possible impact to the business in the event it should arise. This assessment is based on a risk scoring matrix to ensure we take a consistent approach.
- Assign responsibility and define accountabilities for the identification, assessment and management of risk and provide resources to enable appropriate measures to be taken.
- Put in place appropriate mitigating controls intended to manage identified risks to an acceptable level.
- Escalate and report information on the potential risk and the effectiveness of the mitigations and controls to support management decision making.
- Regularly monitor changes within and outside our business, review the Group's principal risks against such changes to ensure our analysis remains accurate and up-to-date and review the effectiveness of mitigation strategies and the application of the risk framework.

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

Risk management governance

The risk management governance structure includes Executive Committee level principal risk owners and risk management committees whose responsibilities include:

- Ensuring that risks are identified, assessed and managed effectively within risk appetites and limits.
- Including new and emerging risks.
- Demonstrating robust governance of risk management by reviewing and challenging risk management across the Group and driving the completion of actions to manage risks within risk appetites and limits.
- Driving an appropriate risk management culture and an environment that promotes and creates balanced risk-taking behaviour and clear accountability.

The risk management committees receive reports from business units and risk owners. The Executive Committee receive reports from the risk management committees and principal risk owners and undertake deep dive reviews of the management of principal risks.

In addition, the Audit Committee review the suitability and effectiveness of risk management processes and controls on behalf of the Board.

Internal control

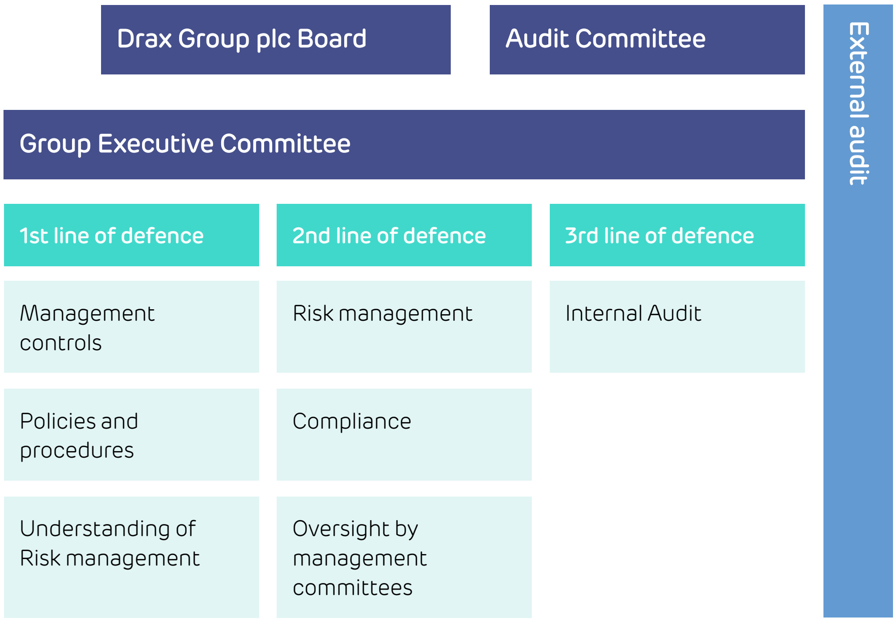
The Group has a well-defined internal control system established through policies and procedures, documented levels of authority which support decision-making and accountability for day-to-day management across the Group.

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 individuals enabling them to make decisions on behalf of the Group and its businesses for its day-to-day activities. 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, implements a programme of internal audits of different aspects of the Group's activities. The programme is developed based on an assessment of the key risks of the Group, the existing assurance and controls in place to manage the risks and the core financial control framework. The programme is reviewed 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.

Internal audits are performed either by the in-house team members of the internal audit function or by external parties where their appointment has first been 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 management responses to the findings and recommendations and details of the actions that management propose to take.

Based on the reporting from the Executive Committee and the Audit Committee undertaken during 2019 and considered at the meeting of the Board held in finalising the annual report and financial statements, 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, please see the Audit Committee report on page 78.



Principal risks and uncertainties

Risks are reported to the Board and disclosed in the Annual Report and Accounts under nine principal risk headings. The Board has assessed the principal risk categories. These are broadly unchanged from 2018 with two exceptions: Transaction risks, which was included in 2018 to reflect the risks associated with the acquisition of hydro and gas assets. The risk category has been removed as these assets have been integrated successfully into our operations during 2019. A new category entitled Climate Change has been created. This reflects the increasing focus on such risks, given the nature of our sector and operations, and our work to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Current Principal Risk categories

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. People
9. Climate Change (new)

Principal risks and uncertainties continued

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019
Environment, health and safety			
Context The health, safety and wellbeing of all our employees, contractors and visitors is of paramount importance to us. 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 is at the heart of 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. **Risk and impact** • Our operations involve a range of 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 by its nature combustible and 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. For example, in the US we produce pellets using a combination of high temperature and high-pressure plant, and in the UK we operate plant which involves very high temperatures and pressures for the generation of electricity at 400KV for transmission onto the National Grid.	• Maintaining robust management systems designed to mitigate risk. • Training staff to a high level of competence, to appreciate and manage environment, health and safety risks. • Continuously reporting events and prompt implementation of corrective actions. • Continuously monitoring processes to identify trends in performance. • Rigorous auditing of compliance against standards, policy and procedures. • Engaging with regulators and stakeholders to identify improvements to our systems and operations. • Investigating the underlying reasons for events and implementation of any necessary changes in the management system and culture. • Timely identification of future legislation and appropriate investment to optimise performance. • Effective governance framework including an executive level Safety, Health, Environment and Wellbeing Leadership Executive Committee, to oversee governance, review and challenge the management of safety, health, environment and wellbeing risks across the Group.	=	• Good personal safety performance for the year with TRIR and LTIR, continuing in line with industry benchmarks. • Hydro and gas asset health and safety management systems integrated. • Introduction of a Group-wide reporting tool for environment, health and safety incidents. • Installation of further fire suppression devices in our biomass conveying systems.

Movement key
- Up/increasing
- Down/reducing
- = No change

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019

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 stronger. In addition, the wider regulatory and compliance environment applicable to businesses is also increasing with growing requirements in transparency and accountability.

Risk and impact

- Changes to UK 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 charging arrangements; environmental regulation; 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 uncertainty and additional costs associated with changes in regulatory reporting.
- Biomass represented 77% of our generation in 2019 and, longer term, we intend to increase our biomass self-supply to 5m tonnes per annum. The regulatory environment is evolving which could increase costs and mean anticipated returns are significantly lower than expectations.
- The future of carbon pricing in the UK is linked to the UK's withdrawal from the EU and the negotiations on the future economic partnership. For the period beyond 2020, the Government has set out its preference to create its own Emissions Trading Scheme (ETS), linked to the EU ETS. This outcome would be preferable, causing minimal disruption to the market, compliance regimes and to the prevailing carbon price. However, there is a risk that this preference changes or that the UK and EU cannot agree a linking negotiation in time. This would result in the UK having to transition its carbon pricing system to a carbon tax system or other interim mechanism. Significant fluctuation in the carbon price, due to liquidity issues for example, could occur.

Key Mitigations

- Engaging with politicians across the political spectrum and Government officials, to understand and influence perception, and communicate our socioeconomic 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 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.

Changes in factors impacting risk in 2019 =

- Brexit continues to create uncertainty. Weakened sterling and difficulties in cross border trade could influence fuel costs and/or lead to customers going into financial distress. Delays at ports could affect our supplies of fuel and components though 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.
- 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.
- The 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 end of 2020 (where reasonable steps have been exhausted) remains.
- Further failures of small energy suppliers (and resulting cost mutualisation across the industry).
- The Government has confirmed that the Carbon Price Support (CPS) is set at approximately the right level, although the longer-term level is dependent on how the UK exits the EU and prevailing commodity prices.

Principal risks and uncertainties continued

Principal Risk Category | Key Mitigations | Changes in factors impacting risk in 2019

Strategic

Principal Risk Category

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. This is underpinned by the three pillars of the Group's strategy: 1) to build a long-term future for biomass; 2) to be the leading provider of power system stability, and 3) to give our customers control of their energy – delivering long-term growth opportunities, including investment in new and emerging technologies for alternative fuels, which we believe have the potential to support earnings beyond 2027.

The Group aims to deliver higher quality, diversified and sustainable earnings, whilst also reducing our exposure to volatility in the commodity market and supporting the UK's ambition to achieve net zero by 2050.

Risk and impact

- The vast majority of our business relies on subsidies for generating electricity using renewable sources. In 2019, Drax received subsidies amounting to £790m. Presently, subsidies are expected to continue until 2027. The date or the scale of the subsidies could change which could have a material effect on our performance and business prospects.
- Post-2027 biomass generation is dependent upon the cost of generation relative to market prices. Delivering on our objectives to increase biomass self-supply to 5m tonnes per annum and reduce the cost of generation to £50 per MWh depends on the availability of feasible expansion opportunities and successfully reducing the current cost of biomass. Biomass is accepted by governments as a renewable resource; there is a risk that this opinion could change.
- The energy markets in which we operate are evolving at a rapid pace. New entrants and new technologies compete throughout power generation, system services and B2B energy supply and services markets. Such competitors may develop more cost effective and efficient services than those which Drax is able to supply.
- The technologies and materials that we are evaluating including BECCS and viable, alternative fuels are new and unproven. Any one of the technologies and materials that we evaluate could prove technically or commercially unfeasible or flawed. We may invest in the wrong technologies which are inadequate, the time taken to develop them could be longer than expected or the costs may be higher or levels of expected return lower than we expect (relative to the government support that is required to make the technologies feasible)
- The Capacity Market ensures security of electricity supply by providing a payment for reliable sources of capacity. We bid for contracts to supply electricity in the Capacity Market auctions. Outcomes from the auctions are inherently uncertain. The development of new, flexible OCGT and CCGT are also dependent on winning contracts with acceptable returns.

Key Mitigations

- Develop a diversified generation capacity with a portfolio of biomass, pumped storage, hydro, gas-fired and coal generation assets.
- Development of a plan to expand biomass self-supply capability and reduce the cost of biomass for generation to create an economically sustainable biomass generation business without subsidy by 2027.
- Working on reducing project costs to increase competitiveness in the Capacity Market auction; a disciplined approach to the auction means such projects will only go forward upon obtaining a suitable contract which meets our hurdle rate.
- Implementing a programme of targeted investment to:
  - Incubate new products and energy services to bring to market.
  - Research, develop and pilot new technologies.

In 2019 the Group implemented an evolved 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.

- Development and delivery of plans to implement bio-energy carbon capture and storage (BECCS).

Changes in factors impacting risk in 2019

=

- Acquisition of a portfolio of flexible, low carbon hydro and gas generation assets from ScottishPower provides significant diversification of long-term earnings and expansion of our renewable generation model.
- UK Capacity Market payments and auctions reinstated following ruling by the European Court of Justice.
- Development of a plan to expand biomass self-supply capability and reduce the cost of biomass for generation to create an economically sustainable biomass generation business without subsidy by 2027, including in 2019:
  - LaSalle pellet facility now fully operational supporting self-supply target.
  - Turbine upgrade programme commenced at Drax Power Station, improving efficiency and reducing maintenance costs.

Movement key
- ^ Up/increasing
- v Down/reducing
- = No change

Principal Risk Category	Key Mitigations		Changes in factors impacting risk in 2019

Biomass acceptability

Context

Sustainability legislation at EU and UK level and in other countries from which we operate and source biomass, and public understanding of the benefits of the supply chain and technology are 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.

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 and 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.

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.

Movement: =

Changes in factors impacting risk in 2019

- BEIS commissioning a major new piece of work looking at our supply chains and counterfactuals.
- Implementation of our new forest biomass sourcing commitments.
- Legal case against EU has been brought by environmental NGO, fern, challenging the carbon neutrality of biomass.
- Established an Independent Advisory Board (IAB) of scientists, and leaders in the field of sustainability to provide impartial advice and guidance.

Plant operations

Context

The reliability of our operating plants is central 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 are highly complex and require careful management to operate, with many running flexibly 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 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.

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 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 adequate insurance in place to cover losses from plant failure where possible.

Movement: =

Changes in factors impacting risk in 2019

- Completion of largest ever maintenance outage on Unit 2 at Drax Power Station and installation of a new high-pressure turbine unit.
- Hydro and thermal assets provide greater flexibility to the portfolio in the event of a plant failure.
- Major gas turbine outage and steam turbine overhaul completed at Shoreham.
- LaSalle rail spur and co-located sawmill are fully operational.
- Baton Rouge rail chambering yard commissioned.

Principal risks and uncertainties continued

Principal Risk Category | Key Mitigations | Changes in factors impacting risk in 2019

Trading and commodity

Context

Sales of power and Renewable Obligation Certificates (ROCs) represented £2,099m of our revenue in 2019 in our Generation business and our Customers business made sales of £2,226m 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 value delivered from ROCs in 2019 was £528m. The value which we derive from ROCs may be lower than prior years, or our forecast, if demand increases for generation from alternative renewable sources at the expense of demand for generation from our own assets.

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.
- The Generation business may fail to secure future system support services contracts which are a source of revenue diversity for the Group.
- 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 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.
- Some new entrants to the electricity supply market have failed. Further supplier failures could lead to more supplier mutualisation processes (whereby their costs and commitments are shared among other suppliers) being invoked, notably for ROCs, resulting in increased costs.
- Falling power prices, rising coal/carbon prices or changes to regulation could mean that we do not use all our stocks of coal.

Key Mitigations

- Ensuring high levels of forward power sales for 2020/21 and the Contract for Difference (CfD) for one biomass generation unit could reduce our exposure to volatility.
- Additional value is provided through the increased flexibility and optimisation capabilities provided by the hydro and gas assets.
- Hedging energy supply commodity price exposures when fixed price sales are executed with third parties.
- Operating three biomass units under a single ROC cap for Drax Power Station provides increased opportunities for greater flexibility of generation.
- Purchasing wood pellets under long-term contracts with fixed pricing.
- Hedging fluctuations in ROC generation from wind farms through weather derivatives.
- Significant hedging of forward foreign exchange.
- The burn profile of the coal units has been adjusted to optimise coal stocks.

Changes in factors impacting risk in 2019

- Sterling exchange rates against the US Dollar, Canadian Dollar and Euro remain weak.
- Power prices are lower with low market liquidity and increased volatility in short-term prices.
- Generation running regimes optimised with managed positions and scenario planning.
- The Thermal plants have brought a natural hedge to falling gas prices.
- Prices for wood pellets decreased.
- Biomass production shortages and supply constraints caused primarily by adverse weather in the US in early 2019.

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

- Absence of key IT systems transformation affecting our ability to deliver our strategy.
- 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 business continuity, disaster recovery and crisis management plans.
- Maintaining cyber security measures, including a protect, detect, respond and recover strategy.
- Implementing a Group IT Strategy and identifying key projects to deliver Group-wide services, improving security, resilience and performance. The new IT Board, a sub-committee of the Executive Committee, will provide oversight and governance.

Changes in factors impacting risk in 2019

- The enforcement of key compliance regulations such as the NIS Directive have increased the potential regulatory and financial impact.
- Hydro and gas asset systems have been integrated where applicable.
- The IT Operating model has been redesigned and is being embedded to better support strategic objectives of the Group and improve efficiency of technology processes.
- Programme of ongoing improvement to security, monitoring of key IT controls and IT and Security Risk management.

Principal Risk Category	Key Mitigations	Changes in factors impacting risk in 2019
People **Context** We need to ensure we have the right people in place with the leadership, management, specialist skills and engagement to help the Group to compete, innovate and grow. **Risk and impact** • Our performance and the delivery of our strategy is dependent upon having high-quality, suitably experienced leaders and engaged and talented colleagues at all levels of the organisation. • Whilst we continue to invest in our people, including supporting them in the development of their capabilities, 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. • The Group is undertaking significant change associated with implementing our strategy and improving operational effectiveness. Examples include acquisition of hydro and gas generation assets, proposed expansion through investment in our US operations and ongoing changes to our operations where we generate electricity as we transition away from fossil fuels.	• Conducting a comprehensive and systematic assessment of our talent bench strength and succession plan. • Maintaining consistent Group-wide performance management, potential assessment and career development frameworks. • Workforce engagement forums provide a formal way for colleagues and management to communicate, gain feedback and exchange information and views on any business related issue • Conducting regular colleague surveys to monitor engagement levels and alignment of people with Group values. • Investing in development for all. • Ensuring regular colleague communications. • Maintaining reward packages that aid recruitment and retention.	= • We reviewed our HR strategy, including "Creating a great place to work", and reshaped our priorities putting together a comprehensive two-year HR plan centred around: – valuing people and focusing on talent; – raising business performance and building capability through our people; – developing and building a sustainably high performing organisation; and – supporting the delivery of Drax plans, purpose and operational excellence as part of BAU. • Introduction of new workforce engagement forums • 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.
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, for example increased incidence of extreme weather events. In early 2019 production at our US pellet production business was restricted following weather-related events in the southern states of the US. • Climate change policy, innovation and technology do not develop as expected impacting delivery of net zero ambition and our strategy. • Reduced investor confidence, increased activity by protestors and challenges with staff recruitment and retention.	• Working with Energy UK on a framework to better manage the physical impacts of climate change on thermal generating facilities. • Funding work at Strathclyde University to understand the potential changes in long-term weather patterns at Cruachan Dam. Results show that current predicted extremes are manageable. • Physical impacts of climate change on new installations are covered under planning laws. • Business strategy robust to future climate policy. • Investor confidence increased and reputational impacts mitigated by establishment of a net zero ambition, demonstrating a business strategy consistent with UK government climate change policy. • Strong innovation team tracking technology advances.	This risk was not included in the previous annual report

Strategic report

The Strategic report is set out on pages 1 to 61 of this document and was approved by the Board of Directors on 26 February 2020.

Will Gardiner
Group CEO

Corporate Governance Report: Letter from the Chair

"Strong governance underpins our ability to deliver a sustainable and successful business."

Philip Cox CBE
Chair

Our values

Honest
We say what we mean and do what we say, we're genuine and true to our word

Energised
We're passionate about our daily activities and have the drive to turn ideas into action

Achieving
We're focused on our goals and determined to succeed. We work hard to deliver innovative solutions to help us do things better, for the benefit of the Group

Together
We work collaboratively with our colleagues, customers and stakeholders with a friendly approach and recognise the value each of us brings to achieving our Group vision

Dear shareholders

I am pleased to present our Corporate Governance Report for 2019. We believe that good governance is essential in creating and sustaining a high-performing business which delivers our strategy and creates sustainable long-term value for the benefit of our stakeholders. Maintaining the highest standards of corporate governance across the Group remains a top priority for the Board.

We are now the fourth largest generator in the UK and the largest renewable power generator, with multiple generation sites using a variety of fuels. We are the largest supplier of business-to-business renewable power in the UK, and the fourth largest producer of wood pellets globally. We are also operating in a world that is more focused than ever before on the challenges of climate change.

We have a talented and engaged workforce, an executive team that has been strengthened during the year, and an experienced and supportive Board, all committed to helping Drax deliver its purpose of enabling a zero carbon, lower-cost energy future.

Fit for the future

Good governance requires sound decision-making taken on high quality, transparent information conveyed in a timely manner and which takes account of relevant stakeholders. In 2019 we continued to develop our governance structures to ensure that they support the enlarged business and the delivery of the strategy. As part of this we successfully launched a new governance structure, including five new committees below the Executive Committee. This structure will ensure a better flow and evaluation of information, support timely decision-making and clearer accountability, enabling us to realise our purpose and deliver our strategy.

We also developed a new Remuneration Policy, to reflect the evolution of the business, which will be put to a shareholder vote at the 2020 AGM. Our new policy underpins our purpose, which links executive pay to sustainable Group performance aligning reward with delivering the strategy. Nicola Hodson, the Remuneration Committee Chair, led the engagement with shareholders on the proposed new Policy. You can read more about this on page 88.

Culture and governance

Our aim is to maintain an open and collaborative culture across the Group in which our people are respected and contribute fully. Setting the right standards helps to protect the business and the interests of our stakeholders. In assessing Group performance, the Board routinely considers culture, such as workforce engagement and reward, and how this underpins behaviours across the Group in addition to financial performance. We place particular emphasis on the safety of our people. The CEO updates the Board on safety at every meeting, including absolute measures such as injury rates as well as the prevailing safety culture and process safety around the business.

Board member engagement with different areas of the business provide directors with a deeper understanding of the culture of the organisation. In 2019, John Baxter visited 12 sites as part of his induction and David Nussbaum visited six newly acquired sites.

Stakeholder engagement

We have a well-established programme of engaging with a wide range of stakeholders, including shareholders, government, regulators, environmental bodies and trade unions. We know that actions taken today will shape the performance of Drax in the future and will 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.

In 2019 we conducted an investor audit to evaluate shareholder and investor perceptions of the Group's strategy. This independent study by KPMG provided valuable feedback from investors, which was broadly supportive, on the Group's strategy, management and approach to communications.

Our colleagues have a critical role to play in the success of our business. In 2019, the Board worked on the development of the MyVoice workforce engagement forums (see case study on page 28). My Board colleagues and I welcome this opportunity to work with the forums, to listen and understand, communicate the Board's position on key issues and hear their views and proposals for Drax. Will Gardiner and I have begun to meet all the Chairs of the forums. We see this as an evolving, two-way conversation and will be closely monitoring progress in 2020, both to ensure that it delivers the right engagement and also to explore effective ways to engage.

You can read more about our stakeholder engagement, and the factors we consider in decision-making, on pages 24 to 29.

Board evaluation

In 2019 we ran an externally facilitated evaluation for the Board to assess its effectiveness. We were pleased to note that the evaluation felt the Board exhibited good dynamics, an open and transparent culture with constructive challenge and debate, and an appropriate focus on the long term. More details of our evaluation, including areas for development, are set out on page 74.

Succession planning and diversity

We recognise the importance of diversity within the Group and we report on Board and Executive Committee composition and diversity on page 76. To build a more diverse and inclusive business, we set an ambitious 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 much as we would have liked and recognise the challenges associated with diversity in recruitment and career progression, particularly in the energy and engineering sectors. We do, however, remain determined to make Drax a great place to work for everyone at all stages of their career. In order to address these challenges, we have established a Diversity and Inclusion Working Group, led by Clare Harbord, a member of the Executive Committee, which is developing plans to support a more diverse talent pipeline. You can read more about this on pages 45 to 46.

We undertake regular reviews of our succession planning for senior management and the talent pipeline, making sure it is aligned to the Group's strategy. During 2019 we strengthened the Executive Committee with the appointment of three new members, two of whom (Jason Shipstone and Paul Sheffield) were promotions from our talent pipeline.

Board changes

The Board consists of a strong team with a wide range of experience across various industries. The Nomination Committee regularly reviews composition, and during the year we continued to refresh our range of skills and experience. Andy Skelton joined as CFO in January 2019. Our three longest-serving Non-Executive Directors (David Lindsell, Tony Thorne and Tim Cobbold) retired from the Board as part of our planned succession.

During 2018 and into 2019 Vanessa Simms worked closely with David Lindsell, while Nicola Hodson worked closely with Tony Thorne, as part of the managed transition of them taking over as Chairs of the Audit Committee and Remuneration Committee respectively in April 2019.

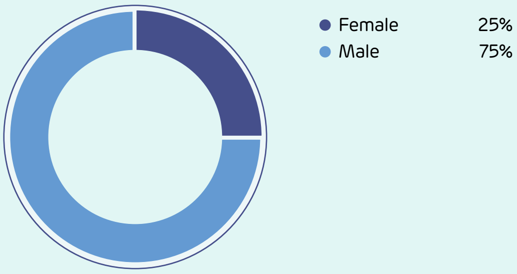
Finally, I am delighted to welcome John Baxter to the Board who joined as a Non-Executive Director in April 2019. John brings valuable operational experience and knowledge of the energy sector, particularly in safety and engineering, which will be of huge benefit to Drax.

Philip Cox CBE
Chair

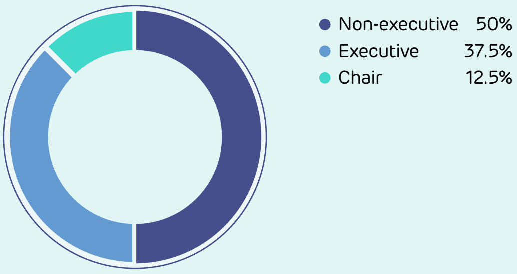
Corporate governance report: Board of Directors

The Board provides strong stewardship of the Group, shaping our purpose and strategy to generate sustainable long-term value.

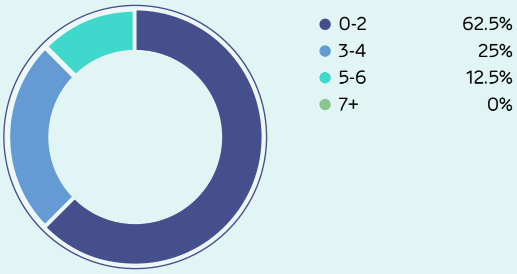
Gender diversity
As at 31 December 2019



Composition
As at 31 December 2019



Tenure in years
As at 31 December 2019



Philip Cox CBE

N R

Chair

Philip has extensive experience in both executive and non-executive roles, and in the energy sector. His responsibilities at Drax include Board composition and succession, Board governance and stakeholder engagement. Philip has a strong track record of leadership and has an open, collegiate style, ensuring that all voices are heard, and all Board members contribute fully. He was previously Chair of Kier Group plc and CEO and formerly CFO of International Power plc. 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 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.

David Nussbaum

A N R

Senior Independent Non-Executive Director

David's wealth of experience in international development and environmental matters, as well as his experience as Finance Director of a listed industrial company, is of huge value to Drax and contributes significantly to the Board's discussion, and understanding, of the stakeholder landscape. David is CEO of The Elders, a group of independent global leaders working to promote peace and human rights, Deputy Chair of the International Integrated Reporting Council, and 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 a non-executive director of Low Carbon Accelerator Limited.

Appointment to the Board: August 2017.

Key to Committees

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

Will Gardiner

Group CEO

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. Will has a track record of creating value and building well-managed companies. 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.

Appointment to the Board: November 2015.

Andy Skelton

Chief Financial Officer

Andy joined Drax as CFO in January 2019, bringing strong finance and commercial skills, alongside substantial experience in the technology sector. He has played a major role in developing the new "Fit for the Future" strategy, driving efficiency and operational excellence across the Group. 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. 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).

Appointment to the Board: January 2019.

Andy Koss

CEO, Generation

Andy has a wealth of experience of the business. He joined Drax in 2005 and has held a number of senior roles including Director of Strategy, Head of Investor Relations, Group Treasurer and Head of Risk. He has also held several senior treasury and investment banking roles with various major institutions. Andy is responsible for the safety, sustainability, operational excellence and expertise within Drax's power generation sites in the UK. Andy is a board member of the Northern Powerhouse Partnership and Regional Councillor for the CBI, Yorkshire and Humber region.

Appointment to the Board: January 2016.

Vanessa Simms A N R

Independent Non-Executive Director

Vanessa has extensive experience in senior finance roles across several different industries, including real estate, telecommunications and medical devices. She 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 Member of the Association of Chartered Certified Accountants. Her broad and varied experience in finance is invaluable in her role as Chair of the Audit Committee.

Appointment to the Board: June 2018.

Nicola Hodson A N R

Independent Non-Executive Director

Nicola brings valuable technology expertise, as well as having extensive digital transformation, sales and IT experience in leading global companies. 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 Chair of the Remuneration Committee and brings to the role a wide range of experience of international business, government organisations, and dealing with a variety of stakeholders. Nicola is a Non-Executive Director of Beazley plc.

Appointment to the Board: January 2018.

John Baxter A N R

Independent Non-Executive Director

John brings to Drax highly valuable engineering and safety experience, with over 45 years working across the nuclear, electricity and latterly 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 Director of Nirex Ltd. He is a Chartered Engineer, Fellow of both the Royal Academy of Engineering and the Royal Society of Edinburgh and chairs the Sellafield Board Committee on Environment, Health, Safety & Security.

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, with other stakeholders, and by developing policies and procedures that provide an effective framework for operating in line with required standards, laws and regulations.

The Executive Committee receives regular reports on business performance. The safety and wellbeing of our workforce is of primary importance. The opening agenda item for each meeting considers safety updates from executives responsible for our business units. Ethics and values is also a standing agenda item. The performance against the Business Plan is reviewed across financial and non-financial metrics.

Each meeting reviews risks, focusing more closely on a specific principal risk at each meeting. Stakeholder engagement is considered, with particular focus on the political landscape which could impact Drax's ability to execute its strategy. Examples during 2019 include the Capacity Market, the commitment to meeting zero carbon targets and investment in technologies to reduce carbon emissions. The Committee monitored business integration, following the acquisition of the hydro and gas generation assets. Papers are distributed ahead of meetings to brief Committee members on matters to be discussed. Members also receive presentations on various business issues by senior managers within the business units.

The Executive Committee has 11 scheduled meetings each calendar year and arranges additional meetings if needed.

Biographies of the Executive Committee members can be found on the website drax.com/about-us/corporate-governance/

Highlights of the Executive Committee's 2019 activities

Health, safety and wellbeing

- Considered regular updates from business units, including on process and behavioural safety and culture
- Introduced a new Group-wide incident management reporting system
- Reviewed the governance process regarding health, safety and wellbeing reporting across the Group
- Considered feedback from the MyVoice forums and used input from the forums to develop plans to address wellbeing across the Group

Governance

- Developed a new, 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 Corporate Crime and Fair Competition policies

Operations

- Monitored the integration of the hydro and gas generation assets
- Considered the future of flexible generation, including options for flexible gas generation
- Considered the challenges in pellet supply following extreme weather conditions in the US and developed mitigation strategies
- Reviewed biomass supply chain and procurement and developed investment proposals to increase production capacity and self-supply
- Considered options for alternative fuel supplies, such as woodchips and other forms of agricultural residues
- Monitored progress of the planned outage of Unit 2, which successfully completed in the fourth quarter

Stakeholders

- Reviewed the stakeholder engagement strategy and developed a more transparent process for identifying and considering wider stakeholders when making decisions
- Considered the political landscape and implications for future investments and execution of strategy
- Implemented and received feedback on a new workforce engagement strategy (MyVoice forums) and their interaction with the Board
- Met with the chairs of the MyVoice forums to discuss progress of engagement during the implementation phase and agreed additional support
- Considered Group-wide reward and recognition structures, ensuring alignment with culture
- Considered gender pay gap reporting
- Considered diversity and inclusion issues and initiatives and established the Diversity and Inclusion working group
- Reviewed the 2018 workforce engagement survey results and action plans
- Considered the engagement with the trade union on pay and the implementation of changes to working practices

Finance and capital

- Considered the refinancing of the debt facility for the acquisition of the hydro and gas generation assets
- Conducted an in-depth review of Treasury and financing
- Reviewed capital allocation plans and processes for approval

Risk

- Developed a new risk management framework, with in-depth reviews and assessments of the Group's principal risks
- Focused on one principal risk in detail at each committee meeting

Corporate governance report

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

Drax Group plc Board

Responsible for setting the Group's purpose and values, setting and overseeing the Group's strategy and risk appetite, monitoring performance, ensuring that the necessary controls and resources are in place to deliver the Group's plans and ensuring that the Group meets its responsibilities to its various stakeholders

Audit Committee

Oversees financial reporting, internal controls and risk management systems, whistleblowing and fraud, internal and external audit effectiveness

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Nomination Committee

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

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Remuneration Committee

Oversees the Group's approach to remuneration and sets key performance measures for the Executive Directors and members of the Executive Committee, and considers reward across the wider business

Page 86

Executive Committee

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

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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 challenge of 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 (Generation and Customers)

Reviews the operational and financial performance of the business units.

Safety, Health, Environment & Welfare Committee

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

Compliance with the UK Corporate Governance Code 2018 (Code)

The new Code, which can be found on the Financial Reporting Council website at www.frc.org.uk, took effect from 1 January 2019. During 2019 the Board conducted a full review of its governance practices and alignment with the new Code, including a review of appropriate actions to ensure that, by the end of 2019, the Company was able to confirm that it had applied the principles and provisions. It is the Board's view that the Company had applied the principles and complied in full with the provisions of the Code by the end of 2019. Examples of actions undertaken during 2019 include the development of new workforce engagement forums and a new policy for post-employment shareholding requirements for Executive Directors. More details are contained below.

Role of the Board

The Board determines: the Group's purpose and strategy; appetite for risk; risk management policies; annual plan and key performance indicators; stakeholder engagement; acquisitions and disposals, and other transactions outside delegated limits; material changes to accounting policies or practices; significant financial decisions; capital structure and dividend policy; shareholder communications; 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 are available to view on the Group's website at www.drax.com.

Matters which are 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.

How the Board functions

Prior to each Board meeting 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 Group Chief Executive gives a report on key business, operational and safety matters and the Chief Financial Officer 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. The Board receives regular industry, regulatory and topical updates from internal specialists and from external experts and advisers. Papers are distributed in advance of Board and Committee meetings to allow adequate preparation.

The core activities of the Board and its Committees are documented and planned on a forward agenda, with a list of matters arising from each meeting 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 ensures that Board processes are complied with and is also responsible 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, through good training, regular discussions on key issues, and support from those in areas of critical operational risk in evaluating areas for change.

All Board Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information required from any member of the workforce of the Group in order to perform their duties.

The Company's Articles of Association (the Articles), give the Directors power to authorise conflicts of interest when such matters are presented for their review. The Board has an effective procedure to identify potential conflicts of interest, consider them for authorisation and record them. The Articles also allow the Board to exercise voting rights in Group companies without restriction (for example to appoint a director to a Group company). The Articles are available on the Group's website at www.drax.com.

Culture

The Board routinely monitors and assesses culture. Health and safety, as a standing Board agenda item, is one of the first items to be considered at each meeting and includes discussion on underlying safety culture. The Board considers workforce engagement, performance and reward as well as financial performance when it discusses progress of business units against plans.

The Group Ethics and Business Conduct Committee (EBCC), which is a sub-committee of the Executive Committee and meets quarterly, monitors and supports initiatives to improve ethical behaviour and practices. The EBCC supports the Group's commitment to doing the right thing by ensuring that training is conducted that informs behaviours in accordance with the Drax values and ethical principles set out in the "Doing the right thing" handbook. The EBCC conducts an annual review and risk assessment of each compliance programme, which include Anti-Bribery and Corruption, privacy, and supply chain human rights. The EBCC reports quarterly to the Audit Committee on investigations and key matters, and annually on EBCC activities for the year. Members of the EBCC include two Executive Directors (the CFO, who is Chair of the EBCC, and the CEO Generation), and one Executive Committee member (Director of Corporate Affairs), which informs understanding of business culture and attitudes, informing Board and Executive Committee discussions. Ethics and values is a standing agenda item for the Executive Committee, with the CFO responsible for raising such matters as Chair of the Group Ethics and Business Conduct Committee (EBCC). The Group Company Secretary is the Whistleblowing Officer. Updates on whistleblowing incidents are provided to the Executive Committee, Audit Committee and Board as appropriate, which during the 2019 financial year included training for Directors. A number of whistleblowing related matters remained under investigation at the date of this report.

The Company ensures that employees receive appropriate communications and training on, and regularly reviews its suite of policies for key matters which underpin ethical behaviours, such as Corporate Crime (including Anti-Bribery and Corruption, Conflicts of Interest and Supply Chain Human Rights), Privacy, Fair Competition and Whistleblowing. More information on our approach to the management of ethics and integrity, can be found in the Sustainable Business section page 49.

Non-Executive Directors regularly visit company locations and meet with local management and the workforce to better understand operations and underlying culture. In 2019 John Baxter visited 12 sites as part of his induction and David Nussbaum visited six of the newly acquired sites following the acquisition of hydro and gas generation assets in December 2018.

Our One Drax Awards, which were first introduced in December 2018, reward employee behaviours and performance that reflect delivery of objectives and positive contribution to company values and culture.

Diversity

We explain our work promoting diversity on page 76. The table below shows the gender diversity split in the Board and the wider workforce at 31 December 2019.

	Male		Female		Total	
Gender	No.	%	No.	%	No.	%
Board Members	6	75	2	25	8	100
Senior Managers[1]	23	79	6	21	29	100
All employees[2]	2,015	68	932	32	2,947	100

Notes:
(1) Direct reports of the Board (i.e. Executive Committee) and their direct reports
(2) Excluding Board Members and Senior Managers

Stakeholder engagement

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 those 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 include stakeholders likely to be affected by items under discussion and the potential impact. This ensures that the interests of all relevant stakeholders are considered in decision-making. For more detailed information on our stakeholders and how we engage with them please refer to our "Stakeholder" section on pages 24 to 29.

Succession planning

Good succession planning contributes to the delivery of the Group's strategy by ensuring the desired mix of skills and experience of Board members now and in the future. As noted on page 69, in 2019, our three longest serving Non-Executive Directors (David Lindsell, Tony Thorne and Tim Cobbold) stepped down at the end of their tenure.

In line with existing succession plans, John Baxter was appointed as a Non-Executive Director in April 2019. Further details on John's appointment and induction can be found in the Nomination Committee Report on pages 74 and 77.

Vanessa Simms, who is CFO at Grainger plc and joined Drax in June 2018, was appointed Chair of the Audit Committee in April 2019 after David Lindsell stepped down. Nicola Hodson, who joined Drax in January 2018, was appointed Chair of the Remuneration Committee in April 2019 after Tony Thorne stepped down as Chair (ahead of his stepping down as a director in June 2019). Nicola had served on the Committee for 15 months before she became Chair. Each of Vanessa and Nicola had worked closely with, and been mentored by, their predecessors as part of a structured induction programme to help with a smooth transition into the respective roles.

David Nussbaum succeeded David Lindsell as Senior Independent Director in April 2019.

Further details on wider succession planning can be found on page 76.

Directors' development and induction

To assist the Board in undertaking its responsibilities, a programme of training and development is available to all Directors. Training needs are 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.

During the year, as well as Board meetings in London a meeting took place at the power station in Selby to give the Non-Executive Directors the opportunity to develop a deeper understanding of, and insight into, the operations of the Generation business.

During the year, Directors had access to the advice and services of the Group Company Secretary. Directors may take independent advice at the Company's expense when it is judged necessary in order to discharge their responsibilities effectively. No such independent advice was sought in 2019.

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.

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. Ensures 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.
Group 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.
Chief Financial Officer	Supports the Chief Executive in developing and implementing strategy, in relation to the financial and operational performance of the Group.
CEO, Generation	Responsible for leading and developing the operation of the Power Generation and Pellet Production businesses.
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.

Case study

The Board's role in the refinancing of debt

In 2019, the Board considered options for refinancing the acquisition bridge facility, secured to support the acquisition of the hydro and gas generation assets in December 2018. The refinancing approach was considered before the acquisition. The key considerations were the credit rating of the Group; the impact to net leverage and ability to access credit; the strength and depth of liquidity sources, and the strength of Drax's near-term earnings and cashflows; ensuring that any acquisition debt facility was structured to allow flexibility to refinance through 2019; assessment of existing and new routes to market ensuring a good breadth of options were considered.

In 2019, there were two tranches of refinancing. The first was a $200m US Bond, concluded in May 2019, and the second was for a total of £500m agreed in July 2019, £375m of which was an infrastructure private placement facility. Consistent with our continued strategic focus on reducing our carbon emissions, and demonstrating our commitments to wider stakeholders, the Board discussed and agreed that the remaining £125m should be refinanced by way of an Environmental, Social and Governance (ESG) loan facility. The ESG loan includes a mechanism that adjusts the margin based on Drax's carbon emissions per GWh of electricity generated by fossil fuel combustion against an annual benchmark, rewarding or penalising our environmental performance in this area.

The Board was updated in the spring 2019 with an indicative route to refinance the acquisition facility, exploring multiple routes to enable a more successful outcome. The CFO, Group Treasurer and legal and financing advisers briefed the Board, with the CFO providing monthly updates on the progress of refinancing, including any risks to execution. A working group comprising the CFO, Company Secretary, and senior managers from the Treasury, Legal, Investor Relations and IT teams, was created to oversee delivery of the plan, monitor and assess the adequacy of procedures under the Market Abuse Regulations.

For each tranche of refinancing, the Board was provided with a comprehensive briefing. Following review and approval of approach, the Board then delegated authority to a subcommittee to undertake the necessary steps to effect the refinancing. Throughout the process, advice was sought from financial and legal advisers, and if any substantive updates were received, this was fed back to the Board via the CFO.

Time commitment

Directors' commitments outside of Drax are kept under review to ensure that they have sufficient time to dedicate to the business and effectively perform their role. Under the terms of his 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 per year.

In addition, they 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.

Non-Executive Directors are encouraged to undertake visits to Drax operations, and spend time with management and the workforce, to maintain their knowledge of the developing business and to understand the operational challenges.

Between 22 January 2019 and 15 April 2019, Philip Cox took on the role of Executive Chair at Kier Group plc ("Kier"), on an interim basis, during the search for a new CEO at Kier. The Board had considered and approved in advance his taking on of this additional interim commitment. During this interim period he continued to devote the appropriate time to his role as Chair of the Board. In September 2019, Philip Cox announced his intention to step down as Chair and director of Kier once a successor had been appointed, and on 1 January 2020, he duly stood down as Chair and director.

In April 2019 Nicola Hodson was appointed as a Non-Executive Director of Beazley plc. The Board considered and approved in advance her taking on this additional commitment.

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.

As notified in the 2018 Corporate Governance Report, Tony Thorne and Tim Cobbold stepped down as directors during 2019, after each served nine years and David Lindsell stepped down as a director after serving 10 years (having served an additional year in order to manage the orderly transition for a new CFO and a new Audit Committee Chair).

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

Board attendance 2019

The table below shows the number of meetings held and the director's attendance during 2019.

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	5	5	100%
Tim Cobbold(2)	27 September 2010	7	6	86%
Philip Cox	1 January 2015	9	9	100%
Will Gardiner	16 November 2015	9	9	100%
Nicola Hodson	12 January 2018	9	9	100%
Andy Koss	1 January 2016	9	9	100%
David Lindsell	1 December 2008	4	4	100%
David Nussbaum	1 August 2017	9	9	100%
Andy Skelton	2 January 2019	9	9	100%
Vanessa Simms(2)	19 June 2018	9	8	89%
Tony Thorne	29 June 2010	5	5	100%

Notes:
(1) The scheduled meetings that each individual was entitled to, and had the opportunity to, attend.
(2) Vanessa Simms and Tim Cobbold were each unable to attend one meeting as a result of pre-existing commitments. However, they both received the meeting papers and provided comments in advance of the meeting in order for their views to be considered.

Corporate governance report continued

Summary of the Board's activities in 2019

In October 2019 a two-day review of strategy was undertaken, which discussed progress made during the year to date in delivering on strategic imperatives, and 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.

Strategy
- Approved the 2020 Business Plan and the Strategic Plan to 2023
- Considered and adopted the Company's corporate purpose

Health and safety
- Received regular updates from the CEO
- Received updates from Safety, Health, Environment and Wellbeing Leadership Executive Committee
- Considered safety processes and implementation

Governance
- Approved a new target operating model and a new formal governance structure of sub-committees
- Strengthened the Executive Committee with new appointments
- Considered and approved the revised Modern Slavery Act statement
- Completed a full review of the Company's compliance with the Code
- Considered and approved updated Corporate Crime policy and 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 the newly created MyVoice Forums and considered feedback
- Considered the outcomes of the Employee Voice Survey and agreed follow up actions
- Approved the Group Diversity Policy
- Received regular updates on Investor Relations programmes, including an Investor Relations audit report presented in the autumn
- Approved a response to the 42% vote against the political donations resolution, including a new policy for political expenditure (see page 27 for more details)

Operations
- Considered proposals for the repowering programme
- Considered the future of flexible generation
- Approved the Group's trading strategy
- Reviewed initial tenders for construction of OCGT plants
- Monitored the ongoing integration of the hydro and gas generation assets
- Considered and approved the future of flexible generation, including options for flexible gas generation;
- Monitored business performance against the business plan
- Considered and monitored the Customers' technology transformation project
- Conducted a post-acquisition review of the hydro and gas generation assets
- Approved investments in the pellet plants to increase production capacity and invest in additional equipment to improve environmental management on site
- Approved the updated biomass sourcing policy

Finance and capital
- Conducted an in-depth review on Treasury, led by the Head of Treasury, covering liquidity, working capital and debt. This was a stand-alone meeting outside of normal business.
- Approved the proposed refinancing of the acquisition bridge facility
- Reviewed the dividend policy
- Approved the final and interim dividends
- Approved the 2018 annual report and accounts
- Approved the 2019 half-year report and accounts

Risk
- Considered the Group's risk appetite and approach to risk management
- Reviewed the Group's principal risks, adding a new principal risk on climate change
- Considered the finance and risk update

Nomination Committee report

"We continue our work to ensure that the Board, management teams and the wider business, has the mix of skills, experience and diversity to best position the Group in the delivery of its strategy."

Philip Cox CBE
Chair

Committee members
John Baxter (appointed 17 April 2019)
Nicola Hodson
David Nussbaum
Vanessa Simms

Attending by invitation
Group Chief Executive

Number of meetings held in 2019: two

The Group Company Secretary is Secretary to the Committee.

Attendance in 2019

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	1	1	100%
Tim Cobbold*	27 September 2010	1	1	100%
Philip Cox	22 April 2015	2	2	100%
Nicola Hodson	12 January 2018	2	2	100%
David Lindsell*	1 December 2008	1	1	100%
David Nussbaum	1 August 2017	2	2	100%
Vanessa Simms	19 June 2018	2	2	100%
Tony Thorne*	29 June 2010	1	1	100%

*retired in 2019 each having served for nine years or more on the Board

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)
- conduct the search and selection process for new directors, taking advice from independent search consultants as appropriate
- ensure 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
- report on Board evaluation

Nomination Committee activities in 2019
- Appointed John Baxter as a Non-Executive Director
- Reviewed Executive Committee succession planning

Introduction
I am pleased to present the Nomination Committee Report for the year ended 31 December 2019.

2019 saw significant change for our Board as three experienced Non-Executive Directors stood down each having served on the Board for nine years or more. As reported in the 2018 annual report, in preparation for these retirements, the Nomination Committee conducted reviews which culminated in the appointment to the Drax Board of two new Non-Executive Directors, Nicola Hodson (appointed in January 2018) and Vanessa Simms (appointed in June 2018). On the conclusion of the 2019 AGM, Nicola assumed the role as Chair of the Remuneration Committee and Vanessa assumed the role of Chair of the Audit Committee, following a period of time in which the outgoing Chairs supported a managed handover.

As Chair of the Nomination Committee, I am responsible for overseeing the progress made to improve diversity in appointments to the Board and to support an effective succession plan for senior management that is consistent with the long-term strategy of the Group. The Committee will continue to monitor the balance of the Board to ensure sufficient breadth and depth of expertise is available from the existing members and will recommend further appointments to the Board as appropriate. The Committee also takes an active interest in the quality and development of talent and capabilities below Board level, ensuring that appropriate opportunities are in place to develop high-performing individuals and to build diversity in senior roles across the business.

Selection of new Non-Executive Director – process

The Committee follows an established and formal process which considers the skills, knowledge, diversity and experience that support the Company in delivering its strategic goals. This includes seeking to provide the Board with an appropriate balance and mix of skills required for now and in the future.

In 2019 we were delighted to announce the appointment to the Board of John Baxter, CBE.

During our search for a new Non-Executive Director, the Committee initiated and oversaw a rigorous recruitment process. It appointed Egon Zehnder to ensure a comprehensive search of the market. Egon Zehnder is signed up to the Hampton Alexander voluntary code of conduct on gender diversity and, aside from assisting with recruitment, has no connection with the Group or individual directors. Egon Zehnder did not provide any services to the Board in 2018.

Reflecting our commitment to gender diversity, the candidate selection process initially focused on potential female candidates. Due consideration was given to a range of capabilities that the Committee felt was required for our Board. These included technical and engineering experience, sector specific knowledge relevant to our Group, experience of operating multinationally and the candidates' existing time commitments. In considering time commitments, particular consideration was given to prevailing listed company directorships with regard to the need to avoid "over-boarding". Following a balanced assessment of these factors and the outcome of interviews, the Committee decided to proceed with a further search.

The search culminated in the appointment of John Baxter. John is a Chartered Engineer and Fellow of both the Royal Academy of Engineering and the Royal Society of Edinburgh, with experience in running multinational operations, including in businesses undergoing significant change. John's skills, combined with his interests in operational excellence, safety and people from working in generation and the energy sector are a valuable addition to our Board. John's biography is set out on page 65.

Non-Executive Directors: terms of appointment

Under the Board's policy, each Non-Executive Director will be 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.

Board and Committee evaluation

The Board recognises that it needs to regularly monitor performance. This is achieved through the annual performance evaluation, full induction of new Board members and ongoing Board development activities.

For 2019 it was determined that an external Board performance evaluation would be conducted, in line with the Code requirement to hold an externally facilitated evaluation at least every three years. Board Alchemy was chosen to facilitate and conduct the evaluation. Board Alchemy does not have any other connection with the Group or individual Directors. In conducting the evaluation, Board Alchemy interviewed all Directors during the Autumn of 2019, including former Director Tim Cobbold. Ahead of this, each of the Directors completed a detailed questionnaire providing information about how they viewed the role of the Board and how it functions.

As part of the evaluation, Board Alchemy also met with the Group Company Secretary and members of the Executive Committee. Board Alchemy also observed the September Board meeting, including the agenda discussion without Executive Directors, and reviewed recent Board papers to assess the quality of Board information. As the Chairs of the Audit Committee and Remuneration Committee were relatively new in post, the primary focus was on the Board and the Committees were not evaluated in detail. A formal, externally-led, review of the Committees of the Board will be undertaken in 2020.

The evaluation concluded that the relevant key skills were represented on the Board; the Chair showed good leadership and invested the necessary time; there were good dynamics and an open and transparent Board culture, with Non-Executive Directors challenging constructively and Executive Directors responding without defensiveness; the Board maintained an appropriate focus on the long term.

Recommendations for the future included a focus on improving the quality of Board papers; regularising the programme of Board development, with deep dives on specific subjects (including bringing in external expert perspectives to the sessions), maintaining focus on understanding stakeholder perspectives and considering how the Board can engage more deeply on safety, engineering and technology governance enabling the significant expansion in Drax activities in the next decade. Actions already taken include a presentation to the Board on cyber risks by the National Cyber Security Centre in November 2019 and rolling out guidance on producing more focused board papers that also include identification of stakeholders who may be affected by any major decisions.

A review of my performance as Chair was facilitated by the Senior Independent Director, incorporating input from Board Alchemy, with feedback provided to me. A discussion of the Board evaluation was held at the November Board meeting and I have followed up with individual Directors.

Terms of reference

The Committee's terms of reference are reviewed annually by the Committee and then by the Board, most recently in November 2019. The terms of reference are available on the Group's website at www.drax.com/governance.

Board and Committee evaluation – actions taken

Our targets for 2019	What we did
People and strategy The Board will: • continue to focus on diversity in its widest sense in considering new appointments to the Board and at senior management level • build on recent initiatives to improve diversity in the senior leadership pipeline • closely monitor the implementation of initiatives to improve people leadership, talent development and succession planning • enhance strategy review by wider thinking on skills required for the future	• Established a Diversity and Inclusion Working Group, led by a member of the Executive Committee, which is developing plans to support a more diverse talent pipeline. You can read more about this on page 45 • The Executive Committee was refreshed to ensure effective leadership with the right skills and experience in place to deliver the strategy • The Executive Committee continued to review succession plans and the talent pipeline, focused on key skills required for the future
Oversight of risk and security • The Board will continue with its high level of focus on cyber security risk with periodic independent reviews of cyber security	• Group Security conducted benchmarking and maturity assessments, which were submitted to the Audit Committee • Conducted a Group Security Maturity Assessment with PwC to assess and measure the progress of the Group Security function since the last review (2017) and inform security strategy and business plan for 2020+ to address gaps and findings • Undertook an independent Health Check and Industry Benchmark for our core IT environments with the Information Security Forum • Two senior representatives from the National Cyber Security Centre gave an update to the Board in November 2019
Workforce engagement, health, safety and wellbeing • The Board will continue its detailed focus on safety and monitor the development of a new approach to safety reporting for process safety	• The Board continues to receive updates on health and safety at the start of every Board meeting • A new Drax-wide online safety incident management system was rolled out, including associated mandatory training, a "champions" network and a colleague engagement campaign • At a meeting in September 2019 with the Chair and CEO, the views of the MyVoice forum chairs were sought regarding safety and wellbeing and areas to improve. These were subsequently considered by the Executive Committee and Board with plans developed for further discussions with the MyVoice forums
Stakeholder engagement • The Board will focus on the issue of stakeholders, especially in light of the acquisition of the hydro and gas generation assets • All major projects will be reviewed for impact on all stakeholders	• Relevant stakeholders were taken into account by the Board when considering major decisions • In 2019 the Board considered the debt refinancing – see page 70 – and approved an ESG loan with specific carbon-related metrics, to support the Group's purpose and the Board's commitment to wider stakeholders • The Board received regular updates on stakeholder engagement activity You can read more about this on pages 24 to 29

Nomination Committee report continued

Succession planning and diversity

The Board recognises that effective succession planning is key to the Company's ability to achieve its strategic objectives. It is also integral to maintaining an effective Board. Selecting and supporting the right individuals is an essential role of the Committee. For example, during 2019 two appointments to the Executive Committee (Jason Shipstone and Paul Sheffield) were promotions from our talent pipeline.

Each year the Committee reviews the Group's succession plan, identifying those colleagues who have the potential to step into leadership roles across a timeframe of one to five years. The review focuses on various aspects, such as technical skills and experience and also behaviours and attitudes, to ensure that the business has the right leaders in place to deliver our purpose and strategy in a collaborative and transparent way.

In our 2018 annual report, we outlined our desire that by the end of 2020, the Group would have 40% of senior leadership roles held by women. This reflects our belief that all organisations should be prepared to set stretching targets, but transparency is also important and our progress to date is not yet sufficient to achieve the ambition we set ourselves. This is disappointing, but we remain committed to making Drax an inclusive place to work which respects, values and supports individual difference, at all levels of the business.

We report on page 45 on our wider work in the organisation which is focused on realising these changes. Part of this has to be driven by not only the recruitment processes but also support for programmes which encourage women to pursue careers and qualifications that fit with the opportunities which Drax offers. Support from companies such as Drax through apprenticeship schemes, training programmes, experience days where young people are given the chance to learn about what we do and the exciting roles they can take on is important. Creating such interest through engagement in the wider community must play a part in this, as well as listening to young people from diverse backgrounds about what would encourage them to join a business such as Drax. Such work is a longer-term endeavour, but we consider Drax has a role to play.

The Board also embraces diversity in its broadest sense, believing that a wide range of experience, background, perspective, skills and knowledge is the foundation of a high performing and effective team. As part of our commitment to this, the Board's Diversity Policy was reviewed and updated by the Committee and subsequently approved by the Board in February 2019. The review included aspects of new and emerging best practice and regulatory developments in the area of senior management and Board diversity. The policy now covers race, gender, disability, educational and professional background.

Skills and knowledge of the Board

A key responsibility of the Committee is to ensure that 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 past years, the Nomination Committee has reviewed the composition of the Board and as part of this review the Committee 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 continues to have an appropriate mix of skills and experience, both now and for the future, to operate effectively. All the Directors have many years of experience, gained from a broad range of businesses and they collectively bring a range of expertise and knowledge of different business sectors to Board deliberations, which encourages constructive, challenging and innovative discussions.

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
Additional specific training with internal specialists as appropriate to the individual Non-Executive Director's experience and training requirements	Meetings with other Board members
Governance structure	Other key documents including strategy and business plan

Induction of new Directors

All new Directors receive a comprehensive, tailored, induction. During the year, John Baxter was appointed as a Non-Executive Director. As part of his induction, John Baxter visited 12 Drax sites, including a four-day trip to the US where he visited the port facility at Baton Rouge, and the pellet sites at LaSalle, Amite and Morehouse, meeting with local management and discussing a range of matters, in particular health and safety and plant management. John reported to the CEO and Chair after each visit and also provided a reflection on his visits to a meeting of the Board held in November 2019.

Renewal and re-election

If the Board appoints a Director, that Director must retire at the first AGM following their appointment. That Director may, if they so wish, put themselves forward for election. John Baxter was appointed by the Board after the 2019 AGM and therefore will retire and offer himself for election by shareholders at the forthcoming AGM.

The Articles provide that one-third of directors shall retire by rotation each year and are eligible for re-election by shareholders at the AGM. In accordance with the Code, the Company will continue its practice to propose all directors for annual re-election. Accordingly, Philip Cox, Will Gardiner, Nicola Hodson, Andy Koss, David Nussbaum, Andy Skelton and Vanessa Simms will all retire at the forthcoming AGM and, being eligible, will offer themselves up for re-election.

Following the evaluation and review of the Board described above, I concluded that the Directors offering themselves for election and re-election continue to demonstrate commitment, management and business expertise in their particular role and continue to perform effectively. The election and re-election respectively of each director is recommended by the Board. 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 111.

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.

During the year, I held regular meetings with the Non-Executive Directors in the absence of the Executive Directors, and, 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
26 February 2020

Audit Committee report

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.**

"We are focused on ensuring a robust system of internal control and fair and balanced performance reporting are in place."

Vanessa Simms
Chair

Committee members
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 64 to 65.

Attending by invitation
Chair of the Board, Group Chief Executive, Chief Financial Officer, Group Financial Controller, Group Finance Manager, Head of Group Risk and Internal Audit, External auditor (Deloitte LLP).

Number of meetings held in 2019
Four. In addition to the below, Vanessa attended a number of planning meetings to consider key agenda items.

The Group Company Secretary acts as Secretary to the Committee.

Attendance in 2019

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter	17 April 2019	2	2	100%
Tim Cobbold(1)	27 September 2010	3	3	100%
Nicola Hodson(2)	12 January 2018	4	2	50%
David Lindsell(3)	1 December 2008	2	2	100%
David Nussbaum	1 August 2017	4	4	100%
Vanessa Simms(4)	19 June 2018	4	4	100%
Tony Thorne(5)	28 June 2010	2	2	100%

(1) Stood down as a director on 27 September 2019

(2) Nicola was unable to attend two meetings in 2019, one of which was due to significant travel disruption involving delayed flights and the other was a commitment entered into prior to joining the Company. On the latter occasion Nicola received the meeting papers and provided comments to the Chair of the Committee in advance so that her views could be taken into account in the meeting

(3) Stood down as a director, and Committee Chair, on 17 April 2019

(4) Appointed as Committee Chair on 17 April 2019, having worked closely with David Lindsell, previous Chair, over the previous ten months

(5) Stood down as a director on 28 June 2019

Role of the Committee
The role of the Committee is to assist the Board to fulfil 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
- 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 be briefed on papers and key matters.

Meeting	February	April	July	November
Item under review	• The 2018 year-end review of accounting issues and judgements • Consideration of the 2018 annual report, financial statements and preliminary results announcement • The internal control environment and update on effectiveness of internal controls • Final report from Deloitte on their 2018 audit findings • Internal audit reviews summary and audit planning • The effectiveness of the 2018 external audit process • The Audit Committee's effectiveness – feedback arising from 2018 internal evaluation	• Management update on accounting issues and judgements • The external auditor's management letter for the 2018 audit • Update on the internal control environment • Review of activity and matters addressed by the Ethics and Business Conduct Committee • Review of the whistleblowing policy, including incidents reported and investigation outcomes • Update on Risk and Controls in the Haven and Opus Customers business • IT internal controls review including Cyber Security • Progress of the internal audit plan, outstanding actions and recent reports • Senior Accounting Officer reporting to HMRC	• The 2019 interim review of accounting issues and judgements • Review of Group's approach to IFRS 16 (Lease Accounting) • Report from Deloitte on their 2019 interim review findings • Consideration of the 2019 half-year financial report and results announcement • Update on the internal control environment • Review of independent assurance report on biomass sustainability • Progress of internal audit plan, recent reports and outstanding actions • The Audit Committee's terms of reference • The Auditor Independence Policy	• Management update on accounting issues and judgements, and focus areas affecting the 2019 financial statements • Planning report from Deloitte on the 2019 audit and proposed audit fees • Review and approval of the external auditor's 2019 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 Risk and Controls in Generation and Pellet Production • Internal audit plan for 2020, assurance mapping, charter, recent reports and outstanding actions • Review Internal Audit performance and effectiveness

The Committee allows time at each meeting to speak in the absence of management with each of the external auditor and the Head of Group Risk and Internal Audit. 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 2019.

The Committee identified areas where it would be helpful to allow additional time to discuss matters considered by the Committee members. During 2019, following a recommendation by the Committee, an additional meeting was held, attended by all members of the Board to discuss the Group Treasury activities to coincide with the review of the refinancing of the acquisition bridge facility.

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 2019. In addition, the Committee received updates on the financial risks and financial controls from each of the Group's primary business units. During 2019, management from Drax Power (the Generation business), Haven Power, Opus Energy (jointly the Customers business) and Drax Biomass (the Pellet Production business) attended Committee meetings to report on areas of their responsibility and to allow the Committee an opportunity to consider and comment on prevailing issues and priorities. One example of a topic considered when discussing the Customer business unit was actions being taken to strengthen payroll systems and associated reporting through integration into a common IT platform (including associated procedures and staff training). The work on this project was completed in Q1 of 2020. The Committee also received regular updates and reports on the integration of the newly acquired generation assets into the Drax Power financial systems. Matters considered as part of that discussion was the degree to which financial and business systems have been fully integrated into common platforms and the progress in terminating (to schedule) of transitional service arrangements which had been entered into with the previous owner of the acquired assets. The Committee was also appraised of and considered how as a result of the acquisition, the increase in the asset base and the associated differing economics has added complexity to the monitoring of Impairment and Useful Economic Lives, and how management had responded to this matter.

The various updates, reviews and reports allowed both control and audit issues to be discussed directly with management. Risk mitigations and progress with previously agreed actions were also monitored and progress discussed.

Areas for improvement identified from an internal audit of cyber security operational controls and mentioned in the 2018 annual report were addressed during 2019. It was recognised that the nature of cyber-related threats continues to evolve. The Board as a whole received a presentation on cyber risks from senior representatives of the National Cyber Security Centre in November 2019.

No material issues have arisen with the operation of controls in individual business units, but internal audits of Procurement and Health and Safety undertaken in 2019 identified that Group-wide controls should be enhanced to ensure consistency across the expanded Group. Management are taking action to put in place Group-wide policies and control frameworks and bring together operational support and review mechanisms which should be established in H1 2020. A new Group-wide online safety incident management system has been rolled out with associated mandatory training in conjunction with a "champions" network and a colleague engagement campaign. In addition, during 2019 a new incident reporting tool was adopted to enhance the reporting and analysis of incidents.

The Committee reviewed the categories used to report to shareholders and other stakeholders the Principal Risks and Uncertainties explained in the report (see pages 54 to 61). The review included discussion of retaining a disclosure associated with ongoing uncertainty from Brexit as well as the extent to which the newly acquired generation assets had a material bearing on the explanation of risks affecting the Group as a whole. The Transaction Risk included in the 2018 annual report associated with the acquisition of the hydro and gas generation assets has been removed. The Committee agreed that a new category of Climate Change risks should be included to reflect new emerging challenges on disclosure of climate-related risks. 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 and Internal Audit.

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 also is updated on the reviews.

Reviewing the 2019 Annual Report and Accounts

At its meeting held in November 2019, the Committee received reports from management on its planning for the various elements of the 2019 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 comment on the sections. That meeting also discussed how such review would support ensuring the annual report was fair, balanced and understandable. In addition, at the same meeting the Committee reviewed a reclassification of the Group's US Dollar fixed asset translation balances and approved the approach and disclosure proposed by management.

Between the year-end date and the date of the approval of the Annual Report and Accounts, the Committee met on 24 February 2020 principally to review the draft 2019 Annual report and accounts and the external auditor's findings. The Committee reviewed papers prepared by management on accounting issues and judgements affecting the accounts and 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 52 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 133 referring where necessary to the agreed accounting policy).

Committee activities in 2019

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. One such example was review during the year of how the Group should respond to IFRS 16 (Leasing). A rolling 12-month plan is also reviewed at each meeting, ensuring appropriate and timely consideration is given to relevant subjects as and when they arise. The main areas of work undertaken by the Committee during 2019 at its routinely scheduled meetings are set out in the table on page 79.

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 129. 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 and accuracy of unbilled revenue, which are discussed on page 82.

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 position and performance, business model and strategy.

External auditor effectiveness

The Committee reviewed the effectiveness of the external auditor in February 2019 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. On finalisation of the audit in respect of the 2018 Group annual report and financial statements, James Leigh had completed his five-year term as audit partner. He was replaced by Anthony Matthews who has significant listed company auditing experience working within the energy and resource sector and had previously led the Group's Customer business 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 2019 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 Subsidiary 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.

In addition, this year the Committee included a detailed review and consideration of the report issued by the FRC's Audit Quality Review (AQR) team regarding Deloitte's audit of the Group's 2018 financial statements as set out below.

The final AQR report and findings was received on 31 January 2020 by the Chair and the full Committee has considered in detail the findings of the FRC's review. In advance of the Audit Committee meeting held in February 2020 the Chair and Audit Partner discussed the findings and in addition the Chair met with the Acting Director of the FRC responsible for the AQR report. A further discussion on the full report was led by the Chair with all members of the Committee as part of the agenda at the meeting held on 24 February 2020.

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 components. A fourth area related to the work completed on the purchase price valuation disclosed appropriately as provisional in 2018 and finalised in the 2019 financial statements.

Having discussed the report 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.

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 in order 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 asset values of forward foreign currency purchase contracts reduced substantially in the financial period following the recovery of Sterling against US Dollar, which was partially offset by an increase in the value of forward power sales contracts as a result of falling power prices. 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 Committee reviewed the Group's derivative position in February, July and November 2019, having regard in particular to the critical judgemental areas described in note 7.2 to the financial statements. The Committee considered the position as at 31 December 2019 at its meeting on 24 February 2020. At each meeting, management provides updates on movements in market prices that underpin changes in the fair value of the derivative portfolio and highlight 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 overall the key controls underlying the calculations were fit for purpose.
Impairment of fixed assets	The Group reviews its fixed assets (or, where appropriate, groups of assets in CGU's) for the purpose of impairment. Impairment reviews are conducted on an ongoing basis and are triggered by 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 are treated as a single CGU for impairment purposes. If an indication of potential impairment exists, 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 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. Impairment reviews rely on assumptions and management key judgements regarding future market prices, cashflow forecasts, discount rates and the use of appropriate sensitivities.	The Committee reviewed management's assessment of CGU's, the process undertaken to analyse for any indicators of impairment, key assumptions used in all impairment reviews and the sensitivity analysis applied. In particular, at its meeting on 24 February 2020, the Committee considered in detail managements impairment review of the OCGT development assets, the defining of the CGU's and the disclosure made in the financial statements around the sensitivity analysis. The Committee concluded that key assumptions and judgements made were reasonable and consistent. It was concluded that based on the review performed no impairment charges were required as at 31 December 2019; however key sensitivities in respect of the OCGT development assets were appropriately disclosed.

Matter	Issue and key judgements	Factors considered and conclusions reached
Accuracy of unbilled Customers revenue	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 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. It was noted that management proposed a change from a fixed percentage allowance based on historic experience of collection rates to a Systems of Intelligence (SOI) machine learning algorithm which has been tested on live historic data and over time will become consistently more accurate at predicting default rates on aged debts. 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 while noting recommendations for increased oversight at Opus on unbilled electric and gas models. The Committee concluded that the change in calculating credit losses going forward using SOI methodology was more appropriate and relevant and that disclosure in the financial statements detailing the changes had been updated appropriately.

Audit Committee report continued

Independence of the 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 2019. 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.

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 143.

Schedule of fees paid to Deloitte LLP	Year ended 31 December 2019 £000's
Audit fees:	
Statutory audit of Drax Group	863.9
Statutory audit of the Company's subsidiaries	36.0
Total audit fees:	899.9
Interim review	96.2
Other assurance services	2.0
Corporate refinancing fees	100.0
GOO & FITS compliance audit	70.0
BEIS assurance report	10.0
Total non-audit fees:	278.2
Total auditor's remuneration	1,178.1

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 a decrease in the level of non-audit services provided by Deloitte which in total amounted to £278,000 of which £96,000 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.

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 2020 following discussions at its meeting held on 24 February 2020.

Review of Committee effectiveness by members

In line with the FRC's Guidance on Committees, the Committee periodically reviews its own effectiveness. The scope of the externally facilitated review of the performance of the Board performed in 2019 was tailored mindful of the changes to the composition of the Board and the fact that during 2019 new Chairs respectively of the Committee and the Remuneration Committee commenced in role in spring 2019. Accordingly, the Board determined at its discussion in February 2019 that the scope would be specific to the performance of the Board, with a more detailed formal evaluation of the Committees to be deferred into a subsequent period.

Notwithstanding this decision, a review of the performance of each member of the Board in their respective roles was undertaken, led by the Chair. The outcome of that review was that each member of the Board was performing satisfactorily.

Internal audit

The Group operates a co-sourced model for its internal audit function. Under this model, the internal team conducts core financial and operational controls reviews. Reviews of specialist technical areas, including controls over regulatory compliance, are outsourced to firms with appropriate experience and qualifications, primarily KPMG, following consultation with the Committee.

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 2019 included:

- Procurement
- Accounts Receivable
- Payroll
- IFRS 16
- Opus Energy business unit key financial controls
- ROC and CfD claims
- Modern Slavery Act compliance (undertaken by KPMG)
- Cyber security operational controls (undertaken by KPMG)
- Health and Safety (undertaken by Turner & Townsend)
- IT incident and problem management
- IT change control management
- Finance consolidation project

In addition, at each of its scheduled meetings, the Committee received reports detailing progress with implementing recommendations previously raised by internal audit to assess the extent to which management had taken appropriate steps to implement the recommendations raised. 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 has considered the effectiveness of internal audit, based on the quality of its plan and the information provided in its reporting, and is satisfied that the co-sourcing model described above remains appropriate for the Group and that on this basis the quality, experience and expertise of the function is appropriate for the Group and its business. In reaching this conclusion, the Committee considered the views of the Head of Group Risk and Internal Audit, the external auditors and management as well as its own assessment of the quality of reports and support provided by the internal audit function.

At its meeting held in November 2019, and supported by a report provided by Deloitte, the Committee discussed the Institute of Internal Auditors' draft Code of Practice ("the draft Code") for Internal Audit. The Committee believes the development of a code will be an enabler to continuous improvement in standards across listed companies for internal audit. The Committee considered the key areas associated with the draft Code, including the focus on the quality of information provided in enabling the Board, Audit Committee and executive management to identify key risks, risk appetite (and how these are monitored) and contribute to effective oversight of the risk and control environment of organisations. The Committee believes these areas are an integral part of the work of the internal audit function for the Group. Further discussions on how the draft Code can support work of the Internal Audit function will be undertaken in 2020.

This report was reviewed and approved by the Audit Committee on 26 February 2020.

Vanessa Simms
Chair of the Audit Committee

Remuneration Committee report

Terms of reference
The Committee's terms of reference are reviewed regularly by the committee and thereafter by the Board. The most recent review was in March 2019 and terms of reference are available on the Group's website at www.drax.com/governance.

"We are proposing a new Remuneration Policy which has evolved in line with changes to the strategy, scale and potential of Drax and which rewards sustainable long-term performance."

Nicola Hodson
Chair

Committee members
Nicola Hodson (Chair)
John Baxter (appointed 17 April 2019)
Philip Cox
David Nussbaum
Vanessa Simms

Attending by invitation
Group Chief Executive
Chief Transformation Officer
Group HR Director
Group Head of Reward
External remuneration advisers

The Group Company Secretary is Secretary to the Committee.

Meeting governance

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended (the Regulations) and the provisions of the Code. There were five formal meetings meetings in 2019. The table below summarises the meeting attendance by each Committee member. In the addition to the below, Nicola attended several planning meetings to consider the new Policy and key agenda items.

Committee member	Date appointed a member	Maximum possible meetings	No. of meetings attended	% of meetings attended
John Baxter(1)	17 April 2019	2	0	0%
Tim Cobbold(2)	27 September 2010	4	4	100%
Philip Cox	22 April 2015	5	5	100%
Nicola Hodson(3)	12 January 2018	5	5	100%
David Lindsell (4)	1 December 2008	3	3	100%
David Nussbaum	1 August 2017	5	5	100%
Vanessa Simms	19 June 2018	5	5	100%
Tony Thorne (5)	29 June 2010	3	3	100%

(1) John was unable to attend two meetings in 2019 due to commitments made before his appointment as a director which he was unable to change. John submitted his comments and views to the Committee Chair ahead of the meetings to ensure that these were taken into account by the meeting.
(2) Stood down as a director on 27 September 2019
(3) Appointed as Chair on 17 April 2019, having worked closely with Tony Thorne over 15 months
(4) Stood down as a director on 17 April 2019
(5) Stood down as a Chair on 17 April 2019 and stood down as a director on 28 June 2019

Principal responsibilities of the Remuneration Committee

- Keep under review the implementation of the Director's Remuneration Policy
- Determine the remuneration strategy and framework for the Executive Directors and senior management (members of the Executive Committee and the Company Secretary), ensuring that executive remuneration is aligned to the Group's purpose, culture, values and strategy
- Within that framework, determine 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 the 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 Remuneration Committee ("the Committee"), either on recruitment or on termination
- Determine the policy for, and scope of, executive pension arrangements.
- Oversee any major changes in employee benefit structures throughout the Group and review remuneration trends across the Group ensuring there is a consistency with the culture and values of Drax

Key Remuneration Committee activities in 2019

- Conducted a full review of the Remuneration Policy ("the Policy"), including a comparison of the Policy against the requirements of the Corporate Governance Code, and developed the terms of a new Policy and engaged with shareholders for feedback
- Considered and approved the annual report of the Committee on remuneration for 2018
- 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
- Reviewed the design and progress in implementation of the new Group-wide employee benefits policies

Annual statement to the shareholders

Dear shareholders

I am pleased to present my first Directors' Remuneration Report as Chair of the Remuneration Committee ("the Committee") for the 2019 financial year. I would like to thank Tony Thorne for his stewardship of the Committee over the last six years and his support during my transition to Committee Chair in April 2019.

The report is set out in the following sections:

Annual assessment of performance in 2019

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 2019, this was principally achieved through an assessment of performance against a combination of business and financial measures comprising the Group Scorecard. A high proportion of total remuneration is delivered through variable pay, rewarding achievement of short-term and long-term targets. As was approved by shareholders at the 2018 AGM, there is no personal element in the determination of bonuses for Executive Directors and members of the Executive Committee. Therefore a bonus is only earned where this is merited by the Group's performance against pre-determined metrics set by the Committee.

As described by Will Gardiner on pages 8 to 12 the Group is making good progress with the delivery of our strategy and has performed well during 2019. The Committee is of the view that remuneration outcomes for 2019 represent a fair and reasonable reflection of overall business performance.

There is a detailed review of achievement against the core performance measures on pages 105 and 106. Together, these measures form a Group Scorecard, key features of which reflect the objectives set for our Pellet production, Generation and Customers businesses. Components within the Group Scorecard are scored between 0 and 2, with a score of 1 representing on-target performance. During the course of a year there are two formal reviews giving the Committee the opportunity to discuss with and challenge management on the progress made and likely Group Scorecard outcomes.

The Committee determines the final Group Scorecard result in the February following each financial year and reports to shareholders on the outcome in the annual report for the year in which the bonus is earned. For the financial year 2019, the Committee determined the overall performance at a meeting held on 25 February 2020. The Committee assessed that this fairly reflected the Group's performance and as such, the Committee did not apply discretion to the outcome of the Group Scorecard which was 0.90.

This score results in annual bonuses of 45% of the maximum being paid to Executive Directors. Further detail on this outcome is set out on page 107. This score also forms part of the performance assessment for the Performance Share Plan (PSP) for the grants which complete their three-year vesting period in May 2020.

Long-term assessment of performance

Share awards made in 2017 under the Performance Share Plan (PSP) were tested against performance over the period 2017 to 2019 through two measures: Relative Total Shareholder Return ("TSR") which accounted for 50%, and the three-year average of the Group Scorecard which accounted for 50%. The Group's TSR over the period was below median, leading to 0% vesting for this element. The average Group Scorecard outcome over the same period was 0.93 leading to 36% vesting for this element. The overall vesting outcome for the 2017 PSP awards is therefore 18%.

The Committee determined that the vesting outcome was consistent with the Group's and Executive Directors' performance and so there was no need to apply discretion.

Group CEO total remuneration

At £1.2 million Will Gardiner's 2019 total remuneration was less than the £1.9 million of 2018. This is primarily due to a lower pay out from the 2017 PSP. A detailed breakdown of the single figure can be found on page 103.

Base pay increases for Executive Directors

For the 2019 pay review, Will Gardiner and Andy Koss both received an increase in base salary of 2.8% which took effect in April 2019. This was in line with increases applied to the wider workforce. Andy Skelton was appointed CFO on 2 January 2019. As he had only recently joined the organisation when the 2019 pay review took place, Andy Skelton's pay was not reviewed during the year.

The Committee has reviewed the salaries of all Executive Directors for 2020 and has determined that an increase of 3% will be applied from 1 April 2020. This is consistent with the salary increase for the wider workforce.

All-employee remuneration

In 2018 an employee survey captured feedback from employees from all areas of the business on the coverage and level of benefits provided by the Group. In response to this feedback, the Group implemented a new core benefit offering in 2019. The overall principle of the new offering is that all employees, irrespective of seniority in the organisation, have access to comprehensive health and risk benefits. This required a significant investment, particularly in our Customers businesses.

New remuneration policy

In 2019 the Committee undertook a full review of the Remuneration Policy ("the Policy"), taking into account evolving market practice and feedback from our shareholders on the existing arrangements. The key changes are:

- Annual bonus – has been simplified with payments linked to a smaller number of financial and strategic goals
- Long-term incentive – in the new LTIP the Group Scorecard will be replaced with Cumulative Adjusted EPS ("EPS") for 50% of the award, whilst retaining TSR (against the FTSE-350) for the remaining 50% of the award. This supports the Group's purpose, strategy and the creation of long-term sustainable value, measured through TSR and EPS. The targets for the new EPS measure will be disclosed in March by release of an RNS
- The shareholding requirement for the Group CEO will increase from 200% to 250% of salary and will be 200% of salary for the other Executive Directors. A post cessation shareholding requirement, equal to the in employment shareholding requirement (or the shareholding on departure if lower) will be introduced for Executive Directors and will apply for two years after cessation of employment
- The incumbent Executive Directors have voluntarily agreed to a reduction in their pension contributions to align with the contribution rate for new joiners to the wider workforce (currently 10% of salary) from 1 January 2023. Pension contributions for new Executive Directors will be aligned with this level on appointment

The emphasis of the new Policy will be on a greater performance-related element for achieving stretching targets, combined with more meaningful levels of equity which must be held for at least five years.

We are proposing an increase to the variable pay opportunity for the Group CEO, increasing the overall maximum total remuneration equivalent to 25% of salary for target performance (and 50% of salary for maximum). This is designed to drive incremental longer-term performance and to reflect the strategic change in the direction, size and complexity of the Group. The Group CEO's maximum annual bonus will be increased from 150% to 175% of salary and the maximum annual LTIP award from 175% to 200% of salary, linked to the introduction of a long-term deferral and more stretching performance targets. As part of repositioning, the maximum annual bonus for other Executive Directors will be increased from 140% to 150%, with no change to the maximum percentage of salary for the annual LTIP award.

This increase of variable pay opportunity will support an overarching aim to outperform demanding KPIs, the attainment of which are a pre-requisite to achieving total remuneration at above median levels to the market.

The full policy appears on pages 91 to 102 with a summary of the key changes on pages 91 and 92.

Shareholder engagement

In developing this Policy, during the course of 2019 we considered comments provided by shareholders on the previous Policy and engaged with our largest shareholders and proxy agencies to explain the proposed revisions to the Policy. I met with a number of shareholders, where valuable feedback was provided on the Policy. We appreciate the time taken by shareholders to provide their feedback and the Committee has taken this feedback into consideration. As a consequence of this, EPS has replaced the Group Scorecard in the new LTIP and the shareholding requirement for the Group CEO will increase to 250% (from 200%). In addition, to reflect shareholder feedback and the requirements of the UK Corporate Governance Code, we will align the pension contributions of existing Executive Directors with those available to new joiners to the wider workforce, from 1 January 2023. The Policy will be subject to a shareholder vote at the AGM on 22 April 2020.

The level of shareholder support at the 2019 AGM was 80.7% for the Annual Report on Remuneration. This was a significant vote in favour but down on the prior year. However, we believe based on the feedback provided to us that our new policy will address concerns previously raised by shareholders.

Workforce engagement

The Committee is kept updated on remuneration policies and decisions for the wider workforce, including pension provisions, pay reviews and gender pay gap reporting. Salary increases for Executive Directors and Executive Committee members are made only after the Committee has reviewed increases for the wider workforce.

In 2020, I will be meeting with the chairs of the new MyVoice Forums to explain the role of the Committee, how executive pay is set, how it aligns with wider workforce pay, and to answer directly any questions they have. Following this meeting, and incorporating any feedback received, I will then write to all of the workforce.

Employees can ask questions about any aspect of working for Drax, including pay, and receive answers directly from the Group CEO via the weekly "Ask Will" Group-wide email. Employees can also raise matters via the MyVoice Forums, which are then communicated up to the Board through meetings between the Forum chairs and the Board Chair and Group CEO.

Summary

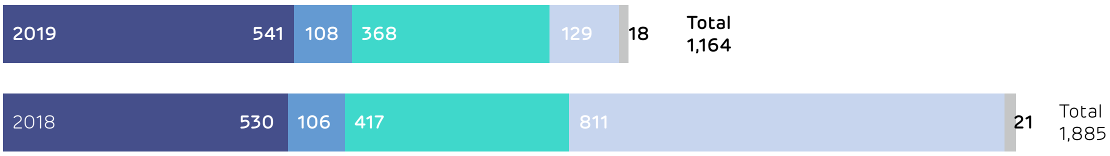
Along with the other members of the Committee, I am satisfied that the 2019 remuneration outcomes for the Executive Directors fairly reflect the performance of the Group, provide a fair and consistent approach to remuneration across the Group, and remain in shareholders' interests. We are also confident that the proposed Policy will underpin our purpose, the delivery of our strategy and reward long-term sustainable performance.

I hope that having read the information in this report you will vote in support of the Annual Report on Remuneration and the proposed Remuneration Policy at the 2020 AGM.

Remuneration at a glance

Below is a summary of the remuneration earned by each of our Executive Directors in 2019 and the remuneration earned in 2018 is provided for reference.

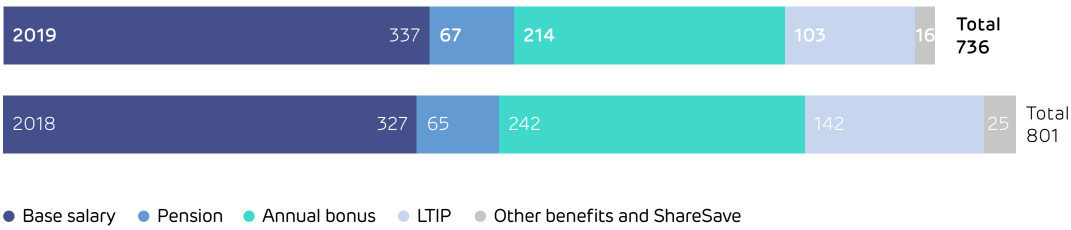
Will Gardiner (Group CEO) £000s



Andy Skelton (CFO) £000s

Andy joined the organisation on 2 January 2019 and therefore has no PSP vesting due until 2022.

Andy Koss (CEO, Generation) £000s



Bonus earned for 2019

The target bonus for the Group CEO was 75% of salary (maximum of 150%) and the target bonus for the other Executive Directors was 70% of salary (maximum of 140%). The bonus award for 2019 was based on a Group Scorecard outcome of 0.90 (Group Scorecard of 1.0 achieves a target bonus award). This resulted in a bonus outcome of 45% of the maximum. The table below sets out the bonuses earned and the split between cash and deferred elements.

Executive Director	2019 bonus (as % base salary)	Bonus earned £000	Of which paid in cash (65% of bonus) £000	Of which deferred into shares (35% of bonus) £000
Will Gardiner	67.5%	368	239	129
Andy Skelton	63%	224	145	78
Andy Koss	63%	214	139	75

The full list of performance measures and the outcome for each measure can be found on page 105.

Long-term incentive plan awards

For PSP awards granted in May 2017, vesting was conditional upon two performance measures with up to 50% of shares vesting subject to TSR performance and up to 50% of shares vesting subject to Group Scorecard performance as below:

Total Shareholder Return TSR (50%)	Group Scorecard (50%)
TSR performance over three years relative to FTSE 350 as follows: • Below median = 0% vesting • At median = 25% vesting (threshold) • Upper quartile = 100% vesting	Group scorecard performance averaged over the three-year performance period as follows (capped at 1.5): • Score 0.75 = 0% vesting • Score greater than 0.75 and below 1.0 = straight line basis between 0% and 50% • Score 1 = 50% • Score greater than 1.0 and below 1.5 = straight line basis between 50% and 100% • Score 1.5 = 100% vesting

The performance outcome for these awards is as follows:

PSP	Weighting	Score/ Outcome	Vesting outcome	Overall vesting
2017 Group Scorecard		0.84		
2018 Group Scorecard		1.05		
2019 Group Scorecard		0.90		
Average Group Scorecard (maximum 1.5)	50%	0.93	36%	18%
Relative TSR performance	50%	Rank of 224 out of 314	0%	0%
PSP outcome as a % of maximum				18%

The Committee considered the formulaic performance outcomes and was satisfied that this was appropriate and therefore no discretion was applied. The 2019 Group Scorecard included environmental, social and corporate governance metrics (ESG). The Committee were satisfied that the bonus structure and resulting outcomes for all employees did not raise any ESG risks by inadvertedly motivating irresponsible behaviour.

Directors' Remuneration Policy for approval at the 2020 AGM

As reported in last year's Remuneration Report, the Directors' Remuneration Policy has been subject to a full review by the Committee in 2019. The Committee has considered the business strategy, shareholder feedback on the current policy, corporate governance developments and best practice. This has culminated in the formulation of a revised remuneration policy ("the Policy") which will apply for three years from the date of the 2020 AGM, subject to shareholder approval.

If approved, the Policy will be effective from immediately after the AGM on 22 April 2020 and will be binding until the close of the 2023 AGM. The core principles of the Policy are set out below:

- Making sure that executive remuneration is closely linked to the performance of the Group
- Simplifying the design and application of our executive remuneration programmes
- Incentives are earned for the delivery of stretching Group financial, strategic and operational targets
- Attracting and retaining the right talent through market-aligned incentive opportunity
- Aligning executive reward with shareholder value, over the longer term, primarily through the new Long-Term Incentive Plan (LTIP), approval for which will be sought at the 2020 AGM

Summary of key changes to the remuneration policy

Element	Change	Rationale
Salary	No proposed changes to existing approach.	N/A
Pension	The incumbent Executive Directors have voluntarily agreed to a reduction in their pension contributions to align with the contribution of new joiners to the wider workforce (currently 10% of salary) from 1 January 2023. Pension contributions for new Executive Directors will be aligned with those available to other new joiners in the wider workforce on appointment.	Alignment of pensions with the wider workforce is in line with the provisions of the UK Corporate Governance Code ("the Code").
Annual Bonus	The maximum bonus opportunity for the Group CEO will increase from 150% to 175% of salary and for other Executive Directors from 140% to 150% of salary. Split between: 1. Financial element (105% of salary for Group CEO, 90% of salary for other Executive Directors) – performance based on a smaller number of financial and operational metrics, paid in cash 2. Strategic element (70% of salary for Group CEO, 60% of salary for other Executive Directors) – performance based on a smaller number of strategic and other non-financial metrics, paid in shares At least 40% of the bonus will be deferred into shares (currently 35%), vesting after three years and subject to a two year holding period. If 40% deferral is not attained by the strategic element, a proportion of the financial element will be deferred into shares in order to achieve this minimum level of deferral.	The proposed structure simplifies the bonus plan by reducing the number of performance metrics. Splitting the bonus into a financial cash element and a strategic deferred shares element responds to shareholder concerns on the existing structure and clarifies the role each component plays in supporting the business strategy, whilst also providing a deferral in shares which contributes to a philosophy of driving long-term performance and growth in returns to shareholders. The maximum annual bonus opportunity will increase by 25% of salary for the Group CEO and by 10% for other Executive Directors to reflect the increased level of deferral, as well as the longer vesting and holding period applicable to this deferred element. For example, the level of maximum deferral for the Group CEO has increased from 52.5% of salary under the current Policy to 75% of salary under the proposed Policy, and therefore the vast majority (22.5% of salary) of the increase in maximum opportunity is delivered in shares which are subject to a five year combined vesting and holding period. The maximum cash bonus is broadly unchanged. This change places a greater emphasis on alignment with long-term shareholder value. Malus and clawback provisions are in line with corporate governance best practice.

Element	Change	Rationale
LTIP	The maximum opportunity to increase from 175% to 200% of salary for the Group CEO only. The maximum opportunity for other Executive Directors will remain at 175% of salary. The Group Scorecard element is removed from the LTIP. Performance will be measured against the following metrics: 1. Cumulative Adjusted EPS – 50% weighting 2. Relative TSR (FTSE 350) – 50% weighting The two-year post vesting holding period will be retained.	The increase in the Group CEO's opportunity ensures that where Group performance is strong then total remuneration levels will be competitive against the market. At the 2017 Policy review, some shareholders expressed concern at the use of the Group Scorecard in both the annual bonus and LTIP. We have responded to that feedback. The proposed structure replaces the current 50% weighting on the Group Scorecard with Cumulative Adjusted EPS. This aligns with the general shareholder preference for financial-only metrics on long-term incentives. Introducing a Cumulative Adjusted EPS measure with 50% weighting ensures Executive Directors are focused on driving earnings performance of the business, which is a major factor in delivering value to shareholders. The Committee is confident that the introduction of this metric provides a greater link between reward outcomes and the shareholder value over the longer term.
Shareholding Requirement	The shareholding requirement for the Group CEO will increase from 200% to 250% of salary and will be 200% for the other Executive Directors. A post-cessation shareholding requirement, equal to the in employment shareholding requirement (or the shareholding on departure if lower) will be introduced for Executive Directors and will apply for two years after cessation of employment.	Increased shareholding requirement for the Group CEO achieves greater alignment with shareholders. Ensures that Executive Directors' interests remain aligned with shareholders to implement a strategy which delivers value for the longer term beyond their departure, in line with the requirements of the Code. It also facilitates implementation of clawback.

New Policy – Key components of remuneration

The Policy has been designed to support the delivery of strong business performance and the creation of shareholder value. We set out below key components of the Policy for Executive Directors, and in the notes following the table we comment on differences between this Policy and that for the remuneration of employees generally.

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 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 Group 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 Group 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 proportion 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, as set out in the notes to the policy table.

Targets, outcomes and resulting payouts are published retrospectively 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)
Chief Executive	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 TSR and Cumulative Adjusted EPS metrics.

Practical operation

Under the new LTIP, Executive Directors receive an annual grant of shares. Approval for the new LTIP will be sought at the 2020 AGM.

Shares vest on the third anniversary of the grant, subject to continued service or "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)
Chief Executive	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 96.

Performance measures

Two performance measures will apply to LTIP awards made from April 2020 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.

Details of the EPS target for proposed grants in 2020 will be notified to shareholders via RNS in March 2020, ahead of the 2020 AGM, and will be applicable in the event that the new Policy is approved by shareholders.

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.

- Group CEO – 20% of salary
- Chief Financial Officer – 16% of salary
- CEO Generation – 20% 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 new Executive Directors 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 Group CEO is 250% of salary and for the other Executive Directors it 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).

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	Maximum potential value
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 Group CEO and for the other Executive Directors it 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.	N/A **Performance measures** N/A

Performance measures and approach to setting targets

The measures for elements of variable pay will be:

- 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
- 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 2018 and 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 Director's Remuneration Report 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 2018, 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 Director's Remuneration Report 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. 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.

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.

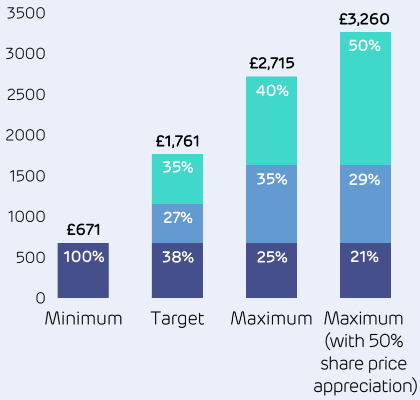
Remuneration scenarios

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:

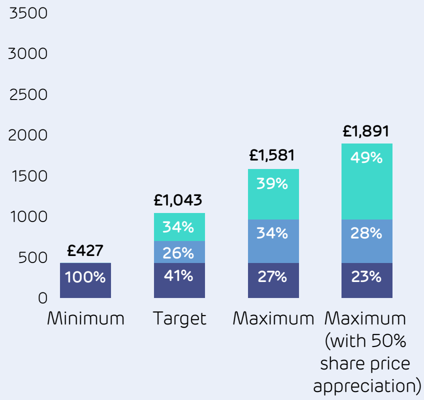
Description	Fixed remuneration	Annual bonus	Long term incentive
Minimum	Base salary is the rate payable as determined by the Board following the annual review. Benefits and pension entitlement remain as disclosed in the Policy.	None	None
Target		50% of the maximum opportunity.	62.5% vesting (midpoint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

Description	Fixed remuneration	Annual bonus	Long term incentive
Maximum (with 50% share price appreciation)		Maximum cash bonus and deferred shares (175% of salary for Group CEO and 150% of salary for other Executive Directors)	Maximum LTIP opportunity (200% of salary for Group 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.

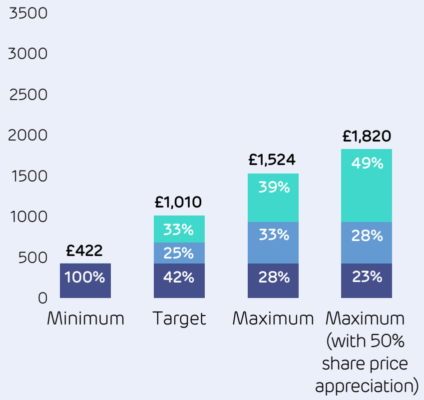
Will Gardiner
(Group Chief Executive)
£000



Andy Skelton
(Chief Financial Officer)
£000



Andy Koss
(Chief Executive, Generation)
£000



● Fixed remuneration ● Annual bonus ● Long-term incentive

Approach to recruitment remuneration

The Committee will apply the components set out in the table on pages 91 to 97 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 (175% of salary for the Group CEO), with financial and strategic elements as set out in the Policy table above, and an LTIP award of up to 175% of salary, 200% of salary for the Group 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 and 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.
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 Group 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 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.

Element	Details
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 proposed 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 the relevant 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; and • 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; and • To the Chair of any other committee (this is not paid to the Chair of the Nomination Committee if he or she is also the Chair of the Board). Non-Executive Directors are not entitled to participate in any performance related remuneration arrangements.	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 111.

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 88, 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. This is explained in more detail on page 92.

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.

Shareholder feedback

As referenced on page 88, during 2019 the Committee engaged with a number of our largest shareholders and proxy agencies on the proposed changes to the Directors' Remuneration Policy. The Committee considered their views, together with wider market practice and general investor sentiment on executive remuneration, and took these into account when determining the finalised Policy outlined in this report.

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 22 April 2020.

Single total figure of remuneration for each Executive Director (audited information)

The table below sets out the single figure of remuneration and the breakdown for each Executive Director for 2019, together with comparative earnings for 2018:

	Salary/Fees[1] (£000)		Benefits[2] (£000)		Bonus[3] (£000)		Long Term Incentives (£000)		Pension (£000)		Other[6] (£000)		Total (£000)	
Name	**2019**	2018	**2019**	2018	**2019**	2018	**2019**[4]	2018[5]	**2019**	2018	**2019**	2018	**2019**	2018
Will Gardiner	**541**	530	**18**	21	**368**	417	**129**	811	**108**	106	–	–	**1,164**	1,885
Andy Skelton[7]	**355**	–	**15**	–	**224**	–	**–**	–	**57**	–	8	–	**659**	–
Andy Koss	**337**	327	**16**	19	**214**	242	**103**	142	**67**	65	–	6	**736**	801

Notes:
(1) Base salary is the amount earned in 2019
(2) Benefits include car allowance, private medical insurance, life assurance and permanent health insurance
(3) Bonus is the cash value of the annual bonus payable in respect of performance in the relevant year which is paid in March of the following year (e.g. 2019 bonus is paid in March 2020), including the value of bonus deferred and paid in shares after three years subject only to continued service
(4) Represents the value of PSP awards vesting in May 2020, together with the dividend shares in relation to those vested shares. The value is calculated based on the average share price over the last quarter of 2019, which was £2.946
(5) 2018 numbers restated to reflect the actual share price on vesting of £3.732 on 8 March 2019
(6) Represents the value of the Sharesave Awards granted in 2019 based on the share price on grant (£3.786) less the exercise price (£2.975)
(7) Andy Skelton joined on 2 January 2019 and therefore there are no entries for 2018

Base salaries

The base salaries of the Executive Directors as at 31 December 2019, together with comparative figures as at 31 December 2018, are shown in the following table:

	Base salary as at 31 December 2019 £000	Base salary as at 31 December 2018 £000	Percentage increase
Will Gardiner	**545**	530	2.8%
Andy Skelton	**355**	–	–
Andy Koss	**339**	330	2.8%

The base salaries of Will Gardiner and Andy Koss were reviewed with effect from 1 April 2019, in line with Policy, and increased by 2.8%. This was aligned with the average increase for the wider workforce. As Andy Skelton joined the Board in January 2019, his base salary was not reviewed during the year.

Annual fees for Non-Executive Directors

	Fees at 31 December 2019 £000	Fees at 31 December 2018 £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

Single total figure of remuneration for each Non Executive Director (audited information)

The table below sets out the single figure of remuneration and breakdown for each Non-Executive Director for 2019 together with comparative figures for 2018:

		Base fee £000	Additional fee for Senior Independent Director £000	Additional fee for chairing a committee £000	Total £000
Philip Cox	**2019**	**250**	**–**	**–**	**250**
	2018	250	–	–	250
John Baxter(1)	**2019**	**39**	**–**	**–**	**39**
	2018	–	–	–	–
Tim Cobbold(2)	**2019**	**41**	**–**	**–**	**41**
	2018	55	–	–	55
Nicola Hodson(3)	**2019**	**55**	**–**	**7**	**62**
	2018	53	–	–	53
David Lindsell(4)	**2019**	**16**	**3**	**3**	**22**
	2018	55	10	10	75
David Nussbaum(5)	**2019**	**55**	**7**	**–**	**62**
	2018	55	–	–	55
Vanessa Simms(6)	**2019**	**55**	**–**	**7**	**62**
	2018	29	–	–	29
Tony Thorne(7)	**2019**	**27**	**–**	**3**	**30**
	2018	55	–	10	65

Note:
(1) Appointed on 17 April 2019
(2) Stepped down from the Board on 27 September 2019
(3) Became Chair of Remuneration Committee from 17 April 2019; appointed on 12 January 2018
(4) Stepped down from the Board on 17 April 2019
(5) Became Senior Independent Director from 17 April 2019 and since 1 January 2019 he has donated his gross fees to charity
(6) Became Chair of Audit Committee from 17 April 2019; appointed 19 June 2018
(7) Stepped down as Chair of Remuneration Committee from 17 April 2019 and from the Board on 28 June 2019

Details of annual bonus outcome (audited information)

A summary of the Committee's assessment in respect of the 2019 Group Scorecard is set out in the following table:

	Weighting	Low target	Target	Stretch target	Outturn	Score
Safety						
Total recordable incident rate	10%	0.24	0.18	0.12	0.22	0.3
Finance						
Group adjusted EBITDA (£m)	25%	375	417	459	410	0.8
Average net debt (£m)	5%	(1,073)	(975)	(878)	(950)	1.3
Progress on acquisition of ScottishPower assets	15%	In line	In line	Strongly ahead	Strongly ahead	2.0
Sustainability						
People, reputation & responsibility (Performance vs plan)	10%	Approaching Plan	On Plan	Ahead of Plan	On Plan	1.0
Pellet Production						
Fines at disport (%)(1)	5%	7.5 & 20	6.5 & 15	5.5 & 10	8.7 & 37	0.0
Cost of production ($/GJ)	5%	8.85	8.4	8.11	9.08	0.0
Power Generation						
Commercial availability (%)	7.5%	ND	ND	ND	87.3%	0.0
Value from flexibility (£m)	7.5%	74	90	106	129	2.0
Customers						
Cost to serve customers (£/MPAN)	3.3%	212	202	192	208	0.4
Value created as gross margin (£m) (2)	3.3%	118.1	124.4	130.6	116.1	0.0
SMART meter installation	3.3%	ND	ND	ND	ND	1.0
Total weighting/Score	100%					0.90

Notes:
The targets were aligned with the Group's strategy and 2019 Business Plan and reviewed regularly by the Board as part of their ongoing scrutiny of business and executive performance
ND – Not disclosed. It is considered that the targets and outcomes for these metrics are commercially sensitive and therefore they are not disclosed
(1) Q4 average fines at disport (50% based on the average of each vessel and 50% based on the percentage of the sublots with greater than 10% fines content)
(2) Bad debt is excluded from the calculation of this KPI

Remuneration Committee report continued

Outlined below is a brief synopsis of the KPIs used and their strategic rationale:

Group

- Safety is a key priority for the business. The Total Recordable Incident Rate (TRIR) is defined as the number of incidents per 100,000 hours worked
- Financial performance metrics for 2019 were based on underlying adjusted EBITDA, average net debt and progress on the acquisition of the hydro and gas generation assets from ScottishPower. The weighting given to adjusted EBITDA, at 25%, reflects the priority given to a strong Group financial performance
- Being a sustainable business means driving long-term, profitable growth while achieving a positive economic, social and environmental impact Ensuring that our staff are fully engaged and regard Drax as an employer they would recommend is an important part of this impact
- Pellet quality impacts both Pellet Production and Generation. The "fines" metric is used to drive pellet quality, from our own supply, which in turn minimises downstream supply chain costs
- Developing strong in-house pellet supply capability and lowering pellet production costs have a direct impact on gross margins available from Generation
- The value available to the Group from biomass generation is a key driver of gross margins. Biomass unit commercial availability reflects the value that can be derived from maximising biomass unit output
- The value from flexibility captures the value available from fully supporting the UK electricity grid

The Committee made an in-depth review of the score for each of the performance measures, ensuring these were individually supportable, and then reviewed the overall outcome, to determine whether to exercise its discretion and adjust the final score. No such adjustment was made.

Safety. The independently verified Total Recordable Incident Rate for the 2019 financial year was 0.22 which was the same as the score for the 2018 financial year. This was below target but above the minimum threshold, and the score achieved was 0.3, which was lower that the 2018 financial year (1.0).

Finance. Adjusted EBITDA achieved for the 2019 financial year was £410 million, slightly below the target level. Average net debt was £950 million against a target of £975 million, reflecting management's strong focus in this area.

Acquisition of Assets. In respect of the progress on the acquisition of the hydro and gas generation assets from ScottishPower, the assets delivered above the stretch target set for EBITDA and the integration has been successful. The Committee determined an outcome of 2.0.

Sustainability. In the three areas mentioned in the table, the Committee set specific objectives which constituted part of the Group's 2019 sustainability plan. In determining performance, the Committee reviewed quantitative outcomes, (for example analysis included assessment prepared by an external agency tracking reputation). Collectively across the three measures an outcome of 1.0 was achieved.

Pellet Production. Fines (a measure of wood pellet quality) and cost of production are key measures for assessing operational efficiency. Fines and cost of production failed to achieve the minimum threshold. Further information can be found on page 10.

Power Generation. Biomass commercial availability is a key metric relating to our ability to operate when needed and is considered by the Board regularly as part of overall operational performance. It failed to achieve the minimum threshold. Value from flexibility is used by management to assess Drax's support to balancing the UK electricity grid. It achieved the stretch target. Further information can be found on page 11 of the CEO report.

Customers. Each of the three targets adopted by the Committee are used by management and reported to the Board as part of tracking business performance. Cost to serve customers was between the minimum threshold and target. Value created as gross margin was below the minimum threshold. SMART meters achieved a target outcome, the outturn of which included an assessment of performance against external benchmark data.

The Committee approved the Group Scorecard result for 2019 at its meeting on 25 February 2020, subject to the final approval of the financial results and annual report and accounts by the Directors on 26 February 2020.

Bonus earned for 2019

The table below sets out the bonuses earned and the split between cash and deferred elements.

Executive Director	2019 bonus (as % base salary)	Bonus earned £000	Of which paid in cash (65% of bonus) £000	Of which deferred into shares (35% of bonus) £000
Will Gardiner	67.5%	**368**	239	129
Andy Skelton	63%	**224**	145	78
Andy Koss	63%	**214**	139	75

No discretion was exercised by the Committee in determining the bonus outcome.

Detail of PSP incentive outcomes (audited information)

The vesting outcome for awards granted in 2017 under the PSP, which were subject to performance conditions and will vest in 2020, are provided in the tables below.

Performance measure	Proportion of award	Performance for threshold vesting (15%)	Performance for maximum vesting	Actual performance	Vesting
Relative TSR vs FTSE 350 constituents	50%	Median	Upper quartile	Rank of 224 out of 314 = below median	0%
Average Corporate Score for 2017, 2018 and 2019	50%	Average score of 1	Average score of 1.5	0.93 average = 36% (Scores of 0.84, 1.05 and 0.90)	18%
					18%

No discretion was exercised by the Committee in determining the PSP outcome. The table provides the awards due to vest based on this vesting result.

Executive Director	Awards granted	Awards vesting	Dividend shares earned	Total shares due to vest	Total value [1] £000
Will Gardiner	213,326	38,398	5,526	43,924	£129
Andy Koss	169,567	30,522	4,392	34,914	£103

Notes:
(1) Based on the average share price over the last quarter of 2019 (£2.946). As the share price has fallen over the vesting period, there is no value attributable to share price appreciation.

PSP awards granted during 2019 (audited information)

The table below shows the conditional awards granted under the PSP to Executive Directors on 28 March 2019.

Executive Director	Award as % of salary	Number of shares granted[1]	Face value of Awards £000
Will Gardiner	175%	247,245	928
Andy Skelton	175%	165,607	621
Andy Koss	175%	153,863	577

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.7513. In accordance with the PSP 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 PSP awards granted in 2019 are set out below.

Performance measure	Proportion of award	Performance for threshold vesting	Vesting at threshold performance	Performance for 50% vesting (Corporate Scorecard only)	Performance for maximum vesting
Relative TSR vs FTSE 350 constituents	50%	Median	25%	–	Upper Quartile
Average Group Scorecard Score	50%	Average score of 0.75	0%	Average score of 1	Average score of 1.5

Straight line vesting occurs between performance levels for both conditions. Performance for both conditions is measured over three financial years to 31 December 2021.

Remuneration Committee report continued

DSP deferred awards granted during 2019 (audited information)

The table below shows the deferred share awards granted under the DSP to Executive Directors on 28 March 2019 in respect of bonus earned for performance in 2018. Awards will vest after three years subject to continued service only.

Executive Director	Value of deferred bonus £000	Number of shares granted(1)
Will Gardiner	146	38,941
Andy Koss	85	22,617

Note:
(1) The number of shares awarded was based on the average share price in the three-day period prior to grant, which was £3.7513. 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 during 2019 (audited information)

A total of 10,084 Sharesave options were granted to Andy Skelton on 27 March 2019. The exercise price per share was 297.5 pence which represents a 20% discount to the prevailing share price at the time of offer. The face value of the awards was £38,178 which is based on the share price of 378.6 pence on 27 March 2019. The options will vest after five years subject to continued service.

Total 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 and Andy Koss in 2019 was 20% of base salary, and the employer contribution for Andy Skelton was 16%. Will Gardiner's employer contribution is delivered as cash in lieu of pension, whereas for Andy Koss and Andy Skelton it is delivered in part as contributions to Group pension plan and part as cash in lieu. No Executive Director was a member of a defined benefit pension scheme.

Payments to former directors (audited information)

As reported in the 2017 Remuneration Report, Dorothy Thompson (former Group CEO) is entitled to pro-rata vesting of a PSP award made in 2017. A total of 12,569 shares, including dividend shares, are due to vest in May 2020, based on performance vesting of 18%, and a two year holding period will apply to the net shares.

Payments for loss of office (audited information)

No payments in respect of loss of office were made during the year.

Statement of directors' shareholding and share interests (audited information)

The shareholding guidelines under the current Director's 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 200% of salary. Only shares that are not subject to performance conditions count towards the threshold. Awards subject to service only count towards the guideline on a net of tax basis. As at 31 December 2019, the shareholding guidelines had not been met, as detailed in the table below:

Directors' interests in shares

Name	Number of shares(1)	Value at year end(2)	Shareholding as a percentage of salary	Shareholding guideline (3)
Will Gardiner(4)	262,101	£822,997	151%	200%
Andy Skelton(5)	31,250	£98,125	28%	200%
Andy Koss(6)	77,870	£244,512	72%	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 2019 of £3.14
(3) Under the existing Director's Remuneration Policy
(4) 144,488 shares recorded for Will Gardiner are shares he bought from 2015 to 2018
(5) All shares recorded for Andy Skelton are shares he bought in 2019 on the open market
(6) 15,000 shares recorded for Andy Koss are shares he bought in 2017 on the open market

Directors' interests under LTIPs (BMP, PSP AND DSP)

	Date of grant	As at 1 January 2019	Awards made during the year	Awards vesting during the year	Awards lapsing during the year	As at 31 December 2019	Date of vesting[1]	Value of awards[2]
Will Gardiner								
2016 BMP Matching Award	02 March 2016	353,504	0	203,724	149,780	**0**	07 March 2019	£0
2016 BMP Deferred Award	02 March 2016	5,063	0	5,063	0	**0**	07 March 2019	£0
2016 Sharesave Option	05 April 2016	14,778	0	0	0	**14,778**	01 May 2021	£16,404
2017 PSP	15 May 2017	213,326	0	0	0	**213,326**	15 May 2020	£669,844
2017 BMP Deferred Award	28 March 2017	50,486	0	0	0	**50,486**	28 March 2020	£158,526
2018 PSP	05 March 2018	363,725	0	0	0	**363,725**	05 March 2021	£1,142,097
2018 DSP	05 March 2018	40,327	0	0	0	**40,327**	05 March 2021	£126,627
2019 PSP	28 March 2019	0	247,245	0	0	**247,245**	28 March 2022	£776,349
2019 DSP	28 March 2019	0	38,941	0	0	**38,941**	28 March 2022	£122,275
Total		**1,041,209**	**286,186**	**208,787**	**149,780**	**968,828**		**£3,012,122**
Andy Skelton								
2019 PSP	28 March 2019	0	165,607	0	0	**165,607**	28 March 2022	£520,006
2019 Sharesave Option	27 March 2019		10,084	0	0	**10,084**	01 May 2024	£1,664
Total		**0**	**175,691**	**0**	**0**	**175,691**		**£521,670**
Andy Koss								
2016 BMP Matching Award	02 March 2016	61,999	0	35,729	26,270	**0**	07 March 2019	£0
2017 PSP	15 May 2017	169,567	0	0	0	**169,567**	15 May 2020	£532,440
2017 BMP Deferred Award	28 March 2017	40,130	0	0	0	**40,130**	28 March 2020	£126,008
2018 PSP	05 March 2018	218,063	0	0	0	**218,063**	05 March 2021	£684,718
2018 DSP	05 March 2018	32,055	0	0	0	**32,055**	05 March 2021	£100,653
2018 Sharesave option	28 March 2018	8,551	0	0	0	**8,551**	01 May 2021	£8,850
2019 PSP	28 March 2019	0	153,863	0	0	**153,863**	28 March 2022	£483,130
2019 DSP	28 March 2019	0	22,617	0	0	**22,617**	28 March 2022	£71,017
Total		**530,365**	**176,480**	**35,729**	**26,270**	**644,846**		**£2,006,816**

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 2019 of £3.14. For Sharesave options, this is the intrinsic value, e.g. based on the excess value at 31 December 2019 over and above the exercise price
(3) Awards vest on the third anniversary of the date of grant or within 30 days of that date. The BMP awards vesting in 2019 vested shortly after the third anniversary on 7 March 2019.

Remuneration Committee report continued

Non Executive Director's shareholdings

There is no shareholding requirement for Non-Executive Directors. The table below shows the shareholdings of the Non-Executive Directors, former Non-Executive Directors and their connected persons and the value as at 31 December 2019, when the share price was 314 pence per share, or as at the date of retirement from the Board, as applicable.

	Number of shares	Value at year end
John Baxter	10,000	£31,400
Tim Cobbold (1)	1,000	£2,756
Philip Cox	60,000	£188,400
David Lindsell (2)	7,500	£27,570
David Nussbaum	0	£0
Nicola Hodson	0	£0
Vanessa Simms	0	£0
Tony Thorne (3)	7,500	£19,515

Notes:
(1) Based on the share price on the date of stepping down – 27 September 2019 of £2.756
(2) Based on the share price on the date of stepping down – 17 April 2019 of £3.676
(3) Based on share price on date of stepping down – 28 June 2019 of £2.602

As at the date of this report there have been no changes to the shareholdings or share interests since 31 December 2019.

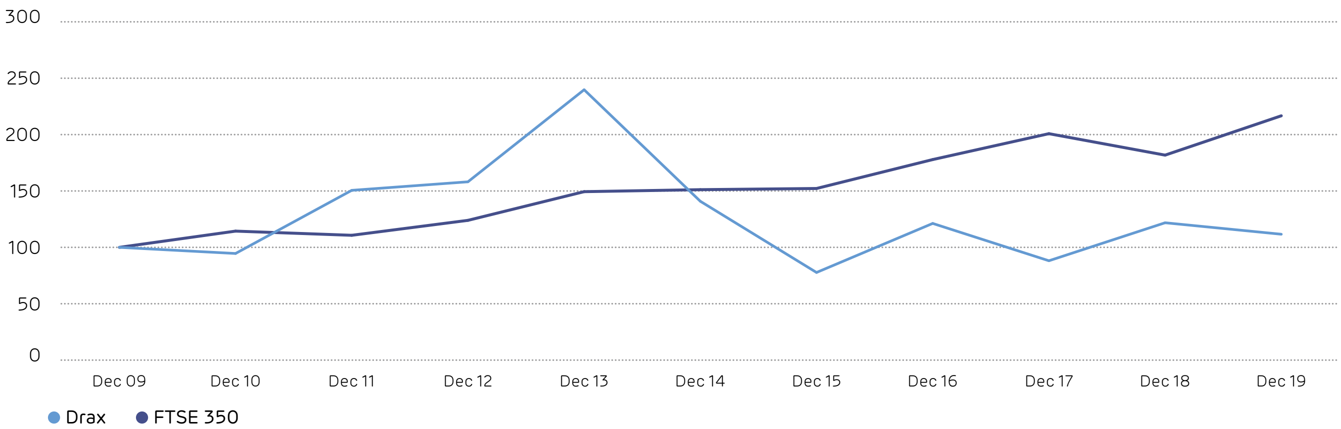
Service agreements

The following table shows, for each director of the Company at 26 February 2020, or those who served as a director of the Company at any time during the year ended 31 December 2019, the start date and term of the service agreement or contract for services, and details of the notice periods.

Executive Director	Contract start date	Contract term (years)	Unexpired term at the 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 January 2016	Indefinite term	Not applicable	12	12
John Baxter	17 April 2019	3 years	2 years and 2 months	1	1
Philip Cox	1 January 2018	3 years	11 months	6	6
Nicola Hodson	12 January 2018	3 years	11 months	1	1
David Nussbaum	1 August 2017	3 years	6 months	1	1
Vanessa Simms	19 June 2018	3 years	1 year and 4 months	1	1
Tim Cobbold	27 September 2016	3 years	Retired	1	1
David Lindsell	1 December 2017	3 years	Retired	1	1
Tony Thorne	29 June 2016	3 years	Retired	1	1

Drax ten-year TSR data to 31 December 2019

The graph below shows how the value of £100 invested in both the Company and the FTSE 350 Index on 31 December 2009 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 TSR for the Company and the index referred to on a cumulative basis over the period from 31 December 2009 to 31 December 2019.



Group CEO's pay in last ten financial years

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Group CEO's total single figure (£000)	1,155	1,196	1,406	3,360	1,854	1,248	1,581	1,236	1,885	**1,164**
Bonus % of maximum awarded	100%	100%	100%	100%	73%	46%	88%	53%	53%	**45%**
LTIP Awards % of maximum vesting	–	–	–	–	40.52%	21.66%	15.43%	0%	57.63%	**18.00%**

Percentage change in the Group CEO's remuneration compared with the wider employee population

The table below shows how the percentage change in the Group CEO's salary, benefits and bonus between 2018 and 2019 compares with the percentage change in the average of each of those components of pay for a group of employees. The Committee has selected all Group employees below Executive Director level based in the UK, as these are the vast majority of Group employees and provide the most appropriate comparator.

	Salary	Taxable benefits	Bonus		
			£000		
	Percentage increase	Percentage Increase	2018	2019	% increase
Group CEO	2.8%	-0.8%	417.4	368	-11.9%
Average for UK employees	2.8%	30%	4.1	4.2	2.7%

The investment in benefits provided to the wider workforce, particularly in the Customers business, and as referenced on page 87, increased spend on taxable benefits significantly in 2019.

CEO pay ratio

The pay ratios have been calculated using actual earnings for the Group CEO and UK employees. The Group CEO total single figure remuneration is given on page 101 of this report.

Financial Year	Methodology	25th Percentile Pay Ratio (P25)	Median Percentile Pay Ratio (P50)	75th Percentile Pay Ratio (P75)
2019	Option A	42:1	25:1	16:1

The total remuneration of all UK employees of the Group on 31 December 2019 has been calculated on a full-time (and full-year) equivalent basis using the single figure methodology and reflects their actual earnings for 2019. 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 2019 for all UK employees on an FTE basis), as they 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	£24,562	£39,070	£51,539
Total Pay and Benefits	£27,569	£45,833	£71,716

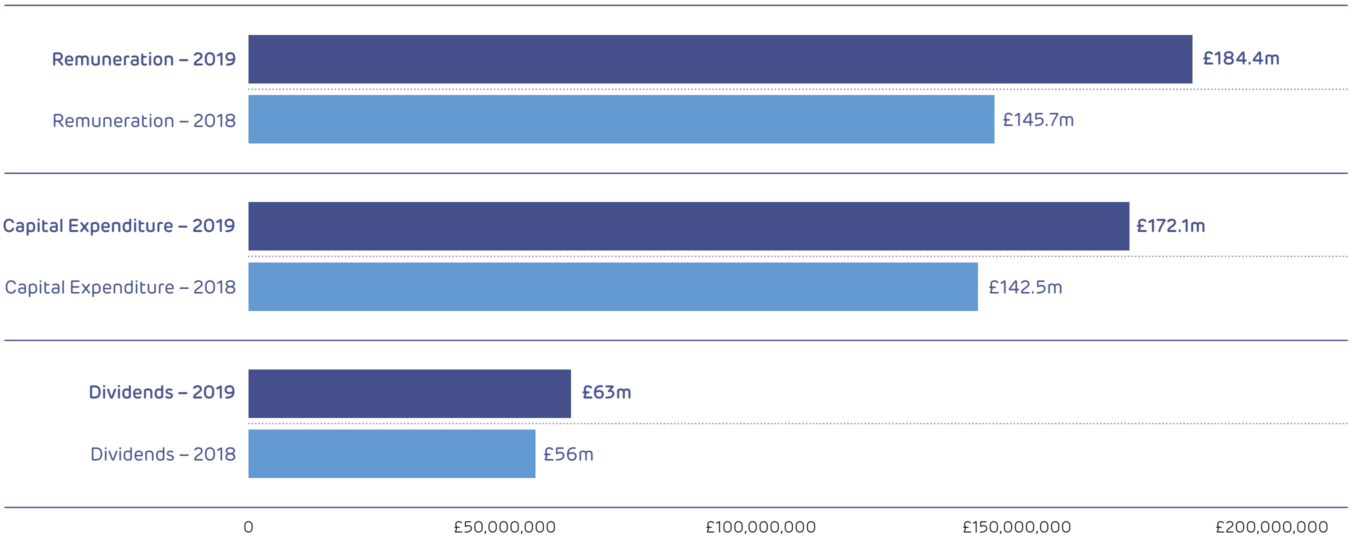
Base salaries of all employees, including Executive Directors, are set with reference to a range of factors including market practice, experience and performance in role.

The Group 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 that does mean that the pay ratios are likely to fluctuate each year depending on business performance and associated outcomes of incentive plans.

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 is comfortable that the median pay ratio is consistent with these policies.

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.



Statement of implementation of the remuneration policy in 2020

This section sets out the proposed implementation of the Directors' Remuneration Policy in 2020, subject to its approval by shareholders at the 2020 AGM.

Salary

Below are the base salaries of the Executive Directors to take effect on 1 April 2020. This is an increase of 3% which is consistent with the salary increases for the wider workforce in accordance with the Policy.

	Base salary as at 1 April 2019 £000	Base salary as at 1 April 2020 £000	Percentage increase
Will Gardiner	545	561	3.0%
Andy Skelton	355	366	3.0%
Andy Koss	339	349	3.0%

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 2019, but will be aligned with the rate applicable for new joiners to the wider workforce (currently 10% of salary) from 1 January 2023.

Annual bonus

The Group Scorecard measures and targets for 2020 have been established for the Group and for each Group business. Details of performance against the measures will be disclosed in the 2020 Annual Report on Remuneration so far as possible, whilst maintaining commercial confidentiality. The following table sets out the categories and a description of the measures.

Target	Reason for use
Financial	
Group adjusted EBITDA[1]	Adjusted EBITDA is our principal financial metric, combining the underlying performance of each business to give a Group outcome.
Cost of production[2]	Reducing the cost of biomass production will make a positive contribution to the Group's financial performance in the medium term and beyond 2027.
Customers business contribution[2]	Driving profitability is the key priority of focus for our Customers business, this will in part be achieved by increasing the efficiency and effectiveness of our energy supply operations.
Average net debt[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	
Safety	The same basis for assessing performance as in previous years, focused on reducing the number of safety related incidents, as measured by the total recordable incident rate
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 (3)	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 will be derived from the Group's 2020 CDP rating, 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 these KPIs are independently reviewed
(3) The outturn of these KPIs are derived from metrics assessed by external agencies

LTIP

The Committee intends to grant LTIP awards to Executive Directors of equal value to 200% of salary for the Group CEO and 175% of salary for other Executive Directors following the 2020 AGM, subject to shareholder approval of the Policy and the new LTIP. For the TSR element, performance will be assessed versus the constituents of the FTSE 350 with threshold vesting (25% of maximum) for performance in line with the median and maximum vesting for performance in line with upper quartile. The targets for the EPS element have not been determined but will be announced in March, prior to the AGM, by release of an RNS.

Non-Executive Directors' fees

Non-Executive Directors' fees will be reviewed by the Chair and Executive Directors in March 2020 and any changes will be disclosed in the 2020 Annual Report on Remuneration.

Shareholder voting

The table below shows the voting outcome for the Annual Report on Remuneration at the AGM on 17 April 2019, and the last voting outcome for the Remuneration Policy (at the AGM on 25 April 2018).

	For		Against		Total		Votes withheld
Name	Shares	%	Shares	%	Shares	%	Shares
Approval of the annual report on remuneration	242,114,746	80.67	58,033,489	19.33	300,148,235	100	4,792
Approval of the Remuneration Policy (2018 AGM)	343,764,260	93.62	23,420,963	6.38	367,185,223	100	5,601

Remuneration Committee report continued

Committee activity and key decisions in 2019

Matters considered and decisions reached by the Committee in 2019 are shown in the table below:

Reviewed the Directors' Remuneration Policy to be put to shareholders for approval at the 2020 AGM and consulted with major shareholders on the key proposed changes
Considered the 2018 balanced Group Scorecard outcome and determined that no adjustments to the formulaic outcome were required
Adopted the 2019 Group Scorecard for the purpose of determining relevant aspects of 2019 remuneration
Approved Executive Director and Executive Committee member annual bonus awards for 2018
Approved the vesting of the 2016 BMP awards
Considered and approved the 2018 Annual Report on Remuneration
Approved the operation of the all-employee Sharesave Share Plan in 2019
Approved the Deferred Share Plan and Performance Share Plan awards for 2019
Approved the Performance Share Plan awards for 2019 for senior management below Board
Reviewed 2018 Gender Pay Gap reporting
Noted the bonus awards to senior management below Executive Committee member level
Approved a proposal for members of the Executive Committee and senior staff salary review
Received an update on shareholder engagement
Approved the remuneration package for the new Executive Committee members (MD Customers, EVP Capital Projects and EVP Innovation)
Reviewed the fees paid to PricewaterhouseCoopers LLP (PwC) as, the Committee's remuneration adviser, together with fees paid by the Group to PwC for other matters, and reviewed PwC's independence
Approved in principle the operation of share plans in 2020
Reviewed year-to-date progress on the 2019 scorecard and likely impact on remuneration outcomes for Executive Directors and wider workforce (bonus and LTIP)

In 2019, the Remuneration Committee was chaired by Tony Thorne until 17 April 2019 and Nicola Hodson thereafter. Tony Thorne remained a member of the Remuneration Committee until his retirement from the Board on 28 June 2019. Other members of the Remuneration Committee during the year were John Baxter (from April 2019); Tim Cobbold (until September 2019); Philip Cox; David Lindsell (until April 2019); David Nussbaum and Vanessa Simms, all of whom are independent Non-Executive Directors. The Group Company Secretary was secretary to the Committee.

The Group CEO was invited to attend meetings of the Committee, except when his own remuneration was discussed, as was the Chief Transformation Officer, Group HR Director and the Group Head of Reward.

Adviser to the Committee

The adviser to the Committee for the year was PwC. PwC is an independent adviser appointed by the Committee in October 2010, following a competitive tender process, to advise on market practice and remuneration of Executive Directors and Non-Executive Directors. PwC is a member of the Remuneration Consultants Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest.

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 £173,000, excluding VAT, during 2019 in respect of advice given to the Committee.

Other matters

Remuneration received from external appointments

No remuneration was received by the Executive Directors for service as a Non-Executive Director elsewhere.

This report was reviewed and approved by the Remuneration Committee.

Nicola Hodson
Chair of the Remuneration Committee
26 February 2020

Directors' report

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 2019. 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.

Directors
The following Directors held office throughout the year:

Philip Cox
Will Gardiner
Andrew Skelton (from 2 January 2019)
Andrew Koss
Vanessa Simms
Nicola Hodson
David Nussbaum
John Baxter (from 17 April 2019)
David Lindsell (until 17 April 2019)
Tony Thorne (until 28 June 2019)
Tim Cobbold (until 27 September 2019)

The appointment and replacement of directors is governed by the Company's Articles of Association, 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 Wednesday 22 April 2020 at Grocers' Hall, Princes St, London EC2R 8AD. 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 6.4 pence per share was paid on 11 October 2019 (2018: 5.6 pence), to shareholders on the register on 20 September 2019.

The Directors propose a final dividend of 9.5 pence per share (2018: 8.5 pence), which will, subject to approval by shareholders at the AGM, be paid on 15 May 2020, to shareholders on the register on 24 April 2020.

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 166.

Shares in issue

At 1 January 2019	**407,193,168**
Issued in period	3,282,563
At 31 December 2019	410,475,731
Treasury shares at 31 December 2019	13,841,295
Total voting rights at 31 December 2019	396,634,436
Issued between 1 January and 26 February 2020	1,453
At 26 February 2020	410,477,184
Treasury shares at 26 February 2020	13,841,295
Total voting rights at 26 February 2020	396,635,889

Authority to purchase own shares

At the AGM held on 17 April 2019, shareholders authorised the Company to make market purchases of up to 10% of the issued ordinary share capital. As announced on 22 January 2019, the Company completed its share buy-back programme. The purpose of the programme was to reduce the Company's share capital. In aggregate, the Company purchased 13,841,295 shares at a cost (including dealing and associated costs) of £50,250,181 between April 2018 and 21 January 2019. All shares were purchased in the open market. The shares are held in treasury pending cancellation or re-issue.

At the 2020 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 the resolution number 18 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 26 February 2020, the following information had been received in accordance with DTR5 from holders of notifiable interests in the voting rights of the Company. The information provided below was correct at the date of notification. However, investors are only obliged to notify the Company when a notifiable threshold is crossed and therefore it should be noted that the holdings below may have changed but without crossing a threshold.

	Date last notification made	Number of voting rights directly held	Number of voting rights indirectly held	Number of voting rights in qualifying financial instruments	Total number of voting rights held	% of the issued share capital held[1]
Invesco plc	13.11.2019	–	58,390,722	–	58,390,722	14.72%
Schroders plc	10.12.2019	–	40,957,839	–	40,957,839	10.33%
BlackRock Inc	06.02.2020	–	19,790,328	1,238,679	21,029,007	5.30%
Orbis Holdings Limited	19.10.2018	–	19,890,687	–	19,890,687	5.00%
Artemis Investment Management	11.04.2019	–	13,189,171	–	13,189,171	3.35%

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.

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 certified and uncertified 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.

Political donations

Drax is a politically neutral organisation and did not make any political donations in 2019. 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 24 to 29, and our Political Engagement Policy can be found on the Company's website at: www.drax.com/about-us/drax-political-engagement-policy. On page 27 we explain how we engaged with shareholders during the year in establishing our 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 2019, Drax exhibited at, and held events at, conferences organised by political parties, spending a total of £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 (£30,065), the Labour Party (£8,000) and SERA (an environmental group affiliated to the Labour Party) (£3,000).

At our 2020 AGM Drax will be seeking renewal from shareholders of the existing authority approved at the 2019 AGM. More details are contained in the Notice of AGM.

Other significant agreements

- A £350 million facilities agreement dated 20 December 2012 (as amended and restated on 10 December 2015 and 21 April 2017 and further amended by way of a supplemental amendment agreement dated 4 May 2017) between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the "Facilities Agreement").
- An indenture dated 5 May 2017 between, amongst others, Drax Finco plc and BNY Mellon Corporate Trustee Services Limited (as Trustee) governing £350 million 4.25% senior secured notes due 2022 (the "2017 Indenture").
- 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" and, together with the 2017 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 "UK Private Placement").
- A £125 million term loan facilities agreement dated 24 July 2019 between, amongst others, Drax Corporate Limited and Barclays Bank PLC (as facility agent) (the "ESG Facility").

Under the Indentures, a change of control (a "Notes Change of Control") occurs if any person other than Drax Group plc becomes the 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 outside of the Drax corporate group. No later than 60 days after any change of control, Drax Group Holdings 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 Facilities Agreement, the UK Private Placement and the ESG Facility, 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 61 contains disclosures in relation to workforce engagement, stakeholder engagement, diversity, Greenhouse Gas emissions, future development and research activities.

Post balance sheet events

On 26 February 2020, following a comprehensive review of operations and discussions with National Grid, Ofgem and the UK Government, the Board determined to end commercial coal generation at Drax Power Station in 2021 – ahead of the UK's 2025 deadline. The Group will shortly commence a consultation process with employees and trade unions with a view to ending coal operations in September 2022. Under these proposals, commercial generation from coal will end in March 2021 but the two coal units will remain available to meet Capacity Market obligations until September 2022.

The Group currently anticipates incurring one-off closure costs of between £25 million and £35 million in the period until closure and initially expect to provide in full for these costs during 2020, where appropriate. In assessing the financial impact, the Group will also consider the useful lives, residual values and potential impairment of certain assets at Drax Power Station. The timing for completing this impairment review is uncertain as these assets remain an integral part of the site and a detailed closure plan needs to be finalised. The carrying amount of affected assets was approximately £240 million at 31 December 2019, comprising coal-specific assets with useful lives up to 2025 and other assets with useful lives up to 2039. In addition, the Group held coal inventory at 31 December 2019 with a carrying amount of £103 million, which the Group expects to recover in full over the period to closure. A further update on these items will be provided in the Group's interim financial statements for the first half of 2020. The Group expects to treat all closure costs and any asset obsolescence charges as exceptional items in the Group's financial statements. As a result, the Group's expectations for 2020 EBITDA are materially unchanged.

As part of the proposed coal closure programme the Group is implementing a broader review of operations at Drax Power Station. This review aims to support a safe, efficient and lower cost operating model which, alongside a reduction in biomass cost, positions Drax for long-term biomass generation following the end of the current renewable support mechanisms in March 2027. While previously being an integral part of the Drax Power Station site and offering flexibility to the Group's trading and operational performance, the long-term economics of coal generation remain challenging and in 2019 represented only three percent of the Group's electricity production. In January 2020, Drax did not take a Capacity Market agreement for the period beyond September 2022 given the low clearing price.

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 78 to 85.

The Directors' report was approved by the Board on 26 February 2020 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 Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation 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 26 February 2020 and is signed on its behalf by:

Will Gardiner
Group CEO

Verification Statement from Bureau Veritas UK Limited

Bureau Veritas UK Ltd. ("Bureau Veritas") has provided independent assurance to Drax Group Plc ("Drax") over the key sustainability data reported in its Annual report and accounts 2019 (hereafter 'the Report'), including the following selected performance indicators:

- GHG emissions (scope 1, 2);
- Health and safety performance (Total Recordable Injury Rate);
- Employee headcount (gender, country, business unit);
- Water data;
- Biomass supply chain emissions.

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**.

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 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

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 129 to 131;
- the notes 2.1 to 8.4 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 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, foreign exchange and other contracts • Estimation of Customers unbilled revenue • Impairment of OCGT development assets 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 £12.2m which was determined on the basis of taking into consideration a number of metrics, but with particular focus on Earnings before Interest, Taxation, Depreciation and Amortisation (Adjusted EBITDA) which excludes the impact of exceptional items and certain remeasurements. Our selected materiality represents approximately 3% of Adjusted EBITDA 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	The following changes were made to the key audit matters reported in the prior year: • The presentation of the consolidated income statement covering both exceptional items and certain remeasurements was a key audit matter in 2018 as this was the first year in which the consolidated income statement was presented in this way. This was a one off key audit matter to reflect this significant change in presentation and therefore has been removed as a key audit matter in the current year. • The accounting for the acquisition of Drax Generation Enterprise Limited is no longer a key audit matter. This was a prior year one-off acquisition and there have been no significant changes in the finalisation of the purchase price allocation in the current year, see Note 5.1. • Impairment of OCGT development assets has been identified as a key audit matter in the current year. This reflects the delay in securing a capacity market contract which would facilitate continued development of the projects. Other aspects of our audit approach remain broadly consistent with the prior year.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement on page 129 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 54 to 61 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 55 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 52 and 53 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether 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 period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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 are £132.8m (2018: gains of £38.4m), with related derivative assets of £346.0m and liabilities of £289.4m recognised on the balance sheet as at 31 December 2019. Further detail of the key judgements are disclosed in the Audit Committee report on pages 82 and 83. Section 7 sets out the financial risk management notes. The Group has exposure to a number of different financial risks including foreign exchange risk and commodity risk, and use 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 in respect of future market prices and credit risk factors. Due to the inherent risks as described above, the large volume of data involved in the contract valuations, the complex valuation methodologies applied, and the requirement for certain manual adjustments, we have identified a risk relating to the potential for management or employees of the company to value trades inappropriately.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation and tested the operating effectiveness of 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, including testing a sample of trades undertaken to trade tickets, confirming 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 and 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 curve assumptions adopted are within an acceptable range.

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 £207.6m (2018: £146.5m). Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on page 130 and the Audit Committee report on pages 82 and 83. Accrued income is disclosed in note 3.6. 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 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 mis-report revenue.

Independent Auditor's Report to the members of Drax Group plc continued

How the scope of our audit responded to the key audit matter	We evaluated the design and implementation and tested the operating effectiveness of relevant controls related to the estimation of unbilled revenue. This included 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 unbilled revenue. When external market information was not available at the balance sheet date, we obtained and considered management's reconciliation of the volume of power purchased to their calculations of revenue supplied and completed sample tests to check that the December 2019 unbilled revenue amount was subsequently billed. We also reviewed the aggregate unbilled revenue balance from previous periods to test that the amounts recognised were subsequently billed 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 £41.9m (2018: £36.1m) is recognised within the Consolidated balance sheet at 31 December 2019 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. Further detail of the key judgements are disclosed in the Group's critical accounting judgements, estimates and assumptions set out on page 130 and the Audit Committee report on pages 82 and 83. Intangible assets are disclosed in note 5.3. The business case for these projects is predicated on the ability to secure a Capacity Market contract at an appropriate level. Current clearing prices are noted to be below the levels required for further development of these projects and a risk has been identified in respect of the recoverable value of these assets. Estimating the recoverable value of these assets requires judgement in relation to key assumptions including discount rates, future income levels and capital costs. We note that assumptions relating to long term revenues and costs are inherently difficult to assess. We note that the headroom calculated is highly sensitive to all key assumptions and any future negative changes would be expected to result in an impairment charge.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation 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 appropraiteness 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 were appropriate and supported by third party independent assessments. Discount rates applied by management are considered to be lower than expected for projects of this nature which would be expected to be in the range of 7.5% - 8.0% compared to management's assumption of 7.0%. Based on alternative scenarios we are satisfied that no impairment is required.

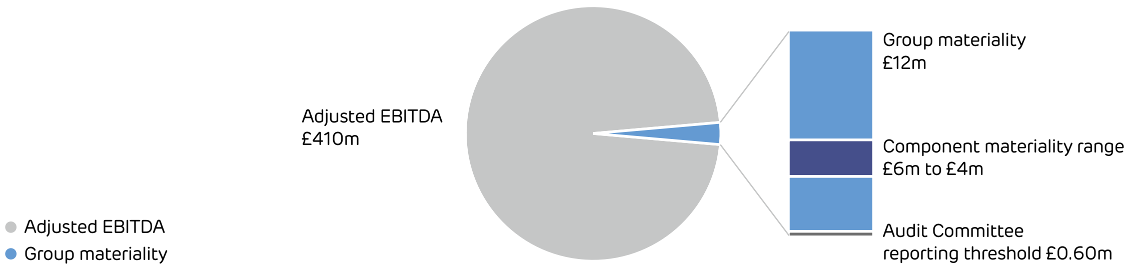
6. Our application of materiality

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	£12.2m (2018: £7.6m)	£5.6m (2018: £4.6m)
Basis for determining materiality	We have determined materiality by considering a range of possible benchmarks but with a particular focus on Adjusted EBITDA, which excludes the impact of exceptional items and certain measurements, 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 for the year (2018: 3.0%) the basis of which is consistent with the prior year.	We have capped materiality at 46% (2018: 60%) 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 (£719.7m). Parent company materiality equates to 0.8% of net assets (2018: 0.7%).
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the financial statements and those applied to the audit of similar businesses. 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.	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 performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). 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
- No significant changes in the business in the year which would impact on our ability to forecast expected level of misstatement.

Independent Auditor's Report to the members of Drax Group plc continued

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 (2018: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components
Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. We 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. No component or overseas auditors were engaged in the completion of our audit procedures in the current or prior year.

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 £4.0m to £6.0m (2018: £3.0m to £5.3m).

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 and subsequently the Senior Statutory Auditor visited the primary locations for all four significant components.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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 involving relevant internal specialists, including tax, pensions, IT 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: impairment of OCGT development assets, cut-off of bilateral sales, working capital transactions and estimation of Customers unbilled revenue. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context 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. These included the operating and environmental regulations relevant to the Group.

11.2. Audit response to risks identified

As a result of performing the above, we identified impairment of OCGT development assets and estimation of Customers unbilled revenue as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above 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;

Independent Auditor's Report to the members of Drax Group plc continued

- in addressing the risk of fraud in revenue recognition and 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;
- in addressing the risk of fraud in the use of working capital transactions, we have challenged management on the rationale for all transactions entered into and reviewed the accounting treatments adopted by management against the specific contractual terms and arrangements associated with each individual transaction and reviewed the related disclosures in the financial statements; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirementss

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. Matters on which we are required to report by exception

13.1 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.

13.2 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.

14. Other matters

14.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the shareholders at the Annual General Meeting on 17 April 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, covering the years ending 31 December 2005 to 2019.

14.2 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).

15. 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
26 February 2020

Financial statements

Introduction

The consolidated financial statements provide detailed information about the financial performance (Consolidated income statement), financial position (Consolidated balance sheet), 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 balance sheet 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 133-137.

Basis of preparation

The financial statements have been prepared in accordance with IFRS as adopted by the European Union and therefore the consolidated financial statements comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

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).

Restatement of the 2018 financial statements

The Group provides comparative financial information in these financial statements for the year ended 31 December 2018. The financial information provided in respect of 2018 has been restated for the following two matters:

- The balance sheet for 2018 has been restated to reflect updated values for assets and liabilities acquired in relation to the acquisition of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited – see note 5.1) following conclusion of the completion statement process and finalisation of acquisition fair values during 2019. The new portfolio of pumped storage, hydro and CCGT generation assets are hereafter referred to as "the new generation assets."
- The balance sheet for 2018 has also been restated to correct a historical error in the application of foreign exchange rates to the translation of fixed asset balances in the Group's overseas subsidiaries. Correction of this error resulted in a £55.5 million increase in fixed asset carrying values and the balance of the translation reserve at 31 December 2018, with no impact on the Consolidated income statement or the Consolidated cash flow statement. See note 8.3 for further details. As this adjustment impacts the opening balance sheet for 2018, a restated balance sheet for 2017 has also been provided, as required by IAS 1.

Foreign currency transactions

Transactions in foreign currencies are translated into sterling at the exchange rate ruling 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 (losses)/gains.

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 exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the retranslation of the operation's net assets and its results for the year are recognised in the Consolidated statement of comprehensive income.

Going concern

The Group's business activities, along with future developments that may affect its financial performance, position and cash flows, are discussed within the Strategic report on pages 1 to 61 of this Annual Report.

In the viability statement on page 52-53 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. The Company owns 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 132).

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 2018, except for the adoption of new standards effective as of 1 January 2019. In addition, the Group has early-adopted the amendments to IAS 39 and IFRS 17: Interest rate benchmark reform. The Group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these financial statements is presented in note 8.2. The application of these new requirements has not had a material effect on the financial statements, other than in respect of IFRS 16.

Adoption of IFRS 16 (Leases)

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases and SIC 27 Evaluating the substance of transactions involving the legal form of a lease.

The Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Consequently, comparative information in these financial statements for the year ended 31 December 2018 has not been restated.

The new requirements have impacted the Group's accounting for lease contracts. The Group's lease portfolio predominantly relates to properties and the hire of plant and equipment at operating sites. On transition to IFRS 16 on 1 January 2019, assets controlled under lease contracts were brought onto the balance sheet as right-of-use assets, and the Group has recognised a corresponding liability for the amounts payable under the lease contracts.

On transition, the Group elected to use the available practical expedient allowing the standard to only be applied to those contracts identified as leases under the previous standards. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 January 2019. However, the Group has applied the new definition of a lease to all contracts entered into or modified on or after 1 January 2019. This change did not have a significant impact on the assessment of new contracts in 2019 that are in scope of the new definition of a lease.

See note 8.3 on **page 204**

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 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 involving a higher degree of estimation or complexity are set out below and in more detail, including sensitivity analysis where appropriate, 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 – management makes judgements regarding transactions to exclude from the Adjusted Results of the Group, as described under Alternative Performance Measures, below.

See note 2.7 on **page 149**

Sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry the most significant risk of a material effect on next year's accounts – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Property, plant and equipment – property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, future replacement cycles and other available evidence. Useful economic lives are reviewed annually. The carrying value of property, plant and equipment at 31 December 2019 is £2,327.4 million and depreciation on these assets in the year, based on the weighted average useful economic lives disclosed in note 3.1, was £159.0 million.

See note 3.1 on **page 152**

Impairment – an impairment review is conducted annually of goodwill and of other assets and cash-generating units (CGUs) where an indicator of possible impairment exists. In 2019, an impairment assessment has been completed for five of the Group's CGUs which have allocated goodwill or 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 retail margins, future commodity prices, supply volumes, the capacity market and economic conditions.

See note 2.4 on **page 143**, note 5.2 on **page 170** and note 5.3 on **page 171**

Revenue recognition – the nature of some of the Group's activities, particularly within the Customers segment, results in revenue being based on the estimated volumes of power supplied to customers between the last meter reading and the year end, at an estimated average price per unit. Assumptions that underpin these estimates are applied consistently and comparison of past estimates to final settlements suggests a high degree of accuracy. However, actual outcomes may vary from initial estimates.

Revenue from contracts satisfied over time is recognised in line with the progress of those contracts. Assumptions are applied consistently but actual outcomes may vary from initial estimates.

The value of revenue recognised by the Group in the period to 31 December 2019 in relation to the Customer business is £2,269.1 million.

See note 2.2 on **page 140**

Pensions – 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' assets and liabilities are performed annually and depends on assumptions regarding interest rates, inflation, future salary and pension increases, mortality and other factors, any of which are subject to future change. One of the key estimations within the valuations is the discount rate. The value of the pension surplus recognised by the Group at 31 December 2019 is £7.0 million. Sensitivities in the valuations are discussed in note 6.3.

See note 6.3 on **page 179**

Taxation – in accounting for both current and deferred tax the Group makes assumptions regarding the likely treatment of items of income and expenditure for tax purposes and the recoverability of deferred tax assets. These assumptions are based on interpretation of relevant legislation and, where required, consultation with external advisers.

The Group makes assumptions on whether it is appropriate to recognise deferred tax assets. Deferred tax assets are recognised when it is considered more likely than not that they will be recovered. The key assumption for the Group is in relation to the likelihood of sufficient future taxable profits in its US business to utilise tax losses. The Group has recognised deferred tax assets in relation to these losses and other temporary differences at 31 December 2019 of £27.5 million.

See note 2.6 on **page 145**

Alternative performance measures (APMs)

The measures described below are not measures that are defined within IFRS but provide additional information 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.

Presentation of the income statement

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 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 accounts in evaluating the Group's trading performance and performance against strategic objectives.

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.

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.

Further information on exceptional items and certain remeasurements in the current and previous period is included in note 2.7 to the financial statements.

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.

Adjusted EBITDA for 2019 does not include the expense for contracts classified as operating leases under previous accounting standards. Under the new accounting standard of IFRS 16, leases are capitalised on the balance sheet as right-of-use assets with depreciation charged to the income statement over the assets' useful economic life. The impact of IFRS 16 on Adjusted EBITDA is a £7.4 million benefit due to the reduction in operating expenses, see note 8.3 for further information.

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.

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 were previously not held on the balance sheet and disclosed as operating commitments in the Group's 2018 Annual Report and Accounts. At 31 December 2019, these liabilities had a carrying amount of £32.5 million (see note 3.2). The 2018 calculation of net debt includes the amounts payable under finance lease liabilities. In 2019, these liabilities have been included with lease liabilities under IFRS 16 and therefore excluded from the net debt calculation. The carrying amount of finance lease liabilities at 31 December 2018 was £0.5 million and has therefore not had a material impact on the net debt comparison with the previous year.

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Drax Group plc

Section 1: Consolidated financial statements

Consolidated income statement

	Notes	Year ended 31 December 2019 Adjusted Results(1) £m	Year ended 31 December 2019 Exceptional items and certain remeasure-ments £m	Year ended 31 December 2019 Total Results £m	Year ended 31 December 2018 Adjusted Results(1) £m	Year ended 31 December 2018 Exceptional items and certain remeasure-ments £m	Year ended 31 December 2018 Total Results £m
Revenue	2.2	**4,702.9**	**10.5**	**4,713.4**	4,237.3	(8.3)	4,229.0
Cost of sales		**(3,835.8)**	**(143.3)**	**(3,979.1)**	(3,636.3)	46.7	(3,589.6)
Gross profit		**867.1**	**(132.8)**	**734.3**	601.0	38.4	639.4
Operating and administrative expenses	2.3	**(439.3)**	–	**(439.3)**	(320.0)	–	(320.0)
Impairment losses on financial assets	3.6	**(18.0)**	–	**(18.0)**	(31.4)	–	(31.4)
Adjusted EBITDA(2)		**409.8**			249.6		
Depreciation	3.1	**(165.9)**	–	**(165.9)**	(129.2)	–	(129.2)
Amortisation	5.3	**(42.0)**	–	**(42.0)**	(44.6)	–	(44.6)
Asset obsolescence charges	2.7	–	–	–	–	(26.8)	(26.8)
Losses on disposals	3.1	**(1.2)**	–	**(1.2)**	(3.9)	–	(3.9)
Other gains/(losses)		**3.1**	–	**3.1**	4.1	–	4.1
Acquisition and restructuring costs(3)	2.7	–	**(9.0)**	**(9.0)**	–	(27.7)	(27.7)
Operating profit/(loss)		**203.8**	**(141.8)**	**62.0**	76.0	(16.1)	59.9
Foreign exchange (losses)/gains	2.5	**(1.6)**	**2.0**	**0.4**	0.3	–	0.3
Interest payable and similar charges(4)	2.5	**(61.3)**	**(5.2)**	**(66.5)**	(40.4)	(7.2)	(47.6)
Interest receivable	2.5	**1.3**	–	**1.3**	1.2	–	1.2
Profit/(loss) before tax		**142.2**	**(145.0)**	**(2.8)**	37.1	(23.3)	13.8
Tax:							
– Before effect of changes in tax rate	2.6	**(22.3)**	**27.4**	**5.1**	0.2	1.6	1.8
– Prior year patent box credit	2.6	–	–	–	4.8	–	4.8
– Effect of changes in tax rate	2.6	**(1.8)**	–	**(1.8)**	(0.2)	–	(0.2)
Total tax (charge)/credit		**(24.1)**	**27.4**	**3.3**	4.8	1.6	6.4
Profit/(loss) for the year attributable to equity holders		**118.1**	**(117.6)**	**0.5**	41.9	(21.7)	20.2

Earnings/(loss) per share		Pence		Pence	Pence		Pence
– Basic	2.8	**29.9**		**0.1**	10.4		5.0
– Diluted	2.8	**29.7**		**0.1**	10.3		4.9

All results relate to continuing operations.

Notes:
(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. See note 2.7 for further details.
(2) Adjusted EBITDA is defined as: earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(3) Acquisition and restructuring costs include costs associated with the acquisition and on-boarding (2018) and integration (2019) of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited).
(4) Interest payable and other similar charges includes the cost of debt restructure which comprises one-off costs associated with the refinancing of the Group's debt.

Consolidated statement of comprehensive income

	Notes	Years ended 31 December 2019 £m	2018 £m (restated)*
Profit for the year		**0.5**	20.2
Items that will not be subsequently reclassified to profit or loss:			
Actuarial (losses)/gains on defined benefit pension scheme	6.3	**(21.5)**	15.9
Deferred tax on actuarial gains on defined benefit pension scheme	2.6	**4.3**	(3.0)
(Loss)/gain on equity investments		**(0.1)**	0.2
Net fair value gains on cost of hedging	7.4	**56.3**	24.8
Deferred tax on cost of hedging	2.6	**(9.7)**	(4.7)
Net fair value (losses)/gains on cash flow hedges		**(112.8)**	164.3
Deferred tax on cash flow hedges	2.6	**25.0**	(31.2)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	4.5	**(11.2)**	24.9
Net fair value gains on cash flow hedges		**91.1**	21.4
Deferred tax on cash flow hedges	2.6	**(19.9)**	(4.2)
Other comprehensive income/(expense)		**1.5**	208.4
Total comprehensive income for the year attributable to equity holders		**2.0**	228.6

* Results for 2018 have been restated to reflect a historical correction of exchange differences arising on translation of foreign operations (see note 3.1).

Consolidated balance sheet

	Notes	As at 31 December 2019 £m	Restated(1) 2018 £m	Restated(2) 2017 £m
Assets				
Non-current assets				
Goodwill	5.2	**248.2**	248.2	169.9
Intangible assets	5.3	**206.9**	228.8	232.0
Property, plant and equipment	3.1	**2,327.4**	2,347.6	1,699.7
Right-of-use assets	3.2	**31.4**	–	–
Other fixed asset investments	3.3	**3.0**	2.4	1.3
Retirement benefit surplus	6.3	**7.0**	21.6	–
Deferred tax assets	2.6	**45.3**	31.8	22.7
Derivative financial instruments	7.1	**152.3**	295.2	190.7
		3,021.5	3,175.6	2,316.3
Current assets				
Inventories	3.5	**292.0**	222.5	272.1
ROC assets	3.4	**162.7**	216.7	145.5
Trade and other receivables and contract-related assets	3.6	**608.8**	474.2	417.5
Derivative financial instruments	7.1	**193.7**	215.4	175.5
Current tax assets		**–**	–	6.2
Cash and cash equivalents	4.2	**404.1**	289.0	222.3
		1,661.3	1,417.8	1,239.1
Liabilities				
Current liabilities				
Trade and other payables and contract-related liabilities	3.8	**(1,039.2)**	(940.6)	(732.4)
Lease liabilities	3.2	**(6.3)**	–	–
Amounts payable in respect of acquisitions	5.1	**–**	(691.7)	(4.1)
Current tax liabilities	2.6	**(37.8)**	(8.4)	–
Borrowings	4.3	**–**	(0.1)	(18.6)
Derivative financial instruments	7.1	**(216.5)**	(89.4)	(109.6)
		(1,299.8)	(1,730.2)	(864.7)
Net current assets/(liabilities)		**361.5**	(312.4)	374.4
Non-current liabilities				
Borrowings	4.3	**(1,245.2)**	(608.0)	(571.1)
Lease liabilities	3.2	**(26.2)**	–	–
Derivative financial instruments	7.1	**(72.9)**	(62.0)	(94.2)
Provisions	5.4	**(54.2)**	(50.8)	(36.3)
Deferred tax liabilities	2.6	**(268.9)**	(315.9)	(230.0)
Retirement benefit obligations		**–**	–	(1.2)
		(1,667.4)	(1,036.7)	(932.8)
Net assets		**1,715.6**	1,826.5	1,757.9
Shareholders' equity				
Issued equity	4.5	**47.4**	47.0	47.0
Share premium	4.5	**429.6**	424.7	424.3
Treasury shares	4.5	**(50.4)**	(47.1)	–
Hedge reserve	7.3	**121.5**	199.9	126.1
Cost of hedging reserve	7.4	**40.8**	(8.9)	(40.7)
Other reserves	4.5	**757.0**	768.2	743.3
Retained profits	2.10	**369.7**	442.7	457.9
Total shareholders' equity		**1,715.6**	1,826.5	1,757.9

(1) Results for 2018 have been restated to reflect the finalisation of the measurement period adjustments in relation to the new Generation assets in 2018 and a historical correction of exchange differences arising on translation of foreign operations (see notes 3.1 and 8.3).

(2) The adjustment to reflect the historical correction of exchange differences arising on translation of foreign operations impacts the opening balance sheet for 2018. As such a restated balance sheet reflecting the impact of this adjustment at 31 December 2017 has been presented, as required by IAS 1 (see note 3.1).

The consolidated financial statements of Drax Group plc, registered number 5562053, were approved and authorised for issue by the Board of directors on 26 February 2020.

Signed on behalf of the Board of directors:

Andy Skelton
Chief Financial Officer

Section 1: Consolidated financial statements continued

Consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Treasury Shares £m	Hedge reserve £m	Cost of hedging £m	Other Reserves (restated)[1] £m	Retained profits £m	Total £m
At 1 January 2018 – as reported	47.0	424.3	–	126.1	(40.7)	705.5	457.9	1,720.1
Restatement[1]	–	–	–	–	–	37.8	–	37.8
At 1 January 2018 – restated	47.0	424.3	–	126.1	(40.7)	743.3	457.9	1,757.9
Profit for the year	–	–	–	–	–	–	20.2	20.2
Other comprehensive income	–	–	–	150.3	20.1	24.9	13.1	208.4
Total comprehensive income for the year	**–**	**–**	**–**	**150.3**	**20.1**	**24.9**	**33.3**	**228.6**
Equity dividends paid (note 2.9)	–	–	–	–	–	–	(52.5)	(52.5)
Issue of share capital (note 4.5)	–	0.4	–	–	–	–	–	0.4
Total transactions with owners	**–**	**0.4**	**–**	**–**	**–**	**–**	**(52.5)**	**(52.1)**
Movements on cash flow hedges released directly from equity	–	–	–	(94.2)	–	–	–	(94.2)
Deferred tax on cash flow hedges released directly from equity	–	–	–	17.7	–	–	–	17.7
Movements on cost of hedging released directly from equity	–	–	–	–	14.5	–	–	14.5
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(2.8)	–	–	(2.8)
Repurchase of shares (note 4.5)[2]	–	–	(47.1)	–	–	–	–	(47.1)
Movement in equity associated with share-based payments (note 6.2)	–	–	–	–	–	–	4.0	4.0
At 31 December 2018 restated	**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)[2]	–	–	(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**

(1) Other reserves for 2018 have been restated to reflect a historical correction of exchange differences arising on translation of foreign operations (see note 3.1).
(2) 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 2019 these shares have not been cancelled and are recognised as treasury shares.

Consolidated cash flow statement

	Notes	Years ended 31 December 2019 £m	2018 £m
Cash generated from operations	4.4	**471.2**	336.4
Income taxes paid		**(9.6)**	(1.0)
Other gains/(losses)		**–**	0.4
Interest paid		**(50.3)**	(25.9)
Interest received		**2.1**	1.2
Net cash from operating activities		**413.4**	311.1
Cash flows from investing activities			
Purchases of property, plant and equipment		**(142.3)**	(103.8)
Purchases of software assets		**(29.1)**	(28.8)
Other investments		**–**	(0.9)
Acquisition of subsidiaries		**(691.7)**	–
Net cash used in investing activities		**(863.1)**	(133.5)
Cash flows from financing activities			
Equity dividends paid	2.9	**(58.9)**	(52.5)
Proceeds from issue of share capital		**5.3**	0.4
Purchase of own shares		**(3.3)**	(47.1)
Repayment of borrowings		**(550.0)**	(218.5)
New borrowings drawn down		**1,202.8**	213.3
Repayment of lease liabilities		**(7.4)**	–
Other financing costs paid		**(16.9)**	(7.6)
Net cash generated from/(absorbed by) financing activities		**571.6**	(112.0)
Net increase/(decrease) in cash and cash equivalents		**121.9**	65.6
Cash and cash equivalents at 1 January		**289.0**	222.3
Effect of changes in foreign exchange rates		**(6.8)**	1.1
Cash and cash equivalents at 31 December	4.2	**404.1**	289.0

The consideration of £686.9 million due in respect of the Acquired Generation Business was settled on 2 January 2019. During the first half of 2019, the completion statement process in respect of the acquisition has been concluded and the Group made a further payment in accordance with the terms of the acquisition of £4.8 million which was settled on 14 May 2019.

There were no material non-cash transactions in either the current or previous year.

The Group recorded a net loss of £117.6 million (2018: net loss £21.7 million) arising on exceptional items and certain remeasurements in the Consolidated income statement in 2019. Acquisition and restructuring costs of £9.0 million (2018: £27.7 million) are included in cash generated from operations (see note 4.4) and cash paid in respect of debt restructuring of £5.2 million (2018: £2.0 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 61, 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.

The B2B Energy Supply segment disclosed in 2018 has been renamed Customers, to align more closely with the Group's strategy. Generation includes the financial results of the new generation assets acquired on 31 December 2018 from ScottishPower. Information reported to the Board 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 131).

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 2019. The Board monitors the Adjusted Results for the Group by reportable operating segment as presented in the tables below:

	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	2,433.8	2,269.1	–	–	4,702.9	10.5	4,713.4
Inter-segment sales	1,512.7	–	229.4	(1,742.1)	–	–	–
Total revenue	3,946.5	2,269.1	229.4	(1,742.1)	4,702.9	10.5	4,713.4
Segment gross profit	649.5	134.1	84.1	(0.6)	867.1	(132.8)	734.3
Segment Adjusted EBITDA	407.5	17.4	31.5	(0.6)	455.8		
Central costs					(46.0)	–	(46.0)
Consolidated Adjusted EBITDA					409.8		
Acquisition and restructuring costs					–	(9.0)	(9.0)
Depreciation and amortisation					(207.9)	–	(207.9)
Losses on disposals					(1.2)	–	(1.2)
Other gains					3.1	–	3.1
Operating profit					**203.8**	**(141.8)**	**62.0**
Net finance costs					(60.0)	(5.2)	(65.2)
Foreign exchange (losses)/gains					(1.6)	2.0	0.4
Profit/(loss) before tax					**142.2**	**(145.0)**	**(2.8)**

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 2018

	Year ended 31 December 2018						
	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	1,994.9	2,242.4	–	–	4,237.3	(8.3)	4,229.0
Inter-segment sales	1,336.7	–	213.7	(1,550.4)	–	–	–
Total revenue	3,331.6	2,242.4	213.7	(1,550.4)	4,237.3	(8.3)	4,229.0
Segment gross profit	396.0	143.4	65.1	(3.5)	601.0	38.4	639.4
Segment Adjusted EBITDA	232.4	28.2	20.8	(3.5)	277.9		
Central costs					(28.3)		
Consolidated Adjusted EBITDA					249.6		
Acquisition and restructuring costs					–	(27.7)	(27.7)
Depreciation and amortisation					(173.8)	(26.8)	(200.6)
Losses on disposals					(3.9)	–	(3.9)
Other gains					4.1	–	4.1
Operating profit/(loss)					76.0	(16.1)	59.9
Net finance costs					(39.2)	(7.2)	(46.4)
Foreign exchange gains					0.3	–	0.3
Profit/(loss) before tax					37.1	(23.3)	13.8

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 2019 £m	**Additions to property, plant and equipment 2019 £m**	Additions to intangible assets 2018 £m	Additions to property, plant and equipment 2018 £m
Generation	0.8	129.9	–	86.5
Customers	18.9	0.6	28.3	2.2
Pellet Production	0.3	17.9	0.3	20.2
Corporate unallocated	0.8	2.9	0.3	4.7
Total	20.8	151.3	28.9	113.6

Additional assets with a fair value of £689.8 million were acquired on 31 December 2018 as part of the business combination described in note 5.1.

Total cash outflows in relation to capital expenditure during the year were £171.4 million (2018: £132.6 million). See the Group Financial Review on pages 14-19 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 at the time of the transaction. During 2019, the Pellet Production segment sold wood pellets with a total value of £229.4 million (2018: £213.7 million) to the Generation segment and the Generation segment sold electricity, gas and ROCs with a total value of £1,512.7 million (2018: £1,336.7 million) to the Customers segment.

The impact of all intra-group transactions, including any unrealised profit arising, is eliminated on consolidation.

2.1 Segmental reporting continued

Major customers

Total consolidated revenue for the year ended 31 December 2019 includes £575.7 million from one individual customer (2018: £555.8 million from one individual customer) that represented 10% or more of total revenue for the year. These revenues arose in the Generation segment.

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 satisfied over time and control is deemed to have passed to the customer at the point that the electricity has been supplied. The output method is used to recognise revenue, 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.

Three biomass-fuelled generating units at Drax Power Station and certain generators across the Hydro-electric plants earn Renewable Obligation Certificates (ROCs) under the UK Government's Renewables Obligation (RO) regime. The financial benefit of a ROC is recognised in the income statement at the point the relevant renewable biomass fuel is burnt and power dispatched as a reduction in the cost of the biomass fuel. For Hydro assets this is at the point that the renewable energy is generated. A corresponding asset is recognised on the balance sheet (see note 3.4). The performance obligation is satisfied at a point in time when the legal title to the ROC is transferred to the third party. This is when revenue from the sale is recognised.

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.

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 at the point of sale. 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 measurement of progress is based on cost inputs for fixed price Customers contracts, and volume supplied for other 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 therefore 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.

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.

2.2 Revenue continued

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 2019 was £113.65 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.

ROC sales

The generation and sale of ROCs is a key driver of the Group's financial performance. The RO scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO, ROCs are certificates issued to generators of renewable electricity which are then sold to bilateral counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO. ROCs are managed in compliance periods (CPs), running from April to March annually, CP1 commenced in April 2002. At 31 December 2019 the Group is operating in CP18.

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 CP18 is £48.78. 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 £575.7 million of such sales (2018: £555.8 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.

Further analysis of revenue for the year ended 31 December 2019 is provided in the table below:

	Year ended 31 December 2019		
	External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	1,364.9	1,115.0	2,479.9
ROC sales	733.7	368.1	1,101.8
CfD income	261.7	–	261.7
Ancillary services	49.9	1.8	51.7
Other income	23.6	27.8	51.4
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	4,702.9	–	4,702.9
Certain remeasurements	10.5	–	10.5
Total consolidated revenue	4,713.4	–	4,713.4

Included within electricity sales above is £78.1 million of capacity market income relating to the period from October 2018-December 2019.

Certain remeasurements of £10.5 million (2018: £(8.3) 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 year that was included within contract liabilities at the start of the year was £6.6 million. (See note 3.8).

The following is an analysis of the Group's revenues for the year ended 31 December 2018:

	Year ended 31 December 2018		
	External £m	Intra-group £m	Total £m
Power Generation			
Electricity sales	983.4	1,020.4	2,003.8
ROC and LEC sales	664.5	316.3	980.8
CfD income	321.5	–	321.5
Ancillary services	18.8	–	18.8
Other income	6.7	–	6.7
Customers			
Electricity and gas sales	2,195.9	–	2,195.9
Other income	46.5	–	46.5
Pellet Production			
Pellet sales	–	213.7	213.7
Elimination of intra-group sales	–	(1,550.4)	(1,550.4)
Total adjusted consolidated revenue	4,237.3	–	4,237.3
Certain remeasurements	(8.3)	–	(8.3)
Total consolidated revenue	4,229.0	–	4,229.0

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	
	2019 £m	2018 £m
The following expenditure has been charged in arriving at operating profit:		
Staff costs (note 6.1)	**184.4**	145.7
Repairs and maintenance expenditure on property, plant and equipment	**106.3**	45.7
Expense for short-term and low value leases	**0.7**	–
Other operating and administrative expenses	**147.9**	128.6
Total operating and administrative expenses	**439.3**	320.0

Operating lease costs in 2018 of £3.3 million in respect of land and buildings and £1.6 million in respect of other operating leases were included in other operating and administrative expenses. Following the adoption of IFRS 16 from 1 January 2019 (see note 8.3), operating leases that meet the definition of right-of-use assets are capitalised and recognised on the balance sheet with a corresponding lease liability. The Group has taken the exemption available under short-term and low value leases. Leases that have a term of less than 12 months or the underlying asset is less than £3,500 are expensed to the income statement on a systematic basis over the term of the lease. The amounts expensed in relation to short-term and low value leases in 2019 was £0.7 million.

2.3 Operating expenses continued

Auditor's remuneration

	Years ended 31 December 2019 £000	2018 £000
Audit fees:		
Fees payable for the audit of the Group's consolidated financial statements	**863.9**	905.1
Fees payable for the audit of the Company's subsidiaries	**36.0**	32.4
	899.9	937.5
Other fees:		
Review of the Group's half-year condensed consolidated financial statements	**96.2**	91.0
Other services	**2.0**	2.0
Total audit-related fees	**998.1**	1,030.5
Other assurance services	**180.0**	1,335.0
Other non-audit fees	**–**	139.0
Total non-audit fees	**180.0**	1,474.0
Total auditor's remuneration	**1,178.1**	2,504.5

The Group fee relates to the audit of all the subsidiaries to a statutory materiality. In addition, certain head office companies are not required for the Group audit opinion, the allocation of which is included in the fees payable for the audit of the Company's subsidiaries disclosed above.

Other assurance services provided by Deloitte LLP in 2019 consist of agreed upon procedures and other assurance services provided in connection with the bond issuance in May 2019 (2018: assurance and agreed-upon procedures performed in connection with the bond issuance in April 2018, and reporting accountant and related services for the Class I circular issued for the acquisition of the new generation assets from ScottishPower).

Other non-audit fees in 2018 comprised a review of IT resilience and Disaster Recovery processes.

Non-audit services are approved by the Audit Committee in accordance with the policy set out on the Group's website (www.drax.com/policies) and discussed further in the Audit Committee report on page 78.

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 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 considers the smallest groups of assets that generate independent cash flows to be the individual sites that share common infrastructure and control functions (eight in total).

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.

Where value in use is calculated, 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. Central costs are only allocated where they are necessary for and directly attributable to the CGU's activities. 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.

2.4 Review of fixed assets for impairment continued

The additional value that could be obtained from enhancing or converting the Group's assets is not reflected, nor the potential benefit of any future restructuring or reorganisation. In determining value in use, the estimate of future cash flows is discounted to present value using a pre-tax 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

A review of the Group's CGUs did not give rise to any indicators of impairment. Accordingly no detailed impairment calculation has been completed for CGUs where no goodwill is allocated (Drax Power, Drax Biomass and the four CCGTs within Generation). The review considered the impact on previously calculated headroom of movements in market prices for commodities and changes in foreign exchange rates.

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.

During 2019, the Group finalised its assessment of CGUs, and the allocation of goodwill to those CGUs, in respect of the new generation assets acquired from ScottishPower on 31 December 2018. See note 5.1 for details.

All impairment reviews conducted in 2019 indicated adequate headroom to conclude that no impairment charges were required. Accordingly, no amounts have been charged to the income statement in respect of asset impairment in 2019. (2018: £26.8 million asset obsolescence charge in respect of coal-specific assets no longer required following the conversion of a generating unit to run on biomass at Drax Power Station).

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 discount on provisions for reinstatement of the Group's sites at the end of their useful lives (see note 5.4) and net interest charged on the Group's defined benefit pension scheme obligation (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.

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition of the new generation assets, with the remainder of the consideration funded from the Group's cash resources.

Deferred financing costs in relation to the acquisition bridge facility of £5.2 million were written off to the income statement. Financing costs of £15.5 million in relation to the new facilities have been deferred and are being amortised over the term of the facilities. (2018: incremental costs of £3.8 million in relation to new borrowings were deferred and are being amortised at the effective interest rate, and £5.2 million in relation to floating rate notes and an early repayment charge of £2.0 million were written off).

As described in note 2.7, the £5.2 million of costs associated with the acquisition bridge facility have been excluded from the Adjusted Results and are presented as exceptional items in arriving at Total Results. Further information about the Group's financing structure can be found in note 4.3.

2.5 Net finance costs continued

	Years ended 31 December 2019 £m	2018 £m
Interest payable and similar charges:		
Interest payable on borrowings	**(49.8)**	(36.3)
Interest on lease liabilities (note 3.2)	**(1.2)**	–
Unwinding of discount on provisions (note 5.4)	**(4.5)**	(0.9)
Amortisation of deferred finance costs	**(4.2)**	(3.1)
Net finance credit in respect of defined benefit scheme (note 6.3)	**0.8**	0.1
Other financing charges	**(2.4)**	(0.2)
Total interest payable and similar charges included in adjusted results	**(61.3)**	(40.4)
Interest receivable:		
Interest income on bank deposits	**1.3**	1.2
Total interest receivable included in adjusted results	**1.3**	1.2
Foreign exchange (losses)/gains included in adjusted results	**(1.6)**	0.3
Total recurring net interest charge included in adjusted results	**(61.6)**	(38.9)
Exceptional costs of debt restructure:		
Fees to exit existing facilities	**–**	(2.0)
Acceleration of deferred costs in relation to previous facilities	**(5.2)**	(5.2)
Total exceptional costs of debt restructure	**(5.2)**	(7.2)
Certain remeasurements on financing derivatives	**2.0**	–
Total net interest charge	**(64.8)**	(46.1)

Foreign exchange gains and losses in interest 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 therefore on which additional tax is required) 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 rate on the loss before tax for the Group for the year ended 31 December 2019 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.

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.

2.6 Current and deferred taxation continued

The Group has adopted the research and development expenditure credit regime (RDEC). Under this regime, research and development tax credits are accounted for as development grants, and are recorded in operating profit within the income statement, with the corresponding receivable being offset against corporation tax payable.

Significant estimation uncertainty

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	
	2019 £m	2018 £m
Total tax (credit)/charge comprises:		
Current tax		
– Current year	**31.0**	17.0
– Adjustments in respect of prior periods	**10.4**	(5.2)
Deferred tax		
– Before impact of tax rate changes	**(39.0)**	(18.4)
– Adjustments in respect of prior periods	**(7.5)**	–
– Effect of changes in tax rate	**1.8**	0.2
Total tax credit	**(3.3)**	(6.4)

	Years ended 31 December	
	2019 £m	2018 £m
Tax charged/(credited) on items recognised in other comprehensive income:		
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme	**(4.3)**	3.0
Deferred tax on cash flow hedges	**(5.1)**	35.4
Deferred tax on cost of hedging	**9.7**	4.7
	0.3	43.1

	Years ended 31 December	
	2019 £m	2018 £m
Tax (credited)/charged on items released directly from equity:		
Deferred tax on cost of hedging	**0.7**	2.8
Deferred tax on cash flow hedges	**(17.1)**	(17.7)
	(16.4)	(14.9)

UK corporation tax is the main rate of tax for the Group and is calculated at 19.00% (2018: 19.00%) of the assessable profit or loss for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on jurisdictional tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

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 2019			Year ended 31 December 2018		
	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results £m	Adjusted Results £m	Exceptional items and certain remeasurements £m	Total Results (Restated) £m
Profit/(loss) before tax	**142.2**	**(145.0)**	**(2.8)**	37.1	(23.3)	13.8
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 19.00% (2018: 19.00%)	**27.0**	**(27.5)**	**(0.5)**	7.0	(4.4)	2.6
Effects of:						
Adjustments in respect of prior periods	**2.9**	–	**2.9**	(5.7)	–	(5.7)
Expenses not deductible for tax purposes	**0.6**	**0.1**	**0.7**	1.1	3.5	4.6
Effect of changes in tax rate	**1.8**	–	**1.8**	0.2	–	0.2
Difference in overseas tax rates	**(0.2)**	–	**(0.2)**	(0.3)	–	(0.3)
Patent box benefit	**(8.0)**	–	**(8.0)**	(8.1)	–	(8.1)
Other	–	–	–	1.0	(0.7)	0.3
Total tax charge/(credit)	**24.1**	**(27.4)**	**(3.3)**	(4.8)	(1.6)	(6.4)

As a result of the reduction in the US federal tax rates to 21% from 2018, and tax relief now arising to the Group from the UK Patent Box regime (see below), 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.

The movements in deferred tax assets and liabilities during each year are shown below.

2.6 Current and deferred taxation continued

Deferred tax (liabilities)/assets

	Financial instruments (restated) £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 2018	(31.2)	(161.0)	–	(33.2)	26.9	(18.5)	9.7	(207.3)
Effect of acquisition	–	(48.4)	–	–	–	(20.0)	–	(68.4)
(Charged)/credited to the income statement	(7.4)	6.5	2.0	7.1	(6.1)	5.3	11.0	18.4
Charged to other comprehensive income in respect of actuarial gains	–	–	–	–	–	–	(3.0)	(3.0)
Charged to other comprehensive income in respect of cash flow hedges	(35.4)	–	–	–	–	–	–	(35.4)
Charged to other comprehensive income in respect to cost of hedging	(4.7)	–	–	–	–	–	–	(4.7)
Credited to equity in respect of cash flow hedges	17.7	–	–	–	–	–	–	17.7
Charged to equity in respect of cost of hedging	(2.8)	–	–	–	–	–	–	(2.8)
Effect of changes in foreign exchange rates	–	–	–	–	1.4	–	–	1.4
At 1 January 2019	**(63.8)**	**(202.9)**	**2.0**	**(26.1)**	**22.2**	**(33.2)**	**17.7**	**(284.1)**
(Charged)/credited to the income statement	**25.3**	**8.3**	**(0.3)**	**6.0**	**5.6**	**5.7**	**(5.9)**	**44.7**
Charged 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 31 December 2019	**(26.7)**	**(194.6)**	**1.7**	**(20.1)**	**27.5**	**(27.5)**	**16.1**	**(223.6)**
Deferred tax balances (after offset) for financial reporting purposes:								
Net deferred tax asset	**–**	**–**	**1.7**	**–**	**27.5**	**–**	**16.1**	**45.3**
Net deferred tax liability	**(26.7)**	**(194.6)**	**–**	**(20.1)**	**–**	**(27.5)**	**–**	**(268.9)**

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 £27.5 million (2018: £22.2 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 future periods against which to utilise this asset.

2.7 Certain remeasurements and exceptional items

The Group reflects its underlying financial results in the Adjusted Results column of the Consolidated income statement. In order to provide a clear and consistent view of trading performance, certain remeasurements and exceptional items are 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 framework for the determination of transactions as exceptional. Transactions presented as exceptional are approved by the Audit Committee.

In these financial statements, the following transactions have been designated as exceptional items and presented separately:

- Acquisition and restructuring costs associated with the acquisition and on-boarding of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited) (2019 and 2018) into the Group, along with costs associated with the restructuring of the Pellet Production and Customers businesses (2018).
- Asset obsolescence charges, which in 2018 related to coal-specific assets associated with the conversion of the fourth unit at Drax Power Station to run on biomass fuel.
- Costs incurred as a result of restructuring the Group's debt in 2019 and 2018, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities. Interest costs that relate to the acquisition bridge facility have been classified as exceptional, as they relate directly to the acquisition described above.
- Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices – i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better present the trading performance of the Group in Adjusted Results.

	Years ended 31 December	
	2019 £m	2018 £m
Exceptional items:		
Acquisition and restructuring costs	**(9.0)**	(27.7)
Asset obsolescence charges	**–**	(26.8)
Exceptional items included within Operating Profit	**(9.0)**	(54.5)
Cost of debt restructure	**(5.2)**	(7.2)
Exceptional items included in Profit Before Tax	**(14.2)**	(61.7)
Taxation on Exceptional items	**2.6**	9.0
Exceptional items after taxation	**(11.6)**	(52.7)
Remeasurements:		
Net remeasurements included in Gross Profit	**(132.8)**	38.4
Net remeasurements included in Foreign exchange gains	**2.0**	–
Taxation on certain remeasurements	**24.8**	(7.4)
Remeasurements after taxation	**(106.0)**	31.0
Reconciliation:		
Adjusted results	**118.1**	41.9
Exceptional items after tax	**(11.6)**	(52.7)
Remeasurements after tax	**(106.0)**	31.0
Profit/(loss) after tax	**0.5**	20.2

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 are expected to vest on their future maturity dates (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	
	2019	2018
Earnings attributable to equity holders of the Company (£m)	**0.5**	20.2
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**395.5**	402.4
Effect of dilutive potential ordinary shares under share plans	**1.9**	4.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**397.4**	406.9
Earnings/(loss) per share – basic (pence)	**0.1**	5.0
Earnings/(loss) per share – diluted (pence)	**0.1**	4.9

Repurchased shares (see note 4.5) are not included in the weighted average calculation of shares. Application of the same calculation to Adjusted profit after tax of £118.1 million results in Adjusted basic EPS of 29.9 pence and Adjusted diluted EPS of 29.7 pence (2018: Adjusted profit after tax of £41.9 million, Adjusted basic EPS of 10.4 pence and Adjusted diluted EPS of 10.3 pence).

2.9 Dividends

	Years ended 31 December	
	2019 £m	2018 £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 2019 of 6.4 pence per share paid on 11 October 2019 (2018: 5.6 pence per share paid on 12 October 2018)	**25.4**	22.4
Final dividend for the year ended 31 December 2018 of 8.5 pence per share paid on 10 May 2019 (2017: 7.4 pence per share paid on 11 May 2018)	**33.5**	30.1
	58.9	52.5

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 2019 of 9.5 pence per share (equivalent to approximately £38 million) payable on or before 15 May 2020. The final dividend has not been included as a liability as at 31 December 2019. This would bring total dividends payable in respect of the 2019 financial year to £63 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 based businesses.

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.

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 2019 £m	2018 £m
At 1 January	**442.7**	457.9
Profit for the year	**0.5**	20.2
Actuarial (losses)/gains on defined benefit pension scheme (note 6.3)	**(21.5)**	15.9
Deferred tax on actuarial gains on defined benefit pension scheme (note 2.6)	**4.3**	(3.0)
Equity dividends paid (note 2.9)	**(58.9)**	(52.5)
(Loss)/gain on equity investment	**(0.1)**	0.2
Net movements in equity associated with share-based payments (note 6.2)	**2.7**	4.0
At 31 December	**369.7**	442.7

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 209 to 215 of this Annual report, disclose the Parent Company's distributable reserves of £188.2 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 £404.1 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 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 construct 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 of acquisition (where relevant, limited to the expected decommissioning date of the site where the asset is located – currently expected to be between 2023–2038 for the gas-fired plants, 2039 for Drax Power Station and 2067 for the hydro-electric plants (including pumped storage). The gas-fired plants have a range of plant decommissioning dates depending on the equipment installed at each site). The table below shows the range of useful lives at the date of acquisition and the average remaining useful life at the balance sheet date of the main categories of asset we own in years:

	Average UEL remaining	Range of UELs at acquisition
Freehold buildings	16	6–71
Plant and equipment		
Electricity generation assets:		
Drax Power Station common plant	12	3–33
Drax Power Station biomass-specific assets	15	2–27
Drax Power Station coal-specific assets	4	5–19
Hydro-electric plants (including pumped storage)	40	4–141
Gas-fired plants	9	2–38
Pellet production plant	12	4–25
Other plant, machinery and equipment	12	1–33
Decommissioning asset	19	35
Plant spare parts	19	Up to 35

Freehold land held at cost is considered to have an unlimited useful life and is not depreciated.

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.

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.

Costs relating to major inspections, overhauls and upgrades to the power station 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. No changes to the useful economic lives of assets have been made as a result of the most recent review. Following previous UK Government announcements pertaining to the cessation of coal generation, the Group concluded that coal generation will cease during 2025 but that the two existing coal units will be retained for conversion to alternative fuels in the period to 2039.

In February 2020, the Government announced its intention to bring forward the closure date for coal by one year to October 2024. Subsequently, on 26 February, 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 page 118).

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 2019, are set out in note 2.4.

In the two tables below, amounts as at 1 January and 31 December 2018 have been restated to correct a historical currency translation error in the application of foreign exchange rates to balances held in subsidiaries with a functional currency other than sterling. Previously, these balances have been incorrectly retranslated into the presentational currency of the Group at the rate presiding at the date of the transaction. The restated amounts reflect these balances being translated at the closing rate at the relevant Balance Sheet date as required by IAS 21. At 31 December 2017 and 31 December 2018 this results in an increase of £37.8 million and £55.5 million respectively in the carrying amount of property, plant and equipment compared to the amounts previously reported, with a corresponding increase in the translation reserve (see note 8.3). The adjustment does not affect previously reported amounts for the income statement, basic or diluted earnings per share, nor cash.

The comparative balances at 31 December 2018 have been restated due to the finalisation of acquisition values in relation to the new generation assets acquired from ScottishPower on 31 December 2018 (see note 5.1).

	Freehold land and buildings Restated £m	Plant and equipment Restated £m	Plant spare parts Restated £m	Assets under course of construction Restated £m	Total Restated £m
Cost:					
At 1 January 2018 as previously reported	304.1	2,134.6	67.0	149.2	2,654.9
Effect of foreign exchange rates adjustments	11.4	21.3	–	5.4	38.1
At 1 January 2018 restated	315.5	2,155.9	67.0	154.6	2,693.0
Acquired in business combination	159.3	521.6	–	8.9	689.8
Additions at cost	3.6	8.8	8.7	92.5	113.6
Disposals	(2.8)	(80.2)	–	(1.2)	(84.2)
Issues/transfers	14.0	108.6	(9.7)	(128.1)	(15.2)
Effect of foreign exchange rates	6.0	18.8	–	(3.5)	21.3
At 1 January 2019 restated	**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 during the year	(70.0)	123.6	(3.7)	(54.6)	(4.7)
Effect of foreign exchange rates	(4.1)	(9.9)	–	(0.5)	(14.5)
At 31 December 2019	**421.9**	**2,851.7**	**69.1**	**204.6**	**3,547.3**
Accumulated depreciation and impairment:					
At 1 January 2018 as previously reported	67.3	905.6	20.1	–	993.0
Effect of foreign exchange rates adjustment	0.1	0.2	–	–	0.3
At 1 January 2018 restated	67.4	905.8	20.1	–	993.3
Depreciation charge for the year	12.0	114.4	2.8	–	129.2
Disposals	(2.3)	(50.8)	(2.3)	–	(55.4)
Effect of foreign exchange rates	1.1	2.5	–	–	3.6
At 1 January 2019 restated	**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 during the year	–	–	(4.9)	–	(4.9)
Effect of foreign exchange rates	(0.9)	(2.2)	–	–	(3.1)
At 31 December 2019	**90.1**	**1,111.7**	**18.1**	**–**	**1,219.9**
Net book amount at 31 December 2018 restated	417.4	1,761.6	45.4	123.2	2,347.6
Net book amount at 31 December 2019	**331.8**	**1,740.0**	**51.0**	**204.6**	**2,327.4**

Section 3: Operating assets and working capital continued

3.1 Property, plant and equipment continued

Plant and equipment shown above includes the following categories of assets:

	Biomass and coal plant £m	Hydro-electric plant £m	Gas thermal plants £m	Pellet production plant Restated £m	Other £m	Total plant and equipment Restated £m
Cost:						
At 1 January 2018 as previously reported	1,938.1	–	–	185.7	10.8	2,134.6
Effect of foreign exchange rates adjustments	–	–	–	21.3	–	21.3
At 1 January 2018 restated	1,938.1	–	–	207.0	10.8	2,155.9
Acquired in business combinations	–	379.5	120.6	21.5	–	521.6
Additions at cost	–	–	–	5.3	3.5	8.8
Disposals	(80.1)	–	–	–	(0.1)	(80.2)
Issues/transfers	66.6	–	–	43.8	(1.8)	108.6
Effect of foreign exchange rates	–	–	–	18.8	–	18.8
At 1 January 2019 restated	**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 31 December 2019	**1,970.2**	**466.5**	**117.7**	**282.6**	**14.7**	**2,851.7**
Accumulated depreciation and impairment:						
At 1 January 2018 as previously reported	870.0	–	–	28.8	6.8	905.6
Effect of foreign exchange rates adjustments	–	–	–	0.2	–	0.2
At 1 January 2018 restated	870.0	–	–	29.0	6.8	905.8
Depreciation charge for the year	94.9	–	–	17.8	1.7	114.4
Disposals	(50.7)	–	–	(0.1)	–	(50.8)
Transfers						
Effect of foreign exchange rates	–	–	–	2.5	–	2.5
At 1 January 2019 restated	**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 31 December 2019	**1,013.6**	**15.0**	**11.3**	**62.5**	**9.3**	**1,111.7**
Net book amount at 31 December 2018 restated	1,010.4	379.5	120.6	247.2	3.9	1,761.6
Net book amount at 31 December 2019	**956.6**	**451.5**	**106.4**	**220.1**	**5.4**	**1,740.0**

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 spares are utilised in such projects, the cost of the part is transferred from the property, plant and equipment balance and recognised as an expense in the income statement within operating costs.

Total depreciation of £165.9 million per the income statement includes £6.9 million of depreciation and impairment on right-of-use assets, see note 3.2

3.1 Property, plant and equipment continued

Post balance sheet event

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.

In assessing the financial impact of this decision, the Group will consider the useful lives, residual values and potential impairment of certain assets at Drax Power Station. The timing for completing this impairment review is uncertain as the assets remain an integral part of the site and a detailed closure plan needs to be finalised. The carrying amount of affected assets was approximately £240 million at 31 December 2019. See page 118 for further details.

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. 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. 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 adoption of the agreement.

See note 8.3 for further details on the adoption of IFRS 16.

Right-of-use assets

	Land and Buildings £m	Plant and Machinery £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
Effects of foreign exchange rates	(0.1)	(0.4)	(0.5)
At 31 December 2019	**24.2**	**14.0**	**38.2**
Accumulated Depreciation			
At 1 January 2019	–	–	–
Charge for period	3.5	3.1	6.6
Impairment	0.3	–	0.3
Effect of foreign exchange rates	–	(0.1)	(0.1)
At 31 December 2019	**3.8**	**3.0**	**6.8**
Net book value			
At 1 January 2019	23.4	13.7	37.1
At 31 December 2019	**20.4**	**11.0**	**31.4**

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 31 December 2019	32.5

The weighted-average discount rate applied to lease liabilities in the year ended 31 December 2019 was 4.01%.

The Group is committed to payments for short-term and low value leases of £0.6 million as at 31 December 2019.

The maturity of the gross undiscounted lease liability at 31 December 2019 is as follows:

	Total
	2019 £m
Within one year	**7.2**
Within one to five years	**19.2**
After five years	**10.6**
Total gross payments	**37.0**
Effect of discounting	**(4.5)**
Lease liability recognised in the Balance Sheet	**32.5**
Current portion	**6.3**
Non-current portion	**26.2**

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, 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	
	2019 £m	2018 £m
At 1 January	**2.4**	1.3
Additions	**0.7**	0.9
Fair value (losses) /gains	**(0.1)**	0.2
At 31 December	**3.0**	2.4

During the year, the Group further increased its investment in C-Capture Limited. See note 7.1 for details on the fair value measurement of investments.

3.4 ROC assets

The Group earn Renewable Obligation Certificate (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-electric plants. This note sets out the value of these assets that the Group holds 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.

The fair values and net realisable values of ROCs referred to above are calculated based on assumptions regarding future sales prices in the market, taking into account agreed forward sale contracts where appropriate. Historical experience indicates that the assumptions used in the valuation are reasonable; however, actual sales prices may 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 supply 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 £m
Carrying amount:	
At 1 January 2018	145.5
Earned from generation	467.7
Purchased from third parties	582.6
Utilised by the Customers business	(319.8)
Sold to third parties	(659.3)
At 1 January 2019	**216.7**
Earned from generation	527.8
Purchased from third parties	513.1
Utilised by the Customers business	(360.3)
Sold to third parties	(734.6)
At 31 December 2019	**162.7**

Recognition of revenue from sales of ROCs is described in further detail on page 141. The Group has increased sales of ROCs in the year as a result of working capital arrangements as described in note 4.4.

3.5 Inventories

The Group hold 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 coal, biomass, other fuels and plant consumables held at the end of the year at Drax Power Station, the Group's facilities in the US and off-site locations. The Hydro and CCGT plants hold inventory of spare part consumables.

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 coal and biomass stocks are weighed when entering, moving within or exiting the Group's sites using technology regularly calibrated to industry standards. Fuel burn in the electricity generation process is calculated using a combination of weights and thermal efficiency calculations to provide closing stock 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 stocks are verified by an independent stock survey carried out by a suitably trained specialist and a provision is made where the survey indicates a lower level of stock than indicated by the methods described above. Despite being an independent process, the survey depends on estimates and assumptions and as a result actual values may differ.

The characteristics of biomass require specialist handling and storage. Biomass at Drax Power Station is stored in sealed domes with a carefully controlled atmosphere for fire prevention purposes and thus cannot be surveyed using traditional methods. Biomass stock is surveyed using regularly calibrated RADAR scanning technology.

	As at 31 December	
	2019 £m	2018 £m
Coal	**103.1**	81.0
Biomass	**164.9**	114.7
Other fuels and consumables	**24.0**	26.8
	292.0	222.5

Inventories of biomass in the year ended 31 December 2019 include £2.6 million (2018: £0.6 million) of fibre and other raw materials utilised in the production of compressed wood pellets. Inventories in the year ended 31 December 2019 include £nil (2018: £0.9 million) of work in progress in the Pellet Production business.

The cost of inventories recognised as an expense in the year ended 31 December 2019 was £1,182.8 million (2018: £1,601.1 million). The value of write downs of inventory in the year was £nil (2018: £nil).

Post balance sheet event

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.

The carrying amount of coal inventory was £103.1 million at 31 December 2019, the Group expects to recover this value in full over the period to closure. See page 118 for further details.

3.6 Trade and other receivables

Trade receivables represent amounts owed by customers for goods or services provided but 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 derecognised at the point of sale. Fees are recognised in the income statement as incurred.

	Years ended 31 December	
	2019 £m	Restated 2018 £m
Amounts falling due within one year:		
Trade receivables	**134.4**	168.0
Accrued income	**345.9**	197.0
Contract assets	**6.7**	4.3
Prepayments	**67.3**	73.2
Other receivables	**54.5**	31.7
	608.8	474.2

Trade receivables and accrued income principally represent sales of energy to counterparties within both the Generation and Customers businesses. At 31 December 2019, the Group had amounts receivable from two significant counterparties representing 18% of total trade receivables and accrued income (2018: two significant counterparties representing 12% of total trade receivables and accrued income).

The comparative balances at 31 December 2018 have been restated due to the finalisation of acquisition values in relation to the new generation assets acquired from ScottishPower on 31 December 2018 (see note 5.1).

Of total trade receivables and accrued income at 31 December 2019 £275.0 million (2018: £266.6 million) relates to Customers sales.

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 work performed where payment is not yet due. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. The reconciliation from opening to closing contract assets is as follows:

	Years ended 31 December	
	2019 £m	2018 £m
At 1 January	**4.3**	5.3
Additions as a result in changes in the measure of progress of balances brought forward at the start of the year	**6.7**	4.3
Additions as a result of new contracts	–	–
Contract assets transferred to trade receivables	**(4.3)**	(5.3)
At 31 December	**6.7**	4.3

Impairment of financial assets

Accounting policy

The provision for impairment of trade receivables and contract assets is measured at an amount equal to the lifetime expected credit loss. The contract assets relate to amounts for goods or services provided under customer contracts and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

The greatest concentration of credit risk exists in the Customers business. During 2019, the Group implemented a new machine learning algorithm to calculate expected credit losses in this business. The algorithm predicts the future performance of a debt on an individual account basis using a broad range of internal and external indicators to assess the likelihood of the debt becoming more than 365 days past due and subsequently defaulting. The Group considers default to be when a customer is in breach of their terms.

3.6 Trade and other receivables continued

The new method provides in full for debt where the debt is more likely than not (i.e. more than 50% probability) to become both aged over 365 days and then subsequently default. The Group considers that the overall provision applied from this method and other overlay assumptions is adequate to reflect the risk of default across the whole portfolio. The Group defines customers that have a combined probability of less than 25% as low credit risk.

Other Customers balances are grouped according to the age of the debt based on a number of days past due. The provision rates remaining are based on historical collection rates and expectation of future cash collection rates.

12-month expected credit losses are calculated for other financial assets by taking the Groups' exposure at the balance sheet date multiplied by a 12-month provision rate.

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. The net charge to the income statement in the current year for impairment losses on financial assets was £18.0 million (2018: £31.4 million), this includes a £6.1m benefit in the period in respect of resolution of legacy credit balances.

The movement in the allowance for doubtful debts is laid out in the following table:

	Years ended 31 December	
	2019 £m	2018 £m
At 1 January	**44.0**	28.2
Receivables written off	**(27.4)**	(15.6)
Additional amounts provided against	**24.1**	33.6
Amounts reversed as recovered	–	(0.8)
Changes in models/risks parameters	–	(1.4)
At 31 December	**40.7**	44.0

The expected credit loss provision above relates wholly to trade receivables and contract assets. The expected credit loss provision calculated for other financial assets of the Group was negligible.

The provision above principally relates to trade receivables and contract assets 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.

Credit and counterparty risk are disclosed in further detail in note 7.2.

The value of provisions calculated using the Groups' predictive model is set out below, grouped by the combined probability assigned by the model:

Probability of default range %	Estimated gross carrying amount at default £m	Lifetime expected credit losses £m
80–100	22.7	19.3
50–79	17.2	14.6
0–49	117.8	3.7
Total	157.7	37.6
Provision for specific debt		0.2
Closing provision		37.8

The following table shows the risk profile of amounts due from other customers based on the Group's provision matrix at 31 December 2019 excluding the debt provided for in the table above using the combined probability model.

	Financial assets days past due					
	Balances not yet due	Up to 30 days	More than 30 days	More than 60 days	More than 90 days	Total
Group						
Expected credit loss rate – %	**3%**	**9%**	**5%**	**13%**	**82%**	**12%**
Estimated total gross carrying amount at default – £m	**13.8**	**2.9**	**3.8**	**1.2**	**2.4**	**24.1**
Lifetime expected credit losses – £m	**0.4**	**0.2**	**0.2**	**0.2**	**1.9**	**2.9**

3.6 Trade and other receivables continued

The expected credit loss rate is a weighted average for the portfolio of the remaining trade receivables and contract assets associated with the Customers business.

Balances not yet due include contract asset balances. The majority of 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 following table shows the comparative risk profile of amounts due from other customers based on the Group's provision matrix at 31 December 2018.

	Trade receivables and contract assets days past due					
	Balances not yet due (restated)	Up to 30 days	More than 30 days	More than 60 days	More than 90 days	Total (restated)
Group						
Expected credit loss rate – %	<1%	7%	19%	32%	59%	26%
Estimated total gross carrying amount at default – £m	22.7	75.2	11.5	6.8	58.6	174.8
Lifetime expected credit losses – £m	0.1	5.2	2.2	2.2	34.3	44.0

The above table has been restated to include contract assets of the Group and due to the finalisation of acquisition values in relation to the assets acquired from ScottishPower on 31 December 2018 (see note 5.1).

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. The reconciliation from opening to closing contract costs is as follows, there was no impairment loss recognised:

	Years ended 31 December	
	2019 £m	2018 £m
At 1 January	**39.0**	39.3
Additions	**33.7**	36.9
Amortisation	**(30.4)**	(37.2)
At 31 December	**42.3**	39.0

3.8 Trade and other payables

Trade and other payables represent amounts the Group owe 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 make accruals for amounts that will fall due for payment in the future as a result of the Group's activities in the current year (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 they be if the arrangement was to fall away, and 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.

3.8 Trade and other payables continued

	As at 31 December	
	2019 £m	Restated 2018 £m
Trade payables	**175.0**	110.5
Fuel accruals	**86.1**	129.4
Energy supply accruals	**364.2**	309.9
Other accruals	**208.8**	183.4
Other payables	**183.3**	187.4
Contract liabilities	**21.8**	20.0
	1,039.2	940.6

Trade payables includes £4.5m due after more than one year.

Trade payables includes £33.1 million (2018: £2.2 million) related to reverse factoring. Other payables include £90.6 million (2018: £87.0 million) due under other payment facilities.

Other payables include £55.0 million of ROC sales made in the period which the Group have not yet been accredited for. Once the ROCs have been accredited and transferred to the other party, this amount will be released from other payables and recognised in the income statement.

Energy supply accruals include £250.0 million (2018: £235.5 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 £42.8 million (2018: £51.7 million) and Feed-in-Tariff accruals of £30.4 million (2018: £14.1 million).

The Group recognises a liability in respect of its unsettled obligations to deliver emissions allowances under the EU Emission Trading Scheme (ETS). Accruals at 31 December 2019 include £25.5 million (2018: £nil) with respect to the Group's estimated net liability to deliver CO_2 emissions allowances. Allowances are purchased in the market and are recorded at cost.

Other payables at 31 December 2018 have been restated due to the finalisation of acquisition values of the liabilities acquired in the acquisition of the new generation assets on 31 December 2018. (See note 5.1).

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	
	2019 £m	2018 £m
At 1 January	**20.0**	27.6
Revenue recognised in the year that was included in the contract liability at the start of the period	**(12.5)**	(20.5)
Additions as a result of cash received from Customers in the period not yet recognised in Revenue	**14.3**	12.9
At 31 December	**21.8**	20.0

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	
	2019 £m	2018 £m
Net debt at 1 January	**(319.1)**	(367.4)
Increase/(decrease) in cash and cash equivalents	**121.9**	65.6
(Increase)/decrease in borrowings	**(645.3)**	4.2
Effect of changes in foreign exchange rates	**1.4**	(21.5)
Net debt at 31 December	**(841.1)**	(319.1)

Borrowings include listed bonds, bank debt and revolving credit facilities, 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. Whilst the definition of net debt is unchanged from previous periods, following the adoption of IFRS 16 as of 1 January 2019, finance leases no longer form part of borrowings and have been subsumed into the larger lease liability calculated in accordance with IFRS 16. The carrying amount of finance lease liabilities at 31 December 2018 was £0.5 million.

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 were predominantly classified as operating leases under the old lease standard (IAS 17 and IFRIC 4). These leases were therefore previously not held on the balance sheet, but were disclosed as operating commitments in the Group's 2018 Annual Report and Accounts. At 31 December 2019, these liabilities had a carrying amount of £32.5 million (see note 3.2).

A reconciliation of the increase in borrowings during the year is set out in the table on page 165.

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 denominated debt (see note 4.3). If US dollar balances are 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 reduced by £12.2 million (2018: reduced by £22.0 million). The corresponding value of the hedging instrument is recognised at its fair value as a derivative financial instrument, (note 7.2).

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	
	2019 £m	2018 £m
Cash and cash equivalents	**404.1**	289.0

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. Where this is the case, the fee is deferred until the draw-down occurs.

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.

4.3 Borrowings continued

Reconciliation of borrowings

The tables below show the movement in borrowings during the current and previous year:

	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 $200 million USD 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 costs in relation to previous facilities (note 2.5)	–	5.2	5.2
Indexation of linked loan	0.8	–	0.8
Amortisation of deferred finance costs (note 2.5)	–	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**

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition of the new generation assets, with the remainder of the consideration funded from the Group's cash resources. The acquisition bridge facility was fully refinanced in the year, ahead of its scheduled maturity in the second half of 2020, as described below.

On 16 May 2019, the Group issued an additional US $200 million of the existing 2025 6.625% USD loan notes. The proceeds from the issuance were used to repay £150 million of the drawn down acquisition bridge facility. The notes were issued at 101.5% of their nominal value which, when swapped back into sterling, achieved an interest rate of 4.74%.

On 24 July 2019, the Group successfully concluded the refinancing of the remaining £400 million drawn acquisition bridge facility. Two new facilities totalling £500 million were agreed with effective rates substantially inside Drax's current cost of debt; a £375 million UK infrastructure private placement with maturities extending out to between 2024–2029 and a £125 million environment, social & governance or "ESG" facility. A proportion of the interest rate on the £125 million ESG facility is variable, based on the Group's total carbon dioxide emissions per GWh of electricity generation.

The Group's financing structure also includes £350 million 4.25% fixed rate loan notes, US $300 million loan notes with a fixed interest rate of 6.625%, which was swapped back to sterling upon issuance at an effective interest rate of 5%, and a £350 million facility comprised of Revolving Credit Facility (RCF) with a value of £315 million and an index-linked term loan of £35 million. The RCF matures in April 2021, with an option to extend by one year. See note 7.2 for further details.

Following the adoption of IFRS 16 (see note 8.3), finance leases have been reclassified to lease liabilities. Prior years have not been restated.

The Group has cross-currency interest rate swaps in place (see note 7.1) to hedge the sterling cash flows associated with the USD loan notes. In addition to fixing the sterling value of interest payments over a five year period, this instrument fixes the sterling repayment of the principal at £367.5 million in 2023, the impact of which would reduce borrowings by £12.2 million.

4.3 Borrowings continued

	Year ended 31 December 2018		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
Borrowings at 1 January	605.2	(15.5)	589.7
Cash movements:			
2025 US $300 million loan notes drawn down	213.3	(3.8)	209.5
Repayment of floating rate loan notes on 1 May 2018	(200.0)	–	(200.0)
Repayment of US $25 million revolving facility	(19.1)	–	(19.1)
Deferred costs in relation to acquisition bridge facility	–	(3.8)	(3.8)
Non-cash movements:			
Indexation of linked loan	1.2	–	1.2
Amortisation of deferred finance costs (note 2.5)	–	3.1	3.1
Repayment of floating rate loan notes on 1 May 2018	–	5.2	5.2
Effect of foreign exchange rates	22.6	–	22.6
Changes in finance lease liabilities	(0.3)	–	(0.3)
Borrowings at 31 December	622.9	(14.8)	608.1

Amounts drawn against each facility in the Group's financing structure in the current and previous year is shown in the tables below:

	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 $500 million loan notes	**379.6**	**(5.9)**	**373.7**
Index-linked loan	**37.9**	**–**	**37.9**
UK infrastructure private placement	**375.0**	**(9.3)**	**365.7**
ESG facility	**125.0**	**(1.8)**	**123.2**
Total borrowings	**1,267.5**	**(22.3)**	**1,245.2**
Split between:			
Current borrowings	**–**	**–**	**–**
Non-current borrowings	**1,267.5**	**(22.3)**	**1,245.2**

The Group has a committed £315 million revolving credit facility available but had no cash drawings at 31 December 2019. 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 2018		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 fixed loan notes	350.0	(7.6)	342.4
2025 US $300 million loan notes	235.3	(3.4)	231.9
Index-linked loan	37.1	–	37.1
Acquisition bridge facility	–	(3.8)	(3.8)
Finance lease liabilities	0.5	–	0.5
Total borrowings	622.9	(14.8)	608.1
Split between:			
Current borrowings	0.1	–	0.1
Non-current borrowings	622.8	(14.8)	608.0

The Group's financing structure, including the index linked loan, the loan notes, the revolving credit facility, private placement and ESG facility are secured against the assets of a number of the Group's subsidiaries including property, plant and equipment, with the exception of the US subsidiaries' assets.

Section 4: Financing and capital structure continued

4.3 Borrowings continued

In addition, the Group has a secured commodity trading line, which allows 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. As at 31 December 2019, this value was £32.7 million (2018: £11.9 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 137 The table below makes adjustments for any non-cash accounting items to reconcile the Group's net profit for the year to the amount of cash generated from the Group's operations.

	Years ended 31 December	
	2019 £m	2018 £m
Profit/(loss) for the year	**0.5**	20.2
Adjustments for:		
Interest payable and similar charges	**66.5**	47.3
Interest receivable	**(1.3)**	(1.2)
Tax credit	**(3.3)**	(6.4)
Depreciation and amortisation	**207.9**	173.8
Asset obsolescence charge	**–**	26.8
Losses on disposal	**1.2**	3.9
Certain remeasurements of derivative contracts	**254.0**	(43.3)
Defined benefit pension scheme current service cost	**7.1**	6.8
Non-cash charge for share-based payments	**2.7**	4.0
Other non-cash (gains)/losses	**(0.5)**	4.3
Operating cash flows before movement in working capital	**534.8**	236.2
Changes in working capital:		
(Increase)/decrease in inventories	**(67.8)**	52.5
Increase in receivables	**(142.6)**	(15.4)
Increase in payables	**101.6**	149.4
Decrease/(increase) in carbon assets	**4.3**	(3.7)
Decrease/(increase) in ROC assets	**54.0**	(71.2)
Total cash released from working capital	**(50.5)**	111.6
Defined benefit pension scheme contributions	**(13.1)**	(11.4)
Cash generated from operations	**471.2**	336.4

(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 uses various methods to manage liquidity. When compared to the year end position, these methods 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 we 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 £131.2 million inflow (2018: £10.5 million outflow), reflected as a decrease (2018: increase) in ROC assets 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 (2018: £nil).

From time to time, where market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In 2019 this generated a working capital benefit, which is reflected as an adjustment to derivative remeasurements in the table above. The total cash benefit released from related trades that remained outstanding at 31 December 2019 was £106.8 million (2018: £2.9 million). This cash benefit includes £84.3 million (2018: £2.9 million) released from foreign currency contracts and £22.5 million (2018: £nil) from cross-currency interest rate swaps.

4.4 Notes to the consolidated cash flow statement continued

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 £12.8 million in the year ended 31 December 2019, reflected as a reduction in receivables in the table above (2018: £24.4 million). The facility terms were amended in the year, increasing the facility size to £200 million from £150 million in 2018. Utilisation of the facility was £162.2 million at 31 December 2019 (2018: £149.4 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 2019, the Group had trade payables of £33.1 million (2018: £2.2 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 2019 was £90.6 million (2018: £87.0 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 2019		
	Index-linked loans £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**

	As at 31 December 2018		
	Index-linked loans £m	Lease liabilities £m	Total £m
Balance at 1 January	588.9	0.8	589.7
Cash flows from financing activities	(12.8)	–	(12.8)
Impact of foreign exchange rates	22.0		22.0
Other movements	9.5	(0.3)	9.2
Balance at 31 December	607.6	0.5	608.1

4.5 Equity and reserves

The Group's ordinary share capital reflects the total number of shares in issue, which are publicly traded on the London Stock Exchange.

Accounting policy

Ordinary shares are classified as equity as evidenced by their residual interest in the assets of the Company after deducting its liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

	As at 31 December	
	2019 £m	2018 £m
Authorised:		
865,238,823 ordinary shares of 11 16/29 pence each (2018: 865,238,823)	**100.0**	100.0
Issued and fully paid:		
2019: 410,475,731 ordinary shares of 11 16/29 pence each (2018: 407,193,168)	**47.4**	47.0

4.5 Equity and reserves continued

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2019 (number)	2018 (number)
At 1 January	**407,193,168**	407,034,429
Issued under employee share schemes	**3,282,563**	158,739
At 31 December	**410,475,731**	407,193,168

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 2019, a total of 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.

Share buy-back programme

In the previous financial year, 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.

	Share premium	
	2019 £m	2018 £m
At 1 January	**424.7**	424.3
Issue of share capital	**4.9**	0.4
At 31 December	**429.6**	424.7

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 (restated) £m	Merger reserve £m	Total other reserves (restated) £m
At 1 January 2018	1.5	31.0	710.8	743.3
Exchange differences on translation of foreign operations	–	24.9	–	24.9
At 31 December 2018	**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**

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 (US dollar) 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 share premium reserve reflect amounts received on the issue of shares under employee share schemes.

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 7.4 and 7.5.

Section 5: Other assets and liabilities

This section provides information on the assets and liabilities in the Consolidated balance sheet that are not covered in other sections, including goodwill, other intangible assets and provisions.

5.1 Acquisitions

Accounting policy

Acquisitions of businesses are recognised at the point the Group obtains control of the target (the acquisition date). The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at their fair value on the acquisition date. The assets and liabilities are recognised in the Consolidated balance sheet and the revenues and profit or loss of the acquired business are recognised in the Consolidated income statement from the acquisition date. Acquisition-related costs are recognised in the income statement in the period the acquisition occurs as an exceptional item. Goodwill is measured as the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets acquired.

Acquisition of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited)

There were no acquisitions during 2019; however, the Group has updated the fair value of assets and liabilities acquired in respect of the acquisition of ScottishPower Generation Limited, which completed on 31 December 2018 (See pages 148-149 of the 2018 Annual Report and Accounts for further details).

ScottishPower Generation Limited was renamed Drax Generation Enterprise Limited on 9 January 2019.

Measurement period adjustments

The fair value of the assets and liabilities acquired has been adjusted to reflect the following:

- The conclusion of the completion statement process in respect of the acquisition. This process resulted in changes to the values of financial assets and liabilities as estimated amounts were confirmed subsequent to the acquisition date. As a result, the Group made a further payment in accordance with the terms of the acquisition of £4.8 million, increased the fair value of the net assets acquired by £2.5 million, and recognised a corresponding increase in goodwill of £2.3 million.
- Finalisation of the terms of the defined benefit pension scheme transfer (see note 6.3). This resulted in a reduction in the net opening surplus recognised by £1.1 million, with a corresponding increase to goodwill.
- The finalisation of the Group's assessment of cash-generating units and their fair values resulted in a net £0.2 million reduction in property, plant and equipment values.

As a result of these changes, total goodwill recognised in respect of the acquisition has increased by £3.5 million, to £78.3 million. The balance sheet as at 31 December 2018 has been restated. The additional consideration was paid in cash on 14 May 2019.

The acquisition was subject to a risk-sharing agreement in respect of 2019 UK Capacity Market payments. Following the reinstatement of the UK Capacity Market on 25 October 2019, and the subsequent receipt of cash in January 2020 in respect of backdated Capacity Market payment owed, no further amounts are due under this arrangement.

The updated fair values of the assets and liabilities acquired are set out in the table below:

	Original values assumed at 31 December 2018 £m	Remeasurements £m	Revised values at 31 December 2018 £m
Property, plant and equipment	690.0	(0.2)	689.8
Financial assets	40.7	5.4	46.1
Financial liabilities	(41.0)	(2.9)	(43.9)
Pension surplus	3.8	(1.1)	2.7
Provisions	(13.5)		(13.5)
Intangible assets	0.6		0.6
Deferred tax liability	(68.5)	0.1	(68.4)
Total identifiable net assets	**612.1**	**1.3**	**613.4**
Goodwill	74.8	3.5	78.3
Fair value of consideration payable	**686.9**	**4.8**	**691.7**

Goodwill of £78.3 million is largely reflective of the trading and operational opportunities that arise from acquiring a multi-site multi-fuel generation portfolio together with the assembled skilled workforce. None of the goodwill is expected to be deductible for tax purposes. Intangible assets reflect software previously recognised on the balance sheet of the acquiree.

Section 5: Other assets and liabilities continued

5.1 Acquisitions continued

Assessment of cash-generating units and allocation of goodwill

The Group has determined that each generation site acquired represents a cash-generating unit for impairment testing purposes.

Goodwill has been allocated to the hydro and pumped storage cash-generating units, Lanark (£11.3 million), Galloway (£40.1 million) and Cruachan (£26.9 million).

The Group conducts an annual impairment test for goodwill, as required by IFRS. The acquired goodwill has been tested for the first time as at 31 December 2019. See note 5.2.

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 movements and balances:

	Goodwill £m
Cost and carrying amount:	
At 1 January 2018	169.9
Acquisition of Drax Generation Enterprise Limited (note 5.1)	74.8
At 31 December 2018 (as reported)	**244.7**
Measurement period adjustments (note 5.1)	3.5
At 31 December 2018 (restated) and 31 December 2019	**248.2**

The Group recognised £74.8 million of provisional goodwill in respect of the ScottishPower transaction in 2018. In 2019 the finalisation of acquisition fair values resulted in changes in the fair values of assets and liabilities acquired of £3.5 million with a corresponding increase to goodwill (see note 5.1).

Total goodwill in the Consolidated balance sheet at 31 December 2019 was £248.2 million, with £10.7 million arising on the acquisition of Haven Power in 2009 attributed to the Haven Power CGU, £159.2 million arising on the acquisition of Opus Energy in 2017 attributed to the Opus Energy CGU and £78.3 million arising on the acquisition of Drax Generation Enterprise in 2019 allocated to the Lanark (£11.3 million), Galloway (£40.1 million) and Cruachan (£26.9 million) CGUs.

Impairment review

The recoverable amount of the Haven Power and Opus Energy CGUs is measured annually, based on a value-in-use calculation using the Group's established planning model. This model depends on a broad range of assumptions, the most significant of which are customer margins and supply volumes. Inherent in these assumptions are expectations about future energy prices and supply costs. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 1%.

The carrying amount of the Haven Power CGU at 31 December 2019 was £49.9 million. The expected future cash flows of the CGU were discounted using a discount rate of 7.5%, 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. The value-in-use of the Haven Power CGU, including the goodwill, was significantly in excess of its carrying amount.

The carrying amount of the Opus Energy CGU at 31 December 2019 was £319.5 million, including intangible assets of £140.0 million. Following further integration of Opus Energy into the Group's existing Customers business during 2019, the discount rate was assessed as being in line with that of Haven Power at 7.5%. The value-in-use of the Opus Energy CGU, including the goodwill and intangible assets, was significantly in excess of its carrying amount.

The Group has conducted a sensitivity analysis of the estimates of future cash flows of the Haven Power and Opus Energy CGUs. This analysis indicates that any reasonably possible change in the key assumptions, which are customer margins, supply volumes and discount rate, would not cause an impairment loss in respect of goodwill.

5.2 Goodwill continued

Goodwill associated with recently acquired generation assets

The Group tested the goodwill associated with the Lanark, Galloway and Cruachan CGUs for the first time at 31 December 2019. 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. Cash flows beyond the business plan period are inflated into perpetuity using a growth rate of 2%.

The carrying amounts and discount rates applied to each CGU are set out in the table below:

CGU	Carrying Amount	Discount Rate
Lanark	56.4	6.6%
Galloway	198.1	6.6%
Cruachan	319.9	6.6%

The discount rates were calculated based on independent analysis commissioned by the Group, adjusted to the specific circumstances and risk factors affecting the Group's Generation business.

The value-in-use of each of the CGUs in the table above, including allocated goodwill, was significantly in excess of its carrying amount.

The Group has conducted a sensitivity analysis of the estimates of future cash flows of the Lanark, Galloway and Cruachan CGUs. For the Cruachan CGU, this analysis indicates that any reasonably possible change in the key assumptions would not cause an impairment loss in respect of goodwill. For the Lanark and Galloway CGUs, a sustained reduction in long-term power prices in excess of 5% or an increase discount rate of 1%, when compared to the assumptions applied in the value in use analysis at 31 December 2019, would result in a recoverable amount for those CGUs equivalent to their carrying amounts. These sensitivities are considered reasonably possible to arise in isolation but do not consider the impact of mitigating actions or compensating changes in other assumptions.

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 2019. 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.

5.3 Intangible assets continued

	Customer-related assets £m	Brand £m	Computer software and licences £m	Development assets £m	Carbon £m	Total £m
Cost and carrying amount:						
At 1 January 2018	211.0	11.3	58.0	21.0	–	301.3
Additions at cost	–	–	28.9	–	3.7	32.6
Transferred from Property, plant & equipment	–	–	7.6	–	–	7.6
Acquisition	–	–	0.6	–	0.6	1.2
Effect of foreign exchange rates						
At 31 December 2018	**211.0**	**11.3**	**95.1**	**21.0**	**4.3**	**342.7**
Additions at cost	–	–	20.8	–	–	20.8
Transferred from Property, plant & equipment	–	–	3.1	–	–	3.1
Utilised in the period	–	–	–	–	(4.3)	(4.3)
Disposals	–	–	–	–	–	–
Effect of foreign exchange rates	–	–	0.3	–	–	0.3
At 31 December 2019	**211.0**	**11.3**	**119.3**	**21.0**	**–**	**362.6**
Accumulated amortisation						
At 1 January 2018	35.6	1.1	32.6	–	–	69.3
Charge for period	35.9	1.1	7.6	–	–	44.6
Effect of foreign exchange rates	–	–	–	–	–	–
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 31 December 2019	**101.7**	**3.4**	**50.6**	**–**	**–**	**155.7**
Net book value						
At 31 December 2018	139.5	9.1	54.9	21.0	4.3	228.8
At 31 December 2019	**109.3**	**7.9**	**68.7**	**21.0**	**–**	**206.9**

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 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 pre-tax discount rate of 10.7%. The asset has an estimated useful life 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.

5.3 Intangible assets continued

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 2019, computer software assets in the course of construction amounted to £21.1 million (2018: £24.5 million). This includes £19.2 million for a billing system where the Group has stopped development and is in ongoing discussions with the supplier. No amounts have been provided in respect of these assets as the Group believes that the carrying amount will be recovered in full.

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.

At 31 December 2019, 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 reflected the Government's announcement that the Capacity Market will be reinstated and 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 analysis assumes a Capacity Market clearing price that is higher than recently observed clearing prices, but is supported by independent forecasts of future prices.

The expected future cash flows were discounted using a rate of 7%, which includes 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. The analysis is sensitive to the key assumptions described above and the discount rate applied. Set out below are the changes in these assumptions that would result in a recoverable amount that is less than the carrying amount:

- Increasing the discount rate by approximately 1.2%
- A reduction in the Capacity Market clearing price achieved of 17%
- An increase in the total construction cost of 12%
- A reduction in system stability revenue streams of 21%

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 CO_2 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 tenor, 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.

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. In view of the uncertainty of assessing the amount of any proceeds from the disposal of the assets at the decommissioning date, no reduction in the provision is made for any such proceeds. The discount rate used is a risk-free pre-tax rate that reflects the duration of the liability. The average discount rate used across the Group's decommissioning provisions is 1.2% (2018: 1.8%). 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.

Other provisions include a small provision in respect of dilapidation provisions for leased offices.

	Decommissioning provision £m	Other provisions £m	Total £m
Carrying amount:			
At 1 January 2019	49.2	1.6	50.8
Additions	0.2	0.1	0.3
Utilised	–	(0.3)	(0.3)
Released	–	(1.1)	(1.1)
Adjustment for changes in assumptions	3.8	–	3.8
Unwinding of discount	0.7	–	0.7
At 31 December 2019	**53.9**	**0.3**	**54.2**

Decommissioning provisions are made in respect of the Group's thermal generating plants (Drax Power Station and CCGT power stations). The decommissioning provision is 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. The most recent updates took place in December 2017 for Drax Power Station, and 2018 for CCGT sites.

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 86.

The Group acquired ScottishPower Generation Limited (subsequently renamed to Drax Generation Enterprise Limited) on the last day of the previous reporting period and as such no ScottishPower Generation Limited employee data has been included in the comparative. The number of ScottishPower Generation Limited staff that joined the Group as a result of the acquisition was 252.

Staff costs (including executive directors)

	Years ended 31 December	
	2019 £m	2018 £m
Included in other operating and administrative expenses (note 2.3)		
Wages and salaries	**145.1**	113.4
Social security costs	**16.2**	12.8
Pension costs (note 6.3)	**19.6**	15.5
Share-based payments (note 6.2)	**3.5**	4.0
	184.4	145.7

Average monthly number of people employed (including executive directors)

	Years ended 31 December	
	2019 (number)	2018 (number)
Generation operations	**1,087**	818
Pellet Production operations	**254**	258
Customers services	**1,398**	1,402
Central and administrative functions	**249**	201
	2,988	2,679

6.2 Share-based payments

The Group operates two share option schemes for employees: the Performance Share Plan (PSP) for directors and senior executives (which replaced the Bonus Matching Plan (BMP) from 2017) which incorporates the Deferred Share Plan (DSP), and the Savings-Related Share Option Plan (SAYE) for all 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 to employees in the form of "One Drax Awards". These are cash awards that are tracked on the Group share price over the retention period. At the date of the award the employee is granted a number of ghost shares which is 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 retention period, the employee receives the cash award based on the share price at the date of redemption.

Accounting policy

The PSP, BMP, 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.

Section 6: Our people continued

6.2 Share-based payments continued

Costs recognised in the income statement in relation to share-based payments during the year were as follows:

	Years ended 31 December	
	2019 £m	2018 £m
Equity settled		
PSP (granted from 2017)	**0.8**	1.3
DSP (granted from 2017)	**0.6**	0.2
BMP (granted in periods prior to 2017)	**(0.5)**	0.7
SAYE	**1.8**	1.8
Cash settled		
One Drax awards	**0.8**	–
Total share-based payment expense (note 6.1)	**3.5**	4.0

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 2019 (number)	Shares acquired during year (number)	Shares transferred during year (number)	Shares held at 31 December 2019 (number)	Cost at 31 December 2019 £000	Nominal value at 31 December 2019 £000	Market value at 31 December 2019 £000
SIP	88,283	–	(18,239)	70,044	–	8	220

Performance Share Plan (PSP)

The PSP was introduced for directors and senior executives to replace the BMP from 2017. Under the PSP, annual awards of performance and service-related shares are made for no consideration to executive directors and other senior executives up to a maximum of 175% of their annual bonus. Vesting of a proportion of shares 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 is conditional upon performance against the internal balanced corporate scorecard. Of the PSP options granted in 2019, 50% will vest conditional on Group TSR relative to the TSR of a comparator group of companies, with the remaining 50% vesting conditional upon the internal balanced corporate scorecard.

The fair value of the 2019 PSP awards of £2.7 million (2018: £2.5 million) is being charged to the income statement on a straight-line basis over the three-year vesting period. The fair value of PSP 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 2019 awards are the share price at the grant date of 378 pence (2018: 272 pence), expected volatility of 35% (2018: 41%), and risk-free interest rate of 0.98% (2018: 0.83%).

Movements in the number of shares outstanding for the PSP awards are as follows:

	2019 Weighted average price	2019 (number)	2018 Weighted average price	2018 (number)
At 1 January	**224**	**2,675,336**	247	1,289,762
Granted	**299**	**918,136**	160	1,560,757
Forfeited	**–**	**–**	248	(175,183)
Exercised	**–**	**–**	–	–
Expired	**242**	**(591,907)**	–	–
At 31 December	**249**	**3,001,565**	224	2,675,336

The weighted average fair value of the options granted during the year was 299 pence (2018: 160 pence).

All of the PSP options outstanding at the end of the period had an exercise price of £nil (2018: £nil). The weighted average remaining contractual life was 20 months (2018: 22 months).

The number of options exercisable at the year end was nil (2018: nil).

6.2 Share-based payments continued

Deferred Share Plan (DSP)

In addition, the Group operates the DSP, which was introduced as a vehicle for deferring 35% of the annual bonus of executive directors and senior leadership team. 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 2019 was 378 pence (2018: 272 pence) and the fair value of these awards of £1.9 million (2018: £0.4 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 2019 awards are the share price at date of grant, expected volatility of 35% (2018: 41%), and risk-free interest rate of 0.98% (2018: 0.83%).

Movements in the number of share options outstanding for the DSP awards are as follows:

	2019 Weighted average price	2019 (number)	2018 Weighted average price	2018 (number)
At 1 January	**293**	**226,588**	325	110,809
Granted	**378**	**495,366**	272	135,972
Forfeited	**–**	**–**	–	–
Exercised	**–**	**–**	325	(20,193)
Expired	**378**	**(73,706)**	–	–
At 31 December	**348**	**648,248**	293	226,588

100% of the DSP options granted in 2019 will vest in three years.

Bonus Matching Plan (BMP)

Under the BMP, annual awards of performance and service-related shares were made for no consideration to executive directors and other senior executives up to a maximum of 150% of their annual bonus up until 2016. The BMP was replaced in 2017 by the PSP. For awards prior to 2017, a proportion of the shares vesting under the BMP are 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 a proportion of the shares vesting is conditional upon performance against the internal balanced corporate scorecard. The fair value of the 2017 BMP awards, £0.6 million, are being charged to the income statement on a straight-line basis over the corresponding three-year vesting period. The 2016 BMP awards have been fully expensed at the year end.

The fair value of BMP awards is calculated using a Monte-Carlo valuation model, which takes into account the estimated probability of different levels of vesting. No BMP awards were made in 2019.

Movements in the number of share options outstanding for the BMP awards is as follows:

	2019 Weighted average price	2019 BMP (number)	2018 Weighted average price	2018 BMP (number)
At 1 January	**206**	**1,175,130**	253	2,314,155
Granted	**–**	**–**	–	–
Forfeited	**–**	**–**	198	(26,436)
Exercised	**171**	**(673,846)**	335	(125,499)
Expired	**236**	**(501,284)**	296	(987,090)
At 31 December	**–**	**–**	206	1,175,130

For the BMP options exercised during the period, the weighted average share price at the date of exercise was 365 pence (2018: 270 pence).

There were no BMP options outstanding at the end of the period. The BMP options outstanding at the end of the period had an exercise price of £nil (2018: £nil). The weighted average remaining contractual life was nil months (2018: 2 months).

The number of options exercisable at the year end was nil (2018: nil).

6.2 Share-based payments continued

Savings-Related Share Option Plan (SAYE)

In March 2019, participation in the SAYE plan was offered again to all qualifying employees. Options were granted for employees to acquire shares at a price of 298 pence (2018: 211 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 £2.8 million (2018: £1.2 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:

	2019				2018			
	Three-year Weighted average price	SAYE three-year (number)	Five-year Weighted average price	SAYE five-year (number)	Three-year Weighted average price	SAYE three-year (number)	Five-year Weighted average price	SAYE five-year (number)
At 1 January	**212**	**3,884,950**	**212**	**1,107,394**	225	3,622,469	221	1,007,289
Granted	**298**	**2,090,547**	**298**	**680,463**	211	1,078,583	211	328,325
Forfeited	**248**	**(54,226)**	**206**	**(16,046)**	229	(79,515)	208	(6,295)
Exercised	**203**	**(2,527,770)**	**203**	**(30,874)**	274	(157,804)	203	(935)
Expired	**271**	**(337,583)**	**276**	**(84,191)**	268	(578,783)	251	(220,990)
At 31 December	**271**	**3,055,918**	**244**	**1,656,746**	212	3,884,950	212	1,107,394

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	27 March 2019 three-year	27 March 2019 five-year	28 March 2018 three-year	28 March 2018 five-year
Share price at grant date (pence)	**379**	**379**	275	275
Vesting period	**3 years**	**5 years**	3 years	5 years
Exercise price (pence)	**298**	**298**	211	211
Dividend yield	**4.1%**	**4.6%**	5.1%	3.0%
Annual risk-free interest rate	**1.00%**	**1.06%**	1.22%	1.35%
Expected volatility	**34.6%**	**38.1%**	40.9%	38.1%
Fair value of options granted (pence)	**100**	**106**	80	94

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 325 pence (2018: 365 pence).

The weighted average exercise price of SAYE options outstanding at the end of the period was 262 pence (2018: 212 pence). The weighted average remaining contractual life was 26 months (2018: 16 months).

The number of options exercisable at the year-end was nil (2018: 2,252).

Additional information in relation to the Group's share-based incentive plans is included in the Remuneration Committee report on page 86.

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

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 2019 have been prepared on a consistent basis with those in the previous period and 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	
	2019 £m	2018 £m
Total included in staff costs	**12.5**	8.1

As at 31 December 2019, contributions of £0.6 million (2018: £1.1 million) due in respect of the current reporting period had not been paid over to the schemes. The Group has no further outstanding payment obligations once the contributions have been paid.

6.3 Retirement benefit obligations continued

Defined benefit schemes

The pension surplus for the two defined benefit pension schemes is as follows:

	As at 31 December	
	2019 £m	2018 £m restated*
Drax Power Group section of ESPS	**3.1**	18.9
Drax 2019 Scheme	**3.9**	2.7
Total net surplus recognised in the balance sheet	**7.0**	21.6

* The surplus for the Drax 2019 Scheme as reported at 31 December 2018 was provisional and has been restated as part of the finalisation of acquisition values (see note 5.1) to reflect the actual terms of the transfer agreed during the year, as described below.

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 2019, 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 position of surplus assets over liabilities. The scheme rules allow the Group to benefit from any residual surplus upon winding up of the Schemes. As a result, the surplus has been recognised in the balance sheet in full.

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. The employees have continued to participate in the ScottishPower Pension Scheme whilst the Group has been in the process of setting up a new scheme for the members to transfer to.

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 have agreed to transfer their past service into the Drax 2019 Defined Benefit Scheme. From 1 January 2020, it is expected that a further 17 members will 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.

The Schemes expose the Group to actuarial and other risks, the most significant of which are considered to be:

Investment risk	The scheme 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 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 the scheme's long-term objectives.
Discount rate risk	A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.
Longevity risk	The majority of the scheme's 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 scheme's 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 scheme has a significant holding in liability-driven investments and a substantial proportion of this risk is hedged.

6.3 Retirement benefit obligations continued

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 2016. The actuarial review at 31 December 2019 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. Future valuations are required by law at intervals of no more than three years.

The results of the latest funding valuation at 31 March 2016 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. Work commenced on a new funding valuation at 31 March 2019, this work is expected to conclude in 2020.

The 2019 Scheme is yet to have its first triennial valuation. We understand that the Trustees are planning to prepare the first valuation as at 31 March 2020.

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	
	2019 % p.a.	2018 % p.a.
Discount rate	**2.1**	3.0
Inflation (RPI)	**2.9**	3.2
Rate of increase in pensions in payment and deferred pensions	**2.9**	3.1
Rate of increase in pensionable salaries	**3.5**	3.8

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 2019 will live, on average, for a further 26 years if they are male (2018: 26 years) and for a further 28 years if they are female (2018: 29 years). Life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 and 29 years respectively (2018: 27 and 30 years respectively).

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	
	2019 £m	2018 £m restated
Defined benefit obligation	**(345.4)**	(312.2)
Fair value of plan assets	**352.4**	333.8
Net surplus recognised in the balance sheet	**7.0**	21.6

The net surplus for 2018 has been restated to reflect net measurement period adjustments relating to the valuation of the Drax 2019 scheme acquired in 2018 (see note 5.1). The amounts disclosed in 2018 were provisional and pending confirmation of the approach for transferring assets and liabilities to the new scheme, which was finalised during 2019.

6.3 Retirement benefit obligations continued

The total charge/(credit) recognised in the income statement, within other operating and administrative expenses and finance costs, are as follows:

	Years ended 31 December 2019 £m	2018 £m
Included in staff costs (note 6.1):		
Current service cost	**7.1**	6.8
Past service cost	**–**	0.6
Included in finance costs (note 2.5):		
Interest on net defined benefit (surplus)/liability	**(0.8)**	(0.1)
Total amounts recognised in the income statement	**6.3**	7.3

Actuarial gains and losses are recognised in the statement of comprehensive income in full, as follows:

	Years ended 31 December 2019 £m	2018 £m
Cumulative actuarial losses on defined benefit pension schemes at 1 January	**(41.9)**	(57.8)
Actuarial (losses)/gains on defined benefit pension schemes recognised in the year	**(21.5)**	15.9
Cumulative actuarial losses recognised in the statement of comprehensive income at 31 December	**(63.4)**	(41.9)

Changes in the present value of the defined benefit obligation of the Schemes are as follows:

	Years ended 31 December 2019 £m	Restated* 2018 £m
Defined benefit obligation at 1 January	**312.2**	306.5
Current service cost	**7.1**	6.8
Past service cost	**–**	0.6
Employee contributions	**0.2**	0.1
Interest cost	**9.0**	7.8
Actuarial losses/(gains)	**49.8**	(23.0)
Benefits paid	**(32.9)**	(23.2)
Effect of acquisitions (restated)	**–**	36.6
Defined benefit obligation at 31 December	**345.4**	312.2

* The effect of acquisitions has been restated to reflect measurement period adjustments as a result of confirming the method of transfer during the year. The defined benefit obligation in respect of the Drax 2019 Scheme was provisionally reported as £50.7 million at 31 December 2018.

The actuarial losses of £49.8 million (2018: gains of £23.0 million) reflect losses of £50.3 million arising from changes in financial assumptions (2018: gains of £21.8 million) and losses arising from scheme experience of £3.4 million (2018: losses of £0.6 million) offset by £3.9 million gains arising from changes in demographic assumptions (2018: gains of £1.8 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 2.1% (2018: 3.0%) following decreases in corporate bond yields.

6.3 Retirement benefit obligations continued

Changes in the fair value of plan assets are as follows:

	Years ended 31 December	
	2019 £m	2018 £m restated
Fair value of plan assets at 1 January	**333.8**	305.3
Interest on plan assets	**9.9**	8.0
Remeasurement gains/(losses)	**28.3**	(7.2)
Employer contributions	**13.1**	11.5
Employee contributions	**0.2**	0.1
Benefits paid	**(32.9)**	(23.2)
Effect of acquisitions (restated)	**–**	39.3
Fair value of plan assets at 31 December	**352.4**	333.8

The effect of acquisitions has been restated to reflect measurement period adjustments as a result of confirming the method of transfer during the year. The fair value of plan assets in respect of the Drax 2019 Scheme was provisionally reported as £54.5 million at 31 December 2018.

Employer contributions included payments totalling £5.2 million (2018: £5.0 million) to reduce the actuarial deficit. There were contributions of £0.9 million outstanding at the end of the year (2018: £nil).

The actual return on plan assets in the period was £38.2 million (2018: £0.8 million).

The fair values of the major categories of plan assets were as follows:

	As at 31 December	
	2019 £m	2018 £m
Gilts	**100.3**	83.6
Equities(1)	**24.6**	9.8
Fixed interest bonds(2)	**30.7**	50.2
Property	**36.7**	34.8
Investment funds	**123.2**	40.4
Cash and other assets(3)	**36.9**	115.0
Fair value of total plan assets	**352.4**	294.5

Notes:
(1) At 31 December 2019 the 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%).
(2) Fixed interest bonds include a mixture of corporate, Government and absolute return bonds.
(3) Other assets include £19.4 million of investments in direct lending, a type of private equity vehicle, which is not quoted in an active market (2018: £15.5 million)

Cash and other assets include £49.5 million (2018: 39.3 million) in relation to the expected transfer of cash from the ScottishPower Pension Scheme, which is classed as a receivable at the balance sheet date. Following receipt of the transfer, the Drax 2019 Scheme intends to adopt an investment strategy of 70% return seeking and 30% liability matching.

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 2019 to changes in these assumptions:

			Increase/ (decrease) in net surplus £m
Discount rate	– Increase	0.25%	17.2
	– Decrease	0.25%	(18.2)
Inflation rate[1]	– Increase	0.25%	(14.9)
	– Decrease	0.25%	13.9
Life expectancy	– Increase	1 year	(13.3)
	– Decrease	1 year	13.3

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 experience 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 DPG ESPS defined benefit obligation includes benefits for current employees of the Group (60%), former employees of the Group who are yet to retire (5%) and retired pensioners (35%). The weighted average period over which defined benefit payments are expected to be made, or the duration of the scheme liabilities, was assessed at the 31 March 2016 funding valuation to be 20 years. The Drax 2019 defined benefit obligation includes benefits for current employees of the Group and the duration of the scheme liabilities is estimated to be 25 years.

Future contributions

The Group expects to make regular contributions in respect of service costs of £8.1 million to the Schemes during the 12 months ended 31 December 2020.

In addition to regular contributions, deficit contributions have been agreed with the Trustees based upon the Technical Provisions as at the 31 March 2016 valuation for the DGP section of the ESPS. The Technical Provisions indicate a deficit of £36 million including an estimate of the impact of future service costs, which do not meet the definition of a liability at 31 December 2019 for inclusion in the financial statements. This valuation has improved since 31 March 2016, in line with the accounting surplus, although this remains subject to a recovery plan. A new recovery plan is expected to be agreed in 2020 in relation to the 31 March 2019 valuation, which has not yet been finalised.

The Group has agreed to make additional contributions over the period to 31 December 2025 to eliminate the 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 terms of the Trust Deed allow the Group to recover any surplus once the liabilities of the scheme have been settled. Accordingly, the deficit contributions will not give rise to an unrecognised surplus.

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.

31 December 2019 £m	Carrying amount						Fair Value			
	Fair value-hedging instruments	Mandatorily at FVTPL-others	FVOCI-equity instruments	Financial assets at amortised cost	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at Fair value										
Commodity contracts	152.1	0.2	–	–	–	152.3	–	152.3	–	152.3
Financial contracts	–	33.7	–	–	–	33.7	–	33.7	–	33.7
Forward exchange contracts	76.9	65.0	–	–	–	141.9	–	141.9	–	141.9
Interest rate swaps	1.7	–	–	–	–	1.7	–	1.7	–	1.7
Inflation rate 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	–	–	–	582.2	–	582.2				
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)
Forward exchange contracts	(46.0)	(68.8)	–	–	–	(114.8)	–	(114.8)	–	(114.8)
Interest rate swaps	(7.1)	–	–	–	–	(7.1)	–	(7.1)	–	(7.1)
Financial liabilities not measured at Fair value										
Secured bank loans	–	–	–	–	(537.9)	(537.9)	–	–	(548.1)	(548.1)
Secured bond issues	–	–	–	–	(729.6)	(729.6)	(762.9)	–	–	(762.9)
Lease liabilities	–	–	–	–	(32.5)	(32.5)				
Trade and other payables	–	–	–	–	(683.0)	(683.0)				

(1) The 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 2018 £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	91.4	2.2	–	–	–	93.6	–	93.6	–	93.6
Financial contracts	12.1	–	–	–	–	12.1	–	12.1	–	12.1
Forward exchange contracts	234.1	142.9	–	–	–	377.0	–	377.0	–	377.0
Interest rate swaps	27.9	–	–	–	–	27.9	–	27.9	–	27.9
Equity investments	–	–	2.4	–	–	2.4	1.5	–	0.9	2.4
Financial assets not measured at Fair value										
Trade and other receivables	–	–	–	413.3	–	413.3				
Cash and cash equivalents	–	–	–	289.0	–	289.0				
Financial liabilities measured at Fair value										
Commodity contracts	(105.8)	–	–	–	–	(105.8)	–	(105.8)	–	(105.8)
Financial contracts	(14.5)	–	–	–	–	(14.5)	–	(14.5)	–	(14.5)
Forward exchange contracts	(7.1)	(23.9)	–	–	–	(31.0)	–	(31.0)	–	(31.0)
Interest rate swaps										
Financial liabilities not measured at Fair value										
Secured bank loans	–	–	–	–	(37.1)	(37.1)				
Secured bond issues	–	–	–	–	(585.3)	(585.3)	(578.9)	–	–	(578.9)
Finance lease liabilities	–	–	–	–	(0.5)	(0.5)				
Acquisition payable	–	–	–	–	(686.9)	(686.9)				
Trade and other payables	–	–	–	–	(560.5)	(560.5)				

7.1 Financial instruments and their fair values continued

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.
- Forward currency exchange contracts – currency related contracts including forwards, vanilla options and structured option products.
- Interest rate swaps – contracts which swap one interest rate for another, including floating-to-fixed single currency instruments and cross currency interest rate swaps.
- Inflation rate swaps – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as RPI or CPI.

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. Given the maturity profile of these contracts, forward market price curves are available for the duration of the contracts.
- **Forward 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.
- **Other financial contracts fair value** – The fair value of other financial contracts that do not qualify for the own-use exemption, is calculated by reference to forward market prices at the balance sheet date. Given the maturity profile of 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 2022 fixed rate loan notes and the 2025 USD loan notes both contain an early repayment option that meets the definition of an embedded derivative. However, in both 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, interest rate swaps and forward foreign currency exchange contracts 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 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.

Listed equity investment valuations are derived from quoted prices in active markets and are therefore categorised as Level 1.

The valuation technique used for non-listed equity investments comprises of unobservable inputs and are therefore are 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 disclosure requirements.

There have been no transfers during the year between Level 1, 2 or 3 category inputs.

7.1 Financial instruments and their fair values continued

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, 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 mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for the Group's own purchase, sale or usage requirements, including forward contracts for the purchase of biomass, and coal from domestic sources.

Contracts for non-financial assets which do not qualify for the own-use exemption – principally power, gas, financial oil, financial coal and CO_2 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.

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	
	2019 £m	2018 £m
Derivative financial instrument assets > 1 year	**152.3**	295.2
Derivative financial instrument assets < 1 year	**193.7**	215.4
Total derivative financial instrument assets	**346.0**	510.6
Derivative financial instrument liabilities > 1 year	**(72.9)**	(62.0)
Derivative financial instrument liabilities < 1 year	**(216.5)**	(89.4)
Total derivative financial instrument liabilities	**(289.4)**	(151.4)
Total derivative financial instruments	**56.6**	359.2

The gains and losses recognised in the period relating to derivative financial instruments are detailed below

	Gains/(losses) recognised	
	2019 £m	2018 £m
Unrealised derivative financial instrument (losses)/gains recognised in the income statement	**(130.8)**	38.4
Unrealised derivative financial instrument (losses)/gains recognised in the hedge reserve	**(125.1)**	119.1
Unrealised derivative financial instrument gains/(losses) recognised in the cost of hedge reserve	**60.1**	39.3
Total unrealised derivative financial instrument (losses)/gains	**(195.8)**	196.8

The unrealised gains/(losses) recognised in the hedge reserve differs from the movements in the hedge reserve in the year by £24.5 million (2018:£27.6 million) due to realised gains/(losses) retained in the hedge reserve relating to hedging instruments where the hedged item has not impacted the income statement yet, or due to the recycling of gains/(losses) on hedging instruments where the hedged item has impacted the income statement, but the hedging instrument has not yet been realised.

The total unrealised gains/(losses) recognised on derivative financial instruments differs from the total movement on derivative financial instruments by £106.8 million due to rebasing. The fair value of the rebased trades is recognised on the lower rebased rates, resulting in a reduction in the value of derivative financial instruments recognised. However, the gains relating to the cash received from rebasing are deferred from Adjusted Results until the contracts mature.

7.2 Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, interest rate risk, foreign currency risk, liquidity risk, inflation 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 (page 54 to 61) 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 electricity, gas, the price of coal, sustainable wood fibre and pellets, other fuels and the price of CO_2 emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

Commodity price sensitivity

The sensitivity analysis below has been determined based on the exposure to commodity prices and the impact on profit after tax and other components of equity of reasonably possible increases/decreases in commodity prices.

	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**
31 December 2018				
Power	–	–	23.9	(23.9)
Carbon	–	–	(3.2)	3.2
Gas	(2.0)	2.0	–	–
Oil	(4.3)	4.3	–	–
Other	(0.2)	0.2	(1.8)	1.8

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.

Commodity risk management

The Group has a policy of securing forward power sales, purchases of fuel and CO_2 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, coal 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. The Group applies the own-use exemption or hedge accounting in accordance with IFRS 9.

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 CO_2 emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO_2 emissions allowances 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 CO_2 emissions allowances.

Section 7: Risk management continued

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 CO_2). 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 in the year (2018: £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 be no longer expected to occur. The main sources of ineffectiveness regarding financial contracts could be as a result of timing differences and credit risk.

Commodity contracts are released from equity to revenue (power contracts) or cost of sales (CO_2 contracts) 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.

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 sale of power hedging instruments is recognised in revenue. Ineffectiveness on designated hedging instruments for purchases of CO_2 emissions allowances and for financial coal are recognised in cost of sales.

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 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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Commodity contracts							
Sale of power	**4,596,250**	**£61.23**	**68.6**	**151.2**	**(79.0)**	**(68.6)**	**–**
Purchase of CO_2 emissions allowances	**4,341,000**	**€25.46**	**(3.3)**	**0.9**	**(4.1)**	**3.3**	**–**
Financial contracts							
Financial coal	**396,000**	**£73.59**	**(4.0)**	**–**	**(4.0)**	**4.0**	**–**

	31 December 2018						
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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Commodity							
Sale of power	7,931,837	£59.96	(6.1)	59.5	(67.6)	6.1	–
Purchase of CO_2 emissions allowances	2,898,000	€18.83	15.7	16.1	(0.5)	(15.7)	–
Financial contracts							
Financial coal	540,000	£86.40	(1.2)	0.5	(0.9	1.2	–

7.2 Financial risk management continued

7.2.2 Foreign currency risk

The Group is exposed to the fluctuations in foreign currency rates resulting from committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business. These purchases are typically denominated in US dollars (USD), Canadian dollars (CAD) or Euros (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 strengthenings/weakenings of currencies against GBP. The analysis assumes all other variables were held constant.

	Impact on profit after tax		Impact on other components of equity, net of tax	
	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)**
31 December 2018				
USD	105.0	(93.9)	156.3	(135.9)
EUR	3.3	(3.0)	10.2	(9.2)
CAD	16.4	(15.4)	17.1	(15.5)

Profit after tax is sensitive to the strengthening/weakening of other currencies as a result of the impact on the fair value of currency derivative financial instruments not designated as hedging instruments under cash flow hedge accounting. The Group designates certain 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 US dollars (see note 4.3). The Group utilises derivative contracts to manage exchange risk on foreign currency debt.

Hedge accounting

The Group designates certain foreign currency derivatives as hedging instruments. Foreign currency forward 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.

Gains and losses on the cross-currency interest rate swaps are released to interest payable and similar charges and foreign exchange gains/(losses). Further details of the cross-currency interest rate swaps are provided in the interest rate risk section.

The main sources of ineffectiveness relating to foreign currency hedges are timing differences 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.

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. Ineffectiveness on foreign currency hedging instruments is recognised in cost of sales.

The average forward rates quoted below only reflect the rates applicable to the portion of the Group's forward currency purchase 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 currency derivatives that are used to protect the sterling value of future cash flows.

	31 December 2019						
Exposure	Notional value of contracts million	Average forward 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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Foreign currency contracts							
Purchases in foreign currency – USD	**3,713.4**	**1.40**	**(101.4)**	**117.6**	**(23.3)**	**101.4**	**–**
Purchases in foreign currency – EUR	**90.3**	**1.09**	**(5.7)**	**–**	**(6.1)**	**5.7**	**–**
Purchases in foreign currency – CAD	**527.6**	**1.82**	**1.6**	**13.0**	**(3.0)**	**(1.6)**	**–**

	31 December 2018						
Exposure	Notional value of contracts million	Average forward 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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Foreign currency contracts							
Purchases in foreign currency – USD	3,871.8	1.43	155.2	210.6	–	(155.2)	–
Purchases in foreign currency – EUR	170.8	1.12	1.4	2.2	–	(1.4)	–
Purchases in foreign currency – CAD	575.3	1.79	(6.8)	9.9	(7.1)	6.8	–

7.2.3 Interest rate risk

The Group has limited exposure to interest rate risk, principally in relation to cash and cash equivalents and floating rate debt instruments. 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 floating-to-fixed swap to fix the interest payments on the £375 million private placement issued in the year. As the Group has fixed most of its debt instruments interest rates swaps, at December 2019 the Group only had one floating rate debt instrument drawn, being the £125 million ESG facility issued in the year.

The return generated on the Group's cash balance, or on amounts drawn on the revolving credit facility, 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.

7.2 Financial risk management continued

Interest rate benchmark reform

The only interest rate benchmark to which the Group is exposed to within its hedge accounting relationships and that is subject to interest rate benchmark reform is GBP LIBOR. This exposure relates to the hedge of the £375 million private placement using a floating-to-fixed GBP LIBOR swap maturing in 2024.

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.

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.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative 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	
	1% increase £m	1% decrease £m	1% increase £m	1% decrease £m
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)**
31 December 2018				
Variable rate debt	(1.0)	1.0	–	–
Net	(1.0)	1.0	–	–

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.

Interest rate risk management

The Group has a risk management policy in place relating to interest rate risk. The Group policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Group's current and forecast interest rate exposure.

7.2 Financial risk management continued

Hedge accounting

The Group designates the floating-to-fixed GBP interest rate swap and the cross-currency interest rate swaps as hedging instruments. The GBP interest rate swap is a hedge of the interest payments relating to the £375 million private placement. The cross-currency interest swaps are hedges of the interest payments of the $500 million 2025 fixed rate loan notes, and of the USD denominated principal. As such there is both an interest element and a foreign exchange element relating to the cross-currency interest rate swaps.

Gains and losses on the floating-to-fixed GBP interest rate swap are released to interest payable and similar charges at the same time as the interest expense on the hedged borrowings.

Gains and losses on the cross-currency interest rate swaps are released to interest payable and similar charges at the same time as the interest expense on the hedged borrowings. Also, gains and losses that are effective at hedging the foreign exchange risk on the USD principal are released to foreign exchange gains/(losses) to offset gains and losses on retranslating the USD denominated hedged loan notes.

The main sources of ineffectiveness relating to interest rate risk hedges are differences in the critical terms, differences in repricing dates and credit risk.

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 GBP interest rate hedging instruments is recognised in interest payable and similar charges. Ineffectiveness on USD cross-currency interest rate hedging instruments is recognised in either interest payable and similar charges or foreign exchange (losses)/gains.

	31 December 2019						
Exposure	Notional value of contracts millions	Average fixed rate GBP	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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Financing							
Interest rate risk – GBP	**375**	**1.05%**	**(4.8)**	**–**	**(4.8)**	**4.8**	**–**
Interest rate risk – USD	**500**	**4.90%**	**(8.3)**	**21.8**	**–**	**8.7**	**–**

	31 December 2018						
Exposure	Notional value of contracts millions	Average fixed rate GBP	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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Financing							
Interest rate risk – USD	300	5.01%	27.9	27.9	–	(30.9)	–

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 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 2019				
CPI inflation swaps	–	–	(15.5)	15.5

The Group designates the CPI inflation swaps as hedging instruments under cash flow hedge accounting. As such other components of equity are sensitive to an increase/a decrease in inflation rates in relation to the impact on the hedge reserve of these movements.

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 either RPI or CPI inflation, the Group has been able to designate this risk component as a hedged item. 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.

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 inflation hedging instruments is recognised in revenue.

	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	Change in fair value of hedged item during the reporting period used for measuring ineffectiveness £m	Ineffectiveness recognised in the period £m
Inflation							
Inflation linked sales contracts – CPI	250	2.48%	16.4	16.4	–	(16.4)	–

7.2 Financial risk management continued

7.2.5 Liquidity risk

The Treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents, committed facilities and uncommitted facilities in order to ensure sufficient funding for business requirements.

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items (principally those related to ROC sales and Customers power sales). In each case this is undertaken on a non-recourse basis and accordingly, the ROCs and other items are derecognised from the balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time. The impact on the Group's cash flows is described in note 4.4.

The following tables set out details of the expected contractual maturity of non-derivative financial liabilities. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the balance sheet date.

	As at 31 December 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]	**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**

(1) In the prior year, under IAS 17, only finance leases were recognised as financial liabilities. On transition to IFRS 16 all leases are now recognised as financial liabilities. As such the Lease liabilities row in the table above is not comparable to the Finance Lease liabilities line in the table below as the Lease liabilities above includes leases that would have been classified as operating leases under IAS 17.

Trade and other payables of £683.0 million (2018: £560.5 million) excludes non-financial liabilities such as the Group's obligation to deliver ROCs.

The comparative table below has been restated to split out the maturity of financial liabilities due over one year into more time buckets than previously disclosed and updated for the additional acquisition consideration payable as a result of finalisation of the completion accounts process.

	As at 31 December 2018					
	Within 3 months £m	3 months–1 year £m	1–2 years £m	2–5 years £m	>5 years £m	Restated Total £m
Term loans, gross value	–	1.7	1.7	39.6	–	43.0
Loan notes, gross value	–	30.5	30.5	419.2	266.5	746.7
Finance lease liabilities	–	0.2	0.4	–	–	0.6
Borrowings, contractual maturity	–	32.4	32.6	458.8	266.5	790.3
Trade and other payables	384.1	176.4	–	–	–	560.5
Acquisition consideration payable	691.7	–	–	–	–	691.7
	1,075.8	208.8	32.6	458.8	266.5	2,042.5

The above table has been restated to reflect the finalisation of the measurement period adjustments in relation to the new generation assets acquired from ScottishPower on 31 December 2018.

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 3.99% (2018: 4.56%).

7.2 Financial risk management continued

The following tables set out details of the expected contractual maturity of derivative financial instruments 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 forward foreign currency 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 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 exchange contracts	**1,581.1**	**803.6**	**2,176.8**	**4,561.5**
Interest rate 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**

	As at 31 December 2018			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	14.5	190.8	68.6	273.9
Financial contracts	(33.2)	(61.8)	(37.5)	(132.5)
Foreign exchange contracts	1,827.9	905.2	1,898.8	4,631.9
Interest rate contracts	10.7	10.7	26.8	48.2
	1,819.9	1,044.9	1,956.7	4,821.5

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 electricity 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 Financial risk management continued

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	
	2019 £m	2018 £m
Financial assets:		
Cash and cash equivalents	**404.1**	289.0
Trade and other receivables	**582.3**	413.3
Other fixed asset investments	**3.0**	2.4
Derivative financial instruments	**346.0**	510.6
	1,335.4	1,215.3

Trade and other receivables are stated gross of the provision for doubtful debts of £40.7 million (2018: £44.0 million) and exclude non-financial receivables such as prepayments.

Of the Group's three operating segments, two 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, Opus Energy carries 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. In addition, the Customers segment extended its trade credit insurance programme 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.

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 and the maturity profile.

Capital management

The Group manages its 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.

	As at 31 December	
	2019 £m	2018 £m
Borrowings	**1,245.2**	608.1
Cash and cash equivalents	**(404.1)**	(289.0)
Net debt	**841.1**	319.1
Total shareholders' equity, excluding hedge and cost of hedging reserves	**1,553.3**	1,580.0

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 cumulative gains and losses unwind and are released as the related contracts mature and the Group take delivery of the associated commodity or currency.

	Hedge reserve				
	Commodity price risk £m	Foreign exchange risk £m	Interest rate risk £m	Inflation rate risk £m	Total £m
At 1 January 2018	**1.0**	**125.1**	**–**	**–**	**126.1**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	8.4	149.8	27.9	–	186.1
Released from equity:					
– Reclassified to cost of inventory	(15.5)	(53.5)	–	–	(69.0)
– Reclassified to the income statement – included in cost of sales	(8.8)	(16.4)	–	–	(25.2)
– Reclassified to the income statement – included in revenue	22.4	–	–	–	22.4
– Reclassified to the income statement – included in interest payable and similar charges	–	–	(0.8)	–	(0.8)
– Reclassified to the income statement – included in interest payable and similar charges	–	–	(22.0)	–	(22.0)
Related deferred tax, net (note 2.6)	(1.3)	(15.4)	(1.0)	–	(17.7)
At 31 December 2018	**6.2**	**189.6**	**4.1**	**–**	**199.9**
Gains/(losses) recognised:					
– Change in fair value of hedging instrument recognised in OCI	61.3	(105.5)	(13.1)	16.4	(40.9)
Released from equity:					
– Reclassified to cost of inventory	0.4	(77.5)	–	–	(77.1)
– Reclassified to the income statement – included in cost of sales	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	–	–	(0.7)	–	(0.7)
– Reclassified to the income statement – included in interest payable and similar charges	–	–	8.2	–	8.2
Related deferred tax, net (note 2.6)	(12.9)	36.7	1.2	(2.8)	22.2
At 31 December 2019	**68.3**	**39.9**	**(0.3)**	**13.6**	**121.5**

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 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 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**

	As at 31 December 2018			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	2.7	3.6	0.5	6.8
Financial contracts	67.0	91.2	56.7	214.9
Cross currency interest rate swap	–	–	(21.8)	(21.8)
	69.7	94.8	35.4	199.9

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 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 commodity price risk.

The cumulative gains and losses unwind and are released as the related contracts mature and we take delivery of the associated currency.

	Cost of hedging	
	2019 £m	2018 £m
At 1 January	**(8.9)**	**(40.7)**
Gains/(losses) recognised:		
– Change in fair value of hedging instrument recognised in OCI	**56.3**	**24.8**
Released from equity:		
– Reclassified to cost of inventory	**3.1**	**11.3**
– Reclassified to cost of intangible assets (Carbon)	**0.7**	**3.2**
Related deferred tax, net (note 2.6)	**(10.4)**	**(7.5)**
At 31 December	**40.8**	**(8.9)**

Forward foreign currency exchange contracts are released to cost of sales in the income statement.

7.4 Cost of hedging reserve continued

The expected release profile from equity of post-tax cost of hedging gains and losses is as follows:

	As at 31 December 2019			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign exchange contracts	**(3.6)**	**10.5**	**33.9**	**40.8**

	As at 31 December 2018			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Foreign exchange contracts	(3.0)	(11.9)	6.0	(8.9)

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 2019			As at 31 December 2018		
	Gross amounts of financial instrument in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m	Gross amounts of financial instrument in the balance sheet £m	Related financial instruments that are not offset £m	Net amount £m
Financial assets						
Derivative financial instruments	**346.0**	**(209.1)**	**136.9**	510.6	(117.3)	393.3
Financial liabilities						
Derivative financial instruments	**(289.4)**	**209.1**	**(80.3)**	(151.4)	117.3	(34.1)

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 2019, the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £77.0 million (2018: £31.8 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers amounting to £96.1 million (2018: £63.7 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	
	2019 £m	2018 £m
Contracts placed for future capital expenditure not provided in the financial statements	**57.2**	74.9
Future support contracts not provided in the financial statements	**19.9**	6.5
Future commitments to purchase ROCs	**295.0**	159.7
Future commitments to purchase fuel under fixed and variable priced contracts	**4,332.9**	6,716.6

The contractual maturities of the future commitments to purchase fuel are as follows:

	As at 31 December	
	2019 £m	2018 £m
Within one year	**840.1**	1,084.2
Within one to five years	**2,997.4**	4,191.0
After five years	**495.4**	1,441.4
	4,332.9	6,716.6

Commitments to purchase fuel reflect long-term forward purchase contracts with a variety of international suppliers, primarily for the delivery of sustainable wood pellets for use in electricity production at Drax Power Station over the period from 2019–2027 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 application of the "own-use" exemption from fair value accounting to such contracts (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 2019. The Group adopted the following from 1 January 2019:

IFRS 9 (amended) – Financial Instruments

IFRS 16 – Leases

IFRIC 23 – Uncertainty over Income Tax Treatments

IAS 19 (amended) – Employee Benefits

IAS 28 (amended) – Investments in Associates and Joint Ventures

Annual Improvements to IFRS Standards 2015–2017 Cycle

IFRS Practice Statement 2

Other than the adoption of IFRS 16, these updates and amendments have not had a material impact on the financial statements of the Group. The transition disclosures for IFRS 16 have been included in note 8.3.

The Group has elected to early adopt the 'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

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.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by interest rate Interbank Offered Rates (IBOR) reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. In summary, the reliefs provided by the amendments that apply to the Group are:

- When considering the 'highly probable' requirement, the Group is able to assume that the GBP LIBOR interest rate on which the hedged future cash flows are based is not altered as a result of IBOR reform;
- In assessing the hedge effectiveness on a prospective basis, the Group is able to assume that the economic relationship between the hedged item and the hedging instrument is not impacted as a result of IBOR reform; and
- When the Group applies these amendments, the quantitative requirements in paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are not required.

8.2 Basis of preparation continued

These amendments will cease to apply at the earlier of when the uncertainty regarding the timing and amount of the interest rate benchmark-based cash flows are no longer present, or the discontinuation of the hedging relationship.

The additional disclosure requirements that apply as a result of applying the 'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform' have been disclosed in note 7.2.

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 10 (amended) – Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*

IFRS 3 (amended) – Business Combinations – effective from 1 January 2020.*

Conceptual Framework for Financial Reporting (amended) – 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.

Annual Improvements 2018-2020 Cycle.*

IFRS 17 Insurance contracts – effective from 1 January 2021.*

Adoption of the other standards in future periods is not expected to have a material impact on the financial statements of the Group.

8.3 Adoption of new accounting standards and restatement of previously reported financial statements

IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases and SIC 27 Evaluating the Substance of Transactions involving the legal form of a lease.

The Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Consequently, comparative information in these Consolidated Financial Statements for the year ended 31 December 2018 has not been restated.

The new requirements have impacted the Group's accounting for lease contracts. The Group's lease portfolio predominantly relates to properties and the hire of plant and equipment at operating sites. On transition to IFRS 16 on 1 January 2019, assets controlled under lease contracts were brought onto the balance sheet as right-of-use assets, and the Group has recognised a corresponding liability for the amounts payable under the lease contracts.

On transition, the Group elected to use the available practical expedient allowing the standard to only be applied to those contracts identified as leases under the previous standards. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1 January 2019. However, the Group has applied the new definition of a lease to all contracts entered into or modified on or after 1 January 2019. This change did not have a significant impact on the assessment of contracts that are in scope of the definition of a lease.

The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value (less than £3,500).

Under IFRS 16, right-of-use assets are tested for impairment. This has replaced the previous requirement to recognise a provision for onerous lease contracts.

8.3 Adoption of new accounting standards and restatement of previously reported financial statements continued

Nature of the effect of adoption of IFRS 16

Leases previously classified as finance leases

The Group has not changed the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019 and the related amounts on the balance sheet reclassified from property, plant and equipment to right-of-use assets and borrowings to lease liabilities.

Leases previously accounted for as operating leases

The Group has recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. When calculating the remaining lease payments, termination options and extension options have been considered in determining the lease term where deemed to be reasonably probable. The right-of-use assets are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The Group also applied the following practical expedients as permitted by IFRS 16:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application;
- For leases of low value assets, the Group has elected to recognise a lease expense on a straight-line basis;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of £37.1 million were recognised and presented separately in the balance sheet. This includes the lease assets recognised previously under finance leases of £0.6 million that were reclassified from property, plant and equipment.
- Additional lease liabilities of £37.6 million were recognised separately on the balance sheet. This includes £0.5 million previously recognised as finance leases that were reclassified from borrowings.

Prepayments of £0.1 million and trade and other payables of £0.7 million related to previous operating leases were derecognised.

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

	Previously reported at 31 December 2018 £m (Note 1)	Transition adjustments £m	Adjusted balance sheet at 1 January 2019 £m
Assets			
Right-of-use assets	–	37.1	**37.1**
Property, plant and equipment	2,292.3	(0.6)	**2,291.7**
Trade and other receivables	468.8	(0.1)	**468.7**
Liabilities			
Trade and other payables	(938.5)	0.7	**(937.8)**
IFRS 16 lease liabilities	–	(37.6)	**(37.6)**
Borrowings	(608.1)	0.5	**(607.6)**
Total adjustment on equity:			
Retained profits	442.7	–	**442.7**

8.3 Adoption of new accounting standards and restatement of previously reported financial statements continued

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	£m
Operating lease commitments as at 31 December 2018	30.8
Less:	
Effect of discounting	(5.6)
Commitments relating to short-term and low-value leases	(0.8)
Add:	
Additional leases identified	9.7
Effect of rental changes	2.4
Other adjustments	1.1
Lease liabilities as at 1 January 2019	**37.6**

Key judgements made in response to new reporting requirements

Whilst judgements have been made on initial application of IFRS 16, these are not considered significant to the Consolidated Financial Statements

Impact of IFRS 16 on comparative information

As the Group has made the election to adopt the modified retrospective approach, no comparative information for the 31 December 2018 has been restated for the effects of transition to the new standard. This has led to a lack of comparability in certain areas of the financial statement for the two years.

Income statement

Under the previous accounting standards, operating leases were expensed to the income statement on a systematic basis over the lease term, in the year ended 31 December 2018, £6.3 million was expensed to operating expenses for the operating lease rentals. Under IFRS 16, operating leases are recognised on the balance sheet as right-of-use assets with a corresponding lease liability. Interest on the lease liability is expensed to the income statement as the discount on the lease liability unwinds. Depreciation on the right-of-use assets is charged to the income statement on a straight-line basis over the lease terms. Lease payments are no longer expensed to the income statement but reduce the lease liability.

The impact of IFRS 16 on the income statement for the year to 31 December 2019 was as follows:

	As at 31 December 2019 £m
Reduction in operating expense for lease rentals paid	7.4
Depreciation charged on right-of-use assets	(6.9)
Unwind of discount on lease liability	(1.2)
Total impact	(0.7)

Please refer to note 4.1 for the impact of IFRS 16 on the net debt calculation.

8.3 Adoption of new accounting standards and restatement of previously reported financial statements continued

Restatement of previously reported financial statements

The impact of IFRS 16 and the correction of the retranslation of US subsidiary fixed assets (see note 3.1 for further details) on the balance sheet for the year ended 31 December 2018 was as follows:

	Previously reported at 31 December 2018 £m	Adjustments: Measurement period adjustments £m	Adjustments: Retranslations of US subsidiary fixed assets £m	Restated 31 December 2018 £m
Assets				
Non-current assets				
Goodwill	244.7	3.5	–	248.2
Intangibles	228.8	–	–	228.8
Property, plant and equipment	2,292.3	(0.2)	55.5	2,347.6
Other fixed asset investments	2.4	–	–	2.4
Retirement benefit surplus	22.7	(1.1)	–	21.6
Deferred tax assets	31.8	–	–	31.8
Derivative financial instruments	295.2	–	–	295.2
	3,117.9	2.2	55.5	3,175.6
Current assets				
Inventories	222.5	–	–	222.5
ROC and LEC assets	216.7	–	–	216.7
Trade and other receivables	468.8	5.4	–	474.2
Derivative financial instruments	215.4	–	–	215.4
Cash and cash equivalents	289.0	–	–	289.0
	1,412.4	5.4		1,417.8
Liabilities				
Current liabilities				
Trade and other payables	(938.5)	(2.1)	–	(940.6)
Amounts payable in respect of acquisitions	(686.9)	(4.8)	–	(691.7)
Current tax liabilities	(7.6)	(0.8)	–	(8.4)
Borrowings	(0.1)	–	–	(0.1)
Derivative financial instruments	(89.4)	–	–	(89.4)
	(1,722.5)	(7.7)	–	(1,730.2)
Net current (liabilities)	(310.1)	(2.3)	–	(312.4)
Non-current liabilities				
Borrowings	(608.0)	–	–	(608.0)
Derivative financial instruments	(62.0)	–	–	(62.0)
Provisions	(50.8)	–	–	(50.8)
Deferred tax liabilities	(316.0)	0.1	–	(315.9)
	(1,036.8)	0.1	–	(1,036.7)
Net assets/(liabilities)	1,771.0	–	55.5	1,826.5
Shareholders' equity				
Issued equity	47.0	–	–	47.0
Share premium	424.7	–	–	424.7
Treasury shares	(47.1)	–	–	(47.1)
Hedge reserve	199.9	–	–	199.9
Cost of hedging reserve	(8.9)	–	–	(8.9)
Other reserves	712.7	–	55.5	768.2
Retained profits	442.7	–	–	442.7
Total shareholders' equity	1,771.0	–	55.5	1,826.5

Section 8: Reference information continued

8.4 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 primary related parties are its key management personnel.

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	
	2019 £000	2018 £000
Salaries and short-term benefits	**4,543**	4,891
Aggregate amounts receivable under share-based incentive schemes	**636**	1,004
Company contributions to money purchase pension schemes	**43**	74
	5,222	5,969

Amounts included in the table above reflect the remuneration of the 16 (2018: 15) members of the Board and Executive Committee as described on pages 86 to 114, 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 2019 £000	2018 £000
Fixed assets			
Investment in subsidiaries	5	**719,654**	717,044
Current assets			
Other debtors		**18**	57
Amounts due from other Group companies		**2,842**	760
Cash at bank and in hand		**130**	1,666
		2,990	2,483
Current liabilities			
Amounts due to other Group companies		**(12,790)**	(12,481)
Other creditors		**–**	(134)
Net current liabilities		**(9,800)**	(10,132)
Net assets		**709,854**	706,912
Capital and reserves			
Called-up share capital	6	**47,417**	47,038
Share premium account		**429,646**	424,742
Treasury shares		**(50,440)**	(47,143)
Capital redemption reserve		**1,502**	1,502
Profit and loss account		**281,729**	280,773
Total equity shareholders' funds		**709,854**	706,912

The Company reported a profit for the financial year ended 31 December 2019 of £57.3 million (2018: £99.4 million).

These financial statements were approved by the Board of directors on 26 February 2020.

Signed on behalf of the Board of directors:

Andy Skelton
Chief Financial Officer

Company financial statements continued

Company statement of changes in equity

	Share capital £000	Share premium £000	Treasury shares £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2018	46,989	424,325	–	1,502	229,764	702,580
Share capital issued (note 6)	49	417	–	–	–	466
Own shares purchased	–	–	(47,143)	–	–	(47,143)
Profit and total comprehensive income for the year	–	–	–	–	99,399	99,399
Credited to equity for share-based payments	–	–	–	–	4,089	4,089
Equity dividends paid (note 8)	–	–	–	–	(52,479)	(52,479)
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 31 December 2019	**47,417**	**429,646**	**(50,440)**	**1,502**	**281,729**	**709,854**

In the previous financial year, 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' (FRS 101).

The Company applied certain new and amended standards for the first time in 2019. 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

Fixed asset investments

Fixed asset 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

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.

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 26 February 2020. The net profit attributable to the Company is £57.3 million.

The Company received dividend income from its subsidiary undertakings totalling £60.5 million in 2019 (2018: £102.6 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 2019 was £22,050 (2018: £21,000).

Notes to the Company financial statements continued

5. Fixed asset investments

	Years ended 31 December	
	2019 £000	2018 £000
Carrying amount:		
At 1 January	**717,044**	712,955
Capital contribution	**2,610**	4,089
At 31 December	**719,654**	717,044

Investments in subsidiary undertakings

The capital contribution in 2019 and 2018 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 2019:

Name and nature of business		Country of incorporation and registration	Type of share	Group effective shareholding
Abergelli Power Limited***	Power generation	England and Wales	Ordinary	100%
Abbott Debt Recovery Limited	Debt recovery services	England and Wales	Ordinary	100%
Amite BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	100%
Baton Rouge transit LLC*	Trading company, fuel supply	Delaware, USA	Common	100%
Damhead Creek II Limited (formerly Select Energy Limited)	Dormant	England and Wales	Ordinary	100%
DBI O&M Company LLC*	Non-trading company	Delaware, USA	Common	100%
Domus Energy Limited	Dormant	England and Wales	Ordinary	100%
Donnington Energy Limited	Dormant	England and Wales	Ordinary	100%
Drax Biomass Inc.*	Wood pellet manufacturing	Delaware, USA	Common	100%
Drax Biomass Holdings Limited	Dormant	England and Wales	Ordinary	100%
Drax Biomass Holdings LLC*	Dormant	Delaware, USA	Common	100%
Drax Biomass International Holdings LLC*	Holding company	Delaware, USA	Common	100%
Drax Biomass Transit LLC*	Holding company	Delaware, USA	Common	100%
Drax CCS Limited	Dormant	England and Wales	Ordinary	100%
Drax Corporate Limited	Group-wide Corporate Services	England and Wales	Ordinary	100%
Drax Corporate Developments Limited	Dormant	England and Wales	Ordinary	100%
Drax Finco plc	Finance company	England and Wales	Ordinary	100%
Drax Fuel Supply Limited***	Non-trading company	England and Wales	Ordinary	100%
Drax Generation Developments Limited***	Development company	England and Wales	Ordinary	100%
Drax Generation Enterprise Limited** (formerly ScottishPower Generation Limited)	Trading Company, power generation	Scotland	Ordinary	100%
Drax Generation (Selby) Limited	Dormant	England and Wales	Ordinary	100%
Drax Group Holdings Limited	Holding company	England and Wales	Ordinary	100%
Drax Holdings Limited +	Holding company	Cayman Islands	Ordinary	100%
Drax Innovation Limited***	Development company	England and Wales	Ordinary	100%
Drax Pension Trustees Limited	Dormant	England and Wales	Ordinary	100%
Drax Power Limited	Trading company, power generation	England and Wales	Ordinary	100%
Drax Retail Developments Limited	Dormant	England and Wales	Ordinary	100%
Drax Research and Innovation Holdco Limited***	Holding company	England and Wales	Ordinary	100%
Drax Smart Generation Holdco Limited	Holding company	England and Wales	Ordinary	100%
Drax Smart Sourcing Holdco Limited	Holding company	England and Wales	Ordinary	100%
Drax Smart Supply Holdco Limited	Holding company	England and Wales	Ordinary	100%
Farmoor Energy Limited***	Trading company, power retail	England and Wales	Ordinary	100%
Haven Heat Limited	Dormant	England and Wales	Ordinary	100%

5. Fixed asset investments continued

Name and nature of business		Country of incorporation and registration	Type of share	Group effective shareholding
Haven Power Limited	Trading company, power retail	England and Wales	Ordinary	100%
Haven Power Nominees Limited	Non-trading company	England and Wales	Ordinary	100%
Hirwaun Power Limited***	Power generation	England and Wales	Ordinary	100%
Jefferson Transit LLC *	Dormant	Delaware, USA	Common	100%
LaSalle Bioenergy LLC *	Trading company, fuel supply	Delaware, USA	Common	100%
Millbrook Power Limited***	Power generation	England and Wales	Ordinary	100%
Morehouse BioEnergy LLC *	Trading company, fuel supply	Delaware, USA	Common	100%
Opus Energy (Corporate) Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Energy Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Energy Group Limited	Holding company, power retail	England and Wales	Ordinary	100%
Opus Energy Marketing Limited	Dormant	England and Wales	Ordinary	100%
Opus Energy Renewables Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Gas Limited***	Dormant	England and Wales	Ordinary	100%
Opus Gas Supply Limited	Trading company, power retail	England and Wales	Ordinary	100%
Opus Water Limited	Dormant	England and Wales	Ordinary	100%
Pike BioEnergy LLC*	Trading company, fuel supply	Delaware, USA	Common	100%
Pirranello Energy Supply Limited	Dormant	England and Wales	Ordinary	100%
Progress Power Limited***	Power generation	England and Wales	Ordinary	100%
SMW Limited**	Trading company, fuel supply	Scotland	Ordinary	100%
Sunflower Energy Supply Limited	Dormant	England and Wales	Ordinary	100%
Tyler Bioenergy LLC *	Dormant	Delaware, USA	Common	100%

Drax Group plc directly holds 100% of the equity of Drax Group Holdings Limited. All other investments are held indirectly.

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 2571 Tower Drive, Suite 7, Monroe, LA 71201.

** 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 2019 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.

Notes to the Company financial statements continued

6. Called-up share capital

	As at 31 December	
	2019 £000	2018 £000
Authorised:		
865,238,823 ordinary shares of 11 $^{16}/_{29}$ pence each	**99,950**	99,950
Issued and fully paid:		
2019: 410,475,731 ordinary shares of 11 $^{16}/_{29}$ pence each	**47,417**	47,038

The movement in allotted and fully paid share capital of the Company during the year was as follows:

	Years ended 31 December	
	2019 (number)	2018 (number)
At 1 January	**407,193,168**	407,034,429
Issued under employee share schemes	**3,282,563**	158,739
At 31 December	**410,475,731**	407,193,168

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 2019 a total of 3,282,563 shares (2018: 158,739 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 210.

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 £188.2 million. Accordingly, the Company considers itself to have sufficient distributable profits from which to pay the current year final dividend of £38.0 million. Based on a total dividend for 2019 of £63.0 million, the Company has sufficient distributable reserves to pay three years of dividend at the current level without generating further distributable profits. In addition to its own reserves, the Company has access to the distributable reserves of its subsidiary undertakings with which future dividend payments can be funded (see note 2.10 to the consolidated financial statements for additional information).

The Company is dependent upon its subsidiaries for the provision of cash with which to make dividend payments. The Group has sufficient cash resources with which to meet the proposed dividend (see note 4.2 to the consolidated financial statement for additional information).

8. Dividends

	Years ended 31 December	
	2019 **£m**	2018 £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 2019 of 6.4 pence per share paid on 11 October 2019 (2018: 5.5 pence per share paid on 12 October 2018)	**25.4**	22.4
Final dividend for the year ended 31 December 2018 of 8.2 pence per share paid on 10 May 2019 (2018: 7.4 pence per share paid on 11 May 2018)	**33.5**	30.1
	58.9	52.5

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 2019 of 9.5 pence per share (equivalent to approximately £38.0 million) payable on or before 15 May 2020. The final dividend has not been included as a liability as at 31 December 2019.

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 2020

At the date of publication of this document, the following are the proposed key dates in the 2020 financial calendar:

Annual General Meeting	22 April
Ordinary shares marked ex-dividend	23 April
Record date for entitlement to the final dividend	24 April
Payment of final dividend	15 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.

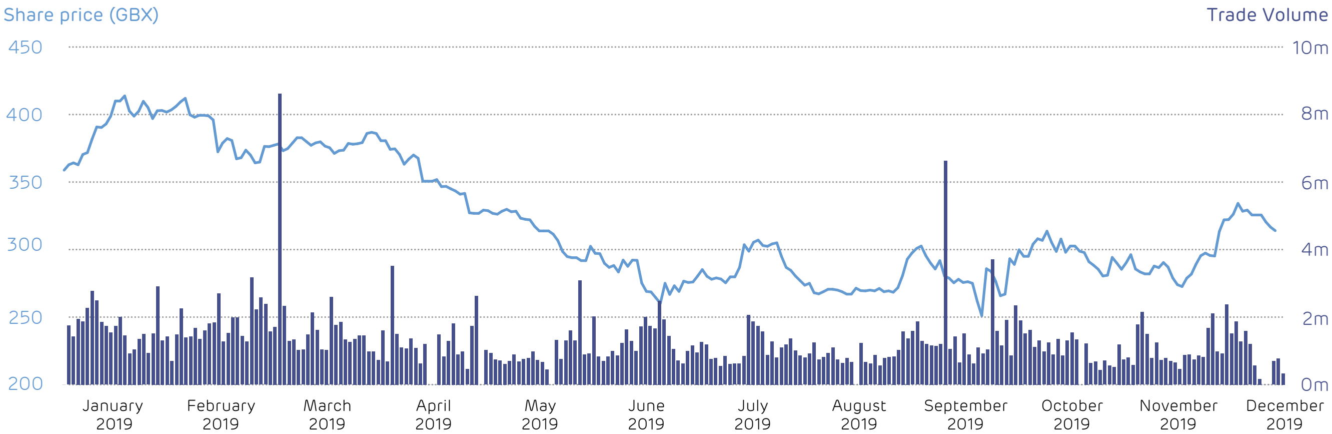
Share price

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 2019, and the graph provides an indication of the trend of the share price throughout the year.

Closing price on 31 December 2018	Low during the year (4 October 2019)	High during the year (17 January 2019)	Closing price on 31 December 2019
358.8 pence	247.8 pence	415.0 pence	314.0 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 2019, was approximately £1,289 million (2018: £1,461 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**.

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 2019-2020 tax year (2018-2019: £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

Shareholder information continued

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

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Glossary

Adjusted EBITDA
Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.

Adjusted Results
Business performance after adjusting for material, one-off exceptional items, certain remeasurements, acquisition and restructuring costs, and debt restructuring costs.

BECCS
Bioenergy, carbon capture and storage system, with CO_2 resulting from power generation captured and stored.

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.

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.

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.

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.

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 opposite) 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.

Net cash/(debt)
Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

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.

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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