

Drax Power Limited

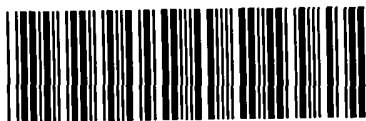
Annual Report and Audited Financial Statements

For the Year Ended

31 December 2020

Company Number 04883589

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Drax Power Limited

Officers and Professional Advisers

Directors	Will Gardiner Brian Greensmith Andy Skelton Andrew Koss (resigned 7 April 2020) Charlotte Rhodes (resigned 28 February 2021) Mike Patrick (resigned 20 September 2021)
Company secretary	Brett Gladden
Registered number	04883589
Registered office	Drax Power Station Selby North Yorkshire YO8 8PH
Independent auditor	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3HQ

Drax Power Limited

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Drax Power Limited

Strategic Report For the Year Ended 31 December 2020

Business review

The Directors present their Strategic Report for Drax Power Limited (the Company) for the year ending 31 December 2020.

The Company is part of the Drax Group plc group of companies (the Group).

This report contains forward-looking statements. These statements are made by the Directors in good faith and based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Our business today

The Company is a power generation business running Drax Power Station, the UK's largest single source of renewable electricity, with 93% of all generation in 2020 being renewable (2019: 92%). The carbon emissions at Drax Power Station in 2020 were higher than in the prior year. This reflects an increase in coal generation in 2020, as remaining coal stocks were used ahead of the planned closure of commercial coal generation at Drax Power Station in March 2021. The reduction in carbon emissions from 2012 to 2020 is 93.3% (2019: 97%).

Specific challenges arose and remain areas of potential risk with safeguarding of employees and contractors in relation to Covid-19. For further information, refer to page 6.

Following a comprehensive review of operations and discussions with National Grid, Ofgem and the UK Government, Drax Group plc Board (the plc Board) and the Company have determined to end commercial coal generation at Drax Power Station. The Company has completed a consultation process with employees and trade unions and will be ending coal operations in September 2022. Commercial generation from coal ended in March 2021 but the two coal units will remain available to meet Capacity Market obligations until September 2022.

Following this decision, the Company recognised asset obsolescence charges in respect of the associated fixed assets of £226 million during the year. In addition, following an employee consultation process, we have recognised provisions in respect of redundancy, pension costs, and other closure costs totalling £21 million. Other closure costs include a provision for work to ensure the safety of the site and employees following the closure of the coal units and a small inventory write down for coal we no longer expect to burn prior to closure. All costs associated with the closure of the coal units have been treated as exceptional items in the income statement.

In December 2020 as part of a Group restructure, legal title of the Hydro generating assets were transferred to the Company from another Group Company. The assets were transferred at book value. For further information refer to note 33. The KPIs in this report are inclusive of the contribution made by the Hydro assets in the 2-week period from the transfer of the assets to year end.

The Company purchases biomass and carbon allowances from both UK and international suppliers. We are closely monitoring the ongoing implementation of a UK carbon allowances trading scheme. We also enter into a substantial number of foreign currency exchange contracts to hedge the FX risk associated with the exposure against the fixed price of these commodities.

Our objective remains to run a safe, reliable, flexible and profitable power station using biomass as our primary fuel source. An important part of this is working as a team to execute agile decisions and capture value in a market where grid stability is becoming increasingly important.

The health, safety and wellbeing of our employees and contractors is vital to the success of the Company and remains our priority. We believe that a safe and sustainable business model is critical to our strategy and long-term performance.

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Strategic Report (continued) For the Year Ended 31 December 2020

Our business model

Our purpose is to enable a zero carbon, lower cost energy future and this informs our strategy through which we aim to build a long-term future for sustainable biomass. There are several steps in the Company's value chain (sourcing fuel, generating electricity, and the supply of electricity to the wholesale market), with each one providing incremental value to the business and ultimately maximising that value and delivering our gross margin. Further details are provided from page 2 of the 2020 Drax Group Annual report and accounts. These financial statements may be obtained from Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.

Key Performance Indicators

The Company's board of Directors (the Board) monitors the progress of the overall strategy and the individual strategic elements by reference to the following financial and non-financial indicators.

KPI	2020	2019
Total recordable injury rates	0.27	0.26
Biomass availability	77%	70%
Flexibility value	£56.1m	£70.4m
Adjusted gross margin	£508.7m	£482.7m
Operating and administrative expenses	£212.4m	£186.6m
Adjusted EBITDA	£296.3m	£296.1m

The Company's key non-financial performance indicators during the period are total recordable injury rates and biomass availability.

The Board monitors health and safety performance through regular reporting by local management teams and the Executive Committee. Each incident is comprehensively analysed and reviewed, lessons learned are shared with employees and actions are taken to mitigate the risk of future occurrences. At Drax Power Station, a weekly safety update is uploaded to our intranet and the Board receives monthly reports which include Total Recordable Injury Rates (defined as total fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked). Key issues raised in 2020 include incoming fuel quality and metallic contamination in fuel, as these factors can influence levels of dust, potential for fuel line blockages or ignition events. Changes made by the business to reduce fines and contamination in fuel have resulted in improvements throughout 2020 and a lower risk of line blockages or COSHH related ignition events.

Subsequent to the year end, the Company received notice of legal action from the Health and Safety Executive in relation to wood dust at Drax Power Station in relation to the operations prior to 2017. The Company is taking legal advice and will respond in due course. Since the commencement of large-scale biomass operations in 2013 the Company has been committed to continuous improvements of its facilities. The health, safety and wellbeing of colleagues has been and continues to be a priority for Drax.

Biomass availability is measured as the percentage of time the biomass units are able to generate power compared with the total time available after taking account of planned outages. In 2020 the availability of our biomass units was 77%, above prior year of 70%, due to an improvement in forced outage levels in 2020.

The Company is also measured against the flexibility profit value it generates through providing ancillary and balancing services to the National Grid and creating additional value by flexibly operating our assets. In 2019, a large component of flexibility value was driven by coal buybacks, which have been at a lower level in 2020.

The Company's key financial performance indicators during the period are adjusted gross margin, operating and administrative expenses and adjusted EBITDA. The Company'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. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements, see note 2.26 for further information. These key financial performance indicators are further discussed in the financial review on page 4.

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Strategic Report (continued) For the Year Ended 31 December 2020

A REVIEW OF OUR BUSINESS IN 2020

The Company's ambition is 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 Bioenergy with Carbon Capture and Storage (BECCS) and, through the BECCS pilot project at Drax Power Station, the Company has 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 carbon a year.

During the year, the Board made the decision not to pursue the option to develop a new Combined Cycle Gas Turbine (CCGT) at Drax Power Station. This led to the assets associated with this project becoming obsolete, and therefore an asset obsolescence charge of £13.4 million has been recognised due to the carrying value of these assets being significantly higher than their recoverable amount of £nil, which led to the assets being fully written off.

Operational performance

We delivered a good performance during 2020 and maintained a strong safety performance.

In 2020, we completed one major planned biomass outage, including the second in a series of three high-pressure turbine upgrades which we expect to increase thermal efficiency and reduce the cost of biomass generation.

Notwithstanding the planned outages our biomass units produced 11% of the UK's renewable electricity – enough to power four million homes.

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.

Regulation

Brexit remains a key issue for the UK. The Company's ongoing focus continues to be to ensure that the business mitigates any adverse effects to its operations following the adoption of the Free Trade Agreement (FTA) throughout the grace period to 31 December 2021.

In particular, the Group developed contingency plans to respond to the revised approach to carbon emissions trading post 1 January 2021 to allow it to effectively meet the Group's regulatory requirements and manage the financial exposure.

The Company is closely monitoring the ongoing implementation of a UK carbon allowances trading scheme. There have been no further developments in the first half of 2021 that would suggest a significant change in the range or severity of risks faced by the business as a result of Brexit, as a consequence it has been agreed that Brexit will now be considered as part of the business-as-usual risks monitored by the business and not reported on separately.

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Strategic Report (continued) For the Year Ended 31 December 2020

Capacity Market

Following the reinstatement of the UK Capacity Market in October 2019, the results for the full year ended 31 December 2020 include £25.6m (2019: £78.0m) of capacity market income.

We believe that the Capacity Market continues to be an important cornerstone energy policy, a cost-effective safeguard for security of supply and necessary to underpin the development of new generation projects.

Commodity markets

The Company's profitability is primarily influenced by the bark spread (the difference between the power price and the cost of biomass net of renewable support).

Bark spreads are driven by a number of factors, such as underlying commodity prices (e.g. oil, gas, power, biomass including exchange rates, coal and carbon), the availability of generating capacity on the electricity system, and the physical positions taken by individual market participants.

Financial review

Gross margin performance

Adjusted gross margin of £508.7m (2019: £482.7m) reflects another strong year operationally. 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.

Total gross margin of £436.8m (2019: £376.0m) includes the year on year movement in mark to market gains and losses (2020: loss of £71.9m, 2019: loss of £106.7m).

Operating and administrative expenses

Operating costs (excluding asset obsolescence charges and financial instruments) of £212.4m (2019: £186.6m), are £25.8 million higher than prior year.

This is reflective of the one major planned biomass outage during the year compared to two in the prior year; 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.

Adjusted EBITDA

Being a function of the two components above, adjusted EBITDA (defined on page 2) of £296.3m (2019 restated: £296.1m) is in line with the previous year.

(Loss)/profit before tax

Loss before tax of £94.1m (2019: profit before tax of £72.2m) is £166.3 million lower than in the previous year primarily reflecting an asset obsolescence charge of £225.8m in 2020 relating to the coal assets. This is somewhat offset by a reduction in unrealised commodity contract losses of £71.8m (2019: £106.7m).

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Strategic Report (continued) For the Year Ended 31 December 2020

Financial instruments

A key component of the Company's (and the Group's) risk management strategy is the use of forward contracts to secure and de-risk the future cash flows of the business.

Whilst these contracts are all entered into for risk management purposes, a proportion of our portfolio is not designated into a hedge accounting relationship under IFRS. Where this is the case, the unrealised gains and losses arising from the change in market value of these contracts is recognised in our Income Statement.

In 2020, our Total Results included unrealised losses of £71.8m (2019: unrealised losses of £106.7m) within the income statement, in respect of outstanding contracts for future delivery. In the Company's balance sheet, a gain of £510.7m (2019: loss £169.8m) was recognised in the hedge reserve.

The gains, which do not impact cash, principally relate to forward foreign currency purchase contracts designed to fix the Sterling cost of future purchases of biomass. The majority of the Company's fuel purchases are denominated in US Dollars, with the remainder in Canadian Dollars and Euros. The gains predominantly reflect the change in value of our hedge as Sterling has strengthened against the US Dollar during the year.

In addition to hedging foreign currency commitments the Company also forward purchase oil, gas and carbon, and forward sell power as required. A decrease in power prices during 2020 drove an increase in amounts recognised in the hedge reserve from forward contracts for this commodity, which partially offset the losses on forward foreign exchange purchases recognised in the hedge reserve.

The term for which the Company can hedge is limited by available credit lines and market liquidity. The Company's existing currency hedge extends to 2026, which gives rise to fuel price volatility for our unhedged exposures. The Company remains very focused on reducing the long-term cost of biomass fuel to preserve gross margins beyond the current currency hedge period.

The accounting for these contracts is set out in further detail in notes 2 and 17 to the financial statements.

Capital expenditure

Capital expenditure on property, plant and equipment of £110.7m (2019: £91.4m) relates to upgrade projects. One biomass outage was completed in 2020. For further detail, refer to note 15.

The Company remains confident in the future prospects of the generating assets. Furthermore, the Company will invest in the generating units' reliability and flexibility to ensure they can continue to provide the essential services required by the grid and maximise the value of the Generation business.

Principal risks and uncertainties

The effective management of risks within the Company underpins the delivery of key priorities.

The Company has a comprehensive structure of governance controls in place to manage risks. Policies have been established in key areas of the business such as trading, treasury, production and health and safety to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Board.

The assessment of the most significant risks and uncertainties which could impact long term performance is detailed below. These risks are not set out in any order of priority and they do not comprise all the risks and uncertainties the Company faces.

The most significant risks and uncertainties which could impact long term performance of the Group are detailed on pages 66 to 77 of the 2020 Drax Group Annual report and accounts.

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Strategic Report (continued) For the Year Ended 31 December 2020

ENVIRONMENT, HEALTH AND SAFETY RISK

Context

The health, safety and wellbeing of all employees, contractors and visitors is of paramount importance to the Company. A safe, compliant and sustainable business model is critical to the delivery of the Company's strategy and crucial for sustained long-term performance.

Safety and environmental management are foundational to the operational philosophy and the Company continues to work to maintain high standards and a culture of safe working. Compliance with environmental legislation and environmental permits and consents is essential to ensure the long-term future of the business.

The Company has a focus on emerging legislation and regulatory changes in both safety and environmental aspects. These are important for people and the Company's reputation and the value attributed to effective measures and good practices by our stakeholders is recognised.

Risk

The Company's operations involve a range of hazards to personnel and the environment, that arise from the processes the Company performs and the equipment used. This includes heavy plant and machinery at Drax Power Station.

The biomass that the Company uses to generate electricity is by its nature combustible and the preparation and transportation (whether within the Company's sites or in transit) requires careful management to minimise the risk of fire or explosion. For example, the Company operates plant which involves very high temperatures and pressures for the generation of electricity at 400KV for transmission onto the National Grid.

The UK government identifies Drax Power Station as critical national infrastructure and health, safety and wellbeing is vital to delivering the Company's purpose of keeping the lights on and keeping the country going.

Specific challenges arose and remain areas of potential risk with safeguarding of employees and contractors in relation to Covid-19. Many have been required to fundamentally change their day-to-day working, as they are expected to work from home to reflect UK Government guidelines and also management's assessment of the most appropriate way to safeguard the health and wellbeing of all colleagues. Where key workers have been required to continue to work at Drax Power Station, actions have been required to provide new guidance on working practices in response to the changes in managing the virus. The planned outage required additional planning, financial resources, and management oversight.

Mitigations

- Maintaining robust management systems designed to mitigate risk.
- Training employees to a high level of competence, to appreciate and manage environment, health, and safety risks.
- Tracking and reporting events and near misses, prompt investigations and timely implementation of corrective actions.
- Regular monitoring of processes and incidents to identify trends in performance.
- Routine auditing of compliance against standards, policy, and procedures.
- A proactive and structured approach to supporting the wellbeing of our colleagues, by focusing on promoting personal resilience and encouraging healthy habits for physical wellbeing.
- Engaging with regulators and stakeholders to identify improvements to our systems and operations.
- Proactive identification of future legislation and appropriate investment to optimise performance.

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Strategic Report (continued) For the Year Ended 31 December 2020

Changes during 2020

- Personal safety performance for the year with Total Recordable Injury rate (TRIR) and Lost Time Injury Rate (LTIR) continuing in line with industry benchmarks.
- The Company invested in significant upgrades to turbines and associated equipment at Drax power station which will result in lower carbon emissions and improved fuel efficiency.
- Due to Covid-19, significant changes were introduced to working arrangements with the Health and Safety Executive (HSE) leadership's top priority being, the health and wellbeing of all colleagues. This involved fully supporting all employees through that change and providing support which focused on physical, emotional and mental wellbeing.
- Risk assessments were undertaken at Drax Power Station to identify mitigations to reduce the likelihood of workplace transmission of the virus and to protect key workers. All employees except those required operationally have been asked to work from home in line with Government's advice. The Group's HSE response is adjusted according to the continual changing UK Government guidelines.

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Strategic Report (continued) For the Year Ended 31 December 2020

REGULATORY AND POLITICAL RISK

Context

The Company remains alert to changes in government policy at UK 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.

The increased and ongoing pressures from managing the Covid-19 pandemic are impacting UK Government priorities and finances, which in turn could delay the introduction of new legislation to deliver the required investment frameworks required to support progress in reducing carbon emissions and addressing the issues of climate change. Such changes could also result in reduced Government investment in technologies or other activities which are essential in enabling aspects of our strategy, for example Carbon Capture.

Risk

Changes to UK policy, regulations or tariffs may increase the costs to operate, reduce operational efficiency and affect the Company's ability to realise its strategy, which may adversely affect financial and operational performance, results and cash flows. Issues include reform to: legal frameworks 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 further uncertainty and additional costs associated with changes in regulatory reporting or divergence in compliance requirements.

Long term, the Company is aiming to increase our biomass self-supply to five million tonnes per annum. The regulatory environment is evolving which could increase costs and mean anticipated returns are significantly lower than expectations. The Company's ability to influence EU requirements on biomass acceptability/sustainability may be impaired post-Brexit. The acquisition in April 2021 of Pinnacle Renewable Energy Inc. (Pinnacle) by the Group positions Drax as the world's leading sustainable biomass generation and supply business and advances the Group's biomass strategy.

The Group's ongoing focus continues to be to ensure that our business mitigates any adverse effects to its operations following the adoption of the Free Trade Agreement (FTA) throughout the grace period to 31 December 2021. In particular, the Group developed contingency plans to respond to the revised approach to carbon emissions trading post 1 January 2021 to allow it to effectively meet the Group's regulatory requirements and manage the financial exposure. We are closely monitoring the ongoing implementation of a UK carbon allowances trading scheme. There have been no further developments in the first half of 2021 that would suggest a significant change in the range or severity of risks faced by the business as a result of Brexit. Therefore, it has been agreed that Brexit will now be considered as part of the business-as-usual risks monitored by the business and not reported on separately.

Mitigations

- Engaging with politicians across the political spectrum and Government officials, to understand and influence perception, and communicate the Company's 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.

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Strategic Report (continued) For the Year Ended 31 December 2020

Changes during 2020

- Overall risk levels heightened as a result of increased regulatory intervention and lack of clarity around UK Government policy some of which resulted from Covid-19 and Brexit.
- The ongoing and drawn out negotiations around Brexit during the year and the subsequent transition to the UK/EU FTA continued to create uncertainty. Weakened sterling and difficulties in cross border trade can influence fuel costs. Delays at ports can affect supplies of fuel and components although the nature of our dedicated supply chain mitigates this risk.
- Many ancillary services require policy, regulatory and market change to ensure generators are suitably compensated for these services.
- The UK Government has confirmed it believes that the Carbon Price Support is set at approximately the right level, although the longer-term level is dependent on prevailing commodity prices and terms within the UK/EU FTA.
- Ofgem is reviewing the way in which network businesses are remunerated and user access is procured/costs allocated, which will impact the cost base of generators and retailers.
- The financial impact on Government funding over the immediate and longer term will result in a reassessment of investment priorities for this and future administrations both in the UK and elsewhere which could affect the Drax business model and financial prospects.
- Ofgem is reviewing the fundamental design of the power market in light of the impact on balancing costs of Covid-19 demand-levels (which offer an insight to the future supply/demand balance) and general efficiency/effectiveness of market with increasing proportion of zero marginal cost generation.

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Strategic Report (continued) For the Year Ended 31 December 2020

STRATEGIC RISK

Context

The Company's strategy is to build a long-term future for biomass and to be the leading provider of power system stability. This includes investment in new and emerging technologies for alternative fuels, which the Company believes has the potential to support earnings beyond 2027, which is when the current biomass subsidy regime ends. The Company aims to deliver higher quality, diversified and sustainable earnings, whilst also reducing exposure to volatility in the commodity market and supporting the UK's ambition to achieve net zero by 2050.

Risk

Building a long-term future for sustainable biomass requires the achievement of an economically sustainable level of fuel cost relative to other energy sources. A primary objective is to increase biomass self-supply to five million tonnes per annum and reduce the cost of generation to £50 per MWh by 2027 to achieve and sustain an economic level of cost for sustainable biomass generation. The acquisition in April 2021 of Pinnacle Renewable Energy Inc. (Pinnacle) by the Group positions Drax as the world's leading sustainable biomass generation and supply business and advances the Group's biomass strategy.

There is a risk to the availability of feasible expansion opportunities and the successful identification and delivery of initiatives to reduce the current cost of biomass.

Irrespective of the economics of sustainable biomass there is a risk that biomass is not accepted either in the UK or in other jurisdictions as a renewable source of energy. Growth opportunities, investment and innovation into new technologies required to further improve the economics and carbon reduction potential of sustainable biomass could therefore all be limited.

The energy markets in which the Company operates are evolving at a rapid pace. New entrants and new technologies compete throughout power generation and system services. Such competitors may develop more cost effective and efficient services than those which Drax is able to supply.

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

To enable the Company to build the right portfolio of assets and associated business models to achieve its aims, it is important that the market values flexibility and system services at the right economic levels, and procures those services through mechanisms that the Company is able to participate in effectively. There is a risk that the market does not value flexibility and system services at the right economic levels or procures those services through mechanisms that we are not able to participate in effectively. There is a risk that unexpected changes to electricity supply and demand could reduce electricity demand and volatility, and therefore limit the market for system stability products.

Mitigations

- Adoption by the Group of an integrated plan to expand biomass self-supply capability, reduce the cost of sustainable biomass to an economically sustainable level and develop innovative approaches to fuels. Allocation of c. £600 million with rigorous tracking and reporting on cost reduction achieved.
- Drax is a pro-active advocate for sustainable biomass. An Independent Advisory Board is tasked to challenge the science-based approach and assumptions on sustainable biomass and publish their recommendations.
- Maintain and invest into a central Group market modelling capability and embed it into planning and option assessment and test/cross check against third party scenarios.
- Continually evaluate a) the current and projected performance of the Company's own portfolio of assets, and b) the value gained from changing the composition of the asset portfolio to better fulfil a strategy in line with the Group's view of the market outlook.

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Strategic Report (continued) For the Year Ended 31 December 2020

Changes during 2020

- The Brexit negotiations during the year and subsequent transition to the UK/EU FTA had a relatively immaterial impact on the Group's strategic aims.
- There was a slowdown in the delivery of the Government agenda on the environment, with a delay to COP26 and the publication of a white paper on Energy.
- Markets for system stability continue evolving, with the introduction of the new Electricity System Operator (ESO) market for synchronous compensation.
- However, publications such as from the Committee on Climate Change and the Government indicate a growing commitment to bioenergy carbon capture and storage (BECCS), and with it acknowledgement that sustainable biomass is seen as an accepted part of the UK's future.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

BIOMASS ACCEPTABILITY RISK

Context

Sustainability legislation at EU and UK level and in other countries from which the Company operates and sources 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 the Company's strategy and investment case, which may impact plans and mean that actual returns differ from those expected. Brexit introduced new risks as the ability of the UK to influence future EU policy on biomass sustainability requirements is likely to reduce and there is the potential for policy divergence which might make the Company's operations and obligations more complex and costly.

Risk

- Sustainability policy changes on the sourcing and use of biomass in the UK, EU or other countries in which the Company operates or from which biomass is sourced could be unworkable and make it difficult for the Company 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 nongovernmental organisations (ENGOS) may influence policymakers against biomass use resulting in reduced support for the benefits of biomass.
- Being outside the EU may reduce the UK's influence on biomass acceptability and future sustainability requirements, potentially leading to multiple compliance requirements (policy divergence).

Mitigations

- Increased transparency in how the Company evidences 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.

Changes during 2020

- The Department for Business, Energy and Industrial Strategy (BEIS) has announced it will create a new bioenergy strategy that will be published in 2022, reassessing the role of biomass in the context of achieving net zero.
- Evidencing of the Company's forest biomass sourcing commitments.
- The Independent Advisory Board (IAB) of scientists, and leaders in the field of sustainability providing impartial advice and guidance operated throughout 2020.
- The EU has confirmed it will review several relevant pieces of legislation including the EU ETS, Land Use, Land-Use Change and Forestry (LULUCF), and the revised Renewable Energy Directive (REDII) – potentially giving rise to policy changes and some possible divergence in sustainability criteria between the UK and Europe.
- Any tightening of reductions in greenhouse gases emissions targets in Europe and increased number of commitments to coal phase out among EU Member States provides the opportunity to the Group to supply new markets with sustainable biomass.
- The UK Government discussions on policy changes have continued. Indications are that as part of the wider economic plans for recovery from Covid-19, UK Government will bring forward and have a greater focus on its sustainability policies, including the announcement of "Build Back Greener".

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Strategic Report (continued) For the Year Ended 31 December 2020

GENERATING PLANT OPERATING RISK

Context

The reliability of the Company's generating plant is central to its ability to create value for the Group. Drax Power Station was built approximately 50 years ago, and the plant was originally constructed to generate electricity from coal. The Company has converted four of the six units to use biomass, rather than the fuel for which they were originally designed.

Risk

- As plant ages, the operational reliability and integrity could reduce. Single or multi point failures of plant, and incidents arising from the handling and combustion of biomass, could result in forced outages.
- Successful generation using biomass requires stringent quality to be maintained throughout the Company's pellet production plants and the supply chain, which continues to evolve and mature. The Company's 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 the Company may be required to source material from other suppliers) or inadequate volume of materials, leading to loss of generation which could adversely affect financial performance and results.
- Brexit could impede the future availability and delivery of materials or parts longer term or increase costs to operate in securing such items.
- Given ongoing uncertainty over the timing and availability of measures to support a return to more normal working patterns it is unclear whether future planned or unplanned events at the Company's sites could incur additional costs or delays in execution which could impact operational performance and/or future financial results. The pandemic has impacted the financial and operational performance of many businesses. The prolonged period of such impacts could result in businesses on which Drax relies failing or being restricted in their ability to deliver products or services as might normally be expected. This could have further impact in the event the Company suffer interruptions or forced outages or increase our costs to operate where we need to find alternative suppliers or business partners.

Mitigations

- Implementing a comprehensive risk-based plant investment and maintenance programme.
- 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.
- Undertaking significant research and development on 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 to cover losses from plant failure where possible.
- Employing advanced condition monitoring systems to alert any possible plant failures before they occur where practicable.

Changes during 2020

- Completion of largest ever maintenance outage on Unit 3 at Drax Power Station and installation of a new high-pressure turbine unit and replacement of hot reheat pipework and upgraded unit control system.
- The risks for the potential to lose production time as a result of key operational employees being affected by the pandemic increased. The Company continues to operate in line with the latest UK Government guidelines whilst protecting the safety of its employees and sub-contractors. The measures implemented by management to address the increased risks resulted in additional costs and challenges associated with the 2020 outage of Unit 3 at Drax Power Station.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

TRADING AND COMMODITY RISK

Context

The Company's margins are influenced by the liquidity of the commodity markets and the ability to secure desired prices in volatile markets.

Risk

- Liquidity and volatility in trading conditions and unexpected changes in commodity prices could result in lower margins and a reduction in cash flow.
- The Company may fail to secure future system support services contracts which are a source of revenue diversity.
- The value of Renewable Obligation Certificates (ROCs) generated may be lower than forecast, for example if the recycle value outturns are below the Company's projections due to higher than anticipated renewable generation.

Mitigations

- Ensuring high levels of forward power sales for 2021 to 2023 and the Contract for Difference (CfD) for one biomass generation unit reduces the Company's exposure to volatility.
- Operating three biomass units under a single ROC cap provides increased opportunities for greater flexibility of generation.
- Purchasing wood pellets under long-term contracts with fixed pricing.
- Significant hedging of forward foreign exchange.
- Hedging fluctuations in ROC generation from wind farms through weather derivatives.
- Adjusting the burn profile of the coal units to optimise coal stocks.

Changes during 2020

- Sterling exchange rates against the US Dollar, Canadian Dollar and Euro have been volatile due to uncertainty surrounding Covid-19, Brexit and the US elections.
- Power prices across 2020 were generally lower than previous years with low market liquidity and increased volatility in short-term prices.
- Depressed wood pellet prices due to planned and unplanned outages across the industry. This limits the Company's ability to mitigate any unplanned outage due to its scale of biomass generation in the market.
- The replacement of the EU ETS following Brexit is a risk that the business continues to monitor with mitigations planned for the current scenarios outlined by the UK Government.
- Brexit and the subsequent transition to the UK/EU FTA continues to create uncertainty in regulation within the UK as well as power interconnectivity between Europe and the UK.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

INFORMATION SYSTEMS AND SECURITY

Context

The Company's IT systems and data are essential to supporting the delivery of day-to-day business operations and make sure the Company's financial, legal, regulatory and compliance obligations are met. Systems must also evolve in order to contribute to the delivery of the Company's 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

- Absence of appropriate development of key IT systems affecting the ability to deliver the Company's strategy.
- Reduced performance or reduced availability of IT systems, data and facilities affecting operations adversely. For example, interrupting supply of electricity or impeding the accurate recording of electricity supplied to customers.
- Security compromise of systems and data including personal data; causing operational and financial impact and regulatory non-compliance. Maintaining business continuity, disaster recovery and crisis management plans.

Mitigations

- Maintaining cyber security measures, including a protect, detect, respond and recover strategy.
- Identifying key projects to deliver, improving security, resilience and performance.
- The enforcement of key compliance regulations such as the Directive on security of network and information systems (the NIS Directive) have increased the potential regulatory and financial impact.
- Programme of ongoing improvement to security, monitoring of key IT controls and IT and Security Risk management.

Changes during 2020

- The enforcement of key compliance regulations such as the NIS Directive, which is ongoing, have increased the potential financial cost to the business.
- Further work embedding the IT operating model has been undertaken to better support strategic objectives of the Company and improve efficiency of technology processes.
- Ongoing programme of improvement to security, monitoring of key IT controls and IT and security risk management.
- Due to Covid-19, there continued to be a manageable impact on the delivery timelines of a number of planned IT activities, driven by the availability of resources and other priorities to ensure the business remained operational. The adoption of new technology and changes in existing IT systems was necessary to facilitate the safe home working for many of the Company's employees and has helped to improve the IT environment.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

PEOPLE

Context

The Company needs to ensure there is an agile and inclusive working environment where people from diverse backgrounds and experience are enabled to connect, develop, and succeed both in their own careers as well as in the delivery of objectives which support the Company's strategy. The Company believes recruiting, empowering and retaining the right people in place with the leadership, management, specialist skills and engagement is critical in the delivery of strategic plans now and in the future.

Risk

The Company's performance and the delivery of its strategy is dependent upon having high-quality, suitably experienced leaders and engaged and talented colleagues at all levels of the organisation.

Whilst the Company continues to invest in people, including supporting them in the development of their capabilities, the Company may be unable to recruit and retain people with the necessary skills and experience which could in turn affect its ability to execute our strategy. Examples include the ability to recruit people supporting work on new technologies such as BECCS and alternative fuels.

Mitigations

- Conducting a comprehensive and systematic assessment of our talent bench strength and succession plan.
- Maintaining consistent 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 the Company's values.
- Investing in development for all.
- Ensuring regular colleague communications.
- Maintaining reward packages that aid recruitment and retention.
- A diversity and inclusion strategy that aligns to the Company's organisational vision and goals.
- Engaging colleagues with defining the behaviours that sit behind the Company's Values.

Changes during 2020

- During the year, the Group's focus on implementing its HR strategy has mitigated various risks and lessened the probability and impact of the overall people risk category. The Group is aware that, as it manages the wider context of rapidly changing people risks, the HR strategy will need to remain agile to address anticipated increases to probability and impact in the short-term.
- There has been a wide change in working practices, in particular for office-based employees. Management continues to provide an increased focus on "keeping our people safe" within business continuity planning throughout the pandemic, through increased communications and wellbeing activity, community activity, and making appropriate policy changes.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

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 the Company assesses the impact of climate change on its business and its preparedness to manage risks related to both the physical impacts of climate change and the transition to a low carbon economy.

Risk

- Physical impacts of climate change to the Company's operations, for example increased incidence of extreme weather events. Hurricanes have increased in frequency and intensity in the US Gulf, which can disrupt the Group's supply chain and therefore the Company's business. For example, heavy rainfall affected the Group's US Pellet Production business and third-party pellet mill sourcing areas in the winter of 2019. Severe rainfall in the UK also resulted in significant flooding to areas surrounding Drax Power Station in early 2020 which affected the ability of people and materials to reach site for a short period.
- Policy risks related to the transition to a low carbon economy include UK Government changes in climate policy that may impact generation, such as unabated gas generation. Future revisions to greenhouse gas accounting methodologies have the potential to impact biomass generation.
- Technology risks related to the transition to a low carbon economy include technology and innovation not developing as expected, impacting delivery of the Group's carbon negative ambition and business strategy.
- Reputation and market risks related to the transition to a low carbon economy include increased activity by ENGOs, the potential for reduced investor and customer confidence, delays to the Company's strategy (for example more stringent qualifying regimes or approval processes linked to developing existing or new facilities) and challenges with employee recruitment and retention.

Mitigations

- Working with Energy UK on a framework to better manage the physical impacts of climate change on thermal generating facilities.
- 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 such as BECCS.

Changes during 2020

- Ongoing development and review of external greenhouse gas corporate accounting and reporting guidance, frameworks, and standards.
- Publication and implementation of a new Climate Policy for the Group.
- The Covid-19 economic recovery plans that are starting to emerge indicate the UK Government will use the opportunity to bring forward policy and actions that help drive corporate focus on sustainability and climate change action.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

In addition to the significant commercial and operational risks above, the Company is exposed to the following financial risks:

Liquidity risk

The Group Treasury function is responsible for liquidity, funding and settlement management under policies approved by the plc Board. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Company maintains a mixture of cash and cash equivalents, committed facilities and uncommitted facilities in order to ensure sufficient funding for business requirements.

Credit risk

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, namely trade receivables (note 20), short term investments and cash and cash equivalents and the exposure on derivative financial assets (note 17). Credit exposure is controlled by counterparty limits that are reviewed and approved by a management committee.

Foreign currency risk

Foreign currency exchange contracts are entered into to hedge the majority of the Company's fixed price international biomass purchases in US dollars, Canadian dollars, and Euros, and carbon emissions allowances purchased in Euros. Exchange rate exposures are managed within approved policy parameters utilising foreign currency exchange contracts.

Inflation risk

The Company is exposed to inflation risk on elements of its revenues and cost base. The Company'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 Company's fuel costs are linked to US/CAD CPI. The Company has entered UK CPI swaps to hedge the future cashflows relating to a proportion of its exposure. The Company has a risk management policy in place relating to inflation risk. The Company policy permits, but does not require, the use of hedging instruments in order to hedge up to 100% of the Company's current and forecast inflation exposure.

Companies Act, Section 172 Statement

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

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

A comprehensive list of stakeholders identified across the Group, and how we engage with them and have regard to their interests, can be found from pages 40 to 45 in the 2020 Drax Annual report and accounts. Examples of some of the Company's key stakeholders include:

Workforce

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

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

We maintain regular dialogue with our workforce through our Generation employee engagement (My Voice) forum, colleague briefings, weekly updates and Q&A from our CEO and our pulse and annual engagement surveys.

The Generation My Voice forum is made up of members nominated by colleagues from the Generation business and meets formally each quarter. The chairs of each forum, across the Group, come together quarterly to discuss workforce issues across the business, and discuss topics where workforce feedback has been sought. The chairs then meet with the Chair and the CEO of Drax to discuss the key issues raised, with feedback from these meetings then shared with all forum members.

Matters discussed during 2020 include diversity and inclusion, how effectively our Covid-19 response was communicated, colleague wellbeing in lockdown, and how colleagues would prefer to work in future. We listened to and acted on colleague feedback - we introduced flexible working policies including working from home policy and guidance, developed our diversity and inclusion strategy, developed and delivered plans to further support colleague wellbeing including: a dedicated intranet resource; Mental Health Awareness training for managers; building resilience e-learning for all colleagues; raising further awareness of existing wellbeing benefits available and a step challenge to encourage physical fitness and (virtual) social connection, and creating a dedicated intranet resource to clarify the latest guidance and information about Covid-19.

Our dialogue with employees also includes regular communication about the Company's, and the Group's, strategy, plans and performance. During 2020, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to financial, strategic, safety and sustainability performance. Annual bonuses for employees are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned. We actively encourage employee participation in the Group-wide all-employee Sharesave scheme, offering the maximum discount of 20% and waiving any length of service requirements. During 2020, more than half of all UK employees across the Group participated in a Drax Sharesave scheme.

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

Suppliers

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

Regulators, network operators and commodities counterparties

Engagement with Ofgem, the Electricity System Operator and our commodities counterparties allows us to promote and deliver a secure, reliable network. Engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with the latest guidance.

Shareholders

Our ultimate parent company is Drax and therefore we act in the best interests of our immediate and ultimate parent companies and, in doing so, in the best interest of the investors and shareholders of Drax.

Drax engages with shareholders through a wide range of channels including meetings with existing shareholders and new or prospective investors, our website, the Drax AGM, full-year and half-year results presentations. We also have an ongoing programme of investor relations meetings. Reflecting feedback from investors, in 2020 we continued to develop our programme of ESG reporting and engagement, including developing our reporting towards the disclosure requirements for the Task Force on Climate-Related Financial Disclosures (TCFD).

Community and the environment

Tackling climate change is at the heart of our purpose and we are committed to helping the UK and the wider world to achieve its climate change targets. For more information, see pages 48 to 63 of the 2020 Drax Annual report and accounts.

Drax Power Limited

Strategic Report (continued) For the Year Ended 31 December 2020

We engage regularly with communities through supporting local initiatives and holding drop-in sessions. In February 2020 Drax donated £25,000 to support the local community around Drax Power Station which had been adversely affected by severe flooding, and in October 2020 Drax committed £180,000 in a new five-year partnership with Selby College. This will enable the college to deliver community education programmes and support for retraining. Such initiatives will help students develop the skills needed in innovative clean technologies which will assist in the delivery of a zero carbon economy in the future.

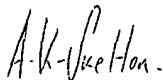
To read more about our positive social impact across the Drax Group, see pages 40 to 45 and 56 to 63 in the 2020 Drax Annual report and accounts.

Standards of business conduct

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

Our business ethics compliance framework identifies the behaviours expected from colleagues on a broad range of topics. In 2020, we deployed new annual refresher eLearning across Drax on data protection and anti-bribery and corruption. For more details on how the business ethics programme is managed, see pages 61 to 63 of the 2020 Drax Annual report and accounts.

This report was approved by the Board on 24 September 2021 and signed on its behalf.



Andy Skelton
Director

Drax Power Limited

Directors' Report For the Year Ended 31 December 2020

The Directors present their report and the audited financial statements of Drax Power Limited (the "Company") for the year ended 31 December 2020.

The Company is exempt from disclosing an SECR report required under part 7A to schedule 7 of SI 2008/410 of the Companies Act 2006 as their figures are included within the ultimate parent company's disclosure. The Group Carbon emissions report can be found on page 49 of the 2020 Annual report of Drax Group plc.

Results and dividends

The loss for the year, after taxation, amounted to £74.2m (2019 – profit of £63.8m). Further information in respect of the Company's performance during the year has been provided in the Strategic Report above.

The Directors do not recommend the payment of a final dividend (2019 - £Nil).

Post balance sheet events

On 16 December 2020, the Company entered into an agreement with Drax Generation Enterprise Limited (a Drax Group Company) for the sale of the trade and assets of the Drax Generation Enterprise Limited generation businesses at Cruachan, Lanark and Galloway. Consideration for the sale was £80 million to be settled by adjusting intra-group balances.

Subsequently on 1 July 2021, the trade and assets of the Company's generation businesses at Cruachan, Lanark and Galloway were transferred into other entities within the Group, namely Drax Pumped Storage Limited and Drax River Hydro Limited. Assets were transferred at net book value, amounting to £66.4 million.

Matters covered in the strategic report

The Company's business activities, together with the factors likely to affect future developments, performance and position including principal risks and uncertainties are set out in the Strategic Report above. In addition, a statement on the Company's engagement with stakeholders is also included in the Strategic Report within the S172 Statement. Note 17 to the financial statements includes details on financial instruments and hedging activities.

Going concern

2020 witnessed the outbreak of Covid-19 with global economic impact. For the Group, the safety and wellbeing of colleagues remained paramount. The Company did not seek any Covid-19 financial support from the UK Government. Despite the challenges of operating in a Covid-19 environment, there were no material impacts during the year on the Company's operations or financial performance.

Looking forward, the business plan for 2021 and beyond reflects the central assumptions regarding the likely duration of the pandemic, and the nature of the associated restrictions such as social distancing. The forecasts for 2021 assume a gradual easing of lockdown in the UK will commence as the roll-out of Covid-19 vaccinations progresses.

The Directors have assessed the prospects of the Company over the 12-month period after the date that these financial statements were authorised for issue. The Directors have considered the forecast financial performance of the Company, the Company's commitments and obligations, the Company's expected cashflows and other relevant financial forecasts, including sensitivity analysis on downside scenarios. This assessment has considered the level of funding available to the Company, including participation in the Group's cash pool arrangements and other forms of internal support, credit metrics and the current and future economic climate. In their assessment, the Directors have considered the principal risks faced by the Company including, Covid-19 and climate change.

Drax Power Limited

Directors' Report (continued) For the Year Ended 31 December 2020

At 31 December 2020, the Company had net current assets of £395.7m. The Company is expected to remain profitable for the 12-month period following the date that these financial statements were authorised for issue. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

The Directors who served during the year and subsequently were:

Will Gardiner
Brian Greensmith
Andy Skelton
Andrew Koss (resigned 7 April 2020)
Charlotte Rhodes (resigned 28 February 2021)
Mike Patrick (resigned 20 September 2021)

Third party indemnity insurance

The Company has the appropriate indemnity insurance cover in place in respect of legal action against the directors of the Company.

Employee involvement

The Company uses a wide variety of communication methods in order to create a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company. For example, team briefings are held once a month where wide ranging information is communicated throughout the organisation. In addition, open forums are held three times a year and cover, inter alia, the financial and market factors affecting the performance of the Company and the Group.

The Drax Group Savings Related Share Option Plan (SAYE Plan) is open to all employees of the Company, further details of which are provided in note 6.2 to the Group's financial statements.

Disabled employees and equal opportunities

It is the Company's policy to give full and fair consideration to suitable applications for employment from people with disabilities having regard to their particular aptitudes and abilities. In the event of a member of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training and rehabilitation is provided. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company is committed to a policy of equal opportunities and ensures that country of origin, colour, gender, religious belief, sexual orientation, age or disability are not barriers to working at Drax Power Limited.

The Company provides a wide range of development opportunities to help employees develop the necessary skills, knowledge and experience to realise their performance potential.

Governance arrangements

Good governance is a key factor in securing the long-term success of our business. During 2020, the Company applied its own corporate governance arrangements. As a minimum, the Company has arrangements in place that largely mirror the Wates Principles, however, some of the arrangements take into account the need to comply with the UK Corporate Governance Code which is applied throughout the Drax Group.

Drax Power Limited

Directors' Report (continued) For the Year Ended 31 December 2020

Our purpose

Our purpose is to enable a zero carbon, lower cost energy future. Through our purpose we are aligned both with the UK Government's target to achieve net zero carbon emissions by 2050, and with wider public recognition of the need for positive action on climate change. Responding to climate change is a core component of our governance framework. The CEO reports quarterly to the Drax Group plc Board on Environment, Social and Governance performance, including climate-related matters. Climate change factors are considered in decisions taken by the Board, reflecting the Board's duty to consider all stakeholders. Examples in 2020 include the decision to cease coal generation by March 2021 and the refinancing of the Company's debt facilities, which link the Company's carbon emissions to the amount of interest paid on the Company's debt.

Values and culture

Our values are driven by our culture, fundamental to which is acting with integrity and doing the right thing. Our aim is to maintain an open and collaborative culture. Setting the right standards helps to protect the business and the interests of stakeholders.

Of primary importance is the safety and wellbeing of our people. Safety is a long-held and central commitment of our operational philosophy. We are committed to the highest standards and have continued our efforts to strengthen our approach across the Company. For more information see pages 57 and 58 of the 2020 Drax Group plc Annual report and accounts.

We are committed to building a supportive, diverse and inclusive working environment where all colleagues feel they belong. To underpin this, in September we launched a new Diversity and Inclusion Policy and approach. We value the views of our employees and have incorporated their feedback in the development of our values. For more information see page 60 and 95 of the 2020 Drax Group plc Annual report and accounts.

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

Our business ethics compliance framework identifies the behaviours expected from colleagues on a broad range of topics. In 2020, we deployed new annual refresher eLearning across Drax on data protection and anti-bribery and corruption. For more details on how the business ethics programme is managed, see pages 61 to 63 of the 2020 Drax Group plc Annual report and accounts.

Leadership and Succession

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 Future Creators programme is designed to develop and retain high-potential individuals and grow our leadership pipeline. Each individual has a personal development plan and a Drax Group plc Executive Committee sponsor. A One Drax award may also be awarded for those identified as having potential to add significant value to the Group. Further information on leadership and succession can be found on page 95 of the 2020 Drax Group plc Annual report and accounts.

Effectiveness and accountability

Management meet at least once a month to discuss strategic and operational matters. Every month management reviews safety performance and monthly KPIs which include Total Recordable Injury rate (TRIR) and Lost Time Injury Rate (LTIR) as well as financial and environmental KPIs. Throughout the year management also reviews HR data, risk matters and feedback from stakeholders. There is open debate and constructive discussion at the meetings and there are formal and robust processes in place to ensure the data provided to management is reliable. Those who submit information to management must include considerations of key stakeholders.

Drax Power Limited

Directors' Report (continued) For the Year Ended 31 December 2020

Risk management

The Board is responsible for the management of all risks at the Company. The Group Enterprise Risk Management Framework ensures each of the Company's principal risks have appropriate oversight. Oversight of each principal risk is delegated to a specialist committee, each committee conducts a regular 'deep dive' of the underlying risks related to its Principal Risk category. These committees include:

- The Safety, Health, Environment and Production Integrity Committee ("SHEPIC"), is responsible for safety, health, environment and production risks.
- The Currency and Commodity Risk Management Committee ("CCRMC") chaired by the Group Financial Controller, is responsible for currency and commodity trading, counterparty, compliance and regulatory risks.

All relevant risks are recorded on an appropriate risk register and are mapped to one of Drax Group's Principal Risk categories.

The internal control environment is based on Group-level financial and operational controls supported by controls within each business unit and independent assurance from internal and external audit. The effectiveness of internal controls at the Company is supported by a control risk self-assessment process and reported to the Drax Executive Committee and Audit Committee.

Remuneration

The remuneration of those directors who are also executive directors of Drax Group plc are subject to the Drax Directors Remuneration Policy (Policy) which is approved by Drax shareholders. The implementation of the Policy is the responsibility of the Drax Remuneration Committee (a Committee of the Drax Group Board). The Remuneration Committee may choose to apply discretion to the remuneration of those directors if they believe the formulaic outcomes of variable pay programmes do not appropriately reflect company performance. In the event any discretion is applied, the justification is clearly stated in the Annual Report for the relevant financial year. The Remuneration Committee considers external market benchmarking data to inform executive remuneration decisions, as well information and insight from shareholders, industry bodies and employees. A key priority for Drax is to ensure fair and appropriate remuneration decisions for directors and the wider workforce. Details of the Drax Remuneration Policy can be found on pages 112 to 122 in the 2020 Drax Annual report and accounts.

All colleagues in Drax Group participate in the company bonus programme. The bonus metrics include a combination of annual financial and strategic objectives for Drax, and all metrics in the bonus programme apply to all participants. The directors across the Group also participate in a Long-Term Incentive Share Plan. An award from the Long-Term Incentive Share Plan is subject to the achievement of Group-wide performance conditions which align with the long-term interests of the Company and the Group.

The Drax Diversity and Inclusion working group monitors diversity and inclusion across the Group, including the gender pay gap. The gender pay gap is monitored across individual business units so that actions to address the pay gap can be appropriately considered for each business unit. The working group works with the HR function to suggest and implement initiatives to promote diversity and in turn reduce the gender pay gap.

Working with our stakeholders

Engaging with our stakeholders is fundamental to our success. We recognise that to achieve our purpose, we need to listen to, and work with, a diverse range of interested parties. For more information on our stakeholders, how we engage with them and have regard to their interests, please refer to the Companies Act, Section 172 statement in the Strategic Report.

Drax Power Limited

Directors' Report (continued) For the Year Ended 31 December 2020

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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under Company law the directors must not approve the financial statements 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 these 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.

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.

Auditor and the disclosure of information to the auditor

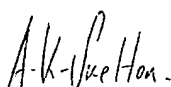
Each of the persons who is a Director at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the Director has taken all the steps that ought to have been taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor.

Approved by the board on 24 September 2021 and signed on its behalf by



Andy Skelton
Director

Drax Power Limited

Independent Auditor's Report to the Members of Drax Power Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Drax Power Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 35.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Drax Power Limited

Independent Auditor's Report to the Members of Drax Power Limited (continued)

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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists such as tax, pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Drax Power Limited

Independent Auditor's Report to the Members of Drax Power Limited (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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, UK

24 September 2021

Drax Power Limited

Income Statement For the Year Ended 31 December 2020

	Notes	Year ended 31 December 2020			Year ended 31 December 2019		
		Continuing operations £m	Discontinued operations £m	Total Results £m	Continuing operations £m	Discontinued operations £m	Total Results £m
Revenue	4	3,605.3	4.4	3,609.7	3,780.7	-	3,780.7
Fuel costs in respect of generation ⁽¹⁾		(1,775.6)	0.5	(1,775.1)	(1,840.6)	-	(1,840.6)
Costs of power purchases		(1,329.7)	(0.2)	(1,329.9)	(1,511.4)	-	(1,511.4)
Grid charges		(67.7)	(0.2)	(67.9)	(52.7)	-	(52.7)
Cost of sales		(3,173.0)	0.1	(3,172.9)	(3,404.7)	-	(3,404.7)
Gross profit		432.3	4.5	436.8	376.0	-	376.0
Operating and administrative expenses		(211.8)	(0.6)	(212.4)	(186.6)	-	(186.6)
EBITDA		220.5	3.9	224.4	189.4	-	189.4
Depreciation and amortisation		(77.6)	-	(77.6)	(98.1)	-	(98.1)
Asset obsolescence charges		(239.2)	-	(239.2)	-	-	-
Loss on disposal of fixed assets		(1.1)	-	(1.1)	(1.1)	-	(1.1)
Other gains		-	-	-	0.7	-	0.7
Operating (loss)/profit	5	(97.4)	3.9	(93.5)	90.9	-	90.9
Interest receivable and similar income	9	4.8	-	4.8	5.6	-	5.6
Interest payable and similar expenses	10	(5.4)	-	(5.4)	(24.3)	-	(24.3)
(Loss)/profit before tax		(98.0)	3.9	(94.1)	72.2	-	72.2
Tax on (loss)/profit	11	20.7	(0.8)	19.9	(8.4)	-	(8.4)
(Loss)/profit for the financial year		(77.3)	3.1	(74.2)	63.8	-	63.8

⁽¹⁾ Fuel costs in respect of generation for discontinued operations relate to ROCs generated by the hydro assets

The notes on pages 34 to 74 form part of these financial statements.

Drax Power Limited

Statement of Other Comprehensive Income For the Year Ended 31 December 2020

	Note	2020 £m	2019 £m
(Loss)/profit for the financial year		(74.2)	63.8
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	31	7.4	(21.3)
Deferred tax (charge)/credit attributable to actuarial gains / losses on defined benefit pension scheme		(1.4)	4.0
Net fair value gains on cost of hedging		54.9	56.3
Deferred tax on cost of hedging		(11.3)	(9.7)
Net fair value losses on cash flow hedges		(33.0)	(112.7)
Deferred tax credit/(charge) on cash flow hedges		5.9	19.4
Items that may be subsequently reclassified to profit or loss:			
Net fair value (losses)/gains on cash flow hedges		(206.8)	361.4
Net (losses)/gains on cash flow hedges reclassified to the Income Statement		(137.7)	-
Deferred tax credit/(charge) on cash flow hedges		61.7	(62.5)
Other comprehensive (expense)/income		(260.3)	234.9
Total comprehensive (expense)/income for the year		(334.5)	298.7

The notes on pages 34 to 74 form part of these financial statements.

Drax Power Limited

Balance Sheet As at 31 December 2020

	Note	2020 £m	2019 £m
Fixed assets			
Intangible assets	14	(56.1)	(60.9)
Property, plant and equipment	15	978.6	1,189.5
Right-of-use assets	16	13.0	6.7
Derivative financial instruments	17	180.6	228.0
Trade and other receivables and contract-related assets	18	28.2	41.8
Retirement benefit surplus	31	9.4	3.0
		1,153.7	1,408.1
Current assets			
Inventories	19	191.4	274.8
Derivative financial instruments	17	193.8	278.3
Trade and other receivables and contract-related assets	20	646.3	480.3
ROC assets	21	133.9	157.4
Cash and cash equivalents		104.5	89.7
Assets held for sale	22	85.8	-
		1,355.7	1,280.5
Current liabilities			
Derivative financial instruments	17	(424.0)	(212.9)
Trade and other payables and contract-related liabilities	23	(438.2)	(460.3)
Lease liabilities	16	(3.8)	(2.3)
Liabilities directly associated with the assets held for sale	22	(94.0)	-
		(960.0)	(675.5)
Net current assets		395.7	605.0
Total assets less current liabilities		1,549.4	2,013.1
Non-current liabilities			
Derivative financial instruments	17	(209.8)	(102.4)
Lease liabilities	16	(9.2)	(4.3)
Deferred tax	24	(58.4)	(176.6)
Provisions	25	(90.9)	(40.8)
		(368.3)	(324.1)
Net assets		1,181.1	1,689.0

Drax Power Limited

Balance Sheet (continued) As at 31 December 2020

	Note	2020 £m	2019 £m
Capital and reserves			
Called up share capital	26	799.6	799.6
Hedge reserve	27	(191.2)	228.0
Cost of hedging reserve	27	88.6	40.8
Merger reserve	27	(0.5)	-
Retained earnings	27	484.6	620.6
Total equity		1,181.1	1,689.0

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 24 September 2021.



Andy Skelton
Director

The notes on pages 34 to 74 form part of these financial statements.

Drax Power Limited

Statement of Changes in Equity

	Called up share capital £m	Merger reserve £m	Hedge reserve £m	Cost of hedging £m	Profit and loss account £m	Total equity £m
At 1 January 2019	799.6	-	87.6	(8.9)	653.9	1,532.2
Profit for the year	-	-	-	-	63.8	63.8
Other comprehensive income/(expense) for the year	-	-	205.6	46.6	(17.3)	234.9
Total comprehensive income for the year	-	-	205.6	46.6	46.5	298.7
Dividends paid (note 13)	-	-	-	-	(81.2)	(81.2)
Movements on cash flow hedges released directly from equity	-	-	(78.9)	-	-	(78.9)
Deferred tax on cash flow hedges released directly from equity	-	-	13.7	-	-	13.7
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)
Movement in equity associated with share-based payments (note 28)	-	-	-	-	1.4	1.4
Deferred tax on share-based payments	-	-	-	-	-	-
At 31 December 2019	799.6	-	228.0	40.8	620.6	1,689.0
Loss for the year	-	-	-	-	(74.2)	(74.2)
Other comprehensive (expense)/income for the year	-	-	(309.9)	43.6	6.0	(260.3)
Total comprehensive (expense)/income for the year	-	-	(309.9)	43.6	(68.2)	(334.5)
Dividends paid (note 13)	-	-	-	-	(70.0)	(70.0)
Addition to merger reserve	-	(0.5)	-	-	-	(0.5)
Movements on cash flow hedges released directly from equity	-	-	(133.2)	-	-	(133.2)
Deferred tax on cash flow hedges released directly from equity	-	-	23.9	-	-	23.9
Movements on cost of hedging released directly from equity	-	-	-	5.3	-	5.3
Deferred tax on cost of hedging released directly from equity	-	-	-	(1.1)	-	(1.1)
Movement in equity associated with share-based payments (note 28)	-	-	-	-	2.2	2.2
At 31 December 2020	799.6	(0.5)	(191.2)	88.6	484.6	1,181.1

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

1. General information

Drax Power Limited ("the Company") is incorporated in England and Wales under the Companies Act 2006. The principal activity of the Company is that of power generation, as set out in the Strategic Report. The Company is a private Company limited by shares and is registered at the address shown on the Company Information page.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, as modified by financial instruments recognised at fair value, unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting judgements and key sources of estimation uncertainty. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The presentation and functional currency used is sterling. Amounts have been presented in millions ("£m").

2.2 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payments
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases

This information is included in the consolidated financial statements of Drax Group plc as at 31 December 2020 and these financial statements may be obtained from Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.2.1 Adoption of new accounting standards

A number of new updates and amendments to the standards became effective for the first time in 2020. These updates and amendments have not had a material impact on the financial statements of the Company.

The Company will monitor emerging developments and interpretations of the new standards.

2.3 Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future.

The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

On this basis, the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements, as set out in further detail on page 21 in the Directors' Report.

2.4 Revenue

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. Revenue is presented gross in the Income Statement as the Company controls the specified good or service prior to the transfer to the customer.

Revenues from the sale of electricity are measured based upon metered output delivered at rates specified under contract terms or prevailing market rates as applicable. The performance obligations for these contracts are deemed to be a series of distinct goods that are substantially the same and transfer consecutively. Control is deemed to have passed to the customer at the point that the electricity has been supplied. The performance obligation is satisfied over time based on the output method; this method recognises revenue based on the value transferred to the customer. This is measured based on energy supplied to the customer with the amount billed based on the units of electricity supplied.

The Company 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 Company meets its performance obligation under the CfD contract. This is considered to be the point at which the relevant generation is delivered and the payment becomes contractually due.

Other revenues derived from the provision of services to National Grid (for example, the supply of system support services) are recognised by reference to the stage of completion of the contractual performance obligations. Most such contracts are for the delivery of a service either continually or on an ad-hoc basis over a period of time and thus stage of completion is calculated by reference to the amount of the contract term that has elapsed. Depending on the contract terms this approach may require judgement in estimating probable future outcomes.

Other revenues derived from the sale of goods (for example, by-products from electricity generation such as ash and gypsum) are recognised at the point the control of the goods is transferred to the customer, typically at the point of delivery to the customer's premises.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.4 Revenue (continued)

CFD payments

The Company 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 Company makes or receives payments in respect of electricity dispatched from a specific biomass-fuelled generating unit. The payment is calculated by reference to a strike price of £100 per MWh. The base year for the strike price was 2012 and it increases each year in line with the UK Consumer Price Index and changes in system balancing costs. The strike price at 31 December 2020 was £116.49 per MWh.

When market prices (based on average traded prices in the preceding season) are above/below the strike price, the Company 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 Renewable Obligation Certificates (ROCs) is a key driver of the Company's financial performance. The Renewable Obligation (RO) scheme places an obligation on electricity suppliers to source an increasing proportion of their electricity from renewable sources. Under the RO scheme, ROCs are certificates issued to generators of renewable electricity which are then sold bilaterally to counterparties, including suppliers, to demonstrate that they have fulfilled their obligations under the RO scheme. ROCs are managed in compliance periods (CPs), running from April to March annually. CP1 commenced in April 2002. At 31 December 2020 the Company is operating in CP19.

To meet its obligations a supplier can either submit ROCs or pay the "buy-out" price at the end of the CP. The buy-out price was set at £30 per ROC in CP1 and rises with the UK Retail Price Index. The buy-out price in CP19 is £50.05. ROCs are typically procured in arm's-length transactions with renewable generators at a market price slightly lower than the buy-out price for that CP. At the end of the CP, the amounts collected from suppliers paying the buy-out price form the "recycle fund", which is distributed on a pro-rata basis to suppliers who presented ROCs in a compliance period.

The financial benefit of a ROC recognised in the Income Statement at the point of generation is thus comprised of two parts: the expected value to be obtained in a sale transaction with a third party supplier relating to the buy-out price and the expected value of the recycle fund benefit to be received at the end of the CP.

2.5 Interest income

Interest income is recognised in the Income Statement using the effective interest method.

2.6 Finance costs

Finance costs are charged to the Income Statement over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.7 Intangible assets - negative goodwill

On acquisition of the trade and certain assets and liabilities of the Drax Power Station from Drax Ouse in December 2003, fair values were attributed to the net assets acquired. The cost of acquisition was less than the value attributed to such net assets and accordingly the difference was treated as negative goodwill.

The negative goodwill is being amortised to the Income Statement on a straight-line basis over a period of 35 years, being the approximate period over which the related non-monetary assets are being depreciated.

2.8 Intangible assets - carbon

Carbon assets arise upon the purchase of carbon emissions allowances in excess of the amount allocated and required for the current financial year and are recognised 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 our 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, the market price at the balance sheet date.

2.9 Intangible assets – computer software

Computer software includes those acquired in the ordinary course of business, which principally reflect ongoing investment in business systems. Computer software is measured at cost which 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.

Software assets are amortised on a straight-line basis over estimated useful lives ranging between three and twenty-four years.

2.10 Property, plant and equipment

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.

Assets constructed as part of long-term development projects and in the course of construction are not depreciated until they are ready to use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the useful economic lives (UELs) of the assets from the date of acquisition. The table below shows the range of useful lives and the average useful life of an asset in the main categories of asset we own in years:

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.10 Property, plant and equipment (continued)

	Average UEL remaining
Freehold buildings	17
Plant and machinery	
- Electricity generation plant	11
- Coal specific assets	
- Biomass-specific assets	15
- Other plant, machinery and equipment	13
Plant spare parts	<u>18</u>

Freehold land, held at cost, is considered to have an unlimited useful life and is not depreciated.

Electricity generation plant refers to core electricity generation assets which are fuel agnostic. Biomass-specific and coal-specific assets are those assets that are only necessary to support electricity generation from the specified fuel and include fuel storage and distribution systems.

Within the plant and equipment categories shorter lives are attributed to components that are overhauled and upgraded as part of rolling outage cycles.

Plant spare parts are depreciated over the remaining useful life of the power station.

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 Company 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 each balance sheet date. Any changes are applied prospectively.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2.11 Impairment of fixed assets and goodwill

The Company 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 Company assesses the existence of indicators of impairment annually.

The Company considered the smallest group of assets that generate independent cash flows to be the individual site as it shares common infrastructure and control functions, so previously Drax Power Station was considered a single CGU. However, following the decision to cease commercial coal generation at Drax Power Station, a review of CGUs determined the site to be comprised of two separate CGUs (one for biomass generation assets and one for coal generation assets). Following this change the coal CGU was subsequently fully written down in the period.

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 our 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.

The additional value that could be obtained from enhancing or converting the Company'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.

2.12 Inventories

Our fuel inventories are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of fuel inventories includes all direct costs and overheads incurred in bringing the fuel to its present location and condition, including the purchase price, import duties and other taxes (including amounts levied on coal under the UK carbon price support mechanism) and transport / handling costs.

2.13 ROC assets

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 in fuel costs in that period.

At each reporting date the Company reviews the fair value of ROC assets generated but not sold against updated anticipated sales prices including, where relevant, agreed forward sale contracts. Any impairments required are recognised in the Income Statement in the period incurred.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.14 Trade and other receivables

Trade and other receivables are initially measured at the transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method. A provision for impairment of trade receivables is measured at an amount equal to the lifetime expected credit loss.

2.15 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

2.16 Derivatives and financial instruments

Where possible, the Company 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 our own purchase, sale or usage requirements.

Contracts which do not qualify for the own use exemption – principally power, gas, financial oil, financial coal, carbon emissions allowances and forward foreign currency exchange contracts – are accounted for as derivatives and recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the Income Statement where hedge accounting requirements are not met.

2.17 Trade and other payables

Trade and other payables represent amounts owed to suppliers (for trade purchases and ongoing costs), tax authorities and other creditors that are due to be paid in the ordinary course of business. Accruals are made for amounts that will fall due for payment in the future as a result of activities in the current year. Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Foreign currency translation

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Income Statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Income Statement within 'other operating income'.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.19 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

2.20 Share-based payments

The ultimate parent Company issues equity-settled share-based payments (the cost of which is then recharged back to the Company at year end), to certain employees, which are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant and expensed on a straight-line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest and adjusted for the effect of non-market based vesting conditions, which are revised at each balance sheet date.

2.21 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Income Statement when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration.

The asset recognised in the Balance Sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Actuarial gains/(losses) on the defined benefit pension scheme'.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.21 Pensions (continued)

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

2.22 Reinstatement provisions

A provision is made for the estimated decommissioning costs at the end of the useful economic life of the Company's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided represents the present value of the expected costs. No allowance is made within the provision for expected proceeds on disposal of scrap or assets to third parties, as the uncertainty over market prices at the estimated decommissioning date mean such an asset would not be virtually certain at the balance sheet date. The discount rate used is a risk free pre-tax rate, reflecting the fact that the estimated future cash flows have built in risks specific to the liability. An amount equivalent to the initial discounted provision is capitalised within non-current assets (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.

2.23 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.24 Reserves

The Company's capital and reserves are as follows:

Share capital

Called up share capital represents the nominal value of shares issued.

Cash flow hedge reserve

Changes in the fair value of our derivative commodity, financial and currency contracts are recognised in the hedge reserve, to the extent that they qualify as effective hedges under FRS 101. The cumulative gains and losses unwind and are released as the related contracts mature, and we take delivery of the associated commodity or currency.

Cost of hedging reserve

Changes in the fair value of the forward element of our hedged currency contracts are recognised in the cost of hedging reserve. The cumulative gains and losses unwind and are released as the related contracts mature, and we take delivery of the associated currency.

Merger reserve

The merger reserve arose on the financial restructuring of the Company which took place in 2020.

Retained earnings

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

2.25 Leases

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 Company. If the Company 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 comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any direct cost and restoration costs. It 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 Company 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.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.26 Alternative performance measures

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 Company's trading performance. These measures have been defined internally and may therefore not be comparable to similar alternative performance measures presented by other companies.

Certain remeasurements and exceptional items

The Company'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 Company's Adjusted Results are consistent with the way the Board assess the performance of the Company. Adjusted Results are intended to reflect the underlying trading performance of the Company's business and are presented to assist users of the accounts in evaluating the Company'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 Company 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 Company 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 12 to the financial statements.

The Company also uses an additional subtotal when presenting the Adjusted Results. 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 the Board to assess the financial performance of the Company as it provides a more comparable assessment of the Company's year on year trading performance.

2.27 Assets held for sale and discontinued operations

Assets held for sale are assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than through continuing use. If a component of an entity is disposed of or classified as held for sale its results are classified as a discontinued operation.

Non-current assets and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.27 Assets held for sale and discontinued operations (continued)

Non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than continuing use are classified as held for sale if they are available for immediate sale in their present condition and if the sale is considered highly probable. A sale is deemed highly probable if all the following criteria are met:

- the appropriate level of management is committed to a plan to sell the asset (or disposal group)
- an active programme to locate a buyer and complete the plan has been initiated
- the asset (or disposal group) are being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once an asset (or disposal group) has been classified as held for sale it is recognised at the lower of its carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets, investment properties measured at fair value and contractual rights under insurance contracts, which are exempt from this requirement and continue to be measured in line with their relevant IFRS requirements.

Impairment losses and subsequent reversals of impairment losses are recognised in the Income Statement. Reversals of impairment losses are only recognised to the extent they reverse a prior impairment.

A discontinued operation is a component of the Company that meets one of the following criteria:

- represents a separate major line of business or geographic area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria. When an operation is classified as a discontinued operation its results are presented separately in the Income Statement. The results of the discontinued operation are also re-presented in the Income Statement as discontinued in any comparative periods.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires judgement to be applied in forming the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The judgements which have the most significant effect on the amounts recognised in the consolidated financial statements, and the key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are set out below. Further detail, including sensitivity analysis where appropriate for the key estimates and assumptions, is included in the related notes.

Critical accounting judgements

The critical judgements made in the process of applying the Company's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements are set out below.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Certain remeasurements and exceptional items – Each year management confirms the judgements made regarding transactions to exclude from the Adjusted Results of the Company, as described under Alternative performance measures, in note 2.26 above. The judgement as to whether a transaction or group of transactions should or should not be classified as a certain remeasurement or an exceptional item can have a significant impact on the Adjusted Results of the Company. An internal policy governs the judgements made by management and in all instances, these judgements are approved by the Audit Committee.

Closure of coal generation at Drax Power Station – On 26 February 2020, following a comprehensive review, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022. As a result of this closure decision, which reflected that the dependencies between the coal and biomass generating units are no longer considered to be significant, the Company has determined the Drax Power Station site to be comprised of two distinct cash-generating units (CGUs), one comprised of biomass generation assets and one comprised of coal generation assets. Previously, the Drax Power Station site was considered to be a single CGU. These Financial statements have been prepared on the basis that this change occurred on the date of the closure decision – 26 February 2020.

Following the closure decision, an impairment review was undertaken for the CGU containing the coal generation assets. This review indicated that the recoverable amount of the coal assets, calculated with reference to a value in use calculation based on the Group's latest approved forecasts, was significantly lower than their carrying value. As described in note 5.1, an asset obsolescence charge of £225.9 million has been recognised in the Consolidated Income Statement in respect of the coal generation assets CGU. There were no reasonably possible changes in the assumptions underlying the value in use calculation that would have resulted in a material change to the value of the asset obsolescence charge. This view has not subsequently changed. The asset obsolescence charge has been treated as an exceptional item and excluded from the Group's Adjusted Results.

Accounting for biomass purchase and sale contracts – The Company buys and sells biomass from time to time. To date, these contracts have been entirely for operational purposes. During the first half of 2020, the Company approved a change in risk management policies to permit some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. Following this change, the Company undertook an assessment of whether contracts to buy and sell biomass are within the scope of IFRS 9. Previously, the own-use exemption was applied to these contracts, resulting in no amounts being recognised in respect of these contracts until they matured. If the contracts were deemed to be within the scope of IFRS 9, and the own-use exemption could not be applied, this would result in these contracts being required to be recognised at fair value as derivative assets/liabilities from inception.

This assessment concluded that, whilst the own-use exemption was likely to no longer apply to all biomass purchase and sale contracts, if and when sales contracts are executed for optimisation purposes, the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9. Accordingly, the accounting for these contracts has not changed from prior periods in these financial statements and therefore the contracts are not recognised until delivery.

Property, plant and equipment – The weighted average remaining useful economic life for assets at Drax Power Station is 17 years. This is shorter than the 19 years to the current estimate of end of station life in 2039 but extends beyond the end date of current subsidies for biomass generation, which is in 2027. The Company does not consider the end of subsidies in 2027 to be an indicator of impairment for these assets, reflecting our expectations for biomass generation beyond this date.

Sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry 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.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Property, plant and equipment – Property, plant and equipment is depreciated on a straight-line basis over its useful economic life. Useful economic lives are estimated and based on past experience, anticipated future replacement cycles and other available evidence. Useful economic lives are reviewed at least annually. The carrying value of property, plant and equipment at 31 December 2020 is £978.6 million and depreciation on these assets in the year, based on the useful economic lives disclosed in note 15, was £75.5 million. If the useful economic lives were to increase or decrease by three years, the impact on the depreciation charge for the year would be approximately £15.7 million.

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. 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.

Pensions – 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 Company believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

The assumptions used in 2020 have been prepared on a consistent basis with those in the previous period and in accordance with independent actuarial advice received. The value of the pension surplus recognised by the Company at 31 December 2020 is £9.4 million. Sensitivities in the valuation are discussed in note 31.

4. Revenue

An analysis of the Company's revenue is as follows:

	2020 £m	2019 £m
Electricity sales	2,119.0	2,321.8
ROC sales	1,024.0	1,094.0
Ancillary revenues and other income	462.3	364.9
	3,605.3	3,780.7

Revenue primarily comprises sales of electricity generated by the Company to the electricity wholesale market in Great Britain plus associated by-products and ancillary services. As such, the Company has only one business segment and one geographical segment.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

5. Operating (loss) / profit

The (loss) / profit for the year is stated after charging/(crediting):

	Note	2020 £m	2019 £m
Net foreign exchange losses	10	-	0.7
Depreciation of property, plant and equipment	15	75.5	96.4
Depreciation on right-of-use assets	16	3.2	2.2
Amortisation of negative goodwill	14	(3.7)	(3.8)
Amortisation of software	14	2.6	3.3
Loss on disposal of property, plant and equipment		1.1	1.1
Asset obsolescence charges	12	239.2	-
Cost of inventories recognised as an expense		1,054.3	1,157.9
Short term and low value leases		0.8	0.4
Staff costs	7	68.3	62.9
Cash settled share-based payment charges	7	0.4	0.2
Equity settled share-based payment charges	7	2.2	1.4

6. Auditor remuneration

Fees payable to Deloitte LLP for the audit of the annual accounts were £276,293 (2019 - £255,827).

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the group accounts of the ultimate parent Company.

7. Employees

Staff costs were as follows:

	2020 £m	2019 £m
Wages and salaries	48.2	45.4
Social security costs	6.0	5.8
Pension costs	14.1	11.7
Share-based payment	2.6	1.6
	70.9	64.5

£70.7 million of staff costs in the table above are included in operating and administrative expenditure (note 5). The remaining amount of £0.2 million (2019 - £Nil) relates to discontinued operations.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

7. Employees (continued)

The average monthly number of employees, including the Directors, during the year was as follows:

	2020 No.	2019 No.
Operations	692	630
Business services	141	197
	833	827

8. Directors' remuneration

	2020 £m	2019 £m
Directors' emoluments	0.9	1.5
Pension costs	0.1	0.2
Aggregate amounts receivable under long-term incentive schemes	0.1	0.3
	1.1	2.0

The remuneration received by the directors, borne by this Company, is shown in the table above. The directors are remunerated for services rendered to the Group and its subsidiary undertaking as a whole and it is not practicable to allocate these amounts to specific subsidiary undertakings.

One director stepped down from the Board on 7 April 2020 and therefore in the table above the remuneration they earned in 2020 is in respect of the period 1 January 2020 to 7 April 2020. The director received compensation for loss of office totalling £749k which has not been included in the above disclosure.

Amounts receivable under long-term incentive schemes represent the charge arising from share-based payments included in the Income Statement, determined based on the fair value of the related awards at the date of grant. Seven Directors received awards in the year. Three Directors exercised options over shares deriving from a long term incentive plan during the year.

There were no other transactions with Directors for the periods covered by these financial statements.

During the year retirement benefits were accruing to 4 Directors (2019 - 6) in respect of money purchase pension schemes. The value of the Company's contributions paid to money purchase pension schemes in aggregate amounted to £129,000 (2019 - £193,000).

The highest paid Director received remuneration of £304,000 (2019 - £737,000).

The value of the Company's contributions paid to money purchase pension schemes in respect of the highest paid Director amounted to £31,000 (2019 - £67,000).

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

9. Interest receivable and similar income

	Note	2020 £m	2019 £m
Interest receivable from bank deposits		-	0.5
Interest receivable from group companies		3.5	4.4
Foreign exchange gains		1.1	-
Net finance income in respect of defined benefit pension scheme	31	0.2	0.7
		4.8	5.6

10. Interest payable and similar expenses

	Note	2020 £m	2019 £m
Interest payable on financing activities		1.4	0.2
Other interest payable		0.4	2.2
Interest payable to group companies		3.0	17.2
Interest on lease liabilities		0.2	0.2
Foreign exchange losses		-	0.7
Unwind of discount on provisions and adjustments due to changes in assumptions	25	0.4	3.8
		5.4	24.3

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

11. Tax on (loss) / profit

Tax (credited)/charged in the profit and loss account

	2020 £m	2019 £m
Tax charge comprises:		
Current period	28.1	27.4
Adjustments in respect of prior periods	(7.5)	1.5
	<u>20.6</u>	<u>28.9</u>
Deferred Tax:		
Current period	(57.4)	(21.8)
Adjustments in respect of prior periods	1.0	1.3
Impact of tax rate change	15.9	-
	<u>(40.5)</u>	<u>(20.5)</u>
Tax (credit)/charge	<u>(19.9)</u>	<u>8.4</u>

The tax charge/(credit) on (loss)/profit assessed for the year is higher (2019: lower) than the standard rate of Corporation Tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
(Loss)/profit on ordinary activities before tax	(94.1)	72.2
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 – 19%)	(17.9)	13.7
Adjustments in respect of prior years	(6.5)	2.8
Expenses not deductible for tax purposes	1.1	(0.1)
Adjustment for profit subject to Patent Box rate	(8.0)	(8.0)
RDEC credit	(0.7)	-
Impact of rate changes	15.9	-
Transfer pricing adjustments	(3.8)	-
Total tax (credit)/charge for the year	<u>(19.9)</u>	<u>8.4</u>

The Company 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 now entitled to apply a lower rate of tax to some of its profits each year which are derived from utilisation of that technology.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

11. Tax on profit (continued)

Factors that may affect future tax charges

The Finance Act 2015 included legislation to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. In addition, the Finance Act 2016 included legislation to reduce the rate of UK corporation tax to 17% from 1 April 2020. Subsequently, on 11 March 2020, the Chancellor announced that this corporate tax rate reduction to 17% will be cancelled and the main rate of corporate tax will remain at 19%.

To the extent they are recognised, the closing deferred tax balances are calculated at 19%, the rate which was substantively enacted at the balance sheet date.

A further announcement was made by the Chancellor on 3rd March 2021 to increase the main rate of corporation tax to 25% from April 2023. The deferred tax balances will be remeasured at the next reporting date, given this rate change was substantively enacted on 24 May 2021. The expected impact is £15.7m increase in the opening deferred tax liability.

	2020 £m	2019 £m
Tax charged on items recognised in other comprehensive income/reserves:		
Items that will not be reclassified subsequently to profit or loss		
Deferred tax on actual gains/losses on defined benefit pension scheme	1.4	(4.0)
Deferred tax on cost of hedging	11.3	9.7
Deferred tax on cash flow hedges	(5.9)	(19.4)
Items that may be reclassified subsequently to profit or loss		
Deferred tax on cost of hedging	(61.7)	62.5
	(54.9)	48.8
	2020 £m	2019 £m
Tax charged/(credited) on items released directly from equity		
Deferred tax on cash flow hedges	(23.9)	(13.7)
Deferred tax on cost of hedging	1.1	0.7
Total tax credit for the year	(22.8)	(13.0)

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

12. Certain remeasurements and exceptional items

The Company'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 company 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 company 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:

- Asset obsolescence charges, which related to coal-specific assets associated with the decision to cease commercial coal generation in 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station. (2020)
- Operating expenditure which was incurred as a direct result of the decision to cease commercial coal generation. (2020)
- Costs and credits arising as a result of major transactions, namely deal costs and costs to close out outstanding trades on the disposal of the CCGTs.
- Certain remeasurements constitute gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. Once the gains or losses are realised, the previously recognised fair value movements are then reversed through remeasurements and recognised within Adjusted Results either as revenue or cost of sales. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better reflect the trading performance of the Company in Adjusted Results.

	Revenue £m	Gross profit £m	Operating loss £m	Year ended 31 December 2020 Loss before tax £m	Tax £m	Loss for the period £m
Total results IFRS measure	3,609.7	436.8	(93.5)	(94.1)	19.9	(74.2)
Certain remeasurements:						
Net fair value remeasurement on derivative contracts	40.1	71.9	71.9	71.9	(13.6)	58.3
Exceptional items:						
Inventory provision as a result of coal closure	-	4.6	4.6	4.6	-	4.6
Operating expenditure	-	-	30.0	30.0	-	30.0
Asset obsolescence charges	-	-	239.2	239.2	(45.5)	193.7
Total	40.1	76.5	345.7	345.7	(59.1)	286.6
Adjusted results	3,649.8	513.3	252.2	251.6	(39.2)	212.4

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

12. Certain remeasurements and exceptional items (continued)

	Revenue £m	Gross profit £m	Operating profit £m	Year ended 31 December 2019 Profit before tax £m	Tax £m	Profit for the period £m
Total results IFRS measure	3,780.7	376.0	90.9	72.2	(8.4)	63.8
Certain remeasurements:						
Net fair value remeasurement on derivative contracts	(36.7)	106.7	106.7	106.7	(14.4)	92.3
Total	(36.7)	106.7	106.7	106.7	(14.4)	92.3
Adjusted results	3,744.0	482.7	197.6	178.9	(22.8)	156.1

The Company also uses an additional subtotal when presenting the Adjusted Results. 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 the Board to assess the financial performance of the Company as it provides a more comparable assessment of the Company's year on year trading performance.

	Year ended 31 December	
	2020	2019
	£m	£m
Adjusted operating profit	252.2	197.6
Depreciation	78.7	98.6
Amortisation	(1.1)	(0.5)
Loss on disposal of fixed assets	1.1	1.1
Other gains	-	(0.7)
Adjusted EBITDA	330.9	296.1

13. Dividends

	2020	2019
	£m	£m
Interim dividend of 8.8 pence (2019 – 10.2 pence) per ordinary share paid during the year	70.0	81.2

No final dividend was paid during the year (2019 - £Nil).

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

14. Intangible Assets

	Negative goodwill £m	Computer software £m	Total £m
Cost			
At 1 January 2020	(130.9)	22.7	(108.2)
Additions	-	1.8	1.8
Transfers from property, plant and equipment	-	2.7	2.7
At 31 December 2020	(130.9)	27.2	(103.7)
Amortisation			
At 1 January 2020	59.3	(12.0)	47.3
Credit/(charge) for the year	3.7	(2.6)	1.1
Impairment	-	(0.8)	(0.8)
At 31 December 2020	63.0	(15.4)	47.6
Net book value			
At 31 December 2020	(67.9)	11.8	(56.1)
At 31 December 2019	(71.6)	10.7	(60.9)

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

15. Property, plant and equipment

	Freehold property	Plant, machinery, fixtures and fittings	Plant spare parts	Total
	£m	£m	£m	£m
Cost				
At 1 January 2020	179.0	1,787.5	65.9	2,032.4
Additions	-	105.2	5.5	110.7
Disposals	(0.4)	(6.3)	-	(6.7)
Issues/transfers during the year	13.0	(18.1)	(2.3)	(7.4)
Asset obsolescence	-	(13.4)	-	(13.4)
At 31 December 2020	191.6	1,854.9	69.1	2,115.6
Depreciation				
At 1 January 2020	47.6	770.7	24.6	842.9
Charge for the year	6.6	66.8	2.1	75.5
Disposals	(0.3)	(5.3)	-	(5.6)
Issues/transfers during the year	(0.1)	(3.8)	3.1	(0.8)
Asset obsolescence	0.2	223.2	1.6	225.0
At 31 December 2020	54.0	1,051.6	31.4	1,137.0
Net book value				
At 31 December 2020	137.6	803.3	37.7	978.6
At 31 December 2019	131.4	1,016.8	41.3	1,189.5

Assets in the course of construction amounted to £102.6 million at 31 December 2020 (2019 - £132.2 million) and is included within plant, machinery, fixtures and fittings.

Freehold land amounting to £1.1 million (2019 - £1.1 million) has not been depreciated.

There were no borrowing costs capitalised in the year (2019 - £Nil).

Asset obsolescence charges relate to coal-specific assets associated with the decision to cease commercial coal generation in 2021 and the decision not to pursue the option of creating a CCGT at Drax Power Station. Costs associated with the option to create a CCGT were included within assets under the course of construction, so associated impairment charges have correspondingly been recognised within cost.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

16. Leases

Right of use assets

	Land and Buildings	Plant and Machinery	Total
	£m	£m	£m
Cost and carrying amount:			
At 1 January 2020	5.0	4.0	9.0
Additions at cost	6.3	3.0	9.3
Disposals	(0.2)	-	(0.2)
Remeasurements	0.1	0.2	0.3
At 31 December 2020	11.2	7.2	18.4
Accumulated depreciation:			
At 1 January 2020	(1.1)	(1.2)	(2.3)
Charge for the year	(1.1)	(2.1)	(3.2)
Disposals	0.1	-	0.1
At 31 December 2020	(2.1)	(3.3)	(5.4)
Net book value			
At 31 December 2020	9.1	3.9	13.0
At 31 December 2019	3.9	2.8	6.7

Lease Liabilities

	Land and Buildings	Plant and Machinery	Total
	£m	£m	£m
Carrying amount:			
At 1 January 2020	(3.7)	(2.9)	(6.6)
Additions	(6.3)	(3.0)	(9.3)
Interest charged to the Income Statement	(0.2)	-	(0.2)
Payments	1.3	2.1	3.4
Remeasurements	(0.1)	(0.2)	(0.3)
At 31 December 2020	(9.0)	(4.0)	(13.0)
Current portion	(1.1)	(2.7)	(3.8)
Non-current portion	(7.9)	(1.3)	(9.2)

In addition to the payments disclosed above, the Group also made total payments of £0.8 million (2019: £0.4 million) during the year in relation to short-term and low value leases.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

17. Financial instruments

Fair value of financial instruments

The Company's financial instruments comprise cash and liquid resources, items that arise directly from its operations and derivative contracts. The fair value of these instruments has been determined as follows:

- **Commodity contracts** - The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date.
- **Foreign currency exchange contracts** - The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date
- **Cash, liquid resources and items arising directly from operations** – The fair value of cash and cash equivalents, trade and other receivables, amounts due to and from other group undertakings and trade and other payables approximates their carrying amount.

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.

The company has the following financial assets and liabilities measured at fair value through profit or loss:

	As at 31 December	
	2020	2019
	£m	£m
Derivative financial instrument assets > 1 year	180.6	228.0
Derivative financial instrument assets < 1 year	193.8	278.3
Total derivative financial instruments	374.4	506.3
Derivative financial instrument liabilities > 1 year	(209.8)	(102.4)
Derivative financial instrument liabilities < 1 year	(424.0)	(212.9)
Total derivative financial instrument liabilities	(633.8)	(315.3)
Total derivative financial instruments	(259.4)	191.0

The gains and losses recognised in the period relating to derivative financial instruments are detailed below:

	2020	2019
	£m	£m
Derivative financial instrument losses recognised in the Income Statement	(71.9)	(106.7)
Derivative financial instrument gains recognised in the cost of hedging reserve	60.2	60.1
Derivative financial instrument (losses)/gains recognised in the hedge reserve	(510.7)	169.8
Total derivative financial instrument (losses)/gains	(522.4)	123.2

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

18. Trade and other receivables and contract-related assets: amounts falling due in more than one year

	2020 £m	2019 £m
Prepayments and accrued income	28.2	41.8
	28.2	41.8

The balance relates to an advancement paid by the Company to Drax Biomass Inc. upon entering into a new contract for the supply of biomass pellets in 2018. This balance is being unwound over the six year contract.

19. Inventories

	2020 £m	2019 £m
Coal	24.3	103.1
Biomass	157.3	161.4
Other fuels and consumables	9.8	10.3
	191.4	274.8

The value of write downs of inventory in the year was £4.8 million (2019 - £Nil). This provision relates to coal inventory that the Company anticipates it will not be possible to utilise in the period before the coal units are closed in September 2022.

20. Trade and other receivables and contract-related assets: amounts falling due in less than one year

	2020 £m	2019 £m
Trade receivables	9.2	5.0
Amounts owed by group undertakings	438.6	275.1
Other receivables	2.5	10.5
Prepayments and accrued income	165.1	159.4
Other tax and social security	29.1	27.0
Contract assets	1.8	3.3
	646.3	480.3

The amounts owed by Group undertakings include short term trading balances which are unsecured, interest free and settled under normal payment terms.

Amounts owed by Group undertakings also includes cash pool arrangements which accrue interest at a commercial rate. Cash pool balances are repayable on demand and interest is settled quarterly.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

20. Trade and other receivables and contract-related assets: amounts falling due in less than one year (continued)

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Group has recognised a contract asset for any 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:

	2020 £m	2019 £m
Balance at 1 January	3.3	4.3
Additions as a result of changes in the measure of progress of balances brought forward	1.8	3.3
Contract assets transferred to trade receivables	(3.3)	(4.3)
Balance at 31 December	1.8	3.3

The Company does not consider there to be any requirement for any provisions for expected credit losses. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and future prospects reflecting our understanding of our customer base. Specific balances are provided against where default events have occurred. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted or the customer is in administration.

21. ROC assets

	2020 £m	2019 £m
Balance at 1 January	157.4	216.6
Generated	489.0	520.1
Purchased	504.1	515.5
Sold	(1,016.6)	(1,094.8)
Balance at 31 December	133.9	157.4

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

22. Assets held for sale and discontinued operations

On 15 December 2020, the Group announced it had reached agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT power stations, to VPI Generation Limited for headline cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek which is expected to be paid in full.

The sale did not include the hydro assets held within DGEL and so these were transferred to Drax Power Limited on 17 December with the intention of transferring these to a separate legal entity on 30 June 2021. Accordingly, these assets are a disposal group and have been recognised as held for sale at 31 December 2020.

The following assets and liabilities were reclassified as held for sale in relation to the agreed sale of hydro assets:

	As at 31-December 2020	
	Notes	£m
Property, plant and equipment	15	73.4
Inventories	19	0.2
Trade and other receivables	20	6.5
ROC assets	21	5.7
Total assets		85.8
Trade and other payables	22	(94.0)
Total liabilities		(94.0)
Net liabilities held for sale		(8.2)

23. Trade and other payables and contract-related liabilities: amounts falling due within one year

	2020 £m	2019 £m
Trade payables	80.6	100.7
Amounts owed to group undertakings	109.0	70.6
Corporation tax	-	8.1
Other payables	77.7	40.8
Accruals and deferred income	170.9	240.1
	438.2	460.3

The amounts owed to Group undertakings include short term trading balances which are unsecured, interest free and settled under normal payment terms.

Amounts owed to Group undertakings also includes other funds advanced to the Company and cash pool arrangements which accrue interest at a commercial rate. Cash pool balances are repayable on demand and interest is settled quarterly. Other funds advanced to the Company are settled according to the terms of the agreement or if shorter, the date demanded by the lender. If interest is not paid on the due date it is rolled over and capitalised.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

24. Deferred taxation

The movements in deferred tax assets and liabilities during each year are shown below. Deferred tax assets and liabilities are offset as there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Financial Instruments	Accelerated Capital Allowances	Other Assets	Total
	£m	£m	£m	£m
At 1 January 2019	(31.9)	(129.0)	1.0	(159.9)
Charged to Income Statement	14.3	(7.5)	13.7	20.5
Charged to equity in respect of actuarial gains	-	-	4.0	4.0
Charged to equity in respect of cash flow hedges	(39.8)	-	-	(39.8)
Intercompany reallocation	-	-	(1.4)	(1.4)
Movement in equity associated with share-based payments	-	-	-	-
Net tax (liabilities)/assets at 31 December 2019	(57.4)	(136.5)	17.3	(176.6)
	Financial Instruments	Accelerated Capital Allowances	Other Assets	Total
	£m	£m	£m	£m
At 1 January 2020	(57.4)	(136.5)	17.3	(176.6)
Charged to Income Statement	13.7	26.7	0.1	40.5
Charged to equity in respect of actuarial gains	-	-	(1.4)	(1.4)
Charged to equity in respect of cash flow hedges	79.1	-	-	79.1
Intercompany reallocation	-	-	-	-
Movement in equity associated with share-based payments	-	-	-	-
Net tax (liabilities)/assets at 31 December 2020	35.4	(109.8)	16.0	(58.4)

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

25. Provisions

	Reinstatement Provision £m	Coal Closure Provision £m	Total £m
At 1 January 2020	40.8	-	40.8
Additions	29.1	20.6	49.7
Unwinding of discount	0.4	-	0.4
At 31 December 2020	70.3	20.6	90.9

The reinstatement provision represents the estimated decommissioning, demolition and site remediation costs at the end of the useful economic life of the Company's generating assets, on a discounted basis. The amount provided represents the present value of the expected costs. An amount equivalent to the initial provision is capitalised within non-current assets and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

The reinstatement provision is based on the assumption that the decommissioning and reinstatement will take place at the end of the expected useful life of the power station in 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 update took place in December 2020 which resulted in an increase in the provision of £25.4 million.

On 26 February 2020, following a comprehensive review, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022, at which point they will cease to operate.

As a result of the coal closure decision, one-off costs of closure, comprising termination benefits, required safety works, and costs of disposal for associated assets will be incurred. The coal closure programme is expected to result in a reduction of 206 roles which began in April 2021. Communication and consultations have been taking place since the coal closure decision regarding the reduction in roles. These discussions and communications are sufficiently progressed that as at 31 December 2020 a restructuring provision of £20.6 million has been recognised for these expected costs. The majority of this provision is expected to be utilised in 2021.

26. Share capital

	2020 £m	2019 £m
Shares classified as equity		
Authorised, allotted, called up and fully paid		
799,645,605 (2019 - 799,645,605) Ordinary shares of £1 each	799.6	799.6

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

27. Reserves

Cash flow hedge reserve

	Commodity price risk £m	Foreign exchange risk £m	Inflation risk £m	Total £m
At 1 January 2019	(41.3)	128.9	-	87.6
Gains/(losses) recognised:				
Change in fair value of hedging instrument recognised in OCI	230.7	(105.5)	16.4	141.6
Reclassified from equity as the hedged item has affected profit or loss:				
Reclassified to cost of inventory	0.4	(77.7)	-	(77.3)
Reclassified to the Income Statement – included in cost of sales	1.6	(3.4)	-	(1.8)
Reclassified to the Income Statement – included in revenue	107.3	-	-	107.3
Related deferred tax, net (note 24)	(58.9)	32.3	(2.8)	(29.4)
At 31 December 2019	239.8	(25.4)	13.6	228.0
(Losses)/gains recognised:				
Change in fair value of hedging instrument recognised in OCI	(207.7)	(47.9)	15.7	(239.9)
Reclassified from equity as the hedged item has affected profit or loss:				
Reclassified to cost of inventory	-	(114.7)	-	(114.7)
Reclassified to cost of intangible assets (Carbon)	(28.8)	6.5	-	(22.3)
Reclassified to the Income Statement – included in revenue	(163.0)	-	-	(163.0)
Reclassified from equity as the hedged future cash flows are no longer expected to occur:				
Reclassified to the Income Statement – included in cost of sales	3.9	-	-	3.9
Reclassified to the Income Statement – included in revenue	25.3	-	-	25.3
Related deferred tax, net (note 24)	66.3	28.0	(2.8)	91.5
At 31 December 2020	(64.2)	(153.5)	26.5	(191.2)

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

27. Reserves (continued)

Cost of hedging reserve

	2020 £m	2019 £m
At 1 January	40.8	(8.9)
Gains/(losses) recognised:		
Change in fair value of hedging instrument recognised in OCI	54.9	56.3
Released from equity:		
Reclassified to cost of inventory	4.9	3.1
Reclassified to cost of intangible assets (Carbon)	0.4	0.7
Related deferred tax, net (note 24)	(12.4)	(10.4)
At 31 December	88.6	40.8

Retained earnings

	2020 £m	2019 £m
At 1 January	620.6	653.9
(Loss)/profit for the year	(74.2)	63.8
Remeasurement gains/(actuarial losses) on defined benefit pension scheme (note 31)	7.4	(21.3)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme (note 24)	(1.4)	4.0
Equity dividends paid (note 13)	(70.0)	(81.2)
Net movements in equity associated with share-based payments (note 28)	2.2	1.4
At 31 December	484.6	620.6

Merger reserve

	2020 £m	2019 £m
At 1 January	-	-
Addition to merger reserve	(0.5)	-
At 31 December	(0.5)	-

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

28. Share-based payments

Equity-settled share option schemes

The Group operates three share option schemes for employees: the Long Term Incentive Plan 2020 (LTIP 2020) for Executive Directors and senior employees (which replaced the Performance Share Plan (PSP) from 2020), the Deferred Share Plan (DSP) for Executive Directors, and the Sharesave Plan (SAYE) for all UK qualifying employees.

Additional information in relation to the Group's share based incentive plans can be located in pages 197-200 of the 2020 Drax Group plc Annual report and accounts.

The table below represents the credit to equity during the year:

	2020 £m	2019 £m
SAYE Plan	1.7	1.1
DSP	0.2	0.2
PSP	0.3	0.1
	2.2	1.4

	2020			2019		
	Weighted average share price at the date of exercise	Range of exercise prices for options outstanding	Weighted average remaining contractual life	Weighted average share price at the date of exercise	Range of exercise prices for options outstanding	Weighted average remaining contractual life
	£	£	months	£	£	months
LTIP 2020	-	-	28	-	-	-
PSP	-	-	-	-	-	-
(granted from 2017)	£2.02	-	5	-	-	14
DSP	-	-	-	-	-	-
(granted from 2018)	£1.54	-	12	-	-	20
BMP	-	-	-	£3.65	-	-
SAYE 3-year plan	£3.00	£1.27-£2.98	28	£3.26	£2.67-£3.41	22
SAYE 5-year plan	£3.00	£1.27-£2.98	41	£3.26	£2.67-£3.41	25

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

29. Contingent liabilities

Guarantees

The Company provides security and guarantees to certain members of the Drax Group under certain financing arrangements, which would crystallise in the event of the Drax Group companies defaulting on their outstanding borrowings:

- At 31 December 2020 the outstanding secured borrowings of the Group amounted to £1,085.3 million (2019: £1,267.5 million).
- At 31 December 2020 letters of credit issued under the revolving credit facility, held by Drax Corporate limited (a Drax Group Company) amounted to £67.9 million (2019: £77.0 million).

Guarantees and security have also been provided in respect of the above borrowings by certain other members of the Drax Group.

The Company also provides security and guarantees in respect of obligations under certain secured trading lines for secured commodity trading and certain FX, inflation and interest rate hedging arrangements that form part of the Drax Group's senior financing arrangements and which would crystallise in the event of the Company defaulting on the terms of these arrangements. During the year the Group opted to close the secured commodity trading line and as such no further trades are able to utilise the line. The final trades utilising the line matured in March 2021. As at 31 December 2020, this value was £0.8 million (2019: £32.7 million).

No liability is provided in respect of any of the above matters as the likelihood of an event of default is considered to be remote in each case.

Further information on the Group's borrowings can be found in note 4.3 to the Drax Group plc 2020 Annual Report and Accounts on pages 184-187.

Post balance sheet event

On 18 February 2021, another Group company drew down further amounts of £45.0 million and €95.0 million under its infrastructure term loan facilities agreement. These facilities are secured under the same arrangements as noted above.

30. Post balance sheet events

On 16 December 2020, the Company entered into an agreement with Drax Generation Enterprise Limited (a Drax Group Company) for the sale of the trade and assets of the Drax Generation Enterprise Limited generation businesses at Cruachan, Lanark and Galloway. Consideration for the sale was £80 million to be settled by adjusting intra-group balances.

Subsequently on 1 July 2021, the trade and assets of the Company's generation businesses at Cruachan, Lanark and Galloway were transferred into other entities within the Group, namely Drax Pumped Storage Limited and Drax River Hydro Limited. Assets were transferred at net book value, amounting to £66.4 million.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

31. Retirement benefit obligations

Defined contribution scheme

The Company operates a defined contribution pension scheme for its employees ("the Drax Power Limited Pension Plan"), which provides a retirement benefit that is dependent upon actual contributions made by both the Company and the members of the scheme. The pension charge for the year amounted to £6.9 million (2019: £6.3 million). No contributions were outstanding at the year end.

Defined benefit scheme

The Company operates an approved defined benefit scheme, on behalf of the Drax Power Group ("DPG") of the Electricity Supply Pension Scheme ("ESPS"). This scheme was closed to new members from 1 January 2002 unless they qualify through being existing members of another part of the ESPS. 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.

The DPG ESPS exposes 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.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

31. Retirement benefit obligations (continued)

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.

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 payable on death before retirement.

The most recent funding valuation of the DPG ESPS was carried out by Aon Hewitt, a qualified independent actuary, as at 31 March 2019. The actuarial review at 31 December 2020 is based on the same membership and other data as this funding valuation. The scheme board accepted the advice of the actuary and approved the use of these assumptions for the purpose of assessing the scheme cost. Future valuations are required by law at intervals of no more than three years.

The results of the latest funding valuation at 31 March 2019 have been adjusted to the balance sheet date, taking into account experience over the period since 31 March 2019, changes in market conditions and differences in financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs were measured using the projected unit credit method.

The net asset/(liability) recognised in the balance sheet is the excess of the fair value of the plan assets over the present value of the defined benefit obligation, determined as follows:

Reconciliation of present value of plan liabilities:

	2020 £m	2019 £m
At the beginning of the year	299.8	275.6
Current service cost	5.6	5.2
Past Service Cost	7.4	-
Employee contributions	0.1	0.1
Interest cost	5.9	7.9
Actuarial losses	22.7	43.9
Benefits paid	(20.7)	(32.9)
At the end of the year	320.8	299.8

The actuarial losses of £22.7 million (2019: losses of £43.9 million) reflect losses of £22.3 million (2019: losses of £42.8 million) arising from changes in financial assumptions and £0.8 million losses arising from changes in demographic assumptions, offset by gains of £0.3m from scheme experience (2019: £3.1 million gain and £4.2 million loss respectively).

The past service cost relates to an increase in pension liability as a result of coal closure. The calculation was performed by a qualified actuary using the same assumptions as those applied to the rest of the scheme and the past service cost represents the difference between the liability relating to the standard Company benefits as per the current reserve in the calculation of the Company's IAS 19 position and the corresponding liability in respect of the equivalent redundancy benefits offered to those employees to be made redundant.

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Notes to the Financial Statements For the Year Ended 31 December 2020

31. Retirement benefit obligations (continued)

Reconciliation of fair value of plan assets:

	2020 £m	2019 £m
At the beginning of the year	302.8	294.5
Interest income on plan assets	6.1	8.6
Remeasurement gains	30.2	22.5
Employer contributions	11.7	10.0
Employee contributions	0.1	0.1
Benefits paid	(20.7)	(32.9)
At the end of the year	330.2	302.8

Composition of plan assets:

	2020 £m	2019 £m
Equities	26.8	24.6
Fixed interest bonds	35.6	30.7
Property	38.3	36.7
Cash and other assets	74.9	73.6
Gilts	127.4	100.3
Investment funds	27.2	36.9
Total plan assets	330.2	302.8

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Notes to the Financial Statements For the Year Ended 31 December 2020

31. Retirement benefit obligations (continued)

The pension plan assets do not include any ordinary shares issued by Drax Group plc nor any property occupied by Drax Group plc or its subsidiaries.

The Company employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme.

	2020 £m	2019 £m
Fair value of plan assets	330.2	302.8
Present value of plan liabilities	(320.8)	(299.8)
Net pension scheme asset	9.4	3.0

The amounts recognised in profit or loss are as follows:

	2020 £m	2019 £m
Current service cost	5.6	5.2
Past service cost	7.4	-
Interest on net defined benefit liability	(0.2)	(0.7)
Total	12.8	4.5

The amounts recognised in other comprehensive income are as follows:

	2020 £m	2019 £m
Actuarial gains/(losses) recognised in the year	7.4	(21.3)

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Notes to the Financial Statements For the Year Ended 31 December 2020

31. Retirement benefit obligations (continued)

The cumulative amount of actuarial losses recognised in the Statement of Other Comprehensive Income was £55.9 million (2019 – £63.3 million).

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	2020 %	2019 %
Discount rate	1.5	2.1
Rate of increase in pensions in payment and deferred pensions	2.6	2.9
Rate of increase in pensionable salaries	3.2	3.6
Inflation assumption	2.6	3.0

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retired in 2020 at age 60 will live on average for a further 26 years (2019 - 26 years) after retirement. Similarly, life expectancy at age 60 for male and female non-pensioners currently aged 45 is assumed to be 27 years (2019 - 27 years).

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 deficit. The following table provides an indication of the sensitivity of the pension deficit at 31 December 2020 to changes in these assumptions:

	Movement in net asset £m
0.50 percentage point increase/decrease to	
inflation rate (RPI)*	(27.2) / 24.8
discount rate	30.8 / (34.2)
1 year increase / decrease to:	
life expectancy for men and women	(12.5) / 12.5

* The sensitivity of the scheme liabilities to salary and pension increases is closely correlated with inflation. The impact of corresponding decreases in these variables is included here.

The methods and assumptions used in preparing the sensitivity analysis are a reasonable approximation of possible changes.

Drax Power Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

31. Retirement benefit obligations (continued)

The Company is exposed to investment and other experience risks 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 defined benefit obligation includes benefits for current employees of the Company (50%), former employees of the Company who are yet to retire (5%) and retired pensioners (45%). The weighted-average period over which benefit payments are expected to be made, or the duration of the liabilities, is currently 20 years.

The Company expects to contribute £11.5 million to its pension plans during the 12 months ended 31 December 2021.

Following the latest actuarial valuation of the scheme, the Company agreed to repair the funding deficit of £35.9 million as at 31 March 2019 over the period to 30 June 2024, subject to the actuarial assumptions adopted for the triennial valuation as at 31 March 2019 being borne out in practice. The agreement includes payments of £7.2 million per annum (indexed with RPI) to be paid until 30 June 2024.

32. Commitments

The Company has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in our balance sheet as the contract is not yet due for delivery. Such commitments include contracts for the future purchase of biomass, operating leases for land and buildings, contracts for the construction of assets and contracts for the provision of services.

	2020 £m	2019 £m
Contracts placed for future capital expenditure not provided in the financial statements	42.2	50.6
Future support contracts not provided in the financial statements	33.7	16.0
Future commitments to purchase fuel under fixed and variable priced contracts	5,257.9	7,388.2

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 over the period from 2021–2027. To the extent these contracts relate to the purchase of wood pellets, they are not reflected elsewhere in our financial statements, owing to application of the "own-use" exemption from fair value accounting to such contracts (see note 17).

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Notes to the Financial Statements For the Year Ended 31 December 2020

33. Business combinations

On 16 December 2020, the Company entered into an agreement with Drax Generation Enterprise Limited (a Drax Group Company) for the sale of the trade and assets of the Drax Generation Enterprise Limited generation businesses at Cruachan, Lanark and Galloway. Consideration for the sale was £80 million to be settled by adjusting intra-group balances. The gain arising on sale of £0.5 million was calculated as follows:

	£m
Consideration received	80.0
Net Book Value of Net Assets transferred	(79.5)
	<u>0.5</u>
Net Book Value of Net Assets transferred	£m
Property, Plant and Equipment	73.5
Inventories	0.2
ROC assets	5.2
Trade and other receivables and contract-related assets	4.3
Trade payables, other payables and contract liabilities	(4.7)
Drax Group intercompany receivable balances	1.0
	<u>79.5</u>

34. Related party transactions

The Company has taken advantage of the exemption not to disclose transactions with wholly owned entities within the group headed by Drax Group plc.

Outstanding balances between Group entities as at the balance sheet date are disclosed within notes 18, 20 and 23 above.

35. Ultimate parent undertaking and controlling party

The immediate parent Company is Drax Smart Generation Holdco Limited.

The ultimate parent and controlling Company is Drax Group plc, a publicly listed Company incorporated in England and Wales. Drax Group plc is the smallest and largest group for which consolidated financial statements are prepared and the registered office is Drax Power Station, Selby, North Yorkshire YO8 8PH. Copies of the consolidated financial statements for Drax Group plc are available from: Company Secretary, Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.